Press Release

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PRIME LONDON PRICE GROWTH STALLS BUT RENTAL GROWTH POINTS TO AN INVESTMENT OPPORTUNITY

Prime central London residential property price growth has slowed almost to zero over the past three months, a dramatic slowdown after four consecutive quarters of growth, according to latest analysis from property adviser, Savills.

The company’s quarterly indices show that values rose by a marginal 0.6% between April and June, arresting the previous growth which stood at +3.0% in the first three months of the year and +4.3% in the closing quarter of 2009. This brings annual growth to 12.3%, and means that values are -10.1%% from peak.

“Our mid term prognosis for the prime London market remains positive, but a period of adjustment is unavoidable,” says Yolande Barnes, head of residential research at Savills. “In March we stated that we were ‘at or approaching a tipping point where buyers would resist further price rises’. It now seems clear that we are at that tipping point.”

The tipping point has been brought about by an increase in available stock across most markets as vendors are encouraged by recovery to market their properties. Much of the growth in prices last year occurred on the back of very low stock levels, which were unable to match a modest increase in demand. This demand has fallen back in the face of first election and then budget uncertainty and Savills says a second slip - rather than a double dip in values - is now inevitable.

“Our own market strength indicator (see chart below), which looks at changes in a combination of demand and supply factors, predicted the change in values that we have seen and points to further weakening in prices. I think we will look back and see this moment as a mini peak in the current recovery cycle,” says Barnes. “This week’s austerity Budget will have ramifications for the whole market, and the four month wait for details to emerge from the spending review will do little to improve the general ‘feel bad factor’ that is beginning to impinge on the market.

“Having said this, we maintain that the prime markets and central London in particular, are well-placed to take advantage of turmoil in world markets.”
The forecast published by Savills at the end of 2009 anticipates a marginal -1.0% fall this calendar year. This would eradicate the small gains achieved in the past six months, and points to falls of around -4.0% over the next six months or so. However, this fall is not as great as that predicted for UK mainstream markets because the company believes that there are special factors operating in London.

"In these globally uncertain times, London attracts overseas buyers from countries with strong currencies who see they are getting property more cheaply than before, or those looking for a safe haven in uncertain times and even a hedge against falls in their own currency. There are still a host of reasons for overseas buyers to come to London," says Barnes.

"Volatility is inevitable in a low turnover market that is heavily dependent on highly discretionary equity buyers and demand will remain fragile against the background of economic and fiscal uncertainty in the UK, Eurozone and beyond. That said, the fundamentals of the prime central London market remain sound provided London retains its status as a major world city and financial centre.

The upper tiers of prime

The very top end of the market has shown slightly greater growth, largely propelled by international buyer activity. Super prime properties, which average around £5million, rose by 1.3% and are now just 5.5% from peak, suggesting a resilience that is based almost exclusively on low stock levels and the sector’s appeal to international buyers. Ultra prime
properties, which average £15million and above, grew by 1.5%, but that is on the basis of a delayed recovery (following later falls), and values remain -15.8% from peak.

International buyers are the lifeblood of this market sector, accounting for around half of all prime central London buyers, rising to 63% at the top end of the prime. These high net worth individuals have rebuilt their wealth by around 20% over the past year and this, coupled with the benefits of a low value sterling, means they remain committed buyers.

**Domestic family market of prime South West London**

Our strength of market indicator for the prime markets of SW London (which include Fulham, Wandsworth, Richmond, Barnes, Putney), remained strong throughout May when the central prime areas were continuing to weaken. This strength was largely the result of continued low levels of supply coming to market and was reflected in sustained price growth in these areas over the quarter. Values rose by 2.6%, taking year on year growth to 22.0%, and leaving prices just 3.7% off peak.

Going forward, we expect these locations to begin falling alongside the central locations as more stock comes forward and demand, which has already appeared to soften over June for all but the £1m family home, remains subdued.

**Rental values now on upwards trajectory**

As stock levels have increased in the sales market, so they have fallen in the rental market. This constrained supply has occurred in a market of increasing demand from corporate tenants benefiting from the first wave of economic recovery. Consequently, prime central London rental growth is accelerating, with values up 2.5% in the quarter. This builds on 2.8% growth in the first three months of the year, and takes annual growth up to 5.6%, leaving rental values just 8.8% off peak. The core prime rental sector, for properties worth around £1.8 million on average, is outperforming the total market, with rental values now just 0.2% of peak.

London residential property now starts to represent a real investment opportunity. Yields, currently at 4.3%, are moving out and will continue to do so over the next few months as rents rise and capital values stall. This, coupled with the much lower than anticipated increase in capital gains announced in this week’s Budget, could encourage investors looking for both income and longer-term capital gains.

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For further information please contact:

Yolande Barnes, head of residential research, Savills: 0207 409 8899

Sue Laming, Savills press office: 0207 016 3802 / 07946 635866