



GARRINGTON

LONDON MARKET REVIEW

WINTER 2015

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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 £1,716 per square foot. This was broadly the same level that had been reached early in the summer, meaning a net growth of 10% over the whole year.

The prospect of a closely contested General Election in May, with housing high on policy agendas, means many buyers and sellers have put decisions on hold. Transaction volumes in Q4 2014 were 25% 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 is reinforced. The combination of a steadily recovering economy and a calm housing market still presents an attractive proposition to investors.

PRIME CENTRAL LONDON

£1,715

Average price per square foot Q4 2014

10.0%

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

£928 per week

Average rental value for a property let
in Q4 2014

CHELSEA

£1,626

Average price per square foot Q4 2014

7.5%

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

£863 per week

Average rental value for a property let
in Q4 2014

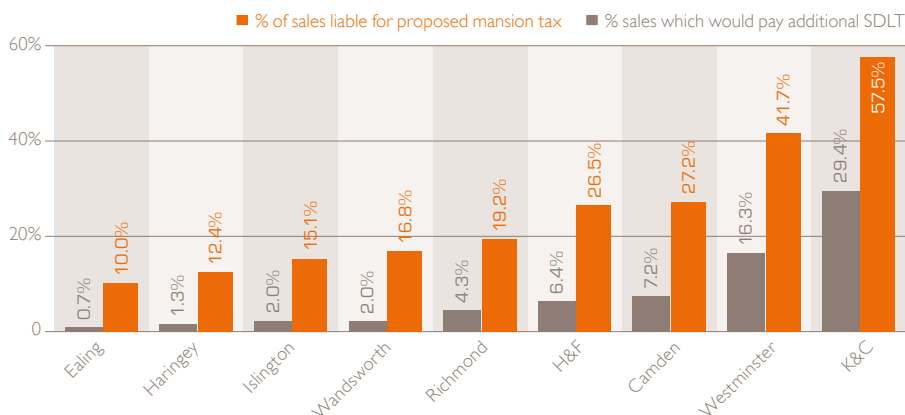
Chelsea has been highlighted here, as it is our chosen area for this issue's Focus page (see page 4).
Source: Lonres N.B. Prime central London includes the postcode districts of SW1, SW3, SW7, SW10 and W1.

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 purchases 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: DataLof

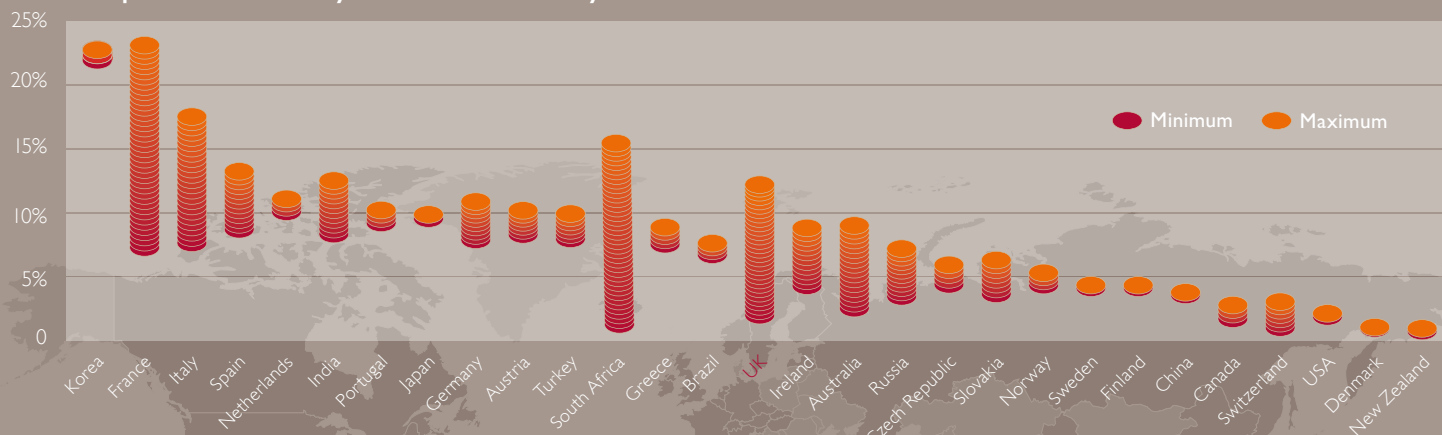
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DONEC VEL ODIO FELIS"

