

LONDON

MARKET REVIEW

SUMMER 2012



GARRINGTON

LOCALLY

LONDON

London's housing market continued to outperform other regions of the country in the first half of the year for a number of reasons.

The Capital has the strongest economy in the UK, which in itself generates housing demand. There continues to be strong demand from overseas buyers who view its prime property stock as a 'safe haven' for their wealth. In addition, a lack of housing supply against high demand has helped support values.

Average £ per square foot values achieved in the first half of 2012 across Prime Central London now exceed £1,340 per square foot, having increased by 12.5% compared with sales in the first half of 2011.

Despite the introduction of the new 7% stamp duty levy for homes over £2 million, the desirability of London homes has meant that transaction levels have continued to increase at the top end of the market. So far this year there have been 42% more sales over £5 million than in the same period in 2011.

"LONDON REMAINS ONE OF THE WORLD'S MOST DESIRABLE CITIES AND DEMAND FOR PROPERTY IS STILL HIGH. THIS HAS HELPED SUPPORT HOUSE PRICES AND IN PRIME CENTRAL LONDON THERE ARE NO IMMEDIATE SIGNS OF MOMENTUM SLOWING."

JONATHAN HOPPER, MANAGING DIRECTOR

LONDON

28%

annual increase in transactions to March 2012

6.6%

house price growth in London (6 months to May 2012)

167

the average number of private units per development scheme (10 units+)

Kensington & Chelsea has been highlighted here, as it is our chosen area for this issue's Focus page (see page 4).

KENSINGTON & CHELSEA

£1,303

average £ per square foot for sales in 2012 so far

14%

borough with highest annual increase in average values in May 2012

36

the average number of private units per scheme over last decade (10 units+)

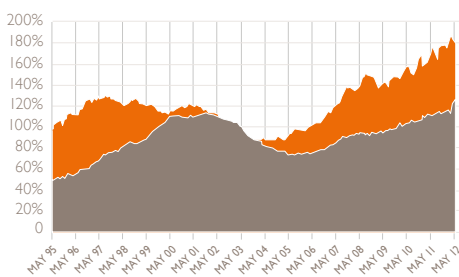
ECONOMY UPDATE

London's economy has to date proved to be relatively resilient to the issues plaguing the wider economy of the UK and Eurozone. Latest data shows that it is continuing to recover from the 2008/09 economic downturn and therefore not falling into the double-dip recession.

London's output, measured by real GVA (Gross Value Added - economic indicator), stood at 1.2% in Q4 2011 compared with just 0.3% for the UK. However, even in the Capital, recovery is expected to be slow and patchy. Consumer confidence remains weak and real wages have been squeezed by inflation (in part due to past high oil prices).

London house prices continue to outperform national average, fuelled by prime London

■ Price differential: London v England & Wales
■ Price differential: Kensington & Chelsea v London



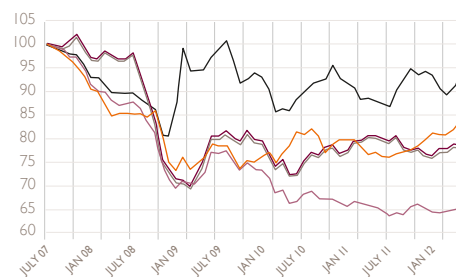
Source: Land Registry

Growth is forecast for employment but it is slow, with gains in the private sector outweighing losses in the public sector. Large deficits in the public finances of countries in the Eurozone could also affect London's continued recovery.

However, with Sterling remaining weaker than pre-2008/09 levels this should continue to encourage inward foreign investment from individuals wishing to purchase property in London for investment and/or as a home. It is also positive for net trade, which together with private investment are most likely to lead to an improvement in the economy.

Sterling remains weak but this makes investment in the UK more attractive

Exchange rates to Sterling, indexed to 100 at the peak of the market in July 2007



Source: Canada

ANALYSIS

LONDON SCHOOLS

Being located close to the best schools is still a top priority for many house purchasers and it is widely claimed that schools can have an inflationary effect on the local housing market. The heat spot map opposite shows where the top Ofsted rated and highly regarded state and independent primary schools are located in central London relative to average house prices.

