



Central London house prices rise 36% in two years, with more to come

Despite new records being set across London's most exclusive neighbourhoods, the market should prepare for further gains over the rest of 2011. Liam Bailey explains:

Results for August 2011

Prices of prime London property rose 0.9% in August 2011, contributing to annual growth of 10.5%

Prices have risen 36.3% since their recent post-credit crunch low in March 2009

Prices are now at a record high, 3.8% higher than their previous peak in March 2008

Price growth is strongest in the sub-£2.5m sector, which has seen 13.3% growth in the last 12 months

New sales instructions have risen by 20% over the past year, while new applicant volumes are higher by 11%, the volume of exchanges has risen 15% over the same period

Price growth in the prime central London market continued through August with a further 0.9% rise. Prices have been rising strongly since April 2009, and are now almost 4% higher than their previous peak in March 2008.

An analysis of market activity during August, compared to the same month in 2010, confirms a sector in rude health – despite the impact of recent financial market turmoil.

On the demand side, new buyer volumes are up by 11% over this period, viewings are up by 23% and the number of offers being made on properties is higher by 13%.

Stock volumes have risen by 13%, but the rate of sales is keeping pace with this increase, with the number of exchanges rising by 15% year-on-year and the number of properties going under offer rising by 67% over the same period.

In summary, prices are higher, as is demand, and supply increases are being absorbed by the market with a sharp rise in year-on-year sales volumes.

In trying to explain the strength of the current recovery we should note that while purchasers

buying with sterling are now paying prices in excess of 2008 peak prices, eurozone buyers are still able to achieve a 10% discount on 2008 prices and US dollar buyers an 18% discount.

It is not only exchange rates which have aided the market. The UK base rate has been held at 0.5% throughout the entire recovery period, whereas rates averaged 6% and 5% respectively during the 1992 to 2002 and 2003 to 2008 growth phases.

London's much touted 'safe haven' status took more than a little bruising in August, with pictures of looting, petrol bombs and rioters replacing William and Kate's wedding as the stock image of London in the global consciousness. It is too early to see any firm evidence, but the riots seem unlikely to dent most international buyers' desire for property in the city.

Our outlook for the prime London market is for price growth to run a little further this year.

Barring any reversal, with an uplift of almost 11% since the start of the year, there is a potential for a significant double-digit growth rate by the year end.

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

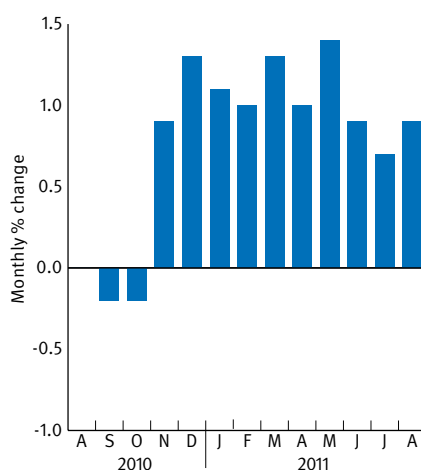
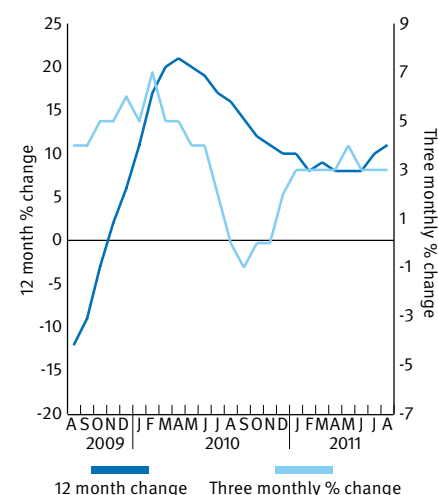


Figure 2
12 month and 3 month price change
Prime central London average residential price change



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Source: Knight Frank Residential Research

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Data digest

The **Knight Frank Prime Central London Index**, established in 1976, is the longest running and most comprehensive index covering the prime central London residential marketplace. The index is based on a repeat valuation methodology that tracks capital values of prime central London residential property. 'Prime central London' is defined in the index as covering: Belgravia, Chelsea, Hyde Park, Kensington, Knightsbridge, Marylebone, Mayfair, Notting Hill, Regent's Park, Riverside* and St John's Wood. 'Prime London' comprises all areas in prime central London, and in addition Canary Wharf, Fulham, Hampstead, Richmond, Wandsworth, Wapping and Wimbledon.

Key market metrics

Prime central London market activity, 3 months to August 2011 compared to same period last year

Category	Metric	Change (%)	Trend
Demand	New Applicants	10.9%	▲
	Viewings	23.3%	▲
Supply	New instructions to sell	20.1%	▲
	Stock volume	13.1%	▲
Activity	Sales (subject to contract)	66.7%	▲
	Exchanges	15.0%	▲
	Average number of days to agree	-20.3%	▼

Knight Frank Prime Central London Index

	KF Prime Central London Index	12 month % change	6 month % change	3 monthly % change	monthly % change
Aug-09	3,886.3	-12.0%	4.7%	4.3%	1.0%
Sep-09	3,937.7	-8.9%	7.8%	3.9%	1.3%
Oct-09	4,020.0	-3.2%	9.6%	4.5%	2.1%
Nov-09	4,067.2	1.6%	9.2%	4.7%	1.2%
Dec-09	4,154.6	6.1%	9.6%	5.5%	2.1%
Jan-10	4,201.2	11.5%	9.2%	4.5%	1.1%
Feb-10	4,334.8	16.7%	11.5%	6.6%	3.2%
Mar-10	4,367.0	19.6%	10.9%	5.1%	0.7%
Apr-10	4,425.7	20.7%	10.1%	5.3%	1.3%
May-10	4,487.7	20.4%	10.3%	3.5%	1.4%
Jun-10	4,526.4	19.5%	9.0%	3.7%	0.9%
Jul-10	4,506.0	17.1%	7.3%	1.8%	-0.5%
Aug-10	4,503.9	15.9%	3.9%	0.4%	0.0%
Sep-10	4,496.1	14.2%	3.0%	-0.7%	-0.2%
Oct-10	4,485.7	11.6%	1.4%	-0.4%	-0.2%
Nov-10	4,524.3	11.2%	0.8%	0.5%	0.9%
Dec-10	4,583.9	10.3%	1.3%	2.0%	1.3%
Jan-11	4,633.7	10.3%	2.8%	3.3%	1.1%
Feb-11	4,679.7	8.0%	3.9%	3.4%	1.0%
Mar-11	4,742.5	8.6%	5.5%	3.5%	1.3%
Apr-11	4,790.8	8.2%	6.8%	3.4%	1.0%
May-11	4,856.9	8.2%	7.4%	3.8%	1.4%
Jun-11	4,902.7	8.3%	7.0%	3.4%	0.9%
Jul-11	4,937.0	9.6%	6.5%	3.1%	0.7%
Aug-11	4,979.1	10.5%	6.4%	2.5%	0.9%

* Riverside covers the Thames riverfront from Battersea Bridge in the west running east to encompass London's South Bank.

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