savills

Savills World Research
UK Residential

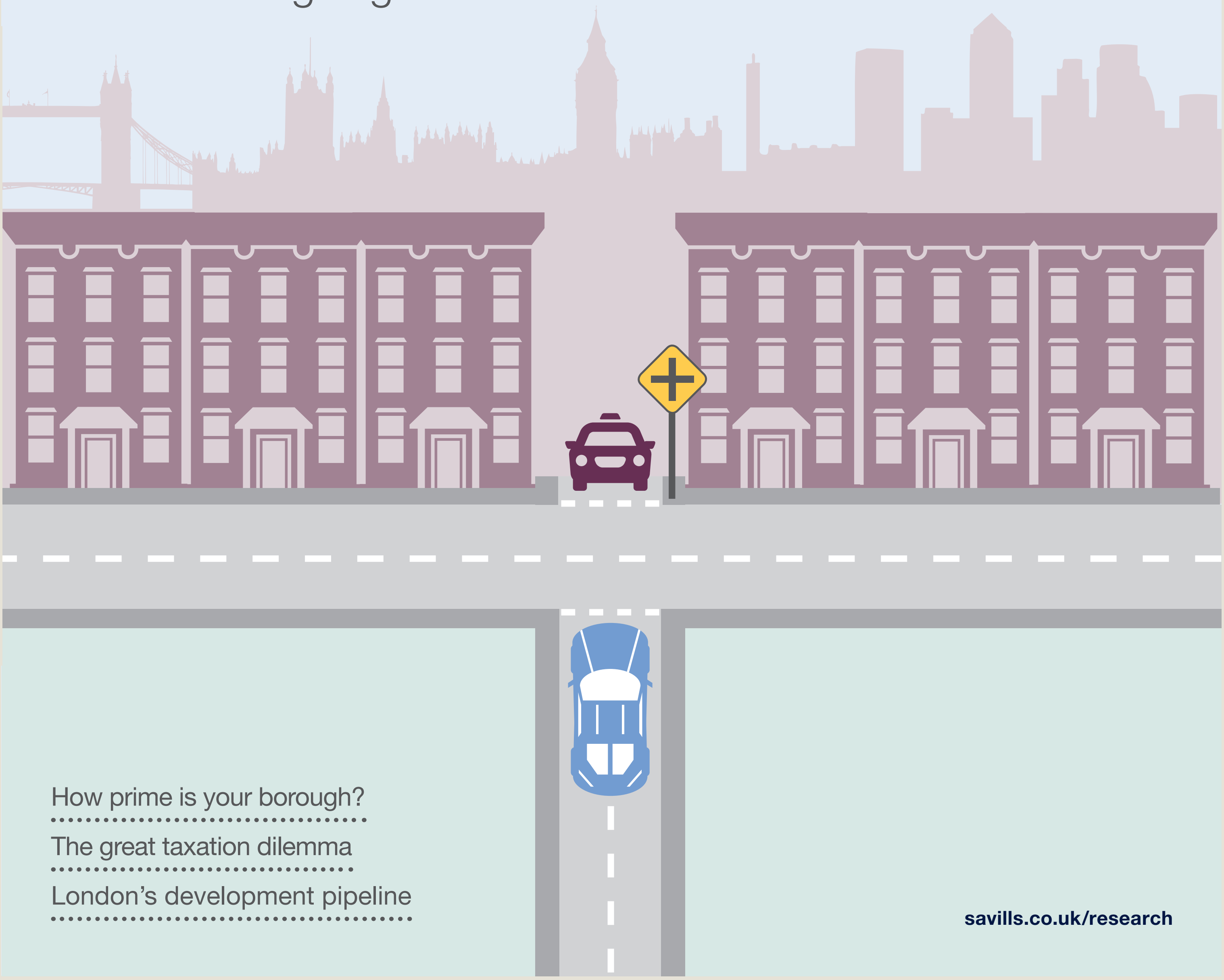
Spotlight
Prime London Residential Market

Autumn 2014

The Evolution of Prime London
Map pullout

At the crossroads

As prime London enters a new phase of the cycle, which direction is it going to take?



How prime is your borough?

The great taxation dilemma

London's development pipeline

savills.co.uk/research

This publication
This document was published in September 2014. The data used in the charts and tables is the latest available at the time of going to press. Sources are included for all the charts. We have used a standard set of notes and abbreviations throughout the document.

Glossary of terms
- **Mainstream**: mainstream property refers to the bulk of the UK housing market with, for example, price movements monitored by reference to national and regional average values.
- **Prime:** the prime market consists of the most desirable and aspirational property by reference to location, standards of accommodation, aesthetics and value. Typically it comprises properties in the top five per cent of the market by house price.

Foreword
A NEW ERA FOR PRIME LONDON?

The Evolution of Prime London
Map pullout

Over the past 30 years the creation of wealth in the capital has led to spectacular price growth. But can this stellar performance continue?

London's real estate outperformance over the last three decades has been so spectacular that, to some people, London seems like a foreign country, a country different to and separated from the rest of the UK.

As Lucian Cook shows on page 5, the quantum and movement of house prices in prime London boroughs are much more closely aligned to Kensington & Chelsea than to England and Wales and as far away from the economically stricken regions of post industrial England as it is possible to be.

It was not always like this. Between 1969 and 1983, London's house price growth was well below that seen in the rest of the South East and even below the UK as a whole. We forget that prior to the deregulation of the financial markets in 1986 London was a declining national capital at the nadir of its power and had been losing its population to out-migration since 1936. London's recent outperformance actually comes off a low base following decades of underperformance.

There are few people with careers in property who remember this base, they can only recall the extraordinary period of the last 30 years when London's population has grown significantly, the formerly declining and derelict inner city has been repopulated, London's economy has significantly outperformed the rest of the country and the city has been promoted from the third division of declining national capital to the premier league of pre-eminent global cities.

It is hardly surprising that London's real estate markets, its prime markets in particular, should have grown so strongly over such a period. The creation of wealth in the capital and the influx of money has increased demand for high quality housing so that areas that were de-gentrified between 1936 and 1984 have been re-gentrified, and the areas that we now call prime have spread significantly.

Had London's housing supply been more elastic since 1984, the extent of house price growth would not have been so great. But the 'machinery of the city' before 1984, including transport and planning policy, had been geared to a declining population not an expanding one, so London's renewed vigour took everyone by surprise. The realisation that London was undergoing an urban renaissance only started to be incorporated into planning and policy after the Urban Task Force reported in 1999, more than a decade after it began.

Despite a subsequently denser, more urban and appropriate response to a growing population, London is still not supplying housing at the rate that its population demands. Three decades of undersupply amounts to over 277,000 homes over a 30 year period and creates an unprecedented rarity value for London property.

The question now is whether the stellar performance of London property markets can continue. Prime London is already seeing a period of slower growth. Is this a cyclical slowdown after five years of very strong growth or have prime London prices reached a plateau from which a new, lower trajectory of price growth will follow? Can the area that we call prime London continue to grow and, if so, where will the next prime locations be? Read on to find out...

Yolande Barnes
World Residential
020 7409 8899
ybarnes@savills.com
Twitter: @Yolande_Barnes

EXECUTIVE SUMMARY

After a period of sustained growth, the prime London residential market stands at a crossroads
See pages 04/05

Prime London is reliant on the private wealth of ultra high net worth individuals, both from overseas and domestic
See pages 06/07

SOLD

How prime is your borough? £1million+ sales help answer the question
See pages 08/13

Council Tax reform would be a better solution than the introduction of a mansion tax
See pages 14/15

The development pipeline means London continues to expand. But are we ready for this change?
See pages 16/17

Market overview

IS PRIME LONDON AT A CROSSROADS?

