PRIZED PROPERTY

House price appreciation in London's prime residential areas has proved a defining feature of the post-credit crisis period. Wealthy overseas buyers have flocked to London in search of luxury properties. A wave of prestige apartment construction has followed. Jen Siebrits looks at the prospects for luxury property in London.

There are many reasons why London has emerged as global luxury residential hotspot: sterling depreciation, time zone, language, cultural attractions, transport connections, premier financial centre, education, political stability, a safe haven in a world wracked with economic uncertainty; but more than anything else it is a great place to live, to visit, to learn and to own a trophy asset.

The seemingly endless influx of wealthy overseas buyers, in tandem with surging house prices and dark mutterings about pesky foreigners leaving their newly-acquired properties empty, has reignited the 'mansion tax' debate once again and sparked calls for new developments to be marketed to locals first. Although overseas buyers receive a lot of media attention, they are by no means the only players in the London residential market. Over the past year, more than half of all £1 million-plus sales have been to UK purchasers. As the economy and confidence continue to improve, the number of domestic buyers is set to increase; albeit, in the run-up to the election, that is unlikely to deter sniping at overseas buyers.

Regardless of whether purchasers are local or from overseas, chronic housing supply shortages will remain. It is this shortage of housing stock that is fuelling the price spiral. According to the 2011 Census, the population of London increased by 800,000 over the last decade. Only around 200,000 new homes were built in London over the same period. It's no wonder that prices rose by 75% over the 10 years.

From a pure investment perspective, London has never looked better. Average property prices in prime central London have already increased by around 10% p.a. for the past three years and are now 40% above their 2007 peak. Prices are set to increase another 7% this year, with cumulative growth of around 35% by 2018.

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The shortage of housing is much more pronounced in prime central London, the main focus of overseas demand. Fewer than 550 units were completed in the prime boroughs Kensington and Chelsea and Westminster last year. Land shortages (and fierce planning opposition) means that there is little hope of supply ever meeting demand.

Although the volume of new development remains little more than a trickle, the quality of stock coming on to the market is among the best in the world. The variety is also impressive, with new pockets of high-value property emerging in previously secondary areas. The prime market is currently running at around £1,500-£2,500 per sq ft. Super-prime can be well in excess of £3,000 per sq ft, a level only matched in Monaco, Hong Kong and New York. The super-prime areas of London have traditionally been limited to the typical 'Monopoly board' zones around Mayfair, Knightsbridge and Belgravia. Individual properties in Belgrave Square, for example, can be worth more than £65 million. But demand, together with very limited availability, is forcing prime buyers to look further afield, particularly north-west, towards St John's Wood, Hampstead and Regent's Park. These have always been affluent areas with mature residential markets, but there is more supply there – trophy assets can still be acquired. A good example is Avenue Road in St John's Wood, where individual houses have sold for more than £40 million.

