QUARTERLY UPDATE

PRIME LONDON HOUSE PRICES Q1 2022

> **Prime London price growth starts to match the country after two years of underperforming as the back to work trend continues. While domestic demand and the race for space continues to drive growth in leafier suburbs, the capital's most urban markets also shows signs of life as City workers return to their desks**
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Supply and demand imbalance in London

14.7% increase in the number of people registering to find a London home

During the first three months of 2022 compared to Q1 2021

With the spring market well underway, demand for properties across London's prime locations is growing. The number of people that registered with Savills during the first three months of 2022 to buy a London home was 14.7% higher than a year ago.

As a result, year on year sales have increased by 7.8% in the market between £1 million and £2 million and 23.8% above £2 million, according to data provider TwentyCi.

Unsurprisingly, there is more supply feeding these sales, yet there were 9.4% fewer £1 million+ properties available to buy at the end of March. Quite simply, homes are selling almost as quickly as they become available. In fact, London's larger homes spent 14.0% less time on the market in March compared to last year according to Home.co.uk.

Property price growth led by ongoing need for space

1.6% price growth in London's prime property market

Driven by the continued desire for more inside and outside space

Indeed, houses with four or more bedrooms led the 1.6% price growth in London's stock-constrained prime market in the three months to March 2022. This leaves prime London prices 4.2% higher than a year ago, the most robust annual performance since the stamp duty changes of 2014.

London buyers continue to prioritise space and greenery with family homes around Richmond Park, Hampstead Heath, Primrose Hill and Wimbledon Common seeing a significant pick-up.

Meanwhile, the strongest annual price growth was recorded by homes with large gardens, up 9.0% annually, with leafy suburbs such as Richmond (9.1%), Ealing (8.1%), East Sheen (7.7%), Fulham (7.6%), Wimbledon (7.6%) and Chiswick (6.5%) and Primrose Hill (8.1%) the top performers.

Demand picks up for smaller homes

1.4% price growth for London flats in Q1 2022

The highest quarterly growth since the first lockdown

While size still matters, London's smaller properties have also seen meaningful price growth. Prices for prime flats increased by 1.4% during the three months ending March 2022, the highest quarterly growth since the first lockdown in 2020.

This is a clear sign of back-to-work thinking, as some of London's most urban postcodes, such as Shoreditch, Canary Wharf and Islington saw quarterly price growth of 3.7%, 3.4% and 3.3% respectively as City workers started to return to their desks.

Top performers – the search for space has lifted London's suburbs since the first lockdown however a return to the office has boosted urban postcodes in recent months

One-year price performance

Area	Annual price growth Q1 2022 v Q1 2021	Five-year growth
Richmond	+9.1%	+4.4%
Ealing	+8.1%	+3.9%
Primrose Hill	+8.1%	-1.7%

Quarterly price performance

Area	Quarterly price growth Q1 2022 v Q4 2021	Five-year growth
Shoreditch	+3.7%	-5.8%
Canary Wharf	+3.4%	-9.2%
Islington	+3.3%	+7.5%

Source Savills prime London index, Q1 2022

Central London's recovery continues

1.1% price growth for central London property in Q1 2022

Driven by strong domestic demand in the traditional family house markets

With much of last year's excess stock absorbed, a smaller pool of available properties is also becoming an issue in central London. As a result, prime prices here recorded their strongest quarterly price growth in eight years, up 1.1% in the quarter and 2.8% higher than a year ago. Prime central London continues to present a good buying opportunity as prices are 18.2% less than the 2014 peak.

The story of the past year has been about domestic, UK-domiciled demand. This has led to the strongest annual growth in locations such as Holland Park (5.3%), Notting Hill (4.7%) and Chelsea (4.6%) popular for their traditional family housing stock.

There was also modest growth in central London's platinum triangle of Belgravia, Knightsbridge and Mayfair as international buyers started to return over recent months.

Outlook for central London's prime property market

With activity levels continuing to improve and pent-up demand building up, it remains a question of when and not if prime central London's prices rebound.

We expect the disturbing events in Ukraine to result in a degree of caution amongst global High Net Worth Individuals in the short term. But we expect this to be largely offset by low levels of stock on the market, resulting in further upward pressure on prices.

Longer-term demand levels may be more impacted by increasing government scrutiny about where wealth is coming from, which may temper the desirability of London as a safe haven for super prime property investment. However, historically there have been many reasons to use offshore corporate vehicles to hold UK property. The tax benefits of doing so have largely passed and for many the anonymity they provided was a convenience rather than a necessity.

Outlook for outer London's prime property market

Outside central London there continues to be unmet demand from those looking to upsize.

While the supply-demand imbalance remains a feature of the market, the lack of suitable stock is expected to support further price growth despite three successive increases in the bank base rate.

Here, equity outweighs debt as a source of funding and much higher levels of disposable income mean buyers have been more insulated against economic pressures, such as the higher costs of debt, rising costs of living and the geo-political uncertainty triggered by the war in Ukraine.

However, we expect to see increasing price sensitivity creep into the market during the second half of the year given the economic backdrop.

Prime price forecasts

	2022	2023	2024	2025	2026	5-year
Prime central London	8.0%	4.0%	2.0%	4.0%	4.0%	23.9%
Outer prime London	4.0%	3.0%	2.0%	2.0%	2.0%	13.7%
All prime London	6.0%	3.5%	2.0%	3.0%	3.0%	18.7%

N.B. These forecasts apply to average prices in the second-hand market. New build values may not move at the same rate.

Source Savills Research

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