The map indeed shows that many of the most regarded schools are located near to or within the most expensive parts of central London although the correlation is perhaps less than might be found in the country.

This can in part be explained by the myriad of other factors that have a strong influence on determining average house prices in the Capital such as accessibility to work and the quality of housing stock. Another influence is the small proportion of families in London

relative to other UK regions (39% for inner London compared to national average of 44%).

Although house price premiums may be less clear cut in prime areas of London, sales agents frequently report that having a property located within a catchment area for a top state school helps attract buyer interest and therefore has an effect on value.

The British education system remains a major draw worldwide. Some families live in London to send their children to an independent school whilst continuing to work abroad (e.g. Switzerland) and commuting back to the Capital at weekends.

Furthermore, recently released census data shows that the population of London has increased by 12% over the last decade, the fastest growing region of the UK. An additional 112,700 children were added over this period and it is predicted that by 2015-16, London will require around 70,000 more school places. This will undoubtedly increase pressure on existing school places and may push schooling even higher up the purchasers wish-list. As a result we may well see the correlation between house prices and the top schools increase over the next few years.

“BOTH INTERNATIONAL AND DOMESTIC CLIENTS ARE WILLING TO CONSIDER SIGNIFICANT COMMUTES, IN SOME INSTANCES FROM A DIFFERENT COUNTRY, IN ORDER TO LOCATE THEIR FAMILY CLOSE TO THEIR FAVOURED LONDON SCHOOL.”

NICHOLAS FINN, LONDON DIRECTOR

INTERNATIONAL BUYERS

London benefits from a deep and diverse buyer market and has long drawn buyers from across the world in times of both prosperity as well as global recessionary conditions, indicating this trend is unlikely to change: It attracts both investors seeking to capitalise on long term price growth and rental income, as well as owner-occupiers wishing to benefit from the London lifestyle and the kudos of a prestigious address.

Compared with many overseas buyers' home countries, London benefits from the UK's political liberalism, cultural diversity and social stability, as well as its honest bureaucracy, trusted legal system and financial services. London is easily accessible and as a trading post, it is geographically well placed to bridge east and west time zones.

