

MARKET IN MINUTES

Prime London residential markets

Prime London overview

One year on from the Brexit vote, prime London house prices have continued to soften, with small falls recorded in both central and outer prime locations over the past quarter.

Average prime London values slipped 0.9% in the second quarter of 2017, leaving them 5.3%

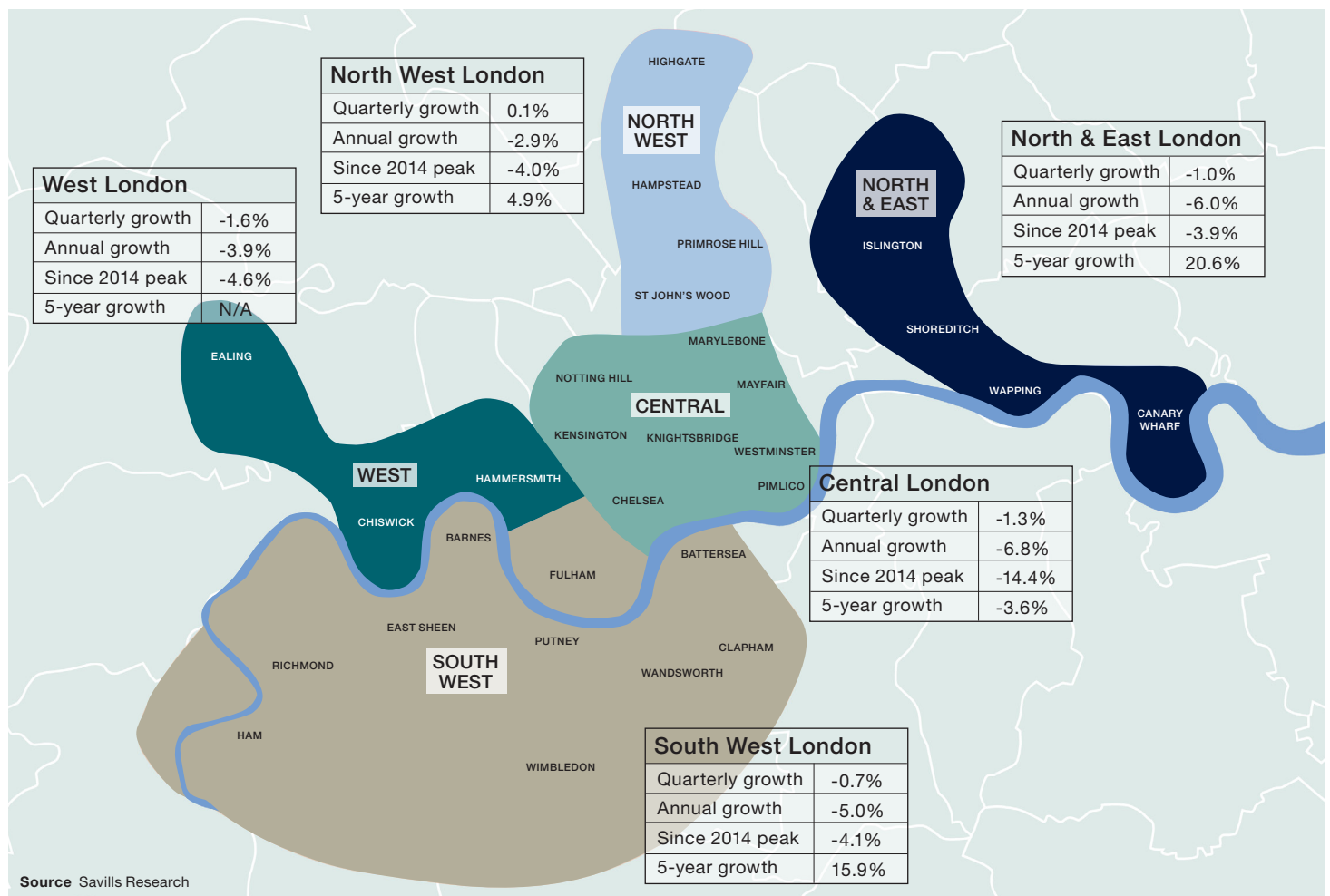
below where they were a year ago and 6.9% below their previous peak in mid-2014.

Prior to the vote to leave the EU, there were early indications of the market bottoming out, following the adjustment triggered by the stamp duty reform in December 2014. But, more recent

political and economic uncertainty has weakened buyer sentiment. For vendors who have realistic price expectations which reflect these falls in value, sales are taking place. There is, however, a lack of urgency in the market and those who need to sell may have to adjust their expectations further.

