Market Commentary December 2009

London Prime Residential Property Outlook 2010

The Prime Residential property market in London grew through the course of last year against rising unemployment levels and against the predictions of many leading economists, so predictions for 2010 are hard to balance. The recovery seen since 2008 has been V shaped and what most are wondering, is whether this will in turn lead to a w, or as some ponder, a www, price fluctuation over the next few years.

The V shaped recovery to date in London was attributed to the weakness of the pound and foreign buyers coming into the prime parts of London to secure these assets at a significantly currency-discounted rate, whilst other buyers who had cash in the bank felt that they could get a better return in residential property than that caused by low interest rates. These low interest rates lead to fewer distressed sales than was expected, and so restricted supply against cash rich demand has pushed prices up.

For these two categories of buyers in Prime London the consequences of overpaying wasn't too problematic as the market provided the opportunity to secure good assets for the long term and therefore, unbelievably, some agents recorded record prices. Meanwhile other more experienced buyers were securing good deals on good properties, so a slight inefficiency in market prices was occurring, but with the overall result of average prices going up.

But as we go into the 2010 there is still a lack of supply, and there is the seasonal effect of more people wanting to buy at the beginning to the year upto Easter, and unless new stock comes to the market, this increased demand will put further pressure on prices to rise. At the same time the uncertainties that will result from the upcoming general election, may make these seasonal buyers hold out until the possible changes in markets factors such as public sector unemployment, higher taxes, continued mortgage difficulties, have all filtered into the market. Foreign buyers too may well wait to see what happens with the general election.

These factors aside, the most important variable this year is probably going to be the date at which the historically low interest rates are changed, as this will have the most pronounced effect on tracker mortgage rates, and if risen, may lead to more supply coming on both market, whilst cash rich buyers consider other assets or savings rates. Economist differ on when this is likely to happen but most seem to lead towards the end of this year, possibly 2011.

Therefore this year is going to provide opportunity for buyers and sellers alike, and most likely we will fall into a w shaped recovery, but with the second trough far less deep than the first. Those buying should be looking for the long term, and those selling might like to capitalise on the current lack of supply and release equity, but both should be prepared to move quickly if so to get the most favourable deals in what could prove to be a year of variable pricing.

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