

Central London residential sales market

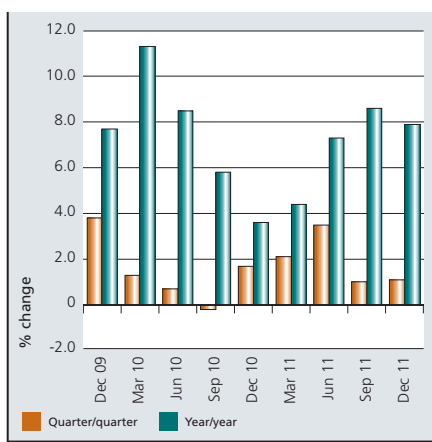
- Capital records 7.9% year-on-year house price growth
- Residential capital values now 2.48% shy of the Q3 2007 market peak
- Prime Central London housing supply slips by a further 18.9%

Price growth stable, while dwindling supply drags down buyer demand

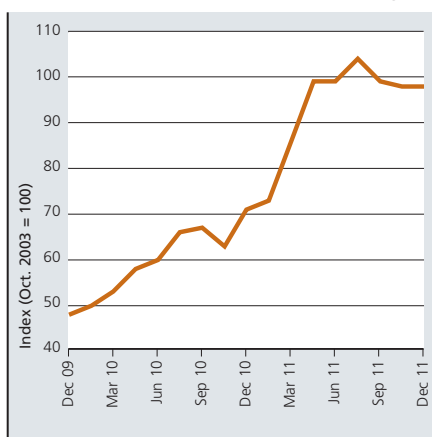
Prime Central London house prices rose by 1.1% during Q4, bringing annual house price expansion to 7.9%, in line with our 2011 forecast (8%). However, the growth masks the fact that home values grew by an average of just 1.06% in H2, against a figure of 2.8% during H1. Prices are now 2.48% below the market peak of Q3 2007.

Q4 saw Central South West and Central North West outpace growth in the capital, recording average price rises of 2.5% and 1.5% respectively. On a submarket level, Highbury & Islington in Central North West experienced the strongest value growth in the capital (7.3%), while Hyde Park (-1.5%), Paddington (-1.4%) and Marylebone (-0.4%) in Central West and Pimlico (-1.4%) in Central South West were the only submarkets to record falls in capital values.

Central London house prices



Central London sales demand – 4Q roll. avg.



During the late autumn, supply levels across prime Central London fell by almost a fifth. Registered demand fell in tandem, recording a 10.9% dip. As previously reported, our evidence indicates that real demand levels are significantly higher than those recorded as potential buyers rush to register their interest only once they see a suitable property come to market; having closely monitored housing stock levels. The dearth of supply was far more acute in Central North West, where residential listing levels plunged by 53.2%, while demand fell by 8.4% over the same period. Prime Central London supply levels this year were 53.7% down on 2010.

However, not all regions followed this trend; supply in Central South West nearly doubled, while demand slipped by nearly 5%. This points to perceived overpricing by vendors as the key reason behind falling demand in the face of increasing supply.

Vendor motivation tied to record pricing

Listed prices, although slowing in the rate of growth, are showing no sign of turning negative as vendors pursue record prices for deals, highlighting their high expectations for the performance of the market. According to our research, this applies to at least half of all vendors and is particularly prevalent in areas around Hyde Park (Central West) and in Central South West. However, the remainder of home owners remain reluctant to move unless driven by personal circumstances, or attractive sales opportunities.

Positively, evidence has shown that despite there being a number of unsold properties across prime Central London, primarily due to what buyers perceive as unrealistic pricing, homes that come to market in high demand areas generate immediate interest and usually sell well above listed values. However, loan-to-value ratios remain a critical deciding factor for mortgaged buyers, where the majority of budgets remain between £500,000 and £1.5 million. Despite monetary constraints, the financial incentive to buy in Central London remains strong and is evident in both activity and long term intentions, irrespective of short term economic uncertainty.

Central London residential lettings market

- First contraction in average rents for two years recorded in Q4 (-0.4%)
- Rents in the capital now 10.3% above market peak of Q1 2008
- Tenant requirements decline in line with historical seasonal trend

Quarterly rental growth turns negative, while rental demand falls

During Q4, average prime Central London rental values retreated by 0.4%, the first time this has been recorded since Q4 2009, although a slowing in the rate of growth was expected following the sharp upturn in rental values experienced over the last 18 months. The decline has resulted in annual rental growth of 8.7%, which translates into rents currently being 10.3% above the Q1 2008 market peak.