Prime London by region

The prime market remains sensitive in light of stamp duty changes and Brexit



Prime central London: price growth

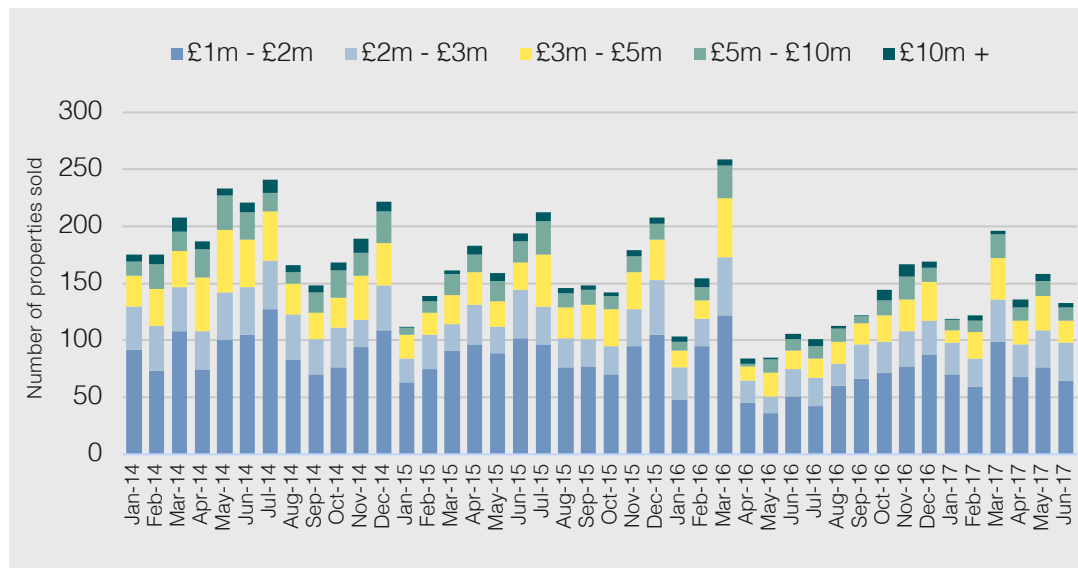
Post-referendum uncertainty is particularly impacting the most expensive and discretionary parts of the central London market that also carry the greatest stamp duty burden. Average prices in prime central London fell 1.3% in the three months to June, and they are now 14.4% lower than their 2014 peak.

International buyers are most prevalent in the prime central London market. Although they have had the advantage of weaker sterling, this has been offset by high stamp duty rates and an increased exposure to capital gains tax and inheritance tax.



Prime central London: transactions

Transaction trend Sales of £1 million-plus properties remain subdued



Towards the end of 2016, transactions of property worth £1 million or more in prime central London began to pick up. This followed a slowdown in the months after the introduction, in April 2016, of a stamp duty surcharge for additional homes.

So far in 2017, there have been 864 transactions of property worth £1 million or more. This is 9.2% higher than the same period last year, but 8.9% lower than 2015. Despite the general election, June did not see as dramatic a slowdown in the number of £1 million-plus transactions across prime central London, as some anticipated.

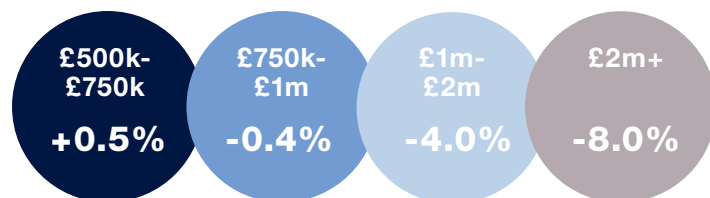
Source Savills Research, LonRes

Outer prime London by price band

Since new stamp duty rates were introduced in December 2014, the lower-value markets of outer prime London have held up better than their central counterparts. Within these markets, lower-value properties have performed more strongly. Those worth less than £1 million have stayed flat since these tax changes,

whereas £2 million-plus properties have fallen by an average of 8% over this period. Buyers in these more domestic markets continue to feel the constraints of mortgage regulation. Those who need to borrow have begun to reach the limits of loan to income ratios, even though they have benefitted from low interest rates.

Growth since 2014 peak



Source Savills Research

Outlook

Our forecasts, published in November 2016, anticipated prime London values would fluctuate in 2017, but end broadly flat across the year. Increased levels of political and economic uncertainty make it less likely that year-to-date losses will be recovered in the short term.

As negotiations to leave the EU progress, we expect sentiment over the next couple of years to continue to ebb and flow, meaning there is little chance of upward pressure on house prices.

By 2019, however, assuming the economy begins to improve and confidence picks up, we expect stronger levels of price growth to return to the market.

Regaining strength There are optimistic signs of a longer-term recovery

| Prime | 2017 | 2018 | 2019 | 2020 | 2021 | 5-year compound growth |
|----------------|-------|------|------|------|------|------------------------|
| Central London | 0.0% | 0.0% | 8.0% | 5.0% | 6.5% | 21% |
| Other London | -1.0% | 0.0% | 6.0% | 4.0% | 5.0% | 15% |

Source Savills Research **Note** These forecasts apply to average prices in the secondhand market. New-build values may not move at the same rate

Savills team

Please contact us for further information

Lucian Cook
Head of UK
Residential Research
020 7016 3837
lcook@savills.com

Frances Clacy
Associate, UK
Residential Research
020 7409 5905
fclacy@savills.com

Katy Warrick
Head of London
Residential Research
020 7016 3884
kwarrick@savills.com

Savills plc: Savills plc is a global real estate services provider listed on the London Stock Exchange. We have an international network of more than 700 offices and associates throughout the Americas, the UK, continental Europe, Asia Pacific, Africa and the Middle East, offering a broad range of specialist advisory, management and transactional services to clients all over the world. This report is for general informative purposes only. It may not be published, reproduced or quoted in part or in whole, nor may it be used as a basis for any contract, prospectus, agreement or other document without prior consent. While every effort has been made to ensure its accuracy, Savills accepts no liability whatsoever for any direct or consequential loss arising from its use. The content is strictly copyright and reproduction of the whole or part of it in any form is prohibited without written permission from Savills Research.