

Prime property outperforms

The last 12 months has proved to be a very good year for UK prime property market, with prices up nearly 30% in the best parts of the Capital and 12% higher in sought after country house locations.

“International demand is the key to price growth.”

London forges ahead

International demand, the City bonus season and low supply have all helped push London prices higher. Annualised growth stands at 30.5%, with prices growing 8.6% in November, December and January. In January alone prices rose by 3%, the fastest monthly growth rate on record.

Price growth has been led by South West prime London postcodes, an area including Belgravia and Knightsbridge. This is the most international residential market in London. The influx of overseas buyers – European, Russian, Indian and Middle Eastern – has seen this area lead price growth. Prices rose 38.2% for houses and 36.0% for flats in this area in the year to the end of January.

Belgravia and Knightsbridge are home to the highest priced property not just in London, but arguably in the world, with £2,500 per sq ft sales prices regularly exceeded over the last 12 months. Demand for properties in South West prime London increased strongly in January with applicant registrations 37% higher compared

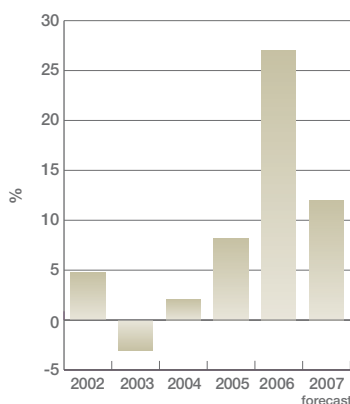


to the same month a year earlier.

Supply on the other hand remained unchanged over the same period.

There has been no let up in price growth in prime central London over the winter period. We are expecting prices to climb a further 12% in 2007 as demand continues to outstrip supply. There is no doubt that the key to the price growth seen in Belgravia and Knightsbridge is international demand. We are seeing a noticeable polarisation in market performance even within central London between those markets influenced by international buyers and those not.

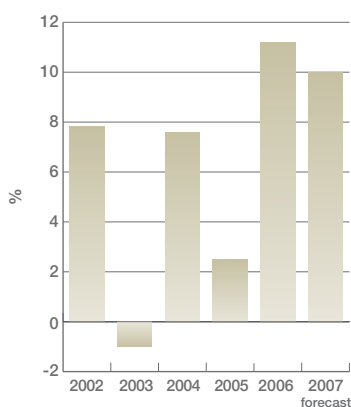
Figure 1
Prime London house price growth



Source: Knight Frank

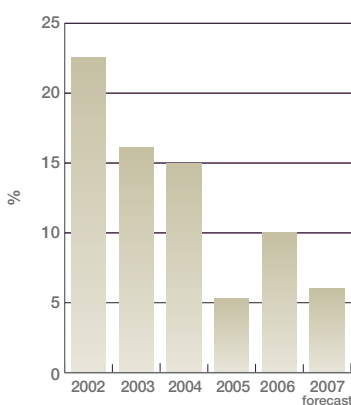
“Strong performance is being driven by the health of the financial industry.”

Figure 2
Prime country house price growth



Source: Knight Frank

Figure 3
National house price growth



Source: HBOS, Knight Frank

...and more money is being taken to the country

With the City economy performing well and the Prime Central London housing market in robust health London buyers took advantage of continued high price growth and took their money out to the country. The strength of demand over the past 12 months saw price growth in the country market reach its highest level since mid 2004. The strongest performing sector was the manor house category – larger houses with land – which saw upwards of 12% growth.

Prices for all property types rose over the final three months of 2006 – country cottages were up by 1.9%, farmhouses up 1.7% and manor houses increased by 0.5%. This strong performance of the prime country house market, especially in southern England, is being driven by both the health of the service sector economy, and importantly the booming financial industry based in the City and Canary Wharf; as well as the shortage of supply that has become critical in many markets across the UK.

This strong performance emerged in 2006, fuelled by then record-breaking City bonuses, and has continued to the present day. The same phenomenon is expected this year, with demand expected to be still higher. These expectations, coupled with current stock levels being at low levels, means we can only expect a strong performance during 2007.

