LONDON MARKET REVIEW

AUTUMN 2012

GARRINGTON

LOCALLY

LONDON

Autumn has seen an increase in both buying and letting activity after an enthralling summer of Olympic and Paralympic games.

However, the supply of properties being brought to market is still an issue, causing frustration for buyers. This has led to a rise in pre-market sales.

With global economic uncertainty, low interest rates on bank deposits and frustration with the performance of other asset types, wealthy investors are continuing to put their money into tangible assets such as prime London property.

Buyers' motivations remain broad. All seek long term capital appreciation but other motivations range from generating income from rented properties, to securing their children's inheritance to buying somewhere as a pied-à-terre if they are mostly resident outside the capital.

Property investors also look to diversify portfolios by investing in new build schemes in emerging areas of the city. These provide opportunities to benefit from price growth in regenerated areas that have typically been undervalued.

LONDON

£1.08m
Average sales price in Kensington and Chelsea August 2012

5.4%
Annual growth in house prices (August 2011 - August 2012)

39
Number of billionaires living in London

MARYLEBONE

£1,128
Average £per square foot for sales so far in 2012

40,000
Is the daytime population Marylebone High Street can reach, compared to 10,650 resident population.

£170m
Total investment in Marylebone expected by 2014

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

OLYMPIC MEDALS, GOLD AND PRIME GROWTH

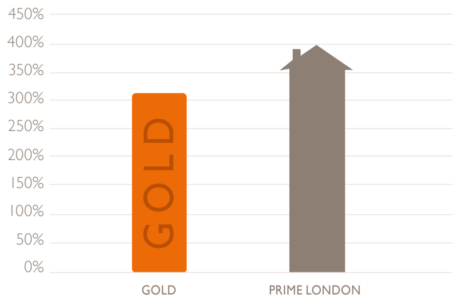
Team GB celebrated a record 65 medals at this year's London Olympics, a 38% increase over Beijing 2008. The medal haul included 29 Gold medals, a significant improvement on Atlanta 1996 when Team GB only brought home a single gold.

Investors who bought a property in prime London in 1996 would have seen prices increase 398% by London 2012. Those who chose gold as an asset class to invest in would have seen slightly lower growth of 314% over the 16 year period.

This year's Olympic Games will enable investors to benefit more from the property market. The Olympic Park is now closed to make way for its redevelopment into the Queen Elizabeth Olympic Park, and new-build investment opportunities will be available.

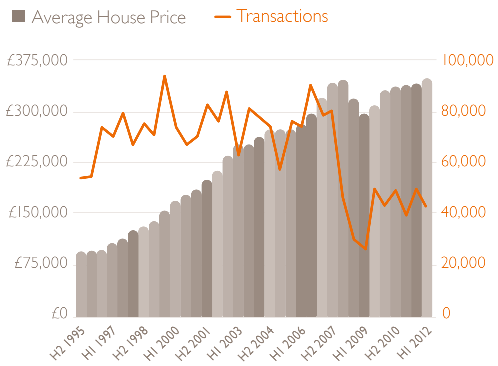
Gold & prime London house prices

Atlanta 1996 to London 2012



Source: Land Registry / London Metal Exchange
(Figures for July of each year)

London market overview



Source: Land Registry

The Property Search Consultancy

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

ANALYSIS

DEMAND FOR NEW BUILD PROPERTY

The planning pipeline (schemes with planning permission granted or application submitted) for inner London includes some 107,000 private residential units which could be built over the next 10-15 years, demonstrating developers' optimistic outlook. Just under 30% of these are located in the southern boroughs of Lambeth, Wandsworth, Lewisham and Southwark.

Demand for new build London flats is particularly strong among overseas buyers, both as investments and as homes. The benefits of on-site management services, coupled with new turnkey units with warrantees, mean ownership is uncomplicated.

Buyers coming from South East Asian countries including Malaysia, Singapore, Hong Kong and India, who have seen a rapid rise in residential development at home, are familiar with the product and are keen to invest in a large, dynamic and established market.

High net worth individuals from the Far East, Russia and the Middle East with budgets in excess of £15m have fuelled demand for high-end developments, often located in Mayfair, Knightsbridge and Bayswater.

New schemes offering leisure amenities include 'Alpha Place' in Chelsea, a Native Land joint venture with Grosvenor, acquired in 2012, which will comprise 25 luxury apartments. Another example is 'Holland Green' on Kensington High Street, with fewer than 60 apartments, which is based on the site of the former Commonwealth Institute to the south of Holland Park.

> "WITH THE ADVENT OF CROSSRAIL AND NEW REGENERATION ZONES, LONDON'S SKYLINE WILL CONTINUE TO CHANGE DRAMATICALLY OVER THE NEXT 20 YEARS OFFERING IMPROVED STANDARDS OF LIVING IN NEW ENVIRONMENTS AND PROVIDING REAL OPPORTUNITY FOR INVESTOR GROWTH."
>
> NICHOLAS FINN, LONDON DIRECTOR

