

LONDON MARKET REVIEW

SUMMER 2014



GARRINGTON

LOCALLY

LONDON

Talk of London's house price bubble and an overheating market has started to recede. Although London property values have continued to rise this year (the Land Registry reports 16.4% growth in prices in the last 12 months), much of this growth was in peripheral locations of Greater London rather than in prime central London. Also, since May, Rightmove have reported that asking prices have decreased, underlining that sellers and their agents have had to realign their expectations, as buyers have begun to reject increasingly optimistic pricing.

With next year's general election approaching, together with possible interest rate rises and further mortgage restrictions, it would seem likely that we may enter a period of slow yet stable growth, which is good news for the sustainability of the market. As such, Price Waterhouse Coopers (PWC) expect house prices to increase by only 4.4% in London next year, noticeably lower than their 5.5% national prediction.

"THERE IS A CLEAR INDICATION THAT THE MARKET IS BECOMING MORE RATIONAL, ALTHOUGH IN COOLING OFF, THE LONDON PROPERTY MARKET WILL CONTINUE TO HAVE GLOBAL APPEAL."

NICHOLAS FINN, EXECUTIVE DIRECTOR

PRIME CENTRAL LONDON

£1,846

Average price paid per square foot for properties sold in Q2 2014

19%

Growth in average price paid per square foot in Q2 2014 compared with Q2 2013

£1,113 per week

average rental value for properties let in Q2 2014

SOUTH KENSINGTON

£1,705

Average price paid per square foot for properties sold in Q2 2014

15%

Growth in average price paid per square foot in Q2 2014 compared with Q2 2013

£901 per week

Average rental value for properties let in Q2 2014

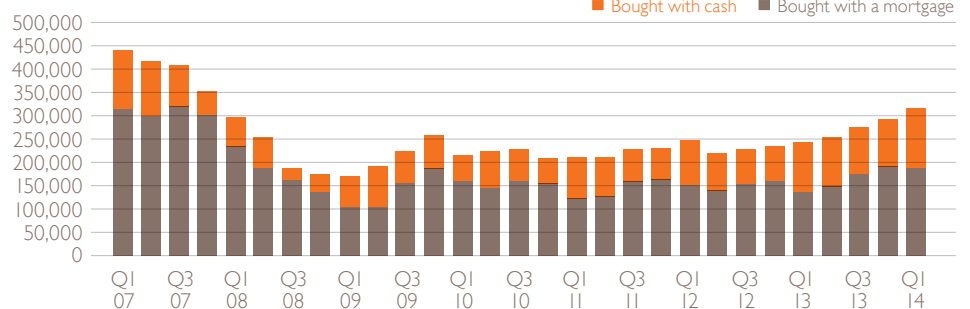
South Kensington has been highlighted here, as it is our chosen area for this issue's Focus page (see page 4). Source: Lonres N.B. Prime central London includes the postcode districts of SW1, SW3, SW7, SW10 and W1.

HOW PURCHASES ARE PAID FOR

Much is being said about the increased restrictions in the mortgage market, with buyers finding it harder to secure finance. Combining national data from the Council of Mortgage Lenders and Office for National Statistics shows that as a group of buyers, cash purchasers accounted for 38% of sales over the past 12 months. This proportion of buyers has risen from 24% over the same period in 2007/08. Furthermore, despite overall market transaction figures in the last 12 months remaining 29% lower than the

peak of the market in 2007/08, the actual volume of cash funded transactions rose by 13% over the same period. This trend becomes more profound in the prime sector of the market, particularly in central London, where cash purchasers have obviously been unaffected by mortgage availability or the anticipated interest rate rises. Figures from the Land Registry show that in 2013, cash sales accounted for around 50% of transactions in Kensington and Chelsea and Westminster.