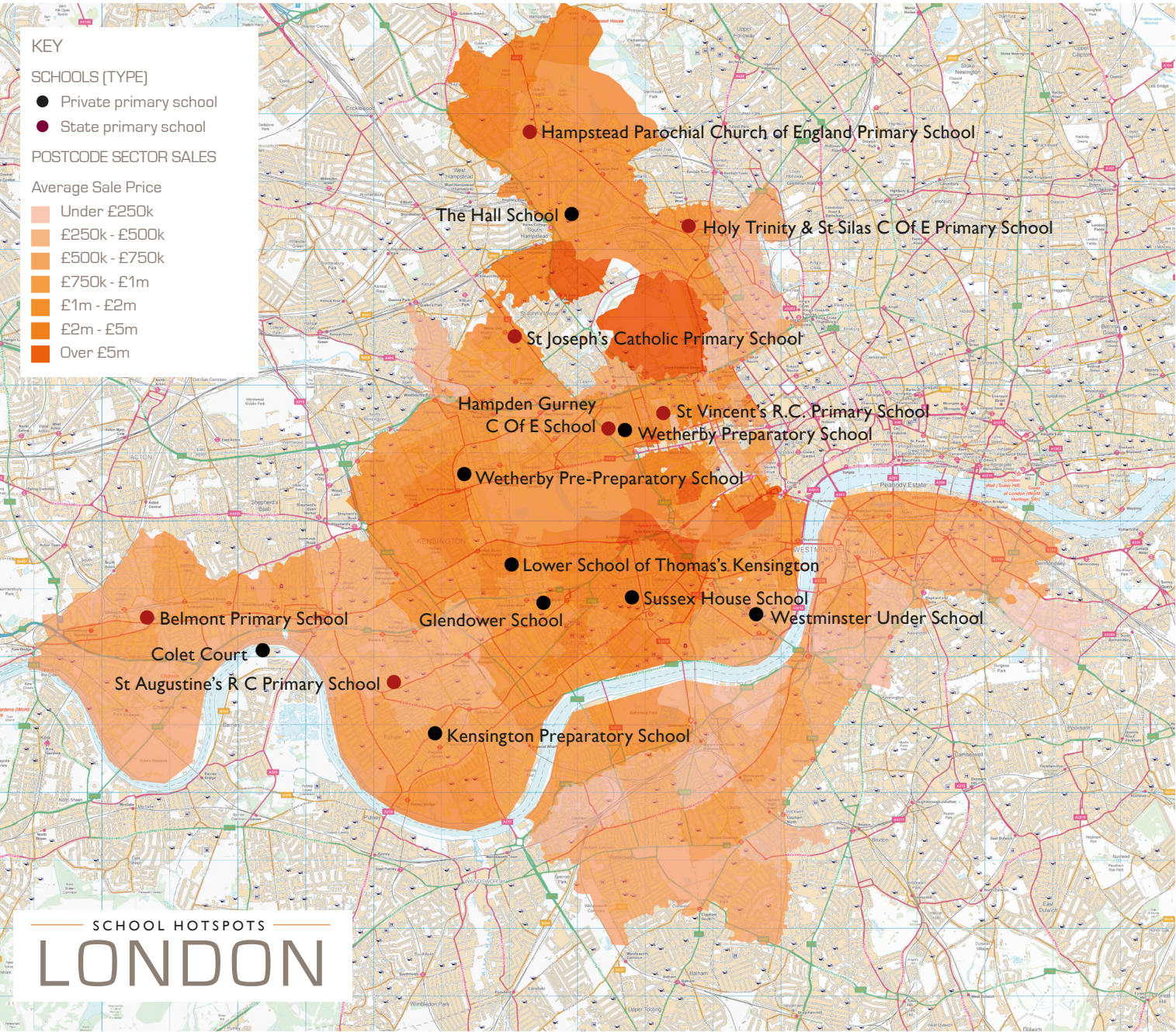
Mirroring trends in new supply in their home markets, buyers from Asia, including those from Singapore, Hong Kong, China, Malaysia and Indonesia, have been particularly active in the new build apartment market in London, favouring modern, uniform, geometrically-designed properties in renowned addresses.

Less likely to be owner occupiers than many other non-nationals buying here, Asian investors have been drawn to the London market owing to its reputation as a stable market with high ongoing demand and limited new supply. They acknowledge the long term capital appreciation benefits of owning a London-based residential asset as well as the

opportunity to generate rental income. In the current climate however, it is overwhelmingly buyers from Eurozone countries who have dominated the international buyer market. Buyers from Greece and Italy in particular, who are looking to protect their liquid assets are turning to London property as a secure option, while also benefitting from the relative weakness of the pound.

As investors, they are supporting a range of segments within the London property market: They include not only existing residential properties and long-term, buy-to-lets but buyers are also being more entrepreneurial, purchasing land, redevelopment opportunities and also commercial property with a view to changing use to residential. In addition to these investors, there is the usual inflow of other European buyers, such as those from France and Spain who tend to live, work and buy in the capital.

Typically, London's most expensive and luxurious properties appeal to buyers from the Middle East with a high spend capacity. Very recently there has also been an interest of Saudi Arabian buyers to London's property market. Regional insecurity resulting from the Arab Spring has prompted wealthy individuals to once more view London as a fashionable destination. Further, the fact it has weathered the global economic downturn and remains a safe haven for the wealthy, international elite has supported its investment case.



DEVELOPMENT

The London development market was hit hard in 2007 when the credit crisis began. Development funding was removed and many developments became simply unviable to continue. Completions in London by private enterprise fell from 14,820 dwellings in 2007/08 to 11,300 dwellings in the last financial year, a decline of almost a quarter (24%).