The best performing markets were Central South West (0.3%) and Central North West (0.4%). On a submarket level, Highbury & Islington (Central North West) and South Bank (Central South East) registered the strongest increase in average rents in Q4; 2.4% and 2.2% respectively. The 9% rental increase registered in South Bank throughout 2011 has left weekly rents for studios and one-bedroom flats in recent premium developments in line with similar quality schemes in Chelsea.

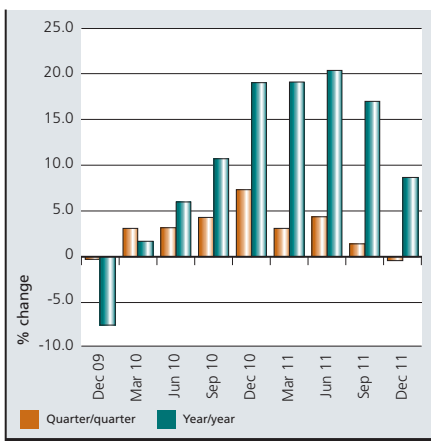
Prior to the festive season, tenant requirements tend to slip back with home moves deferred to the New Year. 2011 has been no different, with demand levels falling by 42.8%. Submarkets in Central West registered the strongest fall in demand (-53.8%), although this drop conceals the fact that year-on-year requirements in this region have surged; for instance, demand in Hyde Park is up by nearly 200% on 2010.

Budgets remain subdued, while landlords show greater flexibility

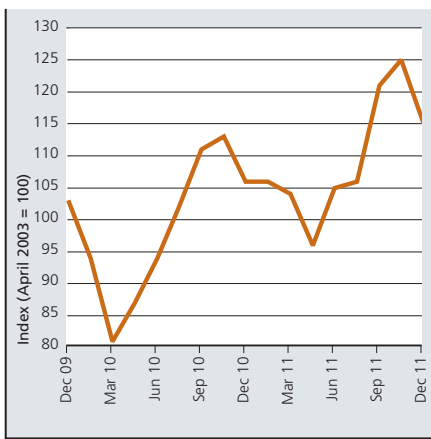
After adjusting to several quarters of rent rises, tenants appear to have reached a tipping point in terms of not only what they are willing to pay, but specifically in terms of what they can afford, given the erosion of real incomes over the past 18 months. Location is now an increasingly secondary consideration as household budgets become progressively tighter. Against a backdrop of soaring rents, activity has, unsurprisingly, been concentrated at the lower budget end of the rental spectrum (£200 to £500 per week), although the number of recorded flat shares has seen an upturn of late, with a growing number of professionals looking to rent larger properties to minimise outgoings, particularly in areas South West of the River. In addition, tenants priced out of prime submarkets are looking increasingly to adjoining areas that are within budget.

Belgravia, Chelsea and Kensington, where previously it had been reported that a growing tide of landlords were seeking to sell at the end of tenancies, have all seen this phenomenon subside, with properties coming to the market securing quick sales. However, the net effect of the reduced supply in Central South West has created an opportunity for further rent increases in an already undersupplied market. This said, landlords are conscious of not only driving out existing tenants, but also pricing out new potential occupiers. This has resulted in a rising number of landlords showing greater flexibility in rent negotiations, even with defaulters, with void periods posing a serious threat to earnings in an economically uncertain climate. Submarkets in Central West and Central South West have recorded several such cases.

Central London rental values



Central London lettings demand – 4Q roll. avg.



Prime Central London covers:

Central South West South Kensington, Chelsea, Knightsbridge, Belgravia, Pimlico and Westminster

Central West Hyde Park, Notting Hill Gate, Marylebone, Bayswater, Kensington, Mayfair and Holland Park

Central North West St John's Wood, Regent's Park, Hampstead, Primrose Hill, Belsize Park, Maida Vale and Highbury & Islington

Central South East Shad Thames, Borough, South Bank, Surrey Quays, Wapping, Limehouse and Isle of Dogs

Contacts

Andrew Forrester	Consultancy	andrew.forrester@cluttons.com	020 7647 7094
James Hyman	Sales	james.hyman@cluttons.com	020 7407 3669
Lynn Hilton	Lettings	lynn.hilton@cluttons.com	020 7647 7280
Faisal Durrani	Research	faisal.durrani@cluttons.com	020 7647 7166