Is prime London seeing a temporary dip in the market or the start of a prolonged period of slower growth?

Words: Lucian Cook
Twitter: @LucianCook

"There are indications that the prime London market looks fully valued "

Lucian Cook, Savills Research

An analysis of Land Registry data shows that of all the local housing markets of England and Wales, house price movements in the most expensive boroughs of London are the least correlated with the national average. Their performance is even less aligned to the country as a whole than the lowest value markets, such as Merthyr Tydfil, Hartlepool and Blackburn.

While the latter group substantially lags behind the rest, prime London is the ultimate market leader, being the first to show signs of recovery and showing the most price growth in the first half of a housing market cycle.

Early rapid ascent

This has certainly been the case in the period since the housing market bottomed out just over five years ago. Since that date prices in prime London have risen by 75.1% to the point where they are 37.9% above their pre-crunch levels. In contrast, across the UK as a whole, prices are on average -5% below where they were pre-downturn.

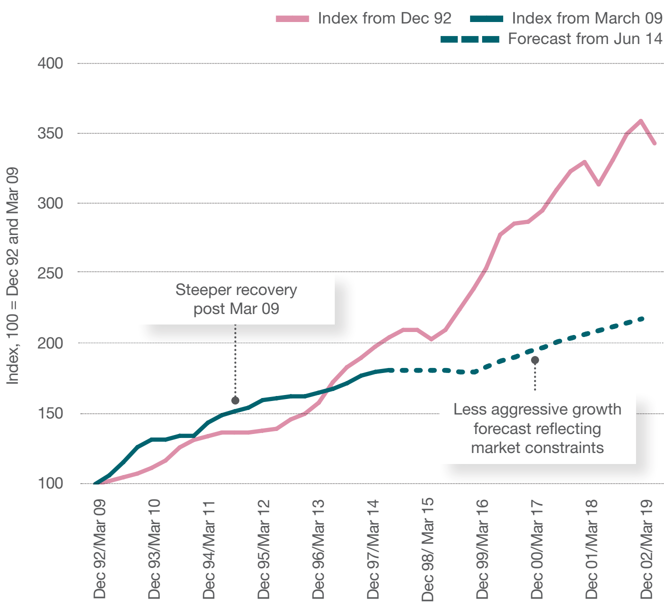
This is because prime London markets are driven by a different set of factors to the mainstream, with much more emphasis on the generation of wealth and the way it is spent than on the affordability and accessibility of mortgage debt.

Furthermore, there are earlier catalysts for recovery, not least among international buyers who respond to a currency play. While heavily concentrated in central London, this activity can quickly affect buyer sentiment in more domestic prime markets such as South West London.

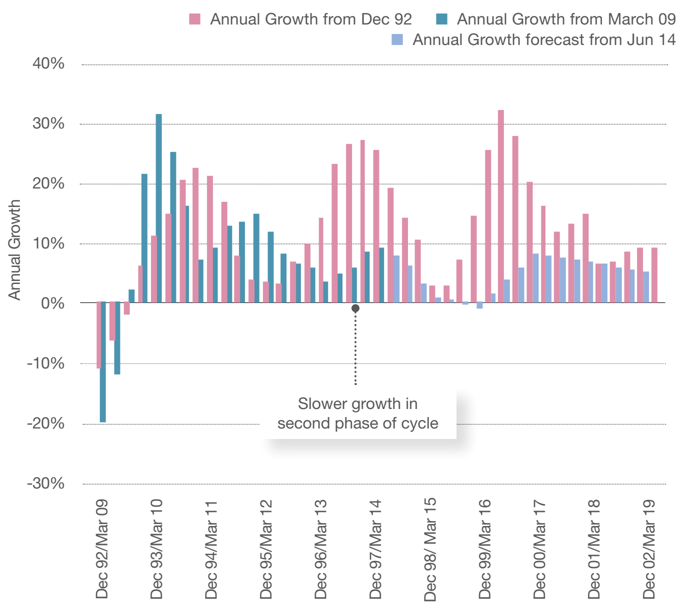
Yet even in comparison to the recovery following the downturn of the early 1990s, prime central London was particularly quick out of the blocks this time around. In the three years after the market hit its nadir in March 2009, prices rose 59%, much higher than the 38% seen in the equivalent period from the end of 1992. This reflected the intense flight to safety of global wealth against the backdrop of uncertainty in the Eurozone in particular.

GRAPH 1 & 2

Comparing cycles: How does the price growth in prime central London since the bottom of the market in 2009 compare to the recovery after the last downturn?



Source: Savills Research



Source: Savills Research

TABLE 1

The markets least aligned to average house price movements across England & Wales

Authority	Correlation England & Wales	Correlation Kensington & Chelsea
Kensington & Chelsea	39%	100%
City Of Westminster	51%	90%
Hammersmith & Fulham	52%	91%
Camden	55%	89%
Islington	57%	88%
Wandsworth	61%	84%
Merthyr Tydfil	61%	3%
Hartlepool	62%	-6%
Blaenau Gwent	62%	6%
Middlesbrough	64%	-1%
Blackburn With Darwen	65%	0%
Lambeth	66%	81%

Source: Savills Research, Land Registry

Applying the brakes

Subsequently, in the part of the cycle when the currency play takes a back seat and the market becomes more dependent on the underlying fundamentals of supply and demand, price growth has been much less than in the equivalent period of the 1990s.

In the past two years, prices across the prime central London market have risen by 13%, compared to 23% across the Greater London market as a whole. Perhaps more pertinently, in the second quarter of 2014, prices in both prime central London and prime South West London rose by just 0.4%.

This indicates that the market is, at present, looking fully valued. While this partly reflects the rapid rise of prime London prices in the two years prior to the downturn, it also reflects the fact that the market over £2m has had to contend with an increased tax burden and the threat of further taxation.

Sizing up the market

Both factors have had implications for the pattern of price movements in the past two years. Smaller properties that are least likely to be affected by increased taxation and more likely to be bought as an investment than a luxury home, have performed much more strongly than large properties where price growth has been heavily curtailed.

At the extreme, properties under 1,000 sq ft have risen in value by 22% since mid-2012, while at the other end of the scale, those over 7,000 sq ft, where the tax burden is greatest, have grown in value by just 3.3%. Whereas those between 1,000 and 2,000 sq ft have seen a two year price growth of 18% on average, those between 5,000 and 7,000 sq ft have risen in value by under 7%.

What next?

The key question is whether this is a temporary slowdown in the market, common at this point in the cycle, or the beginning of a more prolonged period of lower growth, more akin to that seen in the period 2001-2005.

This depends on the extent to which underlying demand is supported by global and domestic wealth generation and the fiscal, regulatory and political backdrop.

Taxation has already contributed to the recent muted performance and is likely to remain in focus given an impending general election and

In the past two years, prices in PCL have risen by just 13% in total

opposition proposals for a mansion tax. If implemented in a draconian way, it is probably the biggest threat to the market. However, it is far from certain whether such a tax will be introduced and, if so, the extent to which original proposals would be watered down.

Mortgage regulation also has the potential to moderate growth in the domestic markets and lower tiers of the prime market, as does the regulation of bank bonuses higher up in the market.

Therefore, price growth in the next five years seems unlikely to replicate that seen in the corresponding period in the last market cycle, even though market fundamentals point to the potential for further price growth, assuming there are no further changes to the taxation of high value property (see page 18 for forecast numbers).