Means of purchase – UK

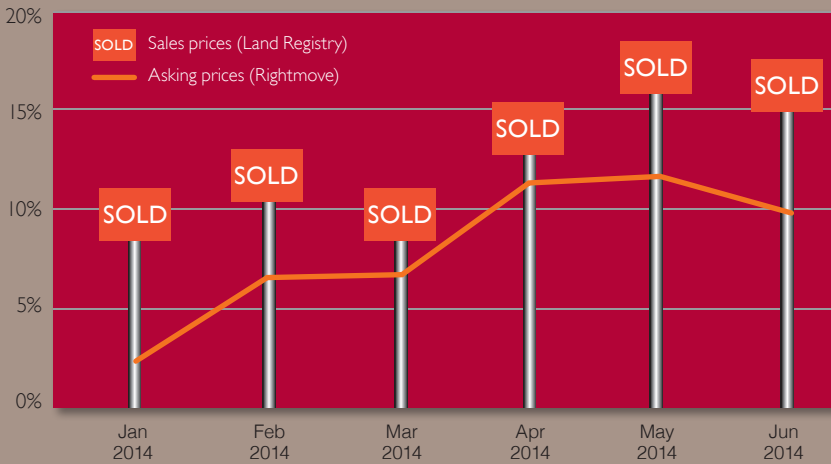


Source: Council of Mortgage Lenders / Office for National Statistics, comparing transactions with mortgage lending figures

CHANGING DYNAMICS

WILL LOWER ASKING PRICES LEAD TO A STABILISED MARKET?

Annual change in asking and sales prices across Greater London



Source: Land Registry, Rightmove

0.5%

FALL IN ASKING PRICES IN JUNE 2014 - GREATER LONDON

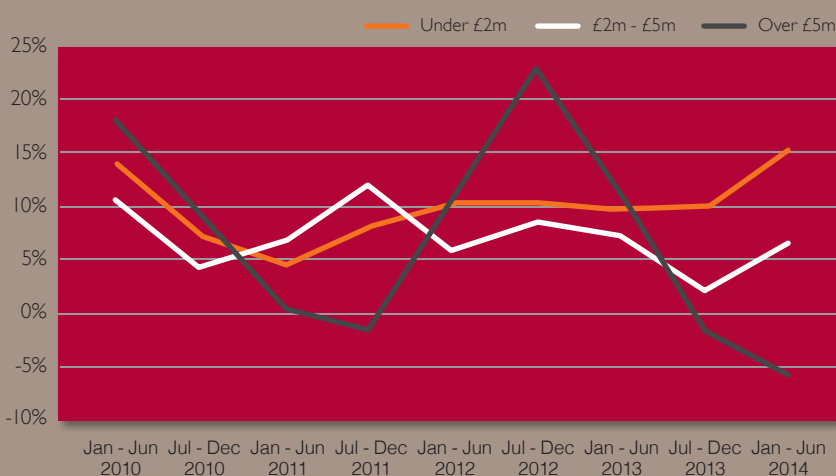
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LONDON BOROUGHS RECORDED A FALL IN ASKING PRICES IN JUNE 2014

RICS REPORT FALLING NEW BUYER ENQUIRIES IN LONDON FOR THE MONTH OF JUNE 2014 WITH WEAKENING EXPECTATIONS FOR CAPITAL GROWTH

RIPPLE EFFECT: TOP END OF THE MARKET SEEING THE CHANGES FIRST

Annual change in achieved prices - prime central London



Source: Lonres - achieved price (per square foot)

TRANSACTIONS - ANNUAL CHANGE

Q1 2013	↑ 26.9%
Q2 2013	↑ 19.7%
Q3 2013	↑ 47.2%
Q4 2013	↑ 24.3%
Q1 2014	↓ -11.7%
Q2 2014	↓ -18.1%

Source: Lonres - central London

59%

OF PROPERTIES SOLD FOR LESS THAN ASKING PRICE IN Q2 2014

26%

INCREASE IN NEW INSTRUCTIONS (Q2 2014 COMPARED WITH Q1 2014)

SLOWING AT THE TOP?

Having led the housing market recovery with growth of 71% in average sales prices since 2009, the property market in prime central London is now showing signs of softening, particularly in the upper price thresholds. The average price per square foot for properties selling at over £5 million across prime central London fell by 6.1% in the first half of 2014 (compared with the same period in 2013, Lonres).

Supply constraints, which have contributed to rising sales prices in recent years, have eased throughout 2014. Some owners and investors have chosen to capitalise on property gains and sell, while increased choice has motivated other vendors to move. This has resulted in a 26% rise in the number of properties marketed in Q2 2014 compared with Q2 2013.

While supply has risen, a strong pound, increased taxation of foreign owners, uncertainty surrounding the general election and the stronger global economy means that London property is currently not as alluring to overseas buyers. This has had an inevitable knock-on effect on transactions. Overall sales in Q2 2014 were down 18% on the same period a year ago, following a fall of 12% in the first quarter.

