Eurozone crisis drives central London residential prices higher

With average prime central London house prices hitting £3,968,300 in September, annual price growth of 11.4% has translated into daily price rises of £1,117 over the past 12 months. Liam Bailey explains why the eurozone crisis has boosted London's luxury market.

Results for September 2011

Prime London property prices rose 0.6% in September 2011, contributing to annual growth of 11.4%

Prices have risen 37.2% since their recent post-credit-crunch low in March 2009

Prices are now at a record high, 4.5% higher than their previous peak in March 2008

Price growth is strongest in Chelsea and Kensington, both markets having seen 14% price growth over the past 12 months

The volume of new sales instructions remained unchanged over the past year, while the number of new applicants is up by 7%, the volume of exchanges has risen 38% over the same period

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Price growth in the prime central London market continued through September with a further 0.6% rise. Prices have been rising strongly since April 2009, and are now nearly 5% higher than their previous peak in March 2008.

If there has been an impact from European and global financial and economic market turmoil over the past few months, it seems only to have pushed more buyers into the central London market.

Our analysis of market activity in the three-month period to September, compared to the same period in 2010, confirms a sector in good health.

On the demand side the number of new buyers is up by 7% over this period, viewings are up by 25%, and the number of offers being made on properties is higher by 24%.

While the number of properties has risen by 13%, the rate of sales is keeping pace, with the number of exchanges rising by 38% year-on-year and the number of properties going under offer rising by 57% over the same period.

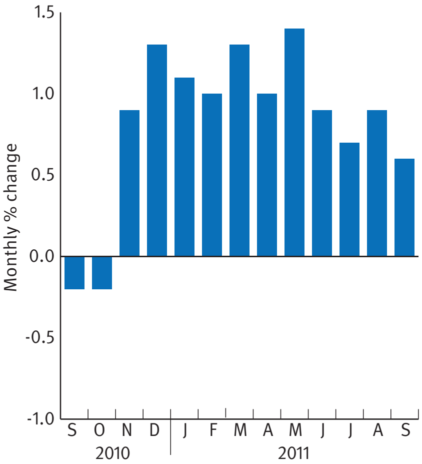
Sharp price rises over the past two years have not discouraged buyers from entering the market. Growth in demand is easily absorbing stock volume increases without downward pressure being placed on prices.

Last month I pointed to low interest rates and the weak pound as the key issues driving price and demand growth at the current time – with some buyers from Asia-Pacific for example still able to benefit from an effective 25% discount on 2008 prices. In addition it is increasingly clear that the ongoing crisis in the eurozone, as well as wider global market uncertainty, is helping to support the market.

The role of central London property acting as a safe haven investment in periods of economic turbulence has been confirmed by the fact that the recent growth in purchases has been overwhelmingly driven by international buyers, with domestic buyers now accounting for only 45% of the central London market, compared to 51% 12 months ago.

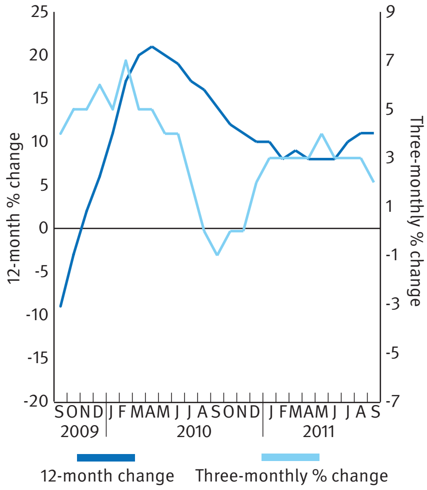
As the market has moved into new peak pricing territory, we have been watching very closely to see whether there is evidence of purchaser resistance to these new levels. It appears that buyer concerns over alternative investment opportunities and the potential impact of European and global economic turmoil is trumping any concerns over the sustainability of property prices in London at the current time.

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



Source: Knight Frank Residential Research

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



Source: Knight Frank Residential Research

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

Key market metrics

Prime central London market activity, three months to September 2011 compared to same period last year

Demand	New Applicants	7%	▲
	Viewings	25%	▲
Supply	New instructions to sell	0%	▶
	Stock volume	13%	▲
Activity	Sales (subject to contract)	57%	▲
	Exchanges	38%	▲
	Average number of of days to agree	-8%	▼

Knight Frank Prime Central London Index

	KF Prime Central London Index	12-month % change	6-month % change	3-monthly % change	Monthly % change
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%
Sep-11	5,010.9	11.4%	5.7%	2.2%	0.6%

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

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