



Safe-haven investment purchases drive prime London prices higher

In light of ongoing price growth, Liam Bailey, Knight Frank's Head of Residential Research, assesses the performance of the prime central London market.

Results for January 2012

The price of prime central London residential property rose by 0.9% in January

This latest rise pushed the three-month rate of growth to 2.7%, the highest rate since last July

Annual growth now stands at 11.9%, with prices rising 42% since their post-Lehman low in March 2009

The strength of London's luxury sector, against a backdrop of domestic and global economic difficulties, has surprised many over the past year.

Ironically, economic and even political turmoil have provided the impetus for growth – with a sharp growth in investors looking for a safe-haven location for at least part of their wealth portfolio.

The most telling sign of this shift in investor attitude came in January when Italian purchasers became the biggest foreign purchaser group, accounting for 8% of all purchases, replacing Russians who have held this position for several years.

Anecdotally the principle driver for this surge in activity has been the desire to diversify away from euro-denominated assets.

The sector leading this price growth is the £1m-£2.5m segment, which provides a perfect investment lot size for investors. Prices in this bracket have risen 14.4% over the past 12 months.

Recent price rises reflect the healthy growth in demand – new applicant volumes are up by 10% over the past year, compared to stock volumes which have risen by only 6%.

The imbalance in supply and demand is most pronounced in the £5m+ sector, where applicant registrations are higher by 65% year-on-year.

Over the past five years the ratio between the number of applicants registering to purchase properties in central London, and the stock of properties to buy, has averaged 3.7. In the last three months, despite a weaker economic environment the ratio rose to 4.1.

In the £5m+ market the ratio shifted from a historic position of 3.4 buyers per property to 6.4, reflecting the historic undersupply at the upper end of the market.

Our outlook remains the same – we expect prices to rise 5% in 2012, driven in large part by international demand and relatively constrained supply.

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

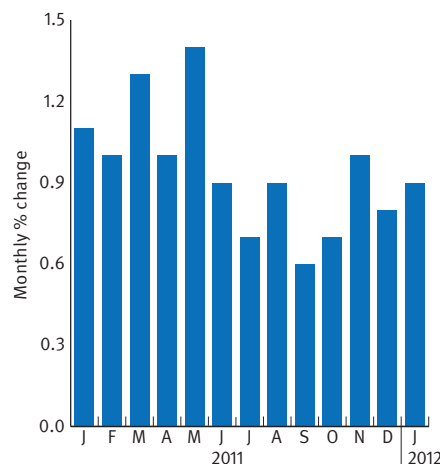
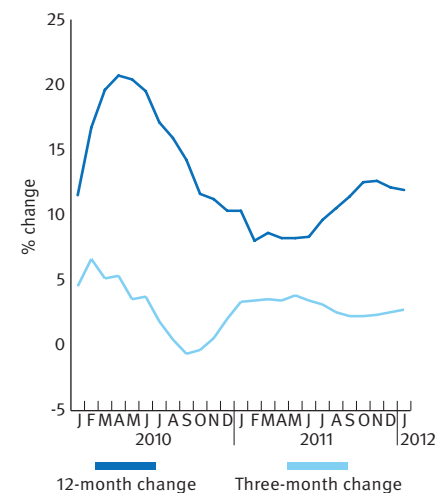


Figure 2
Annual and quarterly growth
Prime central London average residential price change



Liam Bailey
Head of Residential Research

Source: Knight Frank Residential Research

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RESIDENTIAL RESEARCH PRIME CENTRAL LONDON INDEX

Knight Frank



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, St John's Wood, Riverside* the City and the City Fringe. 'Prime London' comprises all areas in prime central London, as well as Canary Wharf, Fulham, Hampstead, Richmond, Wandsworth, Wapping and Wimbledon.

* Riverside covers the Thames riverfront from Battersea Bridge in the west running east to include London's South Bank. The City Fringe encompasses the half-mile fringe surrounding most of the City including Clerkenwell and Farringdon in the west and Shoreditch and Whitechapel in the east.

Key market metrics

Prime central London market activity, three months to January 2012 compared to same period last year

	All	Under £5m	Over £5m
Demand			
New Applicants	10%	-1%	65%
Viewings	13%	1%	62%
Supply			
New instructions to sell	-4%	-6%	6%
Stock volume	6%	1%	17%
Activity			
Sales (subject to contract)	50%	42%	124%
Exchanges	38%	39%	35%
Demand and supply balance			
Ratio of new applicants/new instructions 2010	3.5	3.5	3.4
Ratio of new applicants/new instructions 2011	4.1	3.7	6.4

Knight Frank Prime Central London Index

	KF Prime Central London Index	12-month % change	6-month % change	3-month % change	Monthly % change
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%
Sep-11	5,010.9	11.4%	5.7%	2.2%	0.6%
Oct-11	5,047.2	12.5%	5.4%	2.2%	0.7%
Nov-11	5,095.2	12.6%	4.9%	2.3%	1.0%
Dec-11	5,138.3	12.1%	4.8%	2.5%	0.8%
Jan-12	5,185.5	11.9%	5.0%	2.7%	0.9%

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