Market dynamics

WHERE IS THE WEALTH COMING FROM?

The prime London market is closely linked to the private wealth of ultra high net worth individuals

Words: Sophie Chick
Twitter: @SophieChick

"We expect an increase in buyers from the UK as the economy strengthens"
Sophie Chick, Savills Research

TABLE 2
Global wealth of UHNWIs Where they live and propensity to buy in London

Geographical Region	Current number of UHNWIs in 2013	Forecast increase in UHNWIs by 2018	% real estate investment to foreign markets	Current buying levels in London	How will this change by 2018?
Europe	58,065	12%	29%	High	← Overall Stable
Asia	44,505	33%	23%	High	↓ Small Decrease
Middle East	5,300	31%	28%	Medium	↑ Slight Increase
North America	70,485	21%	1%	Quite Low	← Stable
Oceania	3,955	19%	21%	Low	← Stable
Africa	2,775	37%	44%	Low	↑ Increase
Latin America	14,150	25%	66%	Very Low	↑ Increase
All	199,235	22%	N/A	Medium	↓ Slight Decrease

Source: Savills Research, Wealth-X

London is a truly global city and its prime residential markets are frequently influenced by the economic performance of countries around the world. Across all prime London, one third of buyers are from overseas and more than half of these buyers live and work in the city.

The influence of international wealth is not a new phenomenon. Since we began recording the data in 1980, buyers from overseas have been a key driver of the prime market. What has changed is the mix of buyers coming to London. Whereas in the 1980s, we saw lots of Americans, today there are greater numbers of buyers of Asian origin.

Where next?

To understand where the next group of buyers might come from, we have looked at data by Wealth-X on ultra high net worth individuals (UHNWIs). An increase can be a good indicator of potential investment in London due to more discretionary wealth. However, strong-growth markets at home may mean prospective buyers stay put to take advantage of their own property market.

North Americans do exactly that, and therefore we do not expect to see an increase in buyers from this region. On the other hand, Latin Americans invest two thirds of their wealth out of their home market in favour of property north of the border in the USA. We have yet to see Latin Americans buying in London but, should they look further afield, London could benefit.

The number of UHNWIs in Asia is also set to increase significantly as their strong economic growth continues. Many of the key cities (particularly Hong Kong and Singapore) are experiencing price falls in their own real estate markets. This is likely to curb their desire to invest in property in the short term, regardless of where it is located.

Domestic wealth

Overall, we expect to see a slight fall in the proportion of international buyers in London but this will be met by an increase in buyers from the UK as the domestic economy continues to strengthen.

In July 2014, the UK's economy finally regained its pre-crisis peak level of output after a gap of six years. In London, the economic recovery has outpaced the rest of the UK. In 2013 it generated 24% of the UK's GDP and is forecast to account for 27% of the growth in GDP over the next 10 years.

Which industries?

London is famous for its financial industry, which vies with New York City as the financial capital of the world. The financial and insurance industry is responsible for generating a large part of London's output, contributing 20% of the capital's GVA (gross value added) even after last year's 1% fall. In the prime residential markets, buyers from this industry play a vital role as the largest buying group across London, accounting for nearly half of all purchasers.

In second place is the professional, scientific and tech industry, which saw an increase of 12% over the past year and now contributes 12% of London's total GVA. This follows London establishing itself as a world leader in the tech industry. Growth in this sector across England outstrips California's Silicon Valley. In prime London, tech industry buyers account for a much smaller proportion than the financial sector, at 17%.

Over the next 10 years, the professional, scientific and tech industry is again forecast to show the strongest rate of growth. The financial and insurance industry will remain the largest employment sector but the gap is gradually closing. We expect this change to be reflected in the profile of buyers in prime London.

Some of the new buyers will compete in the existing prime London markets, others will contribute to the expansion of prime markets into less established markets – we have looked at these in the next set of pages.

Growth in England's tech sector outstrips Silicon Valley

THE ART OF INVESTMENT

How property compares to 'Investments of Passion'

Although art is not a traditional investment asset class, UHNWIs typically invest for both personal enjoyment and financial return. We have undertaken some bespoke research analysing the relationships between the performance of art, other chattels and property.

While the long term debate continues as to whether art should be classed as an investment asset, the fact remains that if you invest wisely in art, the returns can be very rewarding.

The Art 100 index has recorded growth of 200% over the past 25 years (Dec 88 to Dec 13), which compares with the average UK house price increase of 205%.

Over this 25 year period, prime central London (PCL) house prices recorded the biggest increase, with values rising by 523.1%. Growth has been strong since the credit crunch, resulting in the capital outperforming all other areas of the UK as discussed on page 4.

Since the peak of the housing market in September 2007, when PCL rose by 40.2%, the real winner has been classic cars, recording a staggering growth of 134.9%. Prices have not fallen since March 2006 and increasing numbers of investors have chosen classic cars over more conventional investments.

Farmland has always been considered a safe asset. Prices have historically performed well during economic downturns and this recession was no exception – average values have not fallen since 2003 and have increased on average by 105.2% since September 2007.

As the search for safe stores of wealth continues, a variety of asset classes will benefit. Investment credentials are only part of the picture; the amenity enjoyed by the owners of art and property is far less tangible but potentially more valuable.

"UHNWIs invest for personal enjoyment and financial return"
Savills Research

FIGURE 1
25 year capital value growth for investment assets

523%	435%	397%	205%	200%	-6%
Prime Central London House Prices	Classic Cars	Farmland	UK House Prices	Art 100	18th Century Furniture

Source: Savills Residential Research, Art Market Research, Nationwide

Property sales

HOW PRIME IS YOUR BOROUGH?

Open to see where the expansion has happened and which locations will be next

We examine the profile of the prime market across London's 33 boroughs using data on £1million+ sales from the Land Registry

Kensington & Chelsea has the highest % of £1m+ sales

Hackney saw the second biggest increase in £1m+ sales since 2003

Borough	£1m+ Sales in 2013	% of Sales over £1m in 2013	£1m+ Sales in 2003	Increase from 2003 to 2013	% of £1m+ New Build Sales in 2013	Highest Value Ward	Average House Price of Ward
Kensington & Chelsea	1,292	48.4%	569	127%	2.3%	Brompton	£2,550,998
Westminster	1,211	33.4%	370	227%	6.4%	Knightsbridge and Belgravia	£4,263,606
Wandsworth	653	10.4%	117	458%	2.8%	Northcote (Road)	£847,257
Hammersmith & Fulham	640	21.2%	70	814%	4.8%	Parsons Green and Walham	£1,448,045
Camden	637	21.7%	134	375%	9.3%	Hampstead Town	£1,556,578
Richmond upon Thames	521	14.5%	106	392%	1.2%	Barnes	£1,401,930
Barnet	305	6.4%	85	259%	3.6%	(Hampstead) Garden Suburb	£1,183,115
Islington	286	9.5%	24	1092%	9.1%	St Mary's	£855,665
Lambeth	234	4.8%	26	800%	17.1%	Oval	£830,237
Haringey	219	8.3%	19	1053%	2.7%	Highgate	£929,493
Merton	204	6.3%	54	278%	2.9%	(Wimbledon) Village	£1,594,693
Southwark	191	4.5%	29	559%	8.9%	(Dulwich) Village	£873,142
Ealing	164	4.3%	28	486%	8.5%	Southfield	£826,178
Hounslow	142	5.0%	23	517%	8.5%	Chiswick Homefields	£933,031
Brent	120	4.9%	6	1900%	2.5%	Queens Park	£799,332
Bromley	108	2.0%	29	272%	8.3%	Bickley	£520,375
Tower Hamlets	91	2.1%	12	658%	25.3%	Spitalfields & Banglatown	£634,342
Kingston upon Thames	81	2.9%	15	440%	6.2%	Coombe Hill	£946,946
City of London	74	17.1%	2	3600%	67.6%	Bishopsgate	£1,585,000
Hackney	73	2.7%	3	2333%	5.5%	Queensbridge	£541,893
Greenwich	55	1.6%	13	323%	5.5%	Blackheath Westcombe	£505,687
Harrow	50	1.9%	22	127%	34.0%	Stanmore Park	£585,261
Lewisham	29	0.7%	6	383%	0.0%	Blackheath	£441,116
Enfield	21	0.6%	21	0%	9.5%	Cockfosters	£500,760
Redbridge	19	0.6%	2	850%	10.5%	Monkhams	£530,250
Hillingdon	18	0.5%	6	200%	16.7%	Northwood	£494,580
Sutton	15	0.5%	2	650%	0.0%	Cheam	£526,710
Havering	12	0.3%	1	1100%	0.0%	Emerson Park	£484,625
Croydon	9	0.2%	9	0%	0.0%	Sanderstead	£389,037
Waltham Forest	3	0.1%	0	0%	0.0%	Hoe Street	£338,991
Bexley	2	0.1%	0	0%	0.0%	St Mary's	£311,119
Newham	0	0.0%	0	0%	N/A	Forest Gate South	£281,184
Barking & Dagenham	0	0.0%	0	0%	N/A	Longbridge	£275,384

