

LONDON MARKET REVIEW

WINTER 2015



GARRINGTON

LOCALLY

LONDON

After an exceptionally strong first half, 2014 ended rather sluggishly in prime central London, with a price dip in Q3 followed by a small rebound in Q4. By year end, the average cost of a home was £1,714 per square foot. This was broadly the same level that had been reached early in the summer, meaning a net growth of 9.3% over the whole year.

The prospect of a closely contested general election in May, with housing high on policy agendas, means some buyers and sellers have put decisions on hold. Transaction volumes in Q4 2014 were 22% down on Q4 2013, despite the flurry of exchanges from December's stamp duty deadline.

However, with economic uncertainties and political instability in so many countries at the close of 2014, London's position as a safe haven has, yet again, been reinforced. The combination of a steadily recovering economy and a calm housing market still presents an attractive proposition to investors and homebuyers.

PRIME CENTRAL LONDON

£1,714

Average price per square foot Q4 2014

9.3%

Growth in average price paid per square foot Q4 2014 compared with Q4 2013

£826 per week

Average rental value for a property let in Q4 2014

CHELSEA

£1,632

Average price per square foot Q4 2014

7.7%

Growth in average price paid per square foot Q4 2014 compared with Q4 2013

£924 per week

Average rental value for a property let in Q4 2014

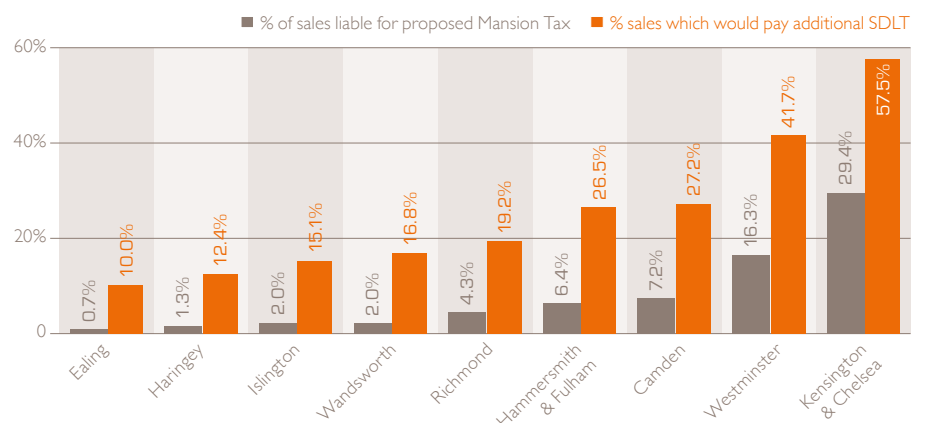
Chelsea has been highlighted here, as it is our chosen area for this issue's Focus page (see page 4). Source: Lonres N.B. Prime central London includes the postcode districts of SW1, SW3, SW7, SW10 and W1.

BUYERS AFFECTED BY INCREASED TAXATION

In the Autumn Statement, it was announced that the reformed Stamp Duty Land Tax (SDLT) would result in just 2% of buyers paying additional taxes. Meanwhile, Labour and the Liberal Democrats remain committed to the introduction of a Mansion Tax, which would affect less than 0.5% of homes nationally. Prime central London, on the other hand, will be disproportionately affected but it is not just this area which will bear the brunt of the new taxes.

In 2014, 69.5% of the Greater London sales which would have incurred additional Stamp Duty were outside of Kensington & Chelsea and Westminster. Under the new SDLT system, 27% of purchasers in Camden, 26% in Hammersmith and Fulham and 19% in Richmond would all have paid more. Furthermore, based on 2014 sales, 54% of properties sold across Greater London for over £2 million (which would therefore be liable for a Mansion Tax charge) were outside of central London.

