Knight Frank

News Release

Date: 25 September 2009

Low stock volumes push prime London house prices higher

Knight Frank Prime Central London Residential Index – September 2009

Key highlights:

- Prime house prices in central London rose 1.3% in September
- The annual rate of price change has improved to -8.9% (from -12.0% in August)
- Average prices are still 18% below their March 2008 peak
- Price growth in some areas has hit 9% since March this year

Liam Bailey, head of residential research, Knight Frank, commented:

“The rude health of the central London housing market continues to surprise many observers. The 1.3% price rise in September is the sixth month in a row we have experienced positive price growth. Prices are now only 8.9% lower than they were 12 months ago The strongest areas have been Chelsea, Kensington and Notting Hill – where prices have risen by between 8% and 9% since March.

“However, prices are still 18% below their March 2008 peak, despite the recent growth. The still sizable price discount from the top of the market is certainly aiding growing demand. But my belief is that the key drivers of price growth remain: tight supply of property, very low interest rates for cash-rich buyers and strong overseas demand for central London property.”

Strong demand and weak supply

“The volume of property on the market in September was down nearly 30% year-on-year. In fact, compared with September 2007, the volume of stock was down by almost 50%. This tight supply has been set against relatively strong demand, with viewing levels and the volume of new applicants noticeably higher - up 80% and 30% respectively, again year-on-year.

“The number of sales taking place in London in the first three weeks of September was 75% higher than the same period last year, and with the number of new properties coming to the market in October being similarly restricted we can expect tight supply to remain a feature of the market for the remainder of this year.”

Cash-rich UK and overseas buyers

“There is no doubt that the ability of cash-rich buyers, those with deposits of 40% or more, to secure ultra-low rates of funding has aided the market.

“Our own anecdotal experience is that the average deposit being paid by buyers and the number of cash purchases is rising. UK buyers have been especially keen to take advantage of low mortgage rate costs.

“One factor that aided the recovery of demand in central London was the weakness of Sterling around the start of the year. It meant that by March prices of central London property had fallen almost 50% in US Dollar terms.

“Despite some strengthening of Sterling between March and September, and the reversal of part of this currency benefit, overseas buyers have retained their share of the market. If we consider the £2.5m+ market, which excludes the UK-dominated ‘entry-level prime’ market, the international buyer share of the market peaked in Q2 2008, at 68% – as the late super-prime boom worked its way through. By the end of last year – following the Lehman’s scare - this share had dipped to below 40%. This year the share has been building steadily to hit over 50% through August and September.

“The biggest change in the actual nationalities buying has been their spread – which keeps widening year on year. In 2009 significant demand has been seen from: South Africa, Nigeria, Kazakhstan, India, Jordan and UAE. The Chinese are just beginning to make a presence felt – but Russians at 12% of all foreign buyers are still a serious force.

“The real players however this year, and this trend has not slowed despite the weakening Euro, have been the traditional European buyers – especially Italy (representing 16% of all foreign buyers), France (8%) and Germany (4%).”

Outlook

“My view is that price rises are sustainable in the short term in London – the weight of demand has been proved to be more than a temporary phenomenon and, set against continuing tight supply, will act to support prices.

“The real test to the market will come when interest rates rise in either 2010, or if we are lucky 2011. The special impetus for the market from very low interest rates will not last forever and the suspicion has to be that the medium term outlook is less positive for the market.”

Ends

Knight Frank Prime Central London Index

	KF Prime Central London Index	12 month % change	6 month % change	3 month % change	monthly % change
Sep-08	4,321.3	-7.0%	-9.9%	-5.6%	-2.1%
Oct-08	4,152.6	-10.8%	-12.4%	-7.5%	-3.9%
Nov-08	4,003.2	-14.1%	-14.1%	-9.3%	-3.6%
Dec-08	3,914.6	-16.9%	-14.5%	-9.4%	-2.2%
Jan-09	3,769.5	-20.9%	-16.1%	-9.2%	-3.7%
Feb-09	3,713.3	-22.5%	-15.9%	-7.2%	-1.5%
Mar-09	3,652.2	-23.9%	-15.5%	-6.7%	-1.6%
Apr-09	3,666.3	-22.7%	-11.7%	-2.7%	0.4%
May-09	3,725.9	-20.1%	-6.9%	0.3%	1.6%
Jun-09	3,789.0	-17.2%	-3.2%	3.7%	1.7%
Jul-09	3,846.5	-14.4%	2.0%	4.9%	1.5%
Aug-09	3,886.3	-11.96%	4.7%	4.3%	1.0%
Sep-09	3,937.7	-8.88%	7.8%	3.9%	1.3%

Source: Knight Frank Residential Research

For further information, please contact:

Liam Bailey, Residential Research, Knight Frank, +44 (0)20 7861 5133, liam.bailey@knightfrank.com

Niki Riley, Press Office, Knight Frank, +44 (0)20 7861 5037, niki.riley@knightfrank.com

Ends

Notes to Editors
Knight Frank LLP is the leading independent global property consultancy. Headquartered in London, Knight Frank and its New York-based global partner, Newmark Knight Frank, operate from 207 offices, in 43 countries, across six continents. More than 6,340 professionals handle in excess of US$886 billion (£594 billion) worth of commercial, agricultural and residential real estate annually, advising clients ranging from individual owners and buyers to major developers, investors and corporate tenants. For further information about the Company, please visit www.knightfrank.com.

Knight Frank area definitions
Prime central London is taken to include: Mayfair, Marylebone, St John's Wood, Regent's Park, Kensington, Notting Hill, Chelsea, Knightsbridge, Belgravia and the South Bank (from Westminster Bridge to Tower Bridge/Shad Thames)

Prime London is taken to include all the above plus: Canary Wharf, Hampstead, Fulham, Richmond, Wandsworth, Wapping and Wimbledon.

No: 09pr417