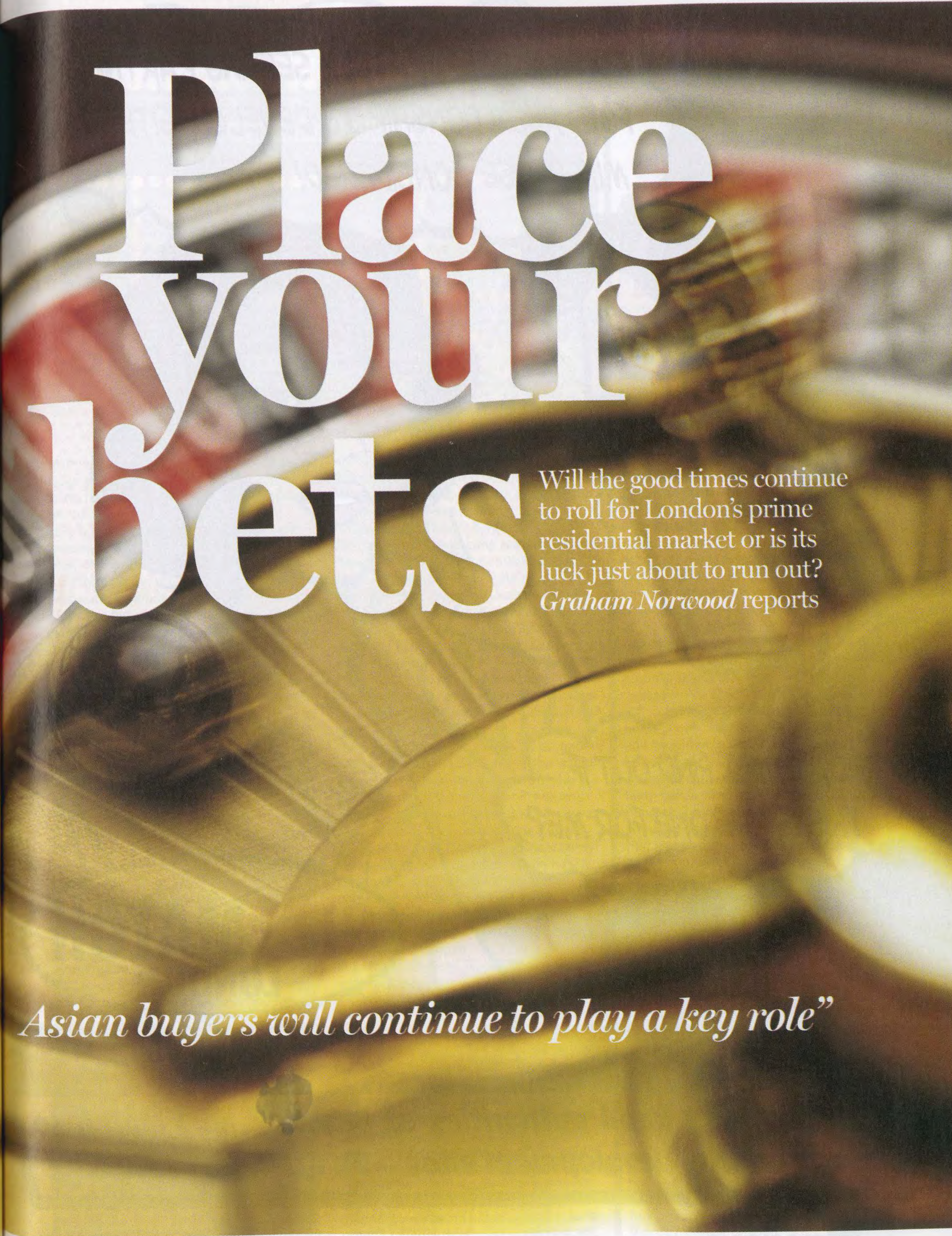
Place your bets

Will the good times continue to roll for London's prime residential market or is its luck just about to run out? *Graham Norwood* reports



Asian buyers will continue to play a key role"

At first sight, the capital's residential market appears to be an unstoppable force in a parallel universe. While UK values and transactions are mired in a downward spiral, those in prime central London are going in the other direction.

Prices rose by more than 12% in 2011, taking them 40% above the post-credit-crunch low of March 2009 and well up on the pre-crunch peak of spring 2008. Agents in honeypots like Mayfair and Holland Park say sales volumes are up, thanks to apparently endless interest from foreign purchasers after safe havens and favourable exchange rates.

When will it end? Not this year, if the three most authoritative estate agency research teams are to be believed.

The agents have placed their bets. The least optimistic is Jones Lang LaSalle. "Demand from overseas will remain fundamental. Asian buyers will continue to play a key role in new development pre-sales, but may be joined by a greater range of nationalities," says Jon Neale of JLL. He says that all London prices will rise by 2% this year, with prime areas and the best new developments achieving 4% hikes.

Meanwhile, Savills predicts a 3% rise. "The influx of global wealth in uncertain times still has some time to run and may even be boosted by the international attention London will receive in the run-up to the Olympics," says Savills' Yolande Barnes.