Source: Savills Research, Land Registry

Knightsbridge & Belgravia ward is the highest value

City of London has the highest % of £1m+ new build sales (off a low base)

Barking & Dagenham and Newham had no £1m+ sales in 2013

Merton has the third highest value ward (Wimbledon); ranks 11th in £1m+ sales

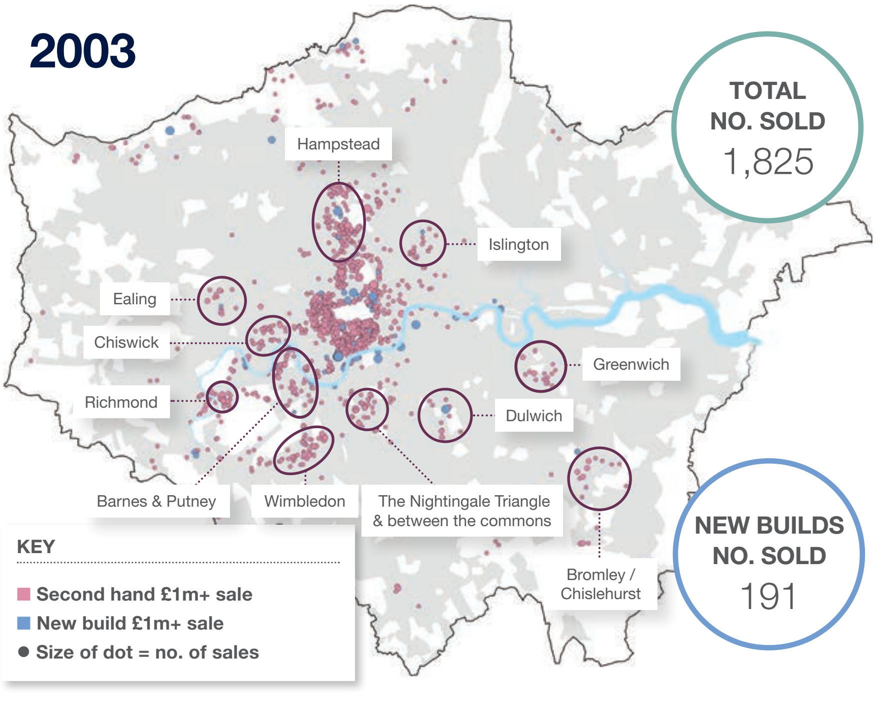
Harrow, Tower Hamlets and Lambeth all have high % of new build £1m+ sales

£1m+ sales in the four top boroughs exceed the total across the rest of London

Market dynamics

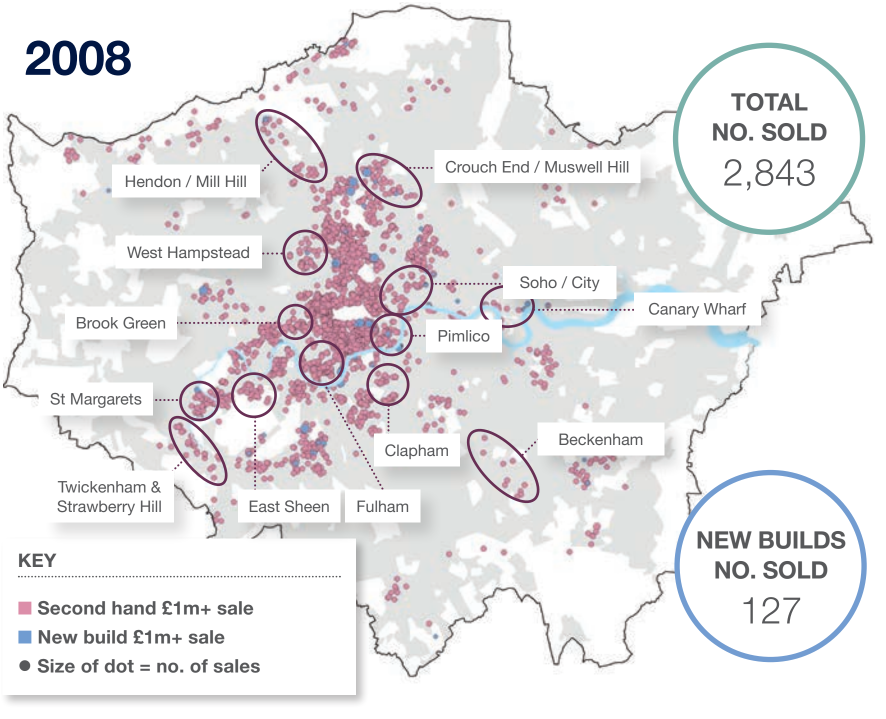
THE EVOLUTION OF PRIME LONDON

To map the expansion of prime London, we used Land Registry data to plot every sale at £1 million and over. Starting in 2003, we are able to see the established prime locations spread and new prime locations appear.



In 2003, the prime markets were mostly confined to core prime central London (PCL), spanning from Kensington/ Notting Hill in the west to Mayfair in the East and Chelsea to the south. St John's Wood and Hampstead to the north west of PCL were also established prime locations. On the map we have also highlighted the relatively low number of locations beyond the centre where £1m+ sales were happening in significant numbers.

New build property accounted for 10.4% of all £1m+ sales, the highest proportion of all the years we have looked at. Development activity is mostly confined to the edge of the established locations such as Kings Chelsea on the edge of Fulham and Balmoral House near Paddington. Riverside regeneration is already underway with key developments such as Albion Riverside, The Bridge and St George's Wharf.

