Central London property – a world apart

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THE LAST WORD

Returning recently to live in London after many years living outside the capital has brought home once again the importance of regional perspective in shaping market perceptions. The office where I work part of the week sits comfortably in the middle of the West End, as does the club where for many years I would stay overnight whilst in town.

Viewed from this privileged perspective, the economy seems anything but unprosperous. The streets are full to overcrowding with shoppers, restaurants are busier than they were, and it has become increasingly hard to find a taxi. The intensity of the traffic has risen notably in the past three months. Here, if not elsewhere, Lord Young's comments about those in work never having had it so good would appear all too justified.

If there is one reason why City bankers remain so seemingly immune to public displeasure over the level of their remuneration, it may in part be down to their lack of direct personal exposure to the difficulties faced by many in the wider world. In the same way, it seems evident that the current economic strength and dynamism of, say, Asia remains largely hidden to the majority of the population in the US, whose levels of public optimism are driven primarily by less favourable local experience.

The importance of this disparity of experience and its impact on consumer and investor sentiment cannot be over-emphasised.

Capitalism, even now, as Alan Greenspan noted, remains a fragile beast, and more so since the global financial crisis. The effect of the global debt crisis and its consequences in those countries worse affected has been to place the politics of inequality once more into the forefront of economic and political debate, as recent events in Greece, Ireland and elsewhere have clearly demonstrated. The danger that popular disquiet will spill over into political populism is a real one.

But regional disparities and differences in perspectives also create opportunities. One good example is in central London property, where the residential property market continues to be driven by quite different factors from those influencing the housing market in the country as a whole. Sterling devaluation, the UK's traditional response to economic setbacks, is one reason for this disparity. As more than half the buyers of prime central London housing are based overseas, it means prices in the richer parts of the capital are to a large extent effectively set by non-sterling buyers.

According to Stephen Yorke, manager of the Prime London Capital fund, which offers private investors an opportunity to share in the gains to be had from improving top-notch leasehold properties in Chelsea and Knightsbridge, prime property in central London was some 40 per cent cheaper for Swiss or US dollar investors in June 2010 than it was at the start of 2007. So while prime central London property did take a serious hit during the global financial crisis, in part because of the abrupt interruption to big City bonuses, prices fell less and have recovered more quickly than housing further away from the centre of London.

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The prime central London property index produced by Savills, the estate agent, now stands only 8 per cent below the level it reached at its peak in September 2007, which in turn was 150 per cent above its level nine years earlier. The sector has comfortably outperformed the broader IPD property indices. Savills argues plausibly in its latest market review that this disparity between the price performance of top and lower quality property, and that between London and regional property prices, is set to persist for some years, as was the trend after earlier housing setbacks in 1982 and 1992.

Interestingly, even within central London, there has also been a marked divergence between the price of prime central London houses, which are influenced mainly by cash-rich buyers from overseas, and that of central London flats, which are more influenced by borrowing costs and other domestic economic factors. Since early 2006 the former have risen in value by an average of 50 per cent, the latter only by around 10 per cent, having suffered a much bigger hit during the financial crisis. The divergence in capital values between the two types of property is markedly greater in Knightsbridge, Mayfair and Marylebone, where houses outpace flats, than it is in Kensington, Holland Park and Notting Hill, where both types have done exceptionally well in terms of capital appreciation.

With gross yields averaging 4.7 per cent for prime central London flats and 4 per cent for houses in the same areas, this kind of property is not cheap by historical standards, but in a world where most assets have minimal yields, the attractions for those who can afford to lay out cash will continue to exceed many alternatives. Such considerations will look very different, however, to anyone who starts from something other than a London-centric or equity-rich perspective.

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