With more properties coming onto the market, coupled with weaker demand, London purchasers are increasingly enjoying greater choice and are more inclined to negotiate on price. Vendors will need to be realistic about the value of their properties in coming months to secure a sale. Already, 26% of properties currently on the market in prime central London have had their asking price reduced since being first marketed. We would expect rates of price growth to slow further as the year progresses.

WHICH AREAS OF LONDON WILL BE MOST AFFECTED BY A CHANGING MARKET?

Whilst the surge in prices of prime central London property may not have kept pace with some secondary locations over the last 12 months, values in the prime postcodes are more robust, underpinned by superior transport connections, educational institutions, local amenities and a broad mix of wealthy expatriate communities. Purchases in these areas are typically less credit reliant, and values have a proven track record of weathering market volatility.

The peripheral areas of the capital have experienced dramatic leaps in price growth due to the imbalance of supply and demand as buyers seek value for their budget. However, historically in a softening market, certain areas have fared better than others. Some parts of London are now likely to come under scrutiny as to whether recent price growth is sustainable based on factors such as the infrastructure supporting the area, new transport connections (e.g. Crossrail), the presence and volume of any new property developments and local economic changes.

NEW DEVELOPMENT MARKET

The Greater London Authority are proposing further alterations to the London Plan to raise the current target of 32,000 homes per annum (all tenures) to 42,000 from 2015. Inner London boroughs are expected to provide 20,800 units per annum (an increase of 4,800 on 2011 targets). However, completion figures are not meeting expectations, being 44% lower than the current targets and 57% below the revised target post 2015.

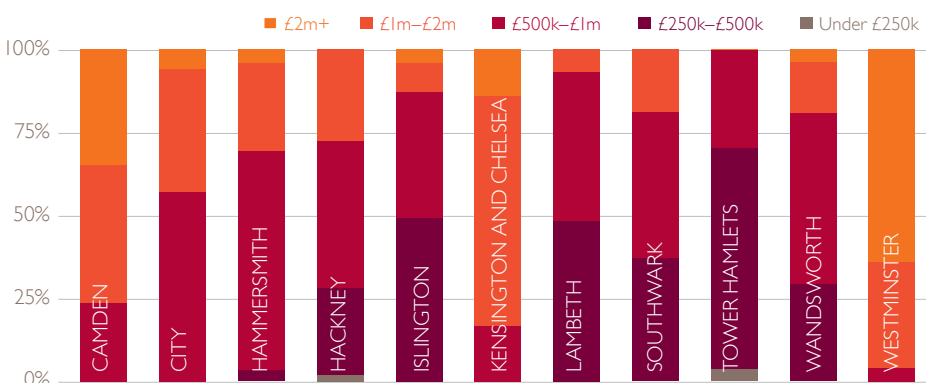
Inner London boroughs are seeing an increase in new applications. Over the last three months, plans have been submitted for nearly 1,500 units and permission secured for over 3,800 private homes in this area.

So far this year over £1.15 billion worth of new homes have been launched in inner London. 36% are priced at between £500,000 and £1 million, with a further 27%

at over £1 million. At a borough level, new homes launched in Tower Hamlets had the lowest average price at just over £500,000, with new properties brought to the market in Islington, Lambeth and Southwark all averaging in excess of £650,000. Average prices for new homes launched in Westminster and Kensington and Chelsea are significantly higher at £2.46 million.

In an attempt to increase house building, the Chancellor has announced new initiatives to bring forward brownfield sites. Councils will be required to issue Local Development Orders incentivising development on more than 90% of brownfield sites suitable for housing. Plans are also afoot for 20 new 'housing zones' across London where planning restrictions will be lifted to boost house building. The GLA will provide £200 million to assist with infrastructure delivery and remedial site work.

New build properties marketed in 2014 in inner London by price band



Source: EGi London Residential Research

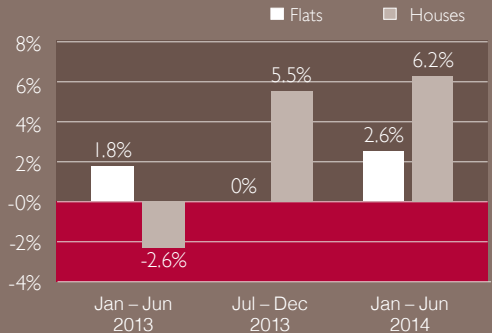
LONDON RENTAL MARKET

Activity in the central London rental market has increased over the first half of 2014 as strengthening economic and employment prospects have boosted demand. More than half (52%) of London firms surveyed in the latest CBI/KPMG London Business Survey are recruiting and corporate demand continues to rise.