As the re-sale market in London gained strength in 2009, so confidence in the development market followed. This was boosted by a shortage of supply and increased overseas interest.

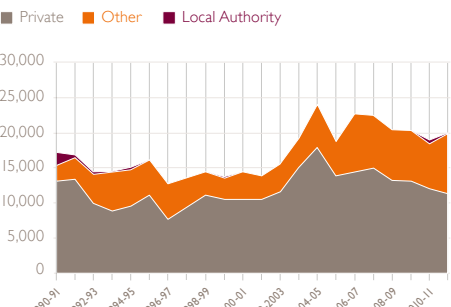
The highest specification schemes in the best locations, serviced by the most luxurious facilities have benefitted most strongly from the influx of international wealth flooding the London market. Schemes at the very top of the ladder like One Hyde Park, have achieved record £ per square foot values, and these

are almost exclusively purchased by overseas owners and investors.

With land availability so scarce in the established core residential areas of central London, it is unsurprising that the majority of future development will be outside of

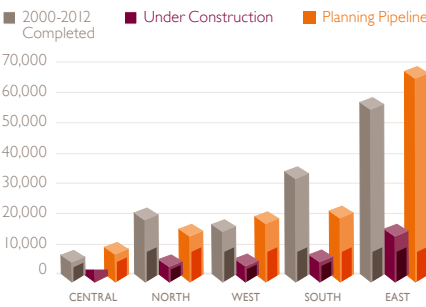
these super-prime areas. Central boroughs are set to see just 7% of future private residential units while just under 50% of units in the planning pipeline are to the east of London on significant developments, the average size consisting of 240 private units.

Housing completions in London by tenure



Source: CLG

Residential supply pipeline by planning status



Source: LRR/EGI

LONDON

RENTAL

MARKET

Compared with the frenzied summer lettings market of 2011, this year the imbalance between supply and demand does seem to be becoming more closely aligned.

Whilst the outlook for the London rental market remains positive. The consensus amongst industry experts does suggest growth will be lower this year than the heady heights of 2011, when rents in prime areas increased by up to 14%, according to Lonres data.

That said, compared with the first half of 2011 lettings activity within central London has been more buoyant so far this year. 11% more properties were let between January and June, compared with the first six months of 2011.

In recent years, the third quarter has been the most active in terms of new lettings, with families and the student market looking to settle before the start of the academic year. Last year 32% of all lettings were between June and September.

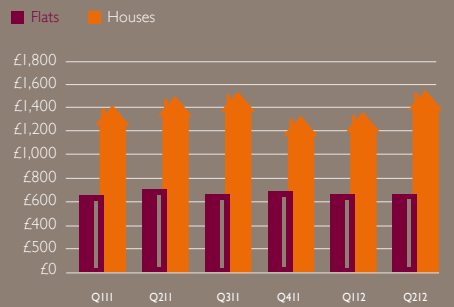
Demand from corporate tenants has slowed in recent months, with job losses in the City and lower level of cash bonuses limiting both the volume and spending power of new applicants.

This has impacted on the price bands in which demand has increased for homes. Agents have reported demand being strongest in the lower end of the prime central London market (sub £1,000 per week).

The house market continues to see higher levels of rental growth. Between January and June this year, houses achieved rents 2.4% higher than in the previous six months, compared with a 2% fall for flats, where more choice is available and prospective tenants have less competition for new stock.

Investors continue to recognise the benefits of owning investment property in the Capital. Yields in prime London are traditionally lower than outside London, typically between 3.5% and 4.75% net. However, the potential capital gains and strong tenant demand means the total return on investment remains attractive.