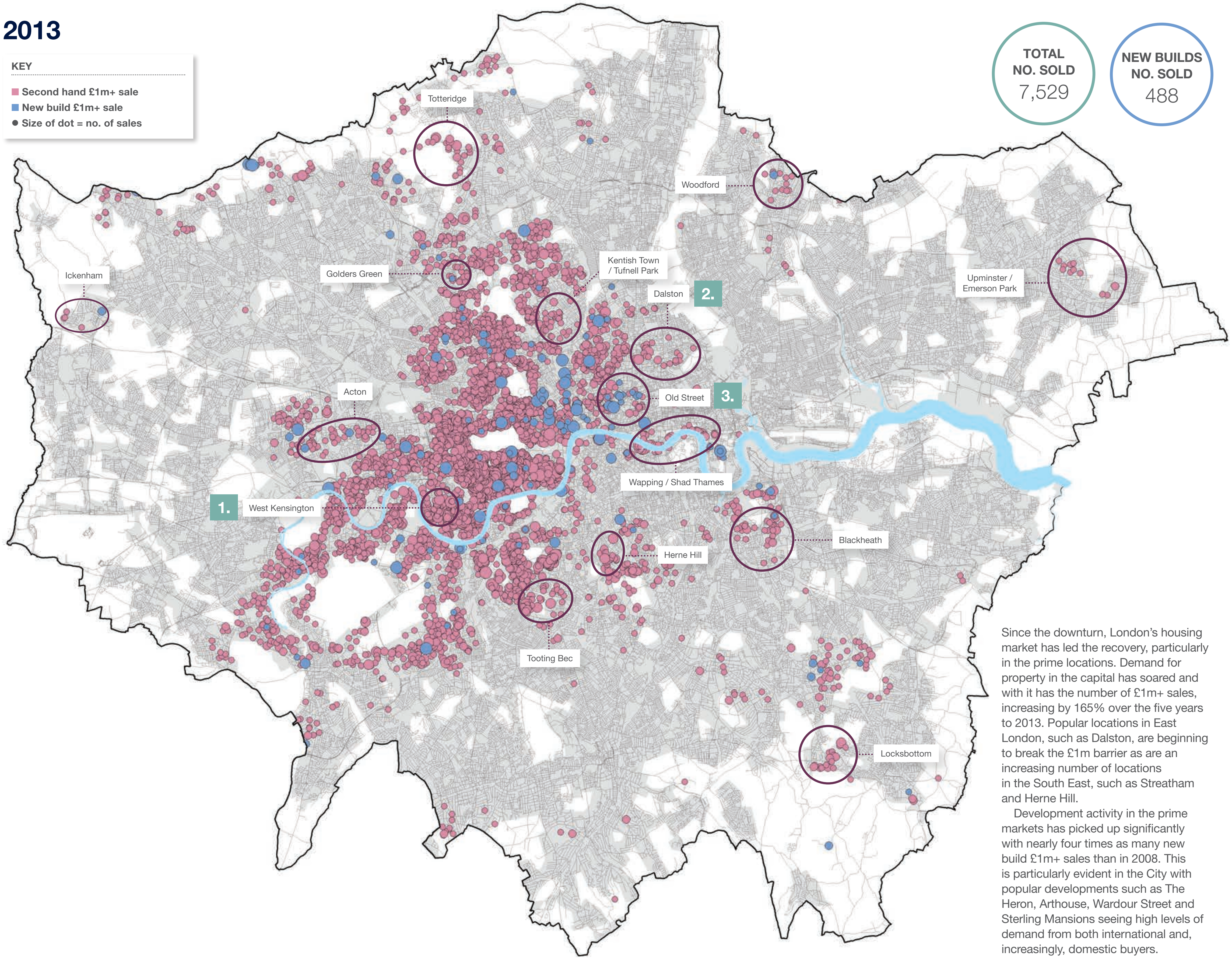


Although the country was in recession in 2008 and house prices in London were falling, the number of £1m+ sales increased over the five years from 2003 by 55%, reflecting the expansion of the prime market in the period 2005-2008. As is always the case during a downturn, new build activity slowed significantly, accounting for just 4.5% of all £1m+ sales. On the map we have highlighted the new areas of prime which were emerging in 2008.

Many of these newly prime areas are the obvious expansions such as Brook Green from neighbouring Holland Park and Pimlico across the railway from Belgravia. Others have emerged as new build development opened new areas of prime. Canary Wharf had just a few new build sales over £1m+ five years previously but now many of these older new build properties are selling for £1m+.

Source: Savills Research, Land Registry

2013



Since the downturn, London's housing market has led the recovery, particularly in the prime locations. Demand for property in the capital has soared and with it has the number of £1m+ sales, increasing by 165% over the five years to 2013. Popular locations in East London, such as Dalston, are beginning to break the £1m barrier as are an increasing number of locations in the South East, such as Streatham and Herne Hill.

Development activity in the prime markets has picked up significantly with nearly four times as many new build £1m+ sales than in 2008. This is particularly evident in the City with popular developments such as The Heron, Arthouse, Wardour Street and Sterling Mansions seeing high levels of demand from both international and, increasingly, domestic buyers.