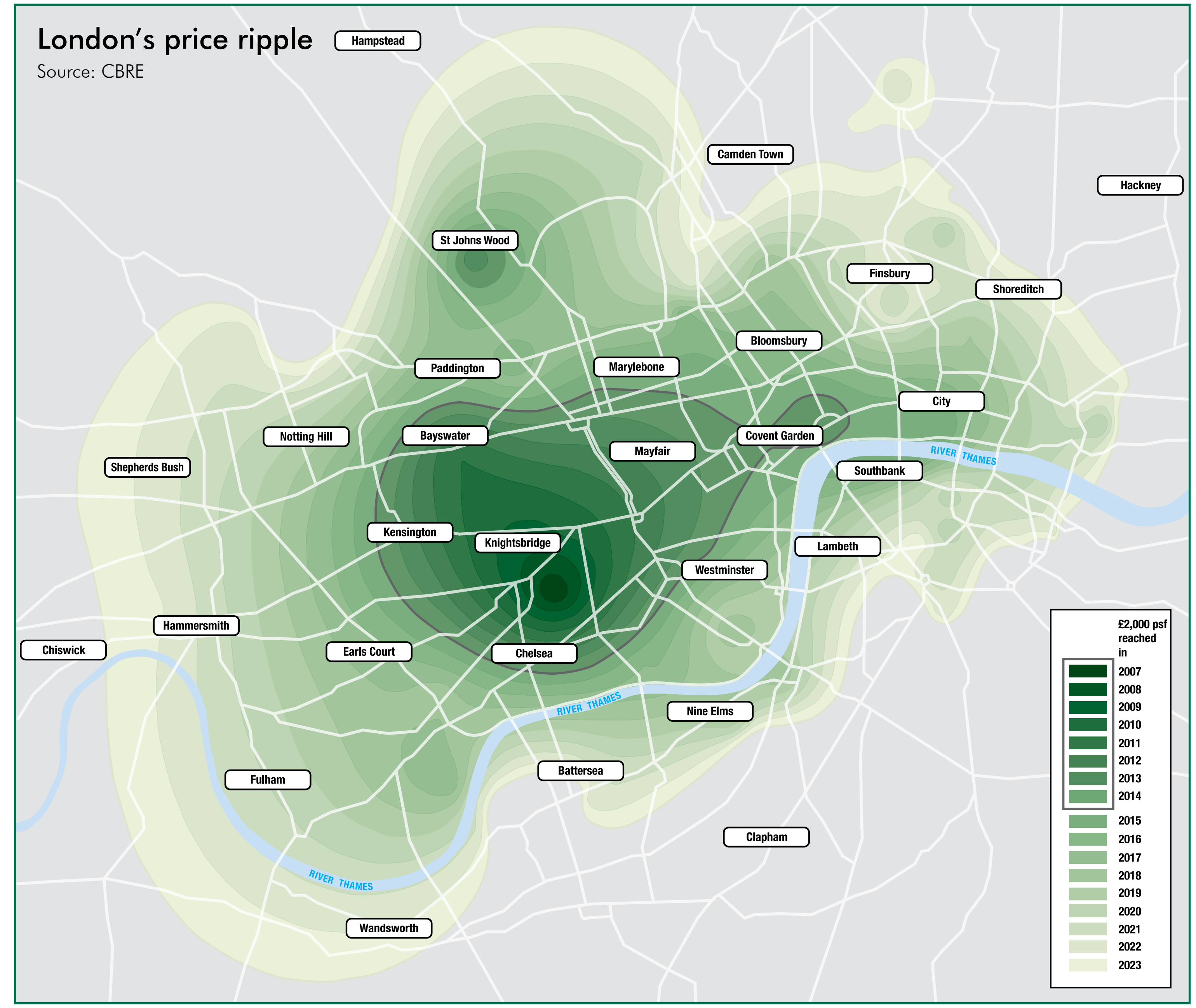
The ripple effect of London prices can be seen in the map. It reveals how the £2,000 per sq ft boundary, traditionally reserved for super-prime locations, has moved out to engulf new areas. There is a noticeable shift eastwards, towards the City, the financial and business district seemingly acting as a magnet. New schemes, such as Heron Tower, have been breaking through old pricing ceilings, achieving record highs and illustrating how iconic buildings can define a location rather than the other way around.

The £2,000 per sq ft level will soon be routine for schemes in previously secondary residential areas like Covent Garden. Landmark schemes such as Capco's The Henrietta, located on the Piazza, have already exceeded £2,000 sq ft. The price reflects the exceptional specifications of this new wave of luxury apartment buildings. But prime is no longer restricted to north of the river – the £2,000 sq ft boundary has rippled across the river to the south too.

Location is still paramount, of course, but purpose-built apartment blocks are redefining what is considered prime. For example, Fitzroy Place – north of Oxford Street East – has set a new price record. The immediate area is important, but the scheme itself is the key thing. A number of features are now expected, including state-of-the-art security systems and a comprehensive concierge service. Most wealthy buyers would not consider a scheme without these two fundamental features. If there is a comprehensive service offering from a well-known hotel, all the better. Pricing reflects the basket of services offered to a degree.

Branding is important too – purchasers like to know they are buying the best. Successful alliances on super-prime schemes include the Mandarin Oriental and One Hyde Park, the Armani Hotel and the Burj Khalifa, and the St Regis Residences in Singapore.

More than half of all super-prime buyers cite access to facilities and services as a very important reason underpinning a purchase decision. Design is also important; units must be finished to the highest specification possible, while allowing some freedom for the buyer to finish it to their own taste. The building needs to be stunning too – either with a classic historic façade or, if it is new-build, designed by an award-winning architect. To be top of the class, the building itself must be iconic – a landmark within the city and an overt symbol of wealth.



London's price ripple
Source: CBRE

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