

Prime London Property Report. September-November 2011



Prime property prices in London rose 0.7% in October and 0.6% in November, continuing the strong performance seen in this sector of the market throughout 2011, and bringing annual growth to 12.5%. Prices are now nearly 40% higher than their dip in 2009 and over 5% above their previous peak in March 2008. Even within areas that have seen strong growth it is the highest quality properties that are driving the market as buyers focus on acquiring the very best properties available. For the 6 years to the end of November, the

best performing 10% of prime central properties have seen growth of over 150% compared to the still impressive yet significantly lower 42% growth for the bottom 10%.

In Belgravia smaller properties with 2 or fewer bedrooms, especially flats, have seen strong growth over the 3 month period to the start of December with the average asking price rising by 19% for flats and 2 bedroom properties rising by 29% compared to lower single digit growth or marginal contraction for the larger properties. In central London as a whole, larger properties are performing strongly with average asking prices for 5+ bedrooms rising 8% over the past 2 months from roughly £6m to over £6.5m. In terms of the types of property being the most sought after, lateral conversion, first floor flats penthouses and low built houses are reaching in excess of £3,000 per sq ft up to £5,000 per sq ft for where there is intense buyer competition.

The dominance of international buyers who do not rely on borrowing to fund their property purchases continues and the range on nationalities represented broadens. Beside the desire for a financial save haven, the growing population of foreign nationals in London means that many already have networks of family, friends, and business acquaintances here. Foreign nationals now represent 58% of all buyers, with 20% buying purely for investment and less than half to use as their primary residence.

Especially voracious demand has been seen over the last two months from wealthy Greek residents desperate to protect their wealth from the instant fall in their spending power that would follow Greece leaving the Euro. The prospect of political instability in Russia following the elections next year has also driven more Russians to expatriate their wealth and buy prime London property. Recent scenes of protesting will only serve to increase this capital flight from Russia. The other major investors, those from the Middle East, also continue to be active as 2011 draws to a close, with the impact of the Arab Spring still running its course.

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The growth of the wealth of the richest people was highlighted in the World Wealth Report, which indicated that there are now 20% more billionaires than at the start of 2011. Many of these new billionaires are viewing London as a stable place to invest. Due to the weakness of the pound, prices for many international buyers are still below their 2008 peak. In the 18 months to the end of November it is estimated that the net inward investment in prime London property has reached £6 billion.

Some reports have indicated that small numbers of investors, especially Russians who have been holding prime London property assets for a while, have started to release some of this capital in order to diversify their assets and take advantage of other opportunities. Although this trend is not expected to accelerate, the caution that it represents does lead to predictions that growth will not reach double digits in 2012.

Usually over these coming winter months investment bankers and hedge fund managers become more active, with many analysts estimating that a third of the money received as bonuses is invested in prime London property. This year however bonuses are expected to be 40% lower than last, with 27,000 jobs being lost by the end of 2011. The combination of weakened domestic demand and greater caution from international buyers makes growth expectations more modest for the next 5 years. Predictions for 2012 range from 3-5%, with only marginal growth in 2013 before rates of growth improve in 2014 to 5% as the global economy accelerates, and reaching 6.5% in both 2015 and 2016. The total growth for the coming 5-year period is expected to be between 22% and 24%. For those investors who are not buying properties for themselves to live in, the forecast for rental growth over the same period is 27.6%.

The weakening of domestic demand combined with continued strong interest from international buyers is likely to polarise growth rates over the coming year with the more peripheral areas favoured by domestic buyers unlikely to fare as well as the more central prime properties which are more attractive to the cash-rich international investors. Kensington, Chelsea, Belgravia, Mayfair and Knightsbridge should continue to grow strongly and may reach £10,000 per square foot over the next few years. The double-digit growth seen in 2011 was not expected and the conservative predictions for 2012 may again have been too cautious if the influx of wealth from countries experiencing political or financial instability continues and the attention of the world focuses on London for the Olympic Games.

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