Source: Savills Research, Land Registry

CASE STUDIES

What £1 million bought you in 2013

1. BERYL ROAD

Terrace house, 5 beds, 1,561 sq ft

2. ABERDEEN PARK

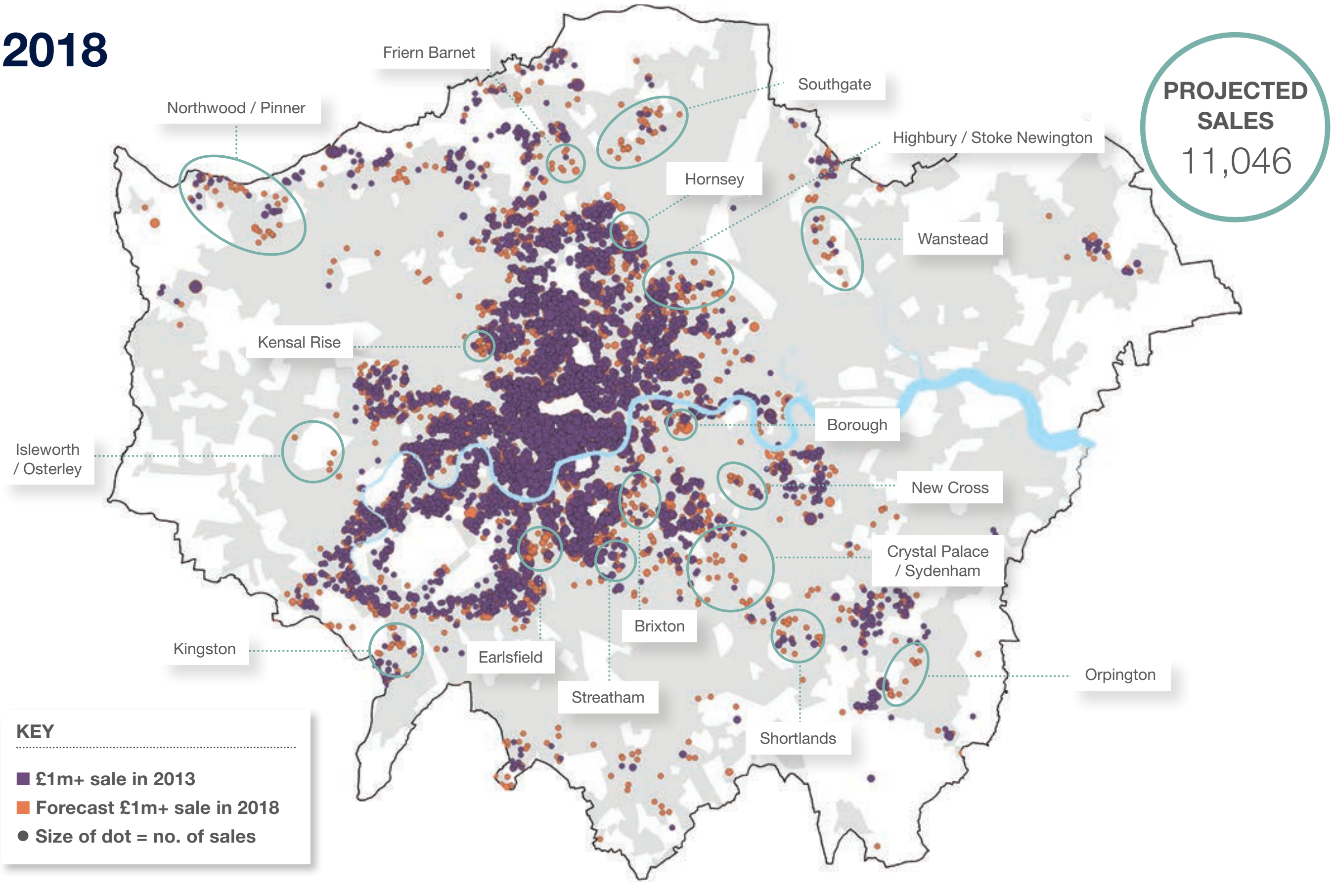
Period lodge house, 3 beds, 1,522 sq ft

3. THE EAGLE

New build flat, 3 beds, 936 sq ft

Source: Savills Research

The 2018 £1 million map imagined (new areas of £1 million prime shown in orange)



Source: Savills Research, Land Registry

Over the next five years (2014 to 2018) we are forecasting that all prime London property will see price rises of 23%. Using this forecast, we have mapped all the properties which sold in 2013 that will be over £1m by 2018 as an indication of where the next prime locations will be.

This method indicates that the rate of expansion in prime London will slow slightly in comparison to the previous five years. Still, £1m+ transaction volumes are expected to rise significantly, by 47% over the next five years.

The majority of the new locations are neighbouring areas to those that are already prime, such as Earlsfield and Brixton. Both Wanstead and Southgate are expected to appear as new prime locations in outer London as values here reach the £1m mark.

The map now shows the emergence of a third 'wealth corridor' as and when homeowners move out of the centre of London. The south west path has long been established, but the route north only became visible in 2008 and filled in over the next five years.

The next wealth corridor running south east brings in Dulwich and Bromley, which become more connected via locations such as Crystal Palace and Shortlands.

Inevitably, there will be other locations that emerge as prime, either by becoming more fashionable for wealthy younger households or via regeneration.

TABLE 3

How has the value of a prime property changed if it was worth £1 million in December 2013?

Date	Dec 03	Dec 04	Dec 05	Dec 06	Dec 07	Dec 08	Dec 09	Dec 10	Dec11	Dec 12	Dec 13
Average Value	£472k	£492k	£513k	£632k	£757k	£613k	£720k	£773k	£854k	£895k	£1m

Source: Savills Research

Mansion tax

THE GREAT TAXATION DILEMMA

Why altering the Council Tax system would be a better solution than introducing a mansion tax

Words: Lucian Cook
Twitter: @LucianCook

One of the risks to the prime London housing markets remains the threat of a mansion tax. Though the fiscal and economic case for such a tax is weak – much weaker than it was when first proposed by the Liberal Democrats in 2009 – it is undeniably popular with the majority of the electorate.

Irrespective of both the increasingly disproportionate burden of stamp duty that is borne by high value property and the successive tax changes that have closed previous tax loopholes, the fact that the highest value properties in Westminster only pay £14 a year more Council Tax than a two bedroom second floor flat in Weymouth leaves proponents of a mansion tax with political ammunition.

However, there does appear to be a consensus that the previous proposal for the tax – a 1% levy on the value in excess of £2m – would have been unworkable. Hence, both the Labour Party and the Liberal Democrats have moved towards a banded proposal that draws on the precedent set by the Annual Tax on Enveloped Dwellings (ATED).

There is, however, no indication of the amount of the charge under these revised proposals.

If it were to be of the order of scale of ATED, which was introduced to penalise those people seen to be actively avoiding other property taxes, it has the capacity to put a fairly sizeable spanner in the workings of London's prime property market. If, by contrast, it simply plugs the hole in the Council Tax system, then the impact would be much more benign.

At the heart of this issue is whether it is designed to be a significant revenue raiser or a playing field leveller. A penal charge would in all likelihood result in a significant leakage in government revenues from Stamp Duty, Inheritance Tax and Capital Gains Tax. Given this prospect, the policy focus may well shift towards making adjustments to the Council Tax system.

In this respect, the issues with Council Tax are essentially threefold:

- The existing Council Tax banding system is based on valuations that date back to 1991. In the intervening period, prices in prime central London have risen by 612%, while they have risen by an average of 237% across the UK mainstream market as a whole.
- Consequently, the existing bands do not distinguish between very valuable properties and the merely expensive.
- The Council Tax rates, which are set at a local authority level, are disproportionally lower in the highest boroughs of London than across the rest of the country.

An equitable solution?

First, it might involve adding several additional bands at the top end of the market, albeit without having to undertake a full Council Tax band revaluation.

Second, it might impose minimum charges for properties in these bands, irrespective of the Local Authority charging structure.

What constitutes an equitable charge is, of course, entirely subjective. This said, it would be difficult to argue that all band H (highest band) properties should pay the average charge of around £3,000 per annum as a minimum. Further, it would seem broadly fair that all properties worth between £2m and £5m should pay £5,000 per annum, those between £5m and £10m, £7,500 per annum and those worth over say £10m, £10,000. Additional receipts could be used to reduce the Council Tax burden of those suffering hardship or to fund specific housing projects.

This would mean the most expensive properties would be paying over 8.5 times the amount of council tax paid by the cheapest, without the inevitable fallout of a more aggressive tax on a sector where tax charges have already been ramped up in the past five years. The playing field would look more level.

TAX CHANGES

Since a mansion tax was first proposed

- 5% Stamp Duty Land Tax (SDLT) on £1m+ properties (up from 4%)
- 15% SDLT on £2m+ properties bought by non-natural persons
- ATED on £2m+ properties held by non-natural persons
- CGT on sales by non-natural persons
- 7% SDLT on £2m+ properties
- CGT on overseas owned properties with effect from April 2015
- ATED regime extended to £1m+ properties with effect from April 2015
- ATED regime extended to £500k+ properties with effect from April 2016

GRAPH 3
Current Council Tax charges

Source: Savills Research

> "At the heart of the issue is whether a mansion tax is designed to be a revenue raiser or a playing field leveller"
> Lucian Cook, Savills Research

ATED CHARGES

Annual tax on enveloped dwellings

£198m raised through ATED in the period From September 2013 to May 2014

Value of property	ATED charges 2014-15
£2m - £5m	£15,400 pa
£5m – £10m	£35,900 pa
£10m - £20m	£71,850 pa
£20m+	£143,750 pa
£1m - £2m	£7,000 pa*
£500k - £1m	£3,500 pa**

Source: Savills Research * April 2015 **April 2016

£3.4bn was raised through Inheritance Tax in 2013-14, a figure that is forecast to rise to **£5.8bn** in 2018-19

We estimate there are **97,000** properties worth over **£2m** in the UK, a figure that has risen by **36,000** since 2009

In the past five years **44%** of **£2m+** sales in England and Wales have been in Westminster or Kensington & Chelsea

FIGURE 2
Relative tax receipts How property taxes compare (2012-13 unless stated otherwise)

Stamp Duty | ATED | Comparative tax receipts

- **£177m** SDLT receipts from all West Mids
- **£183m** SDLT from all North West England
- **£198m** 10 month receipts ATED
- **£265m** Aggregate Levy
- **£282m** SDLT from Surrey
- **£326m** Duty from Cider
- **£348m** SDLT from Kens & Chelsea
- **£360m** SDLT from Westminster
- **£635m** UK Climate change levy
- **£870m** SDLT from £2m+ property

Source: Savills Research

New build development

KEEPING UP WITH PRIME EXPECTATIONS

New build development means prime London is expanding, but are we ready for this change?