% of 2014 sales that would have paid higher SDLT and been liable for Mansion Tax



Source: Garrington Research

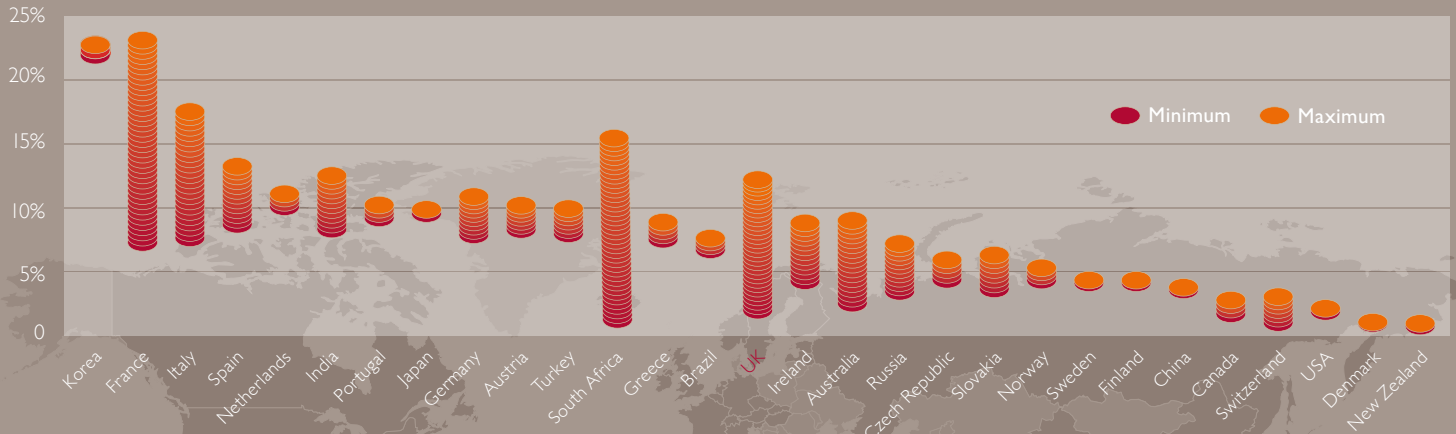
“OPPORTUNITY CAN BE FOUND IN TIMES OF UNCERTAINTY; RECENT, IMMINENT AND PROPOSED CHANGES TO TAXATION ON PROPERTY PURCHASES WILL NOT DETER THE WELL INFORMED BUYER.”

JONATHAN HOPPER, MANAGING DIRECTOR

THE UK MARKET IN CONTEXT

UK HOUSE PRICE GROWTH AND INVESTMENT COSTS CONTINUE TO REMAIN ATTRACTIVE WHEN COMPARED WITH OTHER COUNTRIES

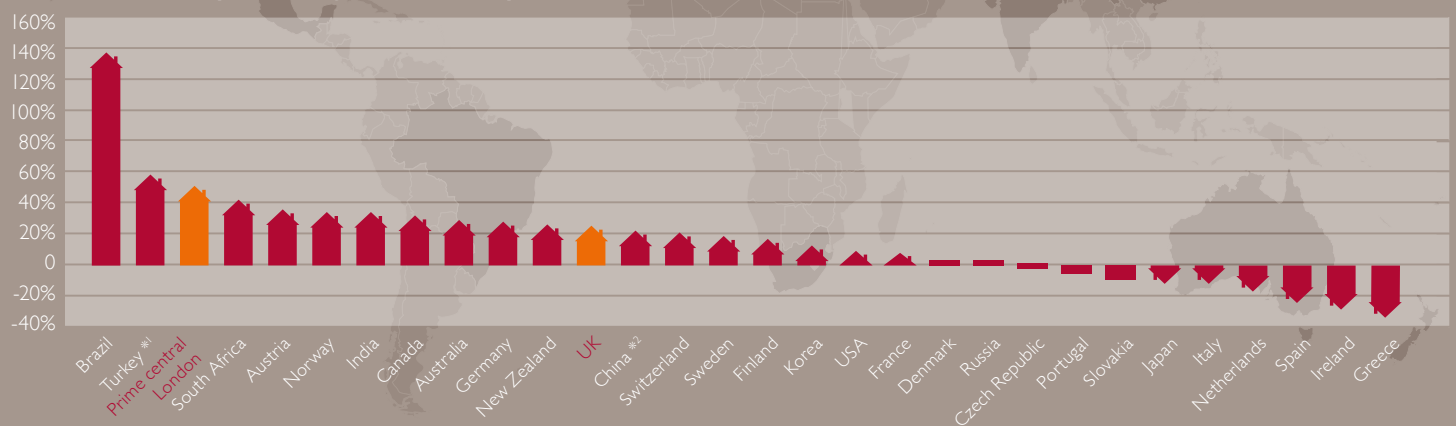
Comparison of home buyer costs internationally shown as a percentage of purchase price



