

Executive Analysis

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**London's Prime Residential
Property Report - Quarter 4**

International Prosperity or Domestic Austerity?

The fourth quarter proved a strong one for the London prime market with the influx of overseas buyers out weighing contracting domestic credit.

The number of £10m plus homes sold in London has risen by 500% since the late summer lull according to Knight Frank. This should, however, be taken with a pinch of salt as the low volumes exaggerate any gains. 56% of these sales were foreign purchases, with the number of Chinese buyers increasing the most - up by 52% closely followed by Spanish, French and Italian investors. This influx of international buyers pushed central London prices up 0.9 in November reversing the declines made between July and October 2010.

The view taken by many new entrants to the market is that Prime London property is a strong defensive option. With the downside risk of the pound tailing off according to analysts, an investment in London property gives the possibility of making foreign exchange gains as well. In addition hot markets in Asia such as Hong Kong, where prices have risen by 30-50%, are causing investors to

to keep a cautious eye. This makes the less volatile London market more appealing. The weak pound still provides an effective discount of 20 percent to foreign buyers on March 2008 prices despite prime property posting actually rising in pound terms since then.

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Domestically, banking bonuses are up on last year however this is unlikely to have a significant effect. In March 2011 they are expected to reach £3.8bn net tax in the city with, perhaps, £1bn of this to be invested in property, according to the Financial Times. Another more

significant issue maybe the persistence of UK inflation, at 3.3%, as investors hold property as a hedge against it.

With so many factors effecting property at the moment it is not surprising that forecasts across the industry diverge. Knight Frank predicts a flat 2011, Savills suggest prices may fall by 1% whereas others, such as Hamptons predict modest gains, citing the continuing weak pound attracting the newly created high net worth individuals from Russia and India. In the meantime yields remain at 4.7% ■

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Fig. 1



Figure 1 highlights the returns of prime London property compared to the FTSE 100 index since the 1st of January 2001. Source: Land Registry and Yahoo Finance.

Figure 2 shows the returns of prime London property compared to the FTSE 100 index over the past year. Source: Land Registry and Yahoo Finance.

Fig. 2