Words: Katy Warrick
Twitter: @katywarrick

"Developers should not underestimate the importance of domestic buyers"

Katy Warrick, Savills Research

London is a hugely attractive place to live, to work and invest in. It is a dynamic city, and it is growing. Prime London, too, is expanding.

In the new build market we would have applied 'prime' to only the two most central boroughs – Kensington & Chelsea and Westminster – just as recently as ten years ago. Today new build development in the surrounding boroughs, as well as most of London's riverside, has become prime.

But there is a larger development pipeline coming through over the next five years, which raises the question of whether the expansion of the prime market can keep pace with developers' expectations and what the developments need to deliver to achieve or maintain prime status.

Building at scale

To put this into context, we expect 22,700 new homes (private) to be priced at more than £1,000psf.

Large scale development is taking place in clusters outside of established prime, in Nine Elms, South Bank, City Fringe, Earls Court and White City, reflecting the fact that development land in the very centre of London is limited. In addition, in Canary Wharf, a strong employment centre with Crossrail arriving in 2018, residential development is being intensified.

Placemaking and transportation

It is clear that previously disused or run down industrial areas can become vibrant new neighbourhoods through successful placemaking. The early stages of regeneration are often the most important in attracting attention to an area and gaining footfall, marketing and branding can play an important role. This can be done by ensuring the retail, public realm or open spaces are delivered upfront in the pipeline, and public connectivity between buildings is created. This has been particularly successful at Kings Cross.

Good transport links are also crucial; Canary Wharf didn't fully take off until the Jubilee Line Extension opened. Public sector investment can accelerate regeneration substantially, and has played a central role in facilitating growth in a number of these clusters.

Responding to change

Expansion into these areas also reflects the fact that London's key business districts are changing. There is an increasing focus on peripheral office locations, such as in the case of the City, which is seeing some expansion of activity to Old Street – 'Tech City' – and south of the river to Waterloo and London Bridge. Similarly, the West End has its fringe locations, including Hammersmith to the west and Kings Cross to the north. Notably, office based employment forecasts are stronger in these peripheral locations as they create new employment hubs alongside the more established areas.

Delivering value uplifts

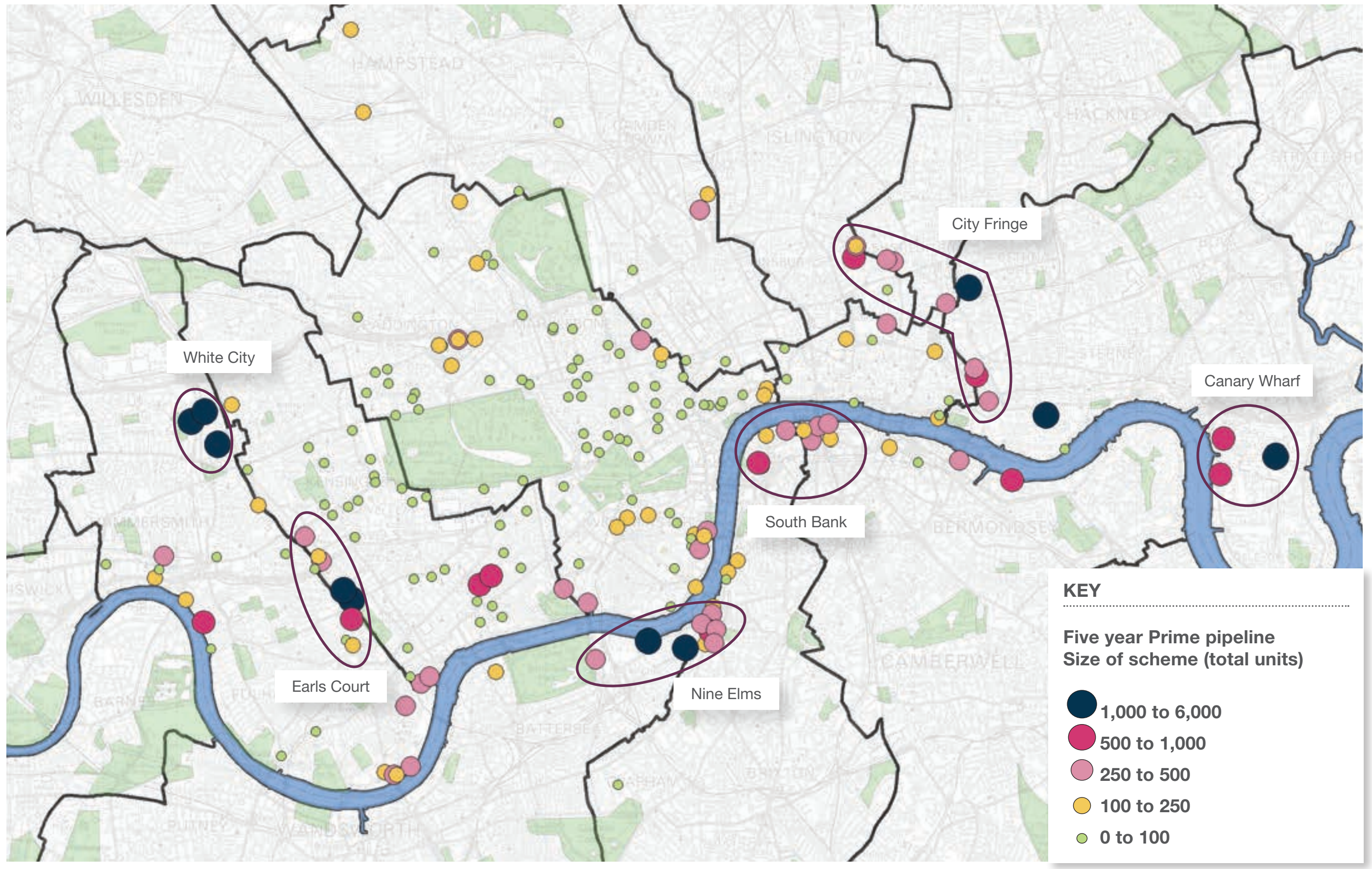
Residential developments in these emerging prime areas each justify their values through offering the very best in services and amenities that a buyer of prime new build property has come to expect. Coupled with waterside views, or the excitement of large scale regeneration, this has supported strong off plan sales. However, while an average £1,000psf+ is justifiable in these peripheral locations, this equates to a large capital value on oversized units. As new units compete with more established prime London product, it may take longer for the market to absorb.

Overseas investors in particular have been driven by the strong capital growth seen in prime London since the downturn. It is unsurprising then that our research suggests that rental yield is not the main driver behind purchasing investment property.

MAP 1

Prime London's five year development pipeline of 22,700 new homes

33% of new homes are situated in waterside locations	**32%** are in schemes including a tower of more than 20 storeys	**23%** are on large schemes of more than 500 units	**48%** is accounted for in six key clusters



Source: Savills Research

But this will be tested over the next few years as we see large concentrations of new prime stock come to the market for rent. Out of the 22,700 prime new homes we expect to be delivered in the next five years, we estimate that in the region of 13,000 homes could enter the rental market.

