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Flats across the 'bonus belt' have recovered dramatically in the last year

‘Bonus belt’ central London house prices jump 51% to conquer peak of 2007

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House prices in a swathe of central London have now soared past the “peak” of summer 2007.

An analysis of sales of 4,000 houses and 5,500 flats across the “bonus belt” favoured by City and international buyers shows how values have recovered dramatically in the past year.

By December many houses were selling for record prices, having shot up by 51 per cent from their lowest point in February last year, the survey by agents John D Wood has found.

On average they are now three per cent above the highs seen in Mayfair, Knightsbridge, Belgravia, Pimlico, Chelsea, Kensington, Holland Park, Notting Hill and Regent's Park.

However, the phenomenon is not limited to the “prime” central London market but has also been seen in areas such as Hammersmith and Battersea.

Peter Young, managing director of John D Wood, said: “Following one of the worst financial crises in recent memory the central London house market has rebounded strongly and surpassed the previous high.

“The weakness of sterling has meant we have had an influx of foreigners which has galvanised the domestic market and forced buyers to compete over the limited number of houses available.”

John D Wood's Chelsea director, Andy Buchanan, said: “With the limited supply of houses we can foresee prices continuing to increase over the next few months.

In Chelsea the best flats are now achieving prices equal to, or in excess of, levels at the peak of the market."

He said that in December he sold a house in need of modernisation in Radnor Walk for £2.2 million, equivalent to £1,489 per sq ft. A similar house had sold in April 2008 for £1.9 million or £1,169 per sq ft.

Peter Rollings, managing director of central and west London agents Marsh & Parsons, said that demand for the best properties was pushing up prices to new all-time highs, even outside the hot spots.

Earlier this month the company sold a two-bedroom flat in Hammersmith Grove for £407,000 that had "only" fetched £373,000 in February 2007.

The recovery since the collapse of Lehman Brothers bank in the autumn of 2008 has been so strong that some property experts fear a new "bubble" that could end in a second crash.

Neil Stephens, head of mortgages at brokers Welbeck Consulting, said: "Borrowers in London and the South-East will come out of negative equity faster than the rest of the UK and with incomes rising at a time when base rates and mortgage costs are so low, it means a house price bubble is inevitable."

Commentary: A London pad is still a must have for wealthy

It is as if the City's near death experience never happened. Staggeringly, today's analysis from John D Wood suggests that it has taken only 30 months for parts of the London property market to bounce back to the super-heated levels seen on the eve on the credit crunch.

In the last recession it took six or seven years for London prices to make up the lost ground from the 1989 peak — even in nominal terms.

Taking inflation into account it was closer to a decade. Indeed research from Savills suggest that nationally prices actually fell 14 per cent in real terms in the Nineties.

So why so different this time and can it last? The V-shaped recovery is partly a reflection of the massively increased global status of 21st century London compared with 20 years ago.

A spectacular London pad remains, despite everything, one of the "must haves" for most of the world's wealthiest people.

In stark contrast to the last recession, interest rates remain spectacularly low.

As well as reducing the cost of borrowing it makes bricks and mortar a much more attractive home for surplus cash than a bank account offering a one per cent interest. The weakness of sterling has also played a big role.

Although many pundits suggest that prices will continue to rise steadily in the next year or two, there are also good reasons to be nervous.

This year is likely to be a reality check when a slow economic recovery is held back by rising taxes, continuing high unemployment and the possibility of rising interest rates.

If the City Cassandras are right about the exodus of disillusioned bankers there may be a glut of trophy homes on the market.

Although pundits suggest prices will continue to rise, there are good reasons to be nervous'
Jonathan Prynn