Source: globalpropertyguide.com, Garrington Research

Chart shows the range in purchase costs to a buyer expressed as a % of the sales price of a residential property, calculated by globalpropertyguide.com and Garrington Research

Global house price changes in the last 5 years



Source: OECD using national house price data sources, and Lonres data. Note: #1 – 4-year % change, Q2 2010 to Q2 2014. #2 – 4-year % change, Q3 2010 to Q3 2014

Chart shows % change in nominal house prices, Q2 2009 to Q2 2014

UK BUYING COSTS IN A GLOBAL CONTEXT

While recently introduced Stamp Duty changes have added to the cost of buying some UK homes, property buying costs remain comparable to, and lower than, many other countries. This, compounded with robust price growth in a global context, and the UK's steady economic outlook, further strengthen its investment case.

The costs of buying a property anywhere in the world usually includes land registration and legal fees, in addition to government taxes such as the UK's SDLT. In the UK, these costs now range between 1% and 12.6% of the sales price of a residential property. For example, the costs associated with buying a £1 million London home are now some 4.7% of the sale price (depending on solicitors'

fees). This is still lower than the threshold at which buying costs start in a number of other countries including France, Germany and Italy, according to globalpropertyguide.com data. In the cheapest house price categories, UK buying costs are among the lowest globally.

Buying costs vary significantly across countries and encompass different cost types. For example, in France, buyers can also end up sharing estate agency fees with the vendor. In the UK, the buyer typically assumes the largest share of the transaction costs but in some countries, the seller accepts a greater proportion. For this reason, while buying costs in some countries are low, once the costs of investing in, and disposing of, a property are taken into account, total

transaction costs in the UK still look very reasonable. In the US for example, while buying costs can look low, investors typically pay taxes on the sale, making the exit more expensive. Furthermore, the UK system does not have regional differences in transaction taxes. In some countries, costs can vary at state, county and city level. For example, in Switzerland, transaction taxes differ from canton to canton. In New York, sellers pay both a state and city transfer tax on a property, unless it is a new build condominium, in which case the buyer bears these costs. Other local taxes include a 'Mansion Tax' levied on properties sold for over US\$ 1 million and payable by the purchaser. This is a one-off payment equating to 1% of the total sales value.

LONDON

RENTAL

MARKET

In a global context, UK house prices have shown robust growth in the five years since their 2009 trough, rising by 25% between Q2 2009 and Q2 2014, according to OECD indices. In the same period, prime central London outperformed the national market by 51% (Lonres).

Countries that have reported higher house price rises than the UK include a number of emerging economies, characterised by

growth from a low base, rapid population expansion and maturing mortgage markets. They include fast developing economies, such as India and Turkey.

Other advanced European economies that have performed well in the last five years include Germany and Austria, but in contrast to the UK, they experienced far lower levels of house price growth leading up to the 2007 onset of global recession.