NICHOLAS FINN, EXECUTIVE 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

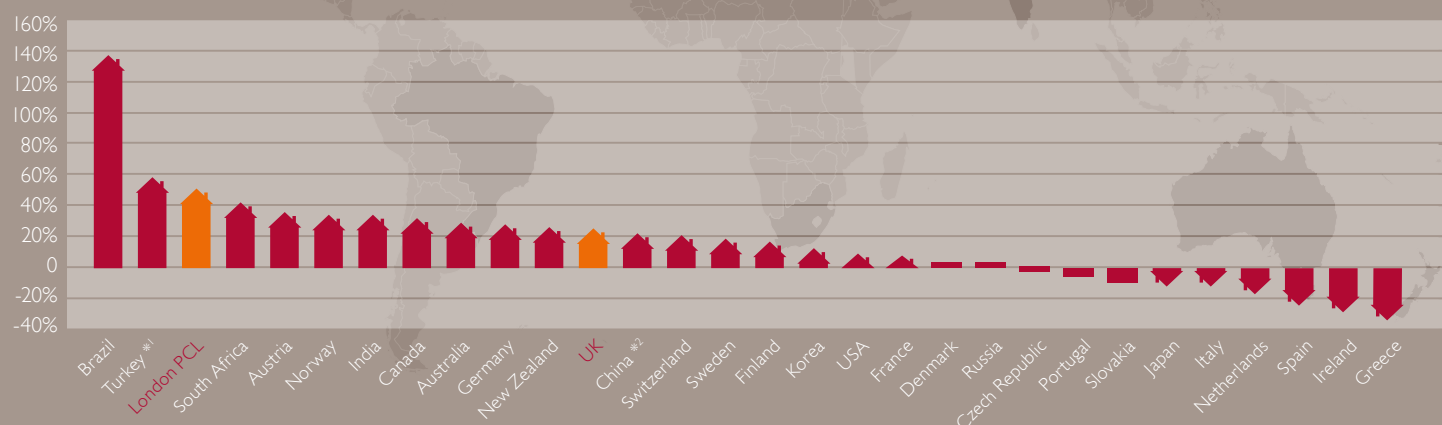


Source: globalpropertyguide.com, Dataloft

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 Dataloft

Global house price changes in the last 5 years

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



Source: OECD and Lonres data. Note: #1 - 4-year % change, Q2 2010 to Q2 2014. #2 - 4-year % change, Q3 2010 to Q3 2014

UK BUYING COSTS IN A GLOBAL CONTEXT

While recently introduced stamp duty changes have added to the cost of buying some London homes, UK 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 include land registration and legal fees, in addition to government taxes such as the UK's Stamp Duty Land Tax (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 solicitor fees). This is still lower than the threshold at which buying costs start in a number of countries, including France, Germany and Italy, according to globalpropertyguide.com data. In the cheapest house price categories, UK buying costs are among some of 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 which 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.

