Press Release

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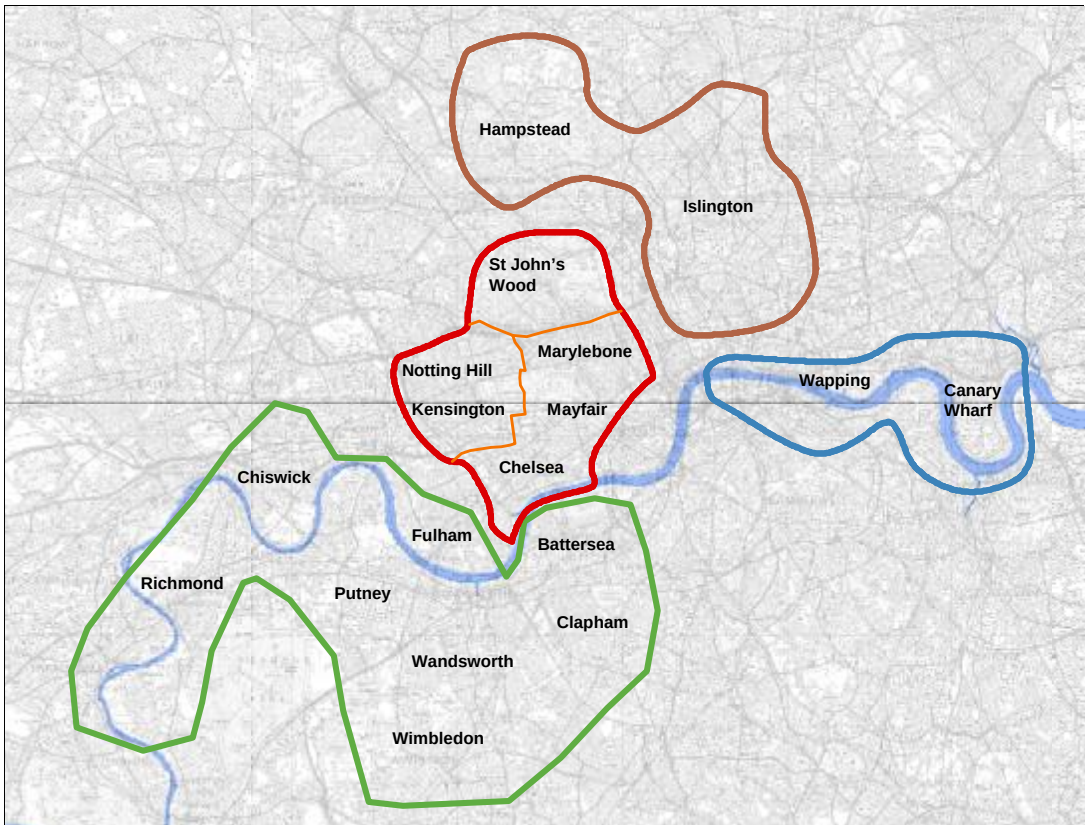
PRIME LONDON STARTS TO BUCK THE TREND

While headlines talk of falling prices in the UK mainstream market, top properties in the nation's capital appear to be showing much greater resilience. According to property adviser Savills, prices in prime London have shown much smaller falls in the final quarter of 2010 compared to the rest of the country, while the most centrally located addresses have recorded marginal price growth.

While the Nationwide UK House Price index is currently showing average falls of –2.0% for the three months to the end of November, the Savills quarterly prime central London index is showing falls of just -0.2% in all prime London over the past three months. This includes all the capital's top residential locations, bounded by Hampstead and Islington in the North; Richmond and Chiswick in the West; Wimbledon and, Clapham to the south; and Canary Wharf and the Isle of Dogs in the East. (See map)

In the most central locations in this area - comprising Mayfair, Belgravia, Knightsbridge, Chelsea, Kensington, Notting Hill, Holland Park, St Johns Wood, Regents Park and Marylebone – average values actually rose very slightly, by 0.4% over the quarter (following a fall of -0.1% in the 3rd quarter).

Prime London (North, Central, South West and East of City)



Prime London as equity funnel

“The defining characteristic of the prime central London market is its ability to act as an ‘equity funnel,’” says Yolande Barnes, head of research at Savills. “Not only is it the first port of call for domestically-generated money such as City bonuses but the prime London market attracts large amounts of capital from all over the world”.

Barnes believes that the world’s billionaires buy global real estate in a similar way to gold – as a store of wealth and a hedge against political instability and diminution of wealth in a, perhaps less stable, homeland. “London is unique even amongst the leading global cities where international wealth is held in real estate,” says Barnes. “In central London, it is possible to own houses freehold, thereby buying into a limited commodity. Physically owning a piece of London’s land, as well as the building on it has an emotional appeal unavailable in the apartment-dominated real estate markets of other global cities.”

This may help to explain why, even in the prime market, house values are outperforming flats. In the prime central London area houses saw a quarterly increase of 0.9% compared to prime central London flats, which rose by 0.2%.

There is only a finite supply of houses in the capital and only a minute proportion of new stock is being built as houses. Savills research shows that once bought by investors and occupiers from overseas, properties are far less likely to return to the market, so it is becoming more difficult for buyers to source stock in the central areas. This rarity factor will underpin values in the core central locations and beyond their boundaries.

The inevitable expansion of prime

“This all but guarantees that London’s prime market will expand to new areas,” says Barnes. “In this last quarter we saw diverse demand for flats and houses in all prime areas, which resulted in the biggest quarterly increase being seen in prime north London (Hampstead and Islington) houses which were up 2.5% on the quarter, although flat prices in the same area fell by – 2.7%.”

In the traditionally more domestic areas of prime south west London, prices have also risen 1.0% this quarter compared to a 0.3% in the third quarter. Again, the demand appears to have been for houses in this area too which rose by 2.4% compared to a fall for flats of -0.3%.

“The performance of London’s residential markets appears to have defied standard demand indicators,” says Barnes. “The numbers of people looking for property have fallen significantly over the year but those that remain appear determined, with the result that both transactions and prices are holding up.

"It would appear that the best London properties do not require large numbers of applicants but rather the right, few, highly motivated buyers, to whom the globally scarce stock has a significant and enduring appeal, not least as a safe deposit."

Annual Growth

Savills prime London index ends the year in positive territory, despite the recent, slight falls. All Prime London has risen by 4.6% over 2010. Most of this growth happened in the first half of the year.

Within the prime London area, the central sector saw an increase of 3.8% over the year so average values are now within 10% of their pre-crash levels. Prime north prices increased by 2.0% so average values there are within 11% of peak.

East of City saw a big bounce back in the first half and despite remaining flat this quarter showed a total annual rise of 7.3%, putting average values around 8% below their pre-2007 level. The biggest recovery though has been in the South West markets of Clapham, Wandsworth, Wimbledon, Richmond, Putney, Chiswick and Fulham. The prime south west sector has seen growth of 7.8% over the year and is now virtually back to peak, pre-crash levels.

	Central	**South West**	**East of City**	**North**
4th quarter 2010	0.4%	1.0%	0.0%	-1.7%
Yr on yr 2010	3.8%	7.8%	7.4%	2.0%
Since peak	-10.1%	-2.7%	-7.8%	-11.2%

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