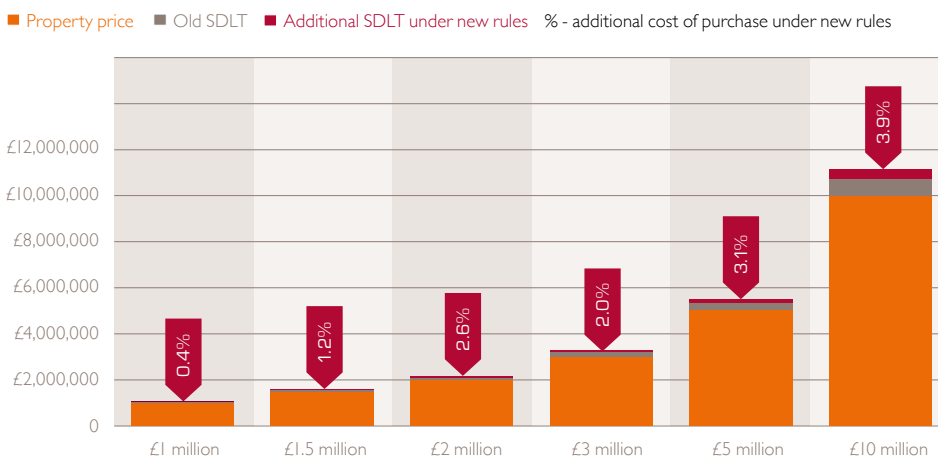
IMPACT OF AUTUMN STATEMENT

The announcement on 3rd December 2014 that a Stamp Duty Land Tax (SDLT) reform would take effect from midnight resulted in a flurry of activity from buyers in the upper price thresholds. Those exchanging after this date on properties over £937,500 (excluding those between £1 million and £1.125 million) would incur an additional charge. As a result, 25% of all exchanges across prime central London in December took place on this day alone, the total value of which was £139.8 million. Of these, 92% would have been liable for an additional charge had they waited until the following day. This rush of activity saved buyers across prime central London £3.7 million, an average of £87,000 per property. In Chelsea alone, £1.3 million was saved by buyers exchanging just one day earlier with over four times as many properties exchanging on that day compared with the average for the rest of December.

Despite the additional costs affecting central London buyers and concerns expressed by commentators over the impact on central London properties, it is important to remember that residential property values in London already factor in significant transaction costs. In fact, the additional cost arising from the new SDLT regime is surprisingly low on the majority of purchases, as a proportion of the total investment price. We have undertaken some analysis to set these changes in their wider context.

At £2 million, a purchaser would now be charged £153,750 in Stamp Duty, an increase of £53,750. However, this is a rise of just 2.6% on the purchase cost prior to the SDLT changes. At £5 million, a purchaser would now be required to pay an extra £163,750 in SDLT. Again, this equates to an increase of just 3.1% on the previous purchase cost.

Stamp Duty on property over £1 million

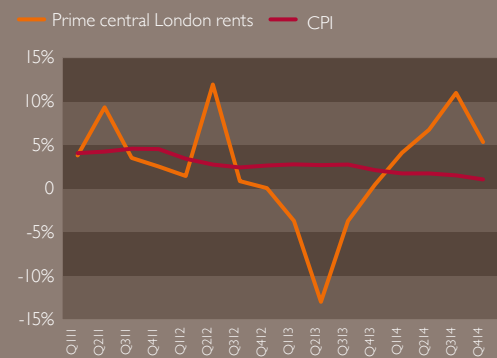


Source: Garrington Research
N.B. Prime central London includes the postcode districts of SW1, SW3, SW7, SW10 and W1.

Compared with recent years, 2014 proved to be a strong year for the prime central London lettings market. With demand levels boosted by positive economic news, the supply/demand balance eased over the first half of the year. While this balance has begun to tip again as stock levels started to rise towards the end of the year and wider economic concerns tempered demand, rental values grew by 5.4% over the year. Meanwhile, the latest data shows that the consumer price index fell to 0.5% in December (0.9% in Q4), its lowest in recent history. This means that real annual growth in rents was 4.5%, its highest since 2010.

Over the past five years, average rents across central London have risen by 15%. However, stripping out the effects of inflation show that average weekly rents in prime central London are just 1.4% higher than they were at the beginning of 2010. This suggests that renting is still a relatively affordable housing choice, particularly considering that average sales prices per square foot have increased by 44% in real terms since 2010.