Rental impact

Competition for tenants will become particularly pronounced in new build towers, where construction and completions cannot easily be phased to allow for market absorption. Consequently, rents will come under pressure in locations of high supply, with a potential dampening effect on rental growth across the wider prime rental market despite a wider pool of tenants.

Domestic buyers

In light of this, developers should not underestimate the importance of domestic buyers purchasing for their own use. Importantly, we are already seeing a shift towards more UK buyers as domestic demand is recovering, partially to be accredited to the Mayoral Concordat.

Developers are starting to regain their trust in the domestic markets by launching in the UK either before or simultaneously to overseas and it is positive that UK buyers are willing to purchase off plan. In the first half of 2013, UK purchasers of prime new build accounted for 28%, while in the first half of 2014 this had increased to 39%. This can only be good news.

High volumes of residential homes are in the pipeline in these emerging prime locations. Construction is already underway at most, but it will take time for these neighbourhoods to become fully occupied.

Forecast values

PAST, PRESENT & FUTURE

Over the past five years, values in prime London have seen significant increases with an average growth of 65% over the period. However, with an election approaching and the taxation of high value property still on the political agenda, we expect values to plateau in locations that have seen the steepest price rises. Assuming no mansion tax is introduced, we expect prices to bounce back in 2016 as demand returns to the market, leading to an average increase of 22.7% over the five year period to the end of 2018.

TABLE 4

Prime price movements

Year to Q2 2014	Central London	North West London	South West London	North London	East of City	All Prime London
Y on Y	7.6%	8.9%	11.8%	20.6%	21.1%	11.7%
Since Pre Crunch	40.2%	28.5%	37.8%	43.4%	35.4%	37.9%

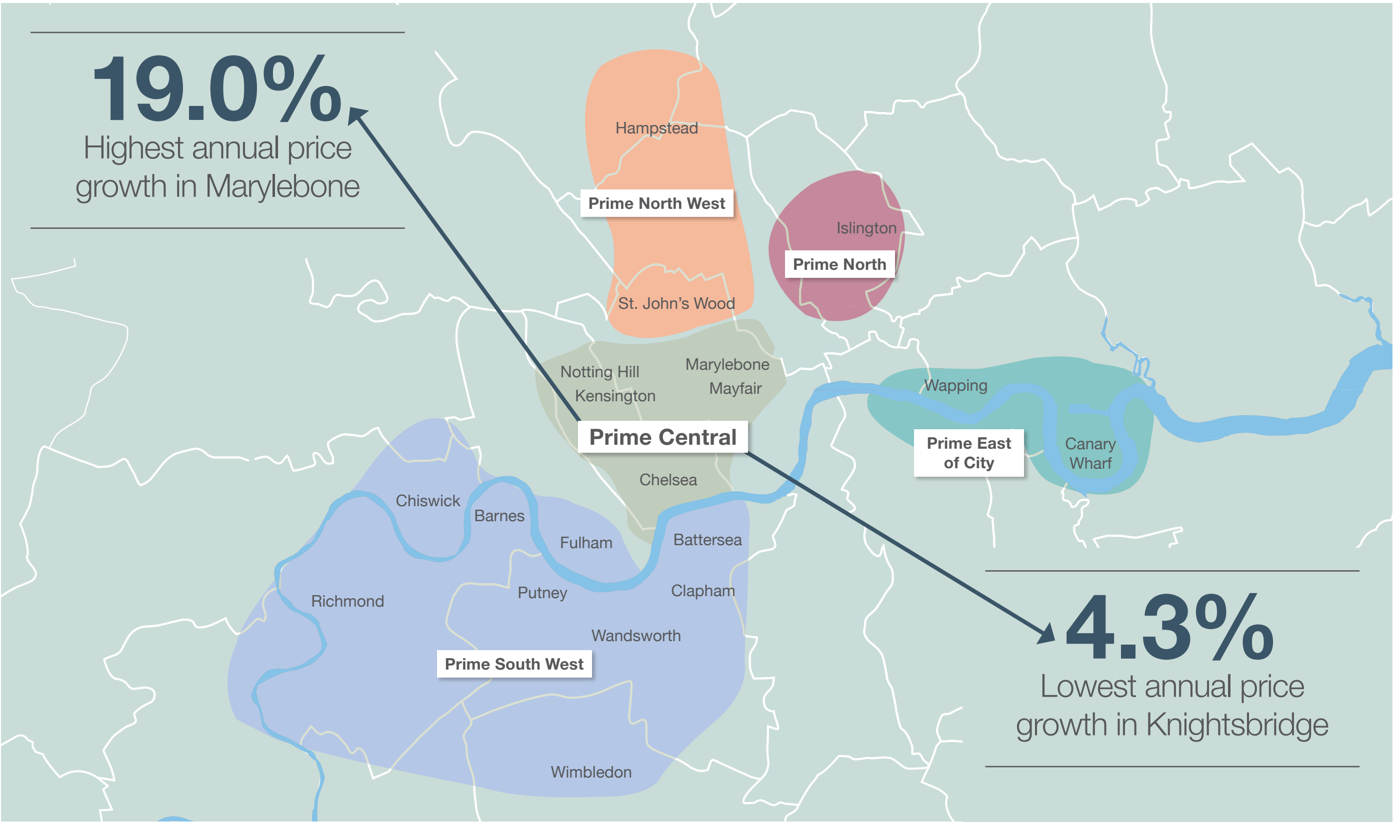
Source: Savills Research

TABLE 5

Prime five year forecast values

Annual Value Growth	Prime Central London	Other Prime London
2007 actual	21.3%	19.3%
2008 actual	-18.8%	-18.9%
2009 actual	21.4%	16.5%
2010 actual	8.9%	7.5%
2011 actual	14.6%	8.4%
2012 actual	5.5%	5.8%
2013 actual	8.3%	11.9%
2014 forecast	3.0%	6.0%
2015 forecast*	-1.0%	0.0%
2016 forecast*	8.0%	6.0%
2017 forecast*	6.5%	5.0%
2018 forecast*	5.0%	4.0%

Source: Savills Research
* Assuming no further changes in the taxation of high value property



Source: Savills Research

Research publications
Our latest reports

Residential Research
savills.co.uk/research/uk/residential-research
Spotlight | World in London
Residential Property | Focus Q3 2014
Market in Minutes | Prime Regional Residential

World Research
savills.co.uk/research/
12 Cities
Around The World In Dollars and Cents
Spotlight | Prime Residential Retreats

For more publications, visit **savills.co.uk/research**
Follow us on Twitter **@SavillsUK**

Savills team

Research

Lucian Cook
UK Residential
020 7016 3837
lcook@savills.com
Twitter: @LucianCook

Yolande Barnes
World Residential
020 7409 8899
ybarnes@savills.com
Twitter: @Yolande_Barnes

Katy Warrick
London Residential Development
020 7016 3884
kwarrick@savills.com
Twitter: @katywarrick

Sophie Chick
UK Residential
020 7016 3786
schick@savills.com
Twitter: @SophieChick

Kirsty Lemond
UK Residential
020 7016 3836
klemond@savills.com

Residential

Justin Marking
Head of Residential
020 7016 3810
jmarking@savills.com

Jonathan Hewlett
Head of London Region
020 7824 9018
jhewlett@savills.com

Ed Lewis
London Development Sales
020 7409 9997
elewis@savills.com

Jane Cronwright-Brown
Head of Lettings
020 7824 9048
jcronwrightbrown@savills.com

33 Margaret Street
London W1G 0JD
020 7499 8644

savills.co.uk