Knight Frank is the most bullish. It agrees on foreign investor importance but believes domestic issues will play a greater role in 2012. Particularly critical is whether the City of London creates jobs to compensate for those lost by investment banks in 2011 and whether the 50% income tax row is resolved in favour of Conservatives (anti) or Liberal Democrats (pro). Even so, it expects a 5% rise in central London values in 2012.

Other indicators look optimistic, too. Christie's International Real Estate claims that one of six units in the Bulgari Residences in Knightsbridge, SW7, due to be completed this spring, has sold for a cool £7,000 per sq ft – beating One Hyde Park by 15%.

So far, so booming. But scrape below the surface and – for the first time in years – there are concerns that the capital's good times may not last.

First, while the top end may prosper, some of London's more routine offerings may be losing their appeal. "There could be the beginnings of 'investor

REX FEATURES

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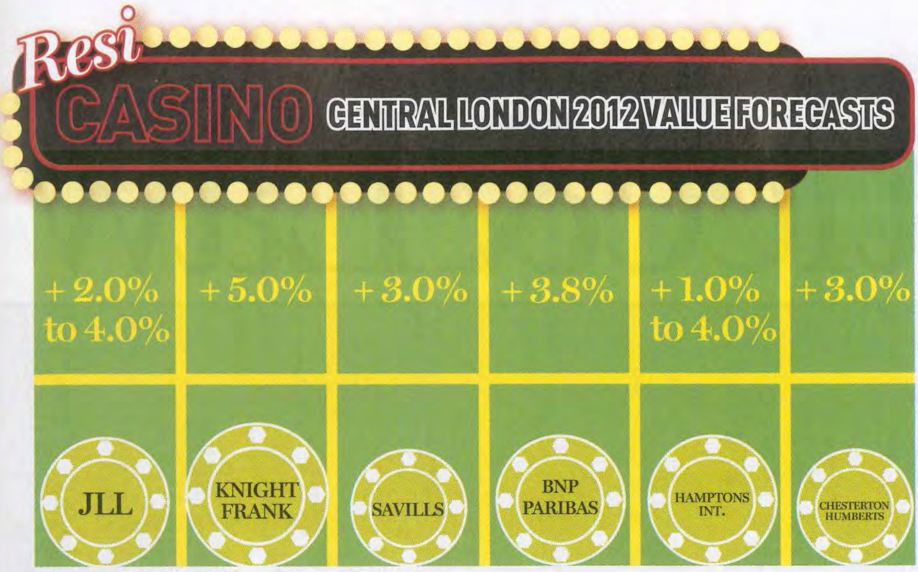

Source: Analysts/agents

fatigue' in some overseas markets where more and more mainstream projects are being launched. Overseas purchasers will be more discerning... which may have a stabilising effect on mainstream London residential," says Mark Farmer, head of private residential at EC Harris.

Second, at the uber-top end, an increasing dependence on overseas buyers may have indirect detrimental effects. Arab and Asian owners, in particular, "hand down" properties within families, meaning homes may be sold less often. Those that are sold merely release equity that is either returned to the vendor's country or is used to fund other purchases in London. Either way, there is no "ripple" effect of past booms, when British vendors moved out the capital to inflate the housing markets of the Home Counties or the Cotswolds.

Finally, investment confidence in central London new-build remains muted. David Barnett of niche central London developer LondonNewcastle says: "If schemes have planning, are ready to go and are a sensible scale – under 200 units – you can see them starting. Anything over, and funders will be looking at an element of pre-selling. Debt markets are constrained, so either alternative sources of funds will emerge or it will be only the best schemes by developers with good track records that will get funding."

For those reasons – fuelled by continuing global economic uncertainty – the mood music in the wealthiest streets of the capital is muted, and Knight Frank and Savills both believe that 2013 will be a year of price stagnation, even at the top end.

"On the one hand, greater uncertainty encourages the search for a safe haven for wealth, while on the other there comes a point where a slowdown prevents new wealth being generated and shrinks the pool of potential buyers," says Savills' Barnes.

In the meantime, it may be a case of making hay.

Even discounting uncertainty over Battersea Power Station – a site that may yield 16,000 homes – developers are piling into other prime schemes (see box).

Estate agency is blossoming, too: Strutt & Parker, hitherto known for rural sales, has a new Notting Hill branch; Foxtons has opened in Marylebone; and LSL – which previously specialised in mid- and low-cost homes – now owns Marsh & Parsons' 15 offices in affluent areas of the capital.

Is this boosting supply to meet never-ending demand? Or a classic case of a golden goose being killed by short-term greed? London may be about to find out.

PRIME DEVELOPMENTS IN THE PIPELINE

- Chelsea Barracks development, with 448 units (123 affordable) over 13 acres
- 20-21 Grosvenor Square, W1, bought by Ivy-owner Richard Caring, likely to be 31 units
- 97 units on De Vere Gardens, W8, overlooking Kensington Gardens, ready late 2012
- Commonwealth Institute in Kensington, W8, with 62 units
- Kensington Odeon cinema site, W8, to produce 35 flats and five townhouses
- 375 Kensington High Street, W14, (below) has 467 flats under construction

Source: Property Vision