Houses record largest growth in average rental values in central London



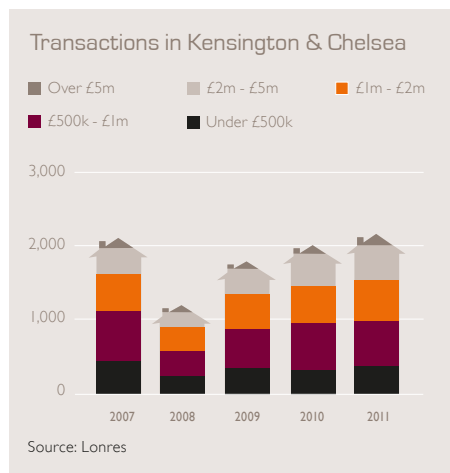
Source: Lonres

FOCUS ON KENSINGTON & CHELSEA

In the Royal Borough of Kensington & Chelsea, average sales prices are now some 50% higher than they were when the market bottomed out in early 2009.

Furthermore, with an average price of £1.05 million, values are 25% higher than the previous peak of early 2008. In the last ten years, property prices here have risen by 127% compared to just 55% nationally.

While transaction levels in other parts of the country are still well below 2007 levels, here sales in the last 12 months were far closer to the 2007 peak, with sales over £1 million 14% higher than in 2007. This is a reflection of the borough's attraction as an established central London neighbourhood offering high quality accommodation, architecture, restaurants, bars, retail, schools, cultural landmarks and open spaces.



"CHELSEA, KENSINGTON AND NOTTING HILL HAVE SEEN CONTINUED INTERNATIONAL DEMAND OVER THE PAST 18 MONTHS, PARTICULARLY FROM EUROZONE BUYERS. FOR THOSE PRICED OUT OF THE BOROUGH, ADJACENT AREAS SUCH AS PIMLICO, FULHAM AND BATTERSEA PARK ARE LOOKING FAVOURABLE." NICK DAWSON, ASSOCIATE

DEVELOPMENT MARKET SCHOOLS

As overseas demand for the most prime schemes increases, so has the appetite of developers to secure opportunities within central London. Such opportunities remain scarce, however, in such an established residential market.

Within Kensington & Chelsea in the last ten years, there have been just 1,600 private units completed on developments of 10 or more units, which has increased private stock in the Borough by just 2.7%.

Looking ahead, the planning pipeline (those applied for or received planning permission) in Kensington & Chelsea includes 998 units on thirteen schemes. A further planning application as part of the Earls Court development on the huge 77 acre site bordering Hammersmith and Fulham, could see a further 6,775 private units which would be a huge boost to supply in the local area.

For young families living in Kensington & Chelsea the proximity of highly regarded independent primary schools is an important consideration influencing their property buying decisions.

The numbers in this group may not be significant enough to have a profound impact on average house prices, especially given the number of properties which are bought for investment and second homes. However, the top local schools claim that a high proportion of their pupils live within walking distance.

Most girls at Glendower Preparatory School (SW7) live within a small radius of the school and can walk to it. The school actively favours those living within the borough when offering places. A total of 75% of pupils were able to walk to school at Wetherby Pre-Prep School (W2) during a recent 'walk to school' week.

HIGHEST £ PER SQUARE FOOT VALUES SO FAR IN 2012

CADOGAN SQUARE	LOWNDES SQUARE	CLABON MEWS
£2,380	£2,373	£2,339

Based on Lonres data where there has been more than one sale recorded and £psf values entered for streets in Kensington & Chelsea.

MEET THE LONDON TEAM



Jonathan Hopper



Nicholas Finn



Amanda Collings



Nick Dawson



Mellony Morgan



James Rawes



Lisa Burton



Liza Kouppari

The Property Search Consultancy

Disclaimer: This report is for general information purposes only. Whilst every effort has been made to ensure its accuracy, Garrington Property Finders Ltd accepts no liability for any loss or damage, of whatsoever nature, arising from its use. The content is strictly copyright and reproduction of the whole or part of it in any form is prohibited without prior written permission.

© Garrington Research 2012

Garrington
53 Davies Street
London
W1K 5JH

Tel +44 (0)20 7099 2773
Fax +44 (0)20 7099 2779
info@garrington.co.uk
www.garrington.co.uk