At the same time as demand is increasing, the supply of rental properties appears to be decreasing. In the first half (H1) of 2014, 7% fewer properties were listed to let than in H1 2013. With supply levels falling, growing competition for properties has put upward pressure on prices. Average rental values have increased by 4.1% since the end of 2013, compared with a 0.4% rise in the same period a year earlier.

In particular, there is a shortage of private houses to rent (the number of properties listed on Lonres in H1 2014 fell by 12% compared with H1 2013). As a result, average rental values for houses have risen by 6.2% in the first half of the year.

Change in average rents across prime central London



Source: Lonres

“A NUMBER OF KEY PROPERTY MARKET METRICS APPEAR TO BE POINTING TOWARDS STABILISATION. THE INCREASED SUPPLY OF PROPERTY THROUGH NEW BUILD DEVELOPMENTS WILL FURTHER ENCOURAGE THIS.”

JONATHAN HOPPER, MANAGING DIRECTOR

FOCUS ON SOUTH KENSINGTON

The origins of South Kensington as we recognise it today date back to the mid-19th century. Following the Great Exhibition of 1851, 87 acres were acquired for the creation of a new centre for science and the arts, providing the South Kensington Museum (renamed the Victoria and Albert in 1899), the Science and Natural History Museums as well as Imperial College London.

Alongside the new cultural quarter, land owners built grand terraced townhouses across South Kensington, the legacy of which is still very much in evidence today. Many of the large houses lent themselves well to the creation of spacious conversion flats, which continue to attract the affluent residents these properties were originally designed for.



“NESTLED IN THE CENTRE OF SOME OF LONDON’S MOST SOUGHT-AFTER AREAS, SOUTH KENSINGTON IS POPULAR FOR ITS BROAD ARRAY OF AMENITIES; NOT LEAST ITS EVER-DESIRABLE PROPERTIES.”

JAMES RAWES, ASSOCIATE

MARKET OVERVIEW

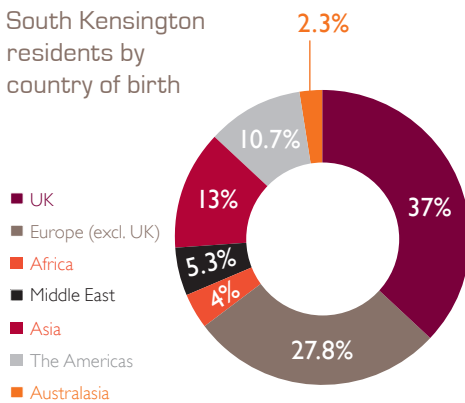
South Kensington remains one of the most sought-after and expensive addresses in the Capital, boasting a combination of stunning architecture, green squares and excellent shops and restaurants. With easy access to central London’s employment centres and well regarded schools, including the renowned French Lycée, South Kensington appeals to different nationalities from across the globe. Just 39% of residents living in South Kensington were born in the UK, with mainland Europeans accounting for a further 27% and Asians and Middle Easterners 18%. The area is particularly popular with French and Italians, who together account for 11% of the resident population.

remain sought-after, particularly those with access to garden squares. So far this year, houses have achieved an average of £2,130 per square foot – 23% higher than the average for flats sold over the same period. The highest price paid so far this year has been £30 million, for a large house in excess of 11,000 square feet on Hyde Park Gate. A flat on Onslow Gardens achieved the highest value per square foot at £3,085.

South Kensington also has a buoyant rental market, with average rental values growing by 6.1% since the beginning of the year. Overseas tenants, including students at Imperial College, are particularly prevalent, and in recent months we have begun to see a return of corporate tenants looking to settle in the area. While strong demand continues to attract buy-to-let investors into the area, yields are relatively low (sub-3%). However, strong capital growth prospects continue to outweigh lower yields for many investors.

Residential property in South Kensington has proven to be a lucrative investment over the past decade, with average values (per square foot) increasing by 181% (Lonres). The market is dominated by flats, accounting for 81% of sales so far this year. Houses

South Kensington residents by country of birth



Source: Census

MEET THE LONDON TEAM



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Mandy Bissell

Hilda Herterich

Lisa Burton

GARRINGTON WORK ON BEHALF OF PRIVATE AND/OR CORPORATE CLIENTS WHO WANT TO BUY, RENT OR INVEST IN PROPERTY BOTH IN LONDON AND THROUGHOUT THE UK.

The Property Search Consultancy

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