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RESIDENTIAL RESEARCH
RESIDENTIAL MARKET UPDATE
Knight Frank

Eurozone wrangling burnishes London's lustre

Fear over the fate of the Eurozone is affecting economic confidence in the UK and around the world. But the flip side of the turmoil is that Eurozone investors are continuing to seek out the 'safe haven' of prime London property, helping boost prices in central London as UK mainstream prices stagnate.

Key figures

Prime central London prices rose by 0.7% in May and are up 10.7% year on year

Central London luxury property prices are now 12% higher than previous peak in 2008

Average UK house price rose by 0.3% in May, but are down 0.7% on an annual basis

Jubilee index shows prime central London home worth £10,000 in 1952 now worth £3.2 million

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"Interest from French and Italian buyers in prime central London property has been particularly strong so far this year."

Gráinne Gilmore, Head of UK Residential Research

UK housing market and economic overview

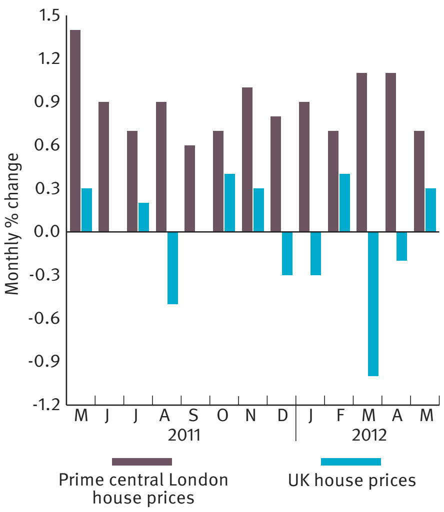
The Eurozone crisis ratcheted up again this month with Spain seeking and securing a €100 billion bailout to shore up its domestic banks affected by exposure to bad property loans. This makes Spain the fourth country, and largest economy, to seek help from the European Union, following in the footsteps of Greece, Ireland and Portugal. However, unlike the other countries, Spain has negotiated an effective "no-strings" deal, with relatively few conditions being imposed with the handover of the bailout. This could cause some political tensions within the Eurozone, to add to the economic turmoil. While the injection of cash for Spanish banks may give the Eurozone some breathing space, there remain serious concerns about the future of the single currency area.

Certainly fears over the Eurozone, as well as cooling measures introduced by Asian governments, hit global property prices according to Knight Frank's latest Global House Price Index.

Given the impact an unravelling of the Eurozone could have on the UK economy, most eyes are fixed on Brussels. Yet the flip side of the wrangling in the Eurozone has been increased investment in prime central London property, which is seen as a safe haven in which to invest in a tangible asset which is outside the Euro area. Interest from French and Italian buyers has been particularly strong so far this year.

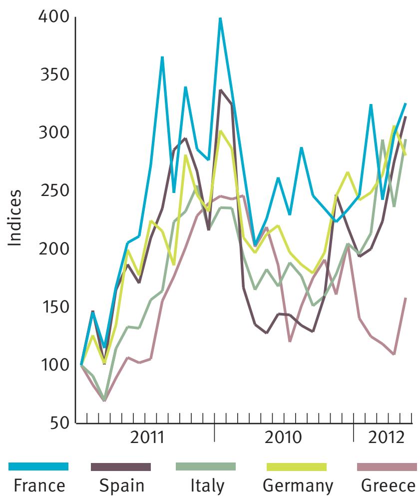
On a wider economic note, there was disappointment last month that the initial estimate of GDP, which confirmed that the UK was in a double-dip recession, was revised down to show that the situation was worse than initially thought. But despite this, the Bank of England shrugged off calls from the International Monetary Fund (IMF) to consider further monetary easing – by cutting rates and boosting quantitative easing – to encourage economic growth. Instead, the nine-strong rate-setting committee voted to keep interest rates unchanged at a record low of 0.5% and maintained the £325 billion limit on quantitative easing.

Figure 1
Monthly price change
Prime central London versus UK average residential price change



Source: Knight Frank Residential Research

Figure 2
Web search trends for prime central London property from Eurozone (indexed)



Source: Knight Frank Residential Research

"THE FEARS OVER THE EUROZONE AND MARCH'S RISE IN STAMP DUTY FOR THE PURCHASE OF HOMES WORTH MORE THAN £2 MILLION HAD LITTLE EFFECT ON PRICES IN MAY."

But there is increasing evidence that many mortgage borrowers are not benefitting from such low interest rates, with lenders continuing to ratchet up the cost of mortgage deals, reversing the cuts seen last year. The most recent data from the Bank of England shows that the average mortgage rate for a two-year fixed-rate deal for those with a 25% deposit has risen from 2.92% in September last year to 3.66%, although this is still appreciably lower than the 6% hit during the zenith of the financial crisis in 2008.

As has been well documented, lenders are also demanding higher deposits from borrowers, placing home ownership beyond many who are struggling to save for a deposit. The lack of mortgage lending, especially for first-time buyers, is hampering activity in the mainstream market, which is placing a floor under prices to a certain extent, with falls of just under 1% year on year.

But the health of the housing market differs across the UK's regions. Knight Frank's House Price Sentiment Index (HPSI) produced in conjunction with Markit Economics, showed that residents in the North West and West Midlands have experienced the biggest falls in prices over the last 12 months, with only residents in London reporting that prices rose.

Prime market performance

The fears over the Eurozone and March's rise in stamp duty for the purchase of homes worth more than £2 million to 7% for private buyers and 15% for companies had little effect on prices in May. In fact, as discussed earlier, the increased interest from international buyers, especially from within the Eurozone, has further boosted buyer demand over the past year or two. Average prices for luxury central London property rose again in May, climbing by 0.7% to a new record high, according to Knight Frank's Prime Central London Sales Index. However, perhaps in a reflection of the new stamp duty threshold, prices of properties worth less than £2 million rose more than houses worth £2 million or more, in the two months to the end of May, with rises of 2.7% and 1.6% respectively. Sales volumes were broadly flat.

Prime English country house prices slipped by 0.5% in the first three months of the year, although there are sharp regional differences in price performance, with some local 'hotspots' far outperforming the average price movements. Prices are down by around 4% year on year. In Scotland, prime country house prices are down 3.6% year on year, but the first quarter saw a real resurgence in activity in Edinburgh.

Rental market

A surge in rental demand drove average UK rents up by 0.5% in April, reversing three months of declines, according to the latest figures. Rents are up 2.4% year on year.

Rents in prime central London fell in May however, dropping by 0.3% and reversing April's 0.1% rise. Prime central London rents have fallen modestly for seven of the past eight months, and are now just 0.2% higher than in May last year as demand is rising less quickly than supply.

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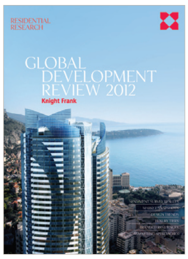

Global Development Review 2012

The London Review Spring 2012

Prime Central London Sales Index May 2012

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