May 2012
RESIDENTIAL RESEARCH

RESIDENTIAL MARKET UPDATE

Knight Frank

London market resilient despite UK's double-dip

Nearly two months on from the Budget the early indications are that London's luxury homes market is absorbing the shock of higher stamp duty charges. Prices in prime central London continue to climb, in contrast to prices in the mainstream UK market which are drifting downwards

Key figures

UK house prices fell by 0.2% in April and are 0.9% down year on year

Prime central London prices rose by 1.1% in April and the annual growth is 11.4%

Number of buyers registering interest in £2m+ properties in central London up 13% in April

Prime central London rents rise for first time in six months

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"Economic and political uncertainty in the Eurozone has burnished London's reputation as a safe haven."

Gráinne Gilmore, Head of UK Residential Research

UK housing market and economic overview

Average UK house prices have fallen in four of the last five months and are now nearly 1% lower than in April last year. In contrast, the prime central London property market continues to hit new highs, with sales and prices both rising markedly on an annual basis in April.

The economic and political uncertainty in the Eurozone, with recent elections in Greece and France ousting the incumbent leaders, has only served to burnish London's reputation as a safe haven. The number of Europeans buying prime London property rose by nearly 200% in 2011 compared to 2010.

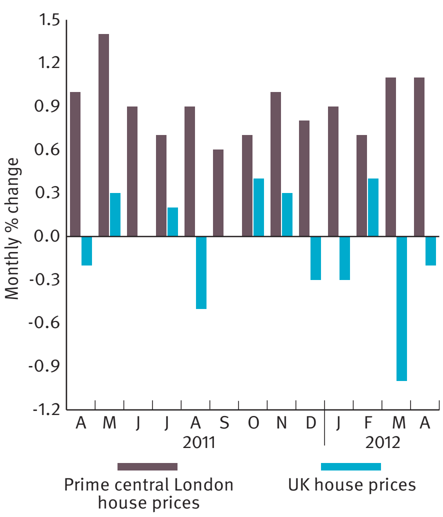
But there are also wider implications of the Eurozone crisis on the UK housing market, not least the impact it has on the banking sector, and in turn, mortgage borrowers.

Mortgage lending remains some 50% lower than the pre-crisis peak, and the recent increases in home loan rates, despite the record-low bank base rate, have only increased the challenges facing prospective buyers hoping to get onto the housing ladder. Another upset in the Eurozone could further exacerbate funding difficulties as banks scramble to cope with the fallout.

Closer to home the economic news has also been gloomy, with official figures showing that economic output fell in the first quarter of the year – resulting in a damaging double-dip recession.

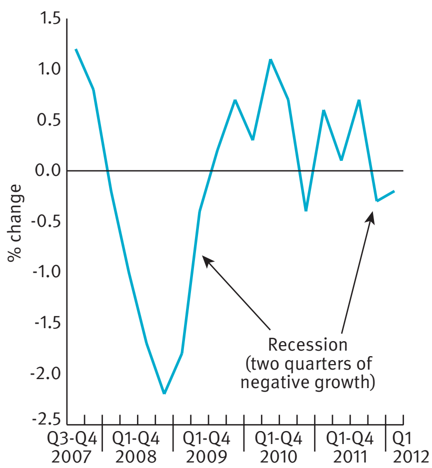
The initial data from April suggests that the situation did not improve at the beginning of the second quarter in the UK's dominant services sector – certainly the miserable weather in April resulted in the biggest fall in high-street spending in a year.

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



Source: Knight Frank Residential Research

Figure 2
UK's double dip: GDP growth
UK GDP quarterly growth



Source: ONS

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“RENTS IN PRIME CENTRAL LONDON ROSE FOR THE FIRST TIME IN SEVEN MONTHS IN APRIL, CLIMBING BY 0.1%, AND ARE NOW 1.2% HIGHER THAN IN APRIL LAST YEAR.”

Yet April’s Knight Frank/Markit house price sentiment index, which traces the responses of 1,500 homeowners and renters across the UK, showed increased confidence that house prices will rise over the next year, a rare shaft of sunlight through the increasingly downbeat economic data. This was echoed in the Rightmove asking price monitor, which showed that average asking prices hit a record high in April, driven largely by the market in London and the South East.

Prime market performance

Prices in prime central London rose again in April, climbing by 1.1%, despite the rise in stamp duty charges for properties worth £2 million or more. Tellingly, the number of applicants registering interest in properties in this price bracket rose in April, up 13% compared to March. Indeed on a global scale, the 7% purchase tax is still cheaper than Monaco (15%), singapore (14.3%) and Paris (9%).

Prime London property prices are up more than 11% year on year, marking one of the most robust performances of any major city around the world. There are more details on how London measures up on GlobalBriefing, Knight Frank’s research blog.

The top end of the prime country house market also rose in the first quarter of the year, with average prices of properties worth in excess of £5 million rising by 2.1%. Across all price brackets, the pace of decline eased substantially, with values slipping by 0.5% in the first three months of the year, compared to the 1.7% decline seen in the final quarter of 2011. Prices are down 4.1% year on year. Activity levels, especially in the home counties, are tipped to rise, as the higher stamp duty charges tempt some London sellers to move to the country where they can get more bricks and mortar for their money.

Prime property prices in Scotland fell by 0.4% in the first quarter, and are down 3.6% year on year.

Rental market

Rents in prime central London rose for the first time in seven months in April, climbing by 0.1%. Rents are now 1.2% higher than in April last year, but landlords should not expect further increases to match those seen since 2009 as the supply of new rental property is now outweighing demand. New tenant registrations were up 5% in the three months to the end of April compared to the same period in 2011, while new property instructions rose by 56%.

Mainstream rents across the UK have also started to stumble, with the 0.3% decline in March marking the second consecutive monthly decline. However rents were still 2.7% higher on an annual basis.

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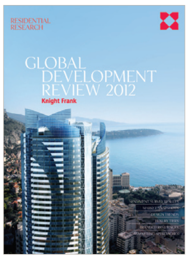

Global Development Review 2012

The London Review Spring 2012

Prime Central London Sales Index April 2012

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