Annual change in average rents across prime central London and CPI



Source: Lonres, ONS

“LONDON CONTINUES TO OFFER EXCELLENT OPPORTUNITIES FOR INVESTORS AND HOME BUYERS ALIKE. DESPITE THE RECENT TAX REFORMS, UK BUYING COSTS ARE STILL AMONGST THE LOWEST GLOBALLY.”

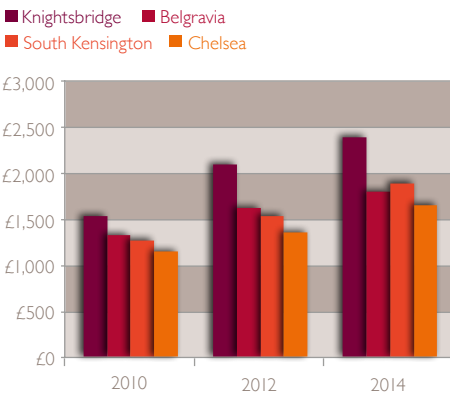
NICHOLAS FINN, EXECUTIVE DIRECTOR

FOCUS ON CHELSEA

Chelsea, to the west of Sloane Square, is one of the most exclusive enclaves in London. Since the 16th century it has been regarded as a fashionable address with royal connections. The iconic Kings Road was built by Charles II to link the palaces at Whitehall and Hampton Court. A more contemporary transport link may soon grace the area, with a site on the road being considered for a Crossrail 2 station.

While there is a dominance of traditional architecture, including a number of garden squares, new developments are also popular with both investors and owner occupiers. Areas in SW3 close to the river are among the most prestigious in London. Further west in SW10 the area around Chelsea Creek is enjoying extensive regeneration. Chelsea is more affordable than some of its neighbours, with average £psf values in Knightsbridge 44% higher.

Average £ per square foot values



Source: Lonres



“CHELSEA IS ONE OF THE CAPITAL'S MOST COSMOPOLITAN AND AFFLUENT AREAS, SET IN A STUNNING OASIS OF ELEGANCE AND HISTORY, YET IT PRESERVES A VILLAGE ATMOSPHERE.”

HILDA HERTERICH, ASSOCIATE

MARKET OVERVIEW

Chelsea remains one of the most fashionable and cosmopolitan areas in London. While some question the relative lack of transport links, others welcome the preservation of the village atmosphere this affords. The close proximity of higher value areas such as Knightsbridge, South Kensington and Belgravia adds to the appeal.

The relative value of Chelsea compared with other prime locations appeals to many, with demand increasing from overseas. In the SW10 postcode area of Chelsea, average values in Q4 2014 were £1,341 per square foot, considerably less than the average across the rest of Chelsea making a medium sized two bedroom flat £1.3 million. SW10 also has greater scope for potential capital appreciation, with growth since 2011 of 29% compared with 35% enjoyed by the wider PCL market.

The demand for extra space in Chelsea has prompted the local authority to take steps to limit basement extensions. This is likely

to act as a spur to the market as occupiers are forced to move in order to get the space they require.

There has been considerable activity in Chelsea with larger scale developments. Construction is now underway at the Chelsea Barracks site, set to provide 325 private homes and at a site in Chelsea Harbour in which Christian Candy's Omni Capital is involved. There has been much interest in the site of the former John Lewis warehouses in SW3, offered for sale with planning permission for 69 luxury homes. This is no surprise given the success of the recently completed scheme on Alpha Place where prices reached £4,000 psf, substantially higher than the £1,632 average across Chelsea. The former police station on Lucan Place, extending to over 20,000 square feet, has also been offered to the market and is considered to offer potential for residential use. High end developments like these are likely to drive values in SW10 closer to that of its neighbours.

MEET THE LONDON TEAM



Jonathan Hopper

Nicholas Finn

Amy Simpson

Nick Dawson

Mellony Morgan

James Rawes

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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Garrington
53 Davies Street
London
W1K 5JH

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