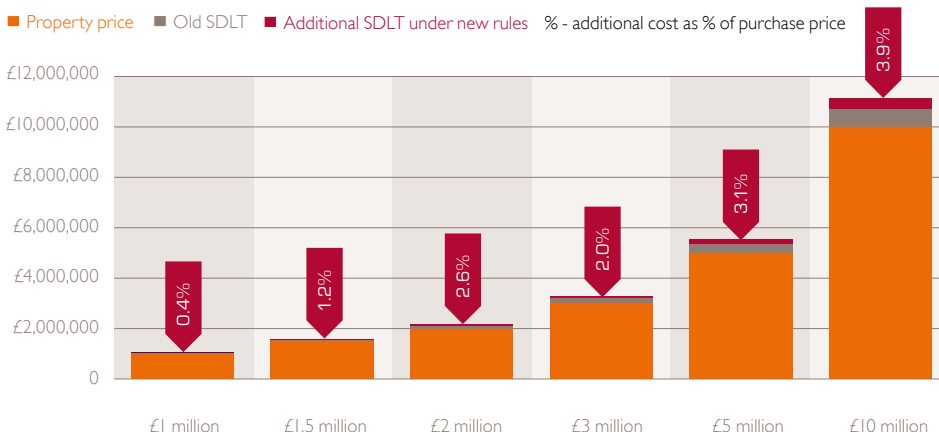
IMPACT OF AUTUMN STATEMENT

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, 28% of all exchanges across prime central London in December took place on this day alone. 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 3.3% on the total purchase cost.

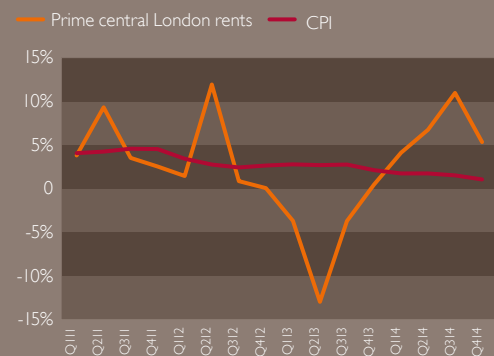
Stamp duty on a central London property



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



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JONATHAN HOPPER, MANAGING DIRECTOR

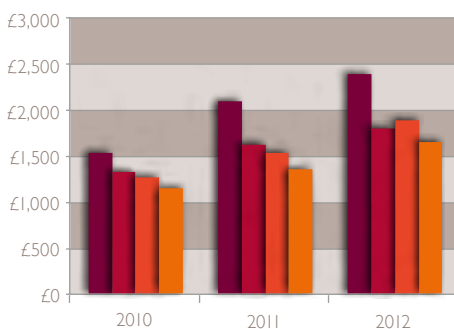
FOCUS ON CHELSEA

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 many royal connections. The iconic Kings Road, was built by Charles II as a link between the palaces at Whitehall and Hampton Court.

While there is a dominance of traditional architectural styles, including a number of garden squares, new developments are proving popular with both investors and owner occupiers. Areas in SW3 close to the river are amongst the most prestigious addresses in London, including Cheyne Walk. Further west in SW10, the area around Chelsea Creek is enjoying considerable regeneration. Chelsea offers a more affordable option than some of its neighbours, with average £psf values in Knightsbridge being 45% higher.

Household tenure

■ Knightsbridge ■ Belgravia
■ South Kensington ■ Chelsea



Source: Lonsres



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NICK DAWSON, 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 SW10, average values in Q4 2014 were £1,341 per square foot, making a medium sized two bedroom flat £960,000 cheaper than in Knightsbridge. 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 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 £1,647 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.

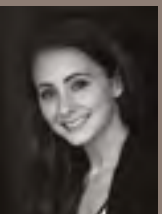
MEET THE LONDON TEAM



Jonathan Hopper



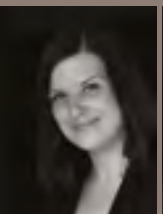
Nicholas Finn



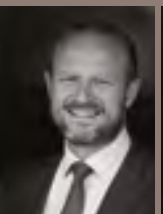
Amy Simpson



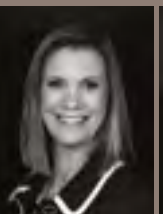
Nick Dawson



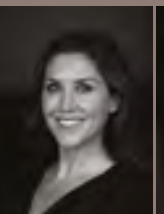
Mellony Morgan



James Rawes



Mandy Bissell



Hilda Herterich



Lisa Burton

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The Property Search Consultancy

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