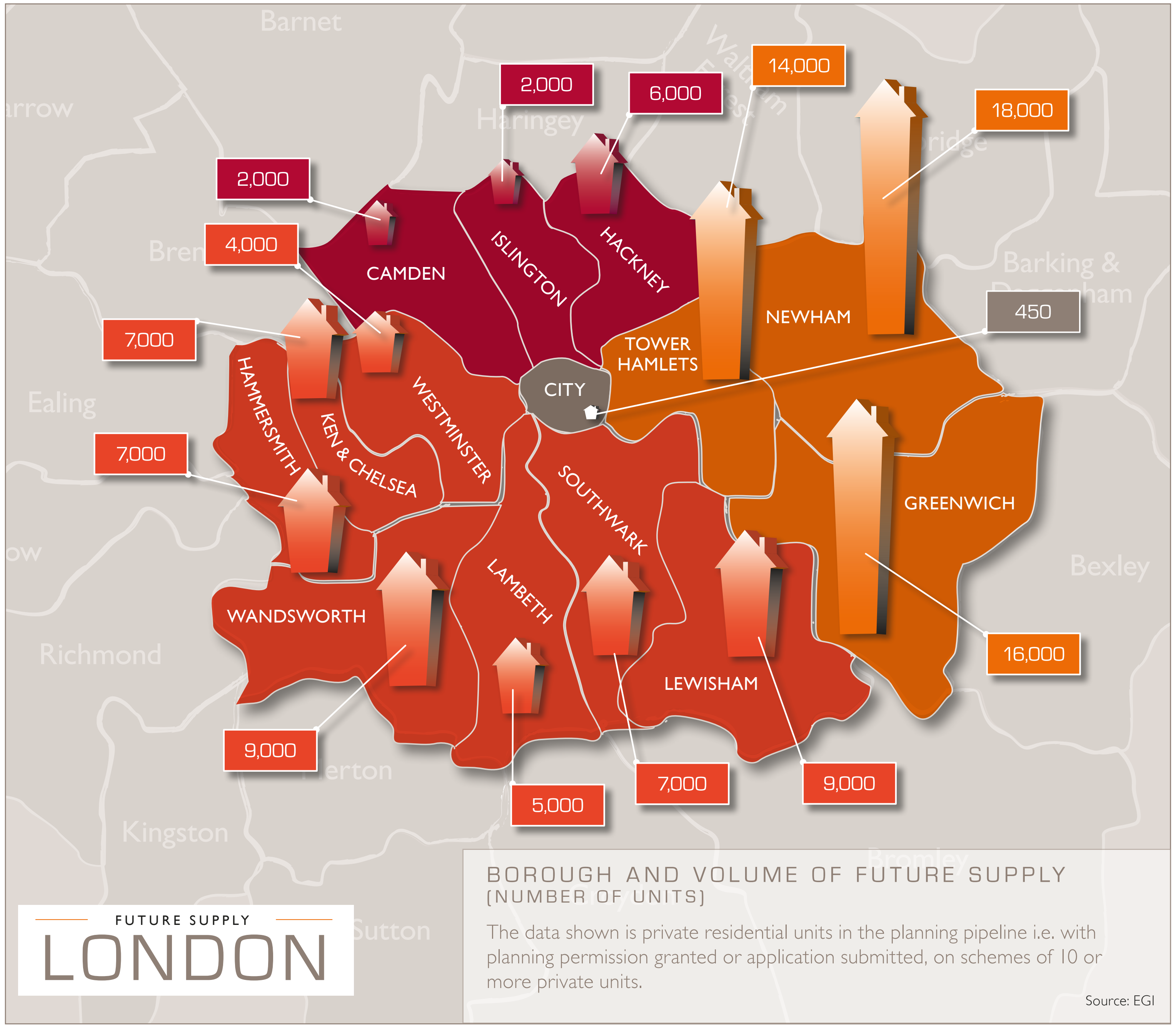
DELIVERY OF NEW SUPPLY

Recent announcements by the government aim to address the urgent need for housing and encourage residential development, with a view to 'build[ing] our way' out of the recession. Legislative amendments to relax planning rules for change of property use from commercial to residential are due to be introduced imminently. A further consultation closed in September 2012 regarding the proposal to facilitate the conversion of hotels to residential units.

These types of conversions are not a new phenomenon in the Capital. In Mayfair, for example, Audley Square House (purchased by Caudwell Properties for circa £150m in October 2011) included the South Audley Street multi-storey car park site and the Ascott Apartments on Hill Street. This provided a proposed residential net saleable area of 157,000 sq ft. The US Navy's former London headquarters in Grosvenor Square was also acquired for conversion into high end residential homes.

In the year to June 2012, new housing starts fell by 10% nationally, compared to 6.3% in London. Because the typical time period between start and completion in London is 18 months, recent falls in new construction could mean lower delivery levels in late 2014 than those seen this year.

New schemes and regeneration projects across London will raise the profile of areas that have traditionally been undervalued. For example, an area on the south bank of the Thames will emerge as a new living and working district through the 195 hectare major regeneration area called Vauxhall Nine Elms Battersea. It will see the delivery of 16,000 new homes (14,000 already have planning consent) by 2030, with office areas and the new US Embassy contributing to the creation of 25,000 jobs. The site includes the redevelopment of Battersea Power Station which, in July 2012, was reported to have been sold to a Malaysian consortium for £400m.



BOROUGH AND VOLUME OF FUTURE SUPPLY (NUMBER OF UNITS)

The data shown is private residential units in the planning pipeline i.e. with planning permission granted or application submitted, on schemes of 10 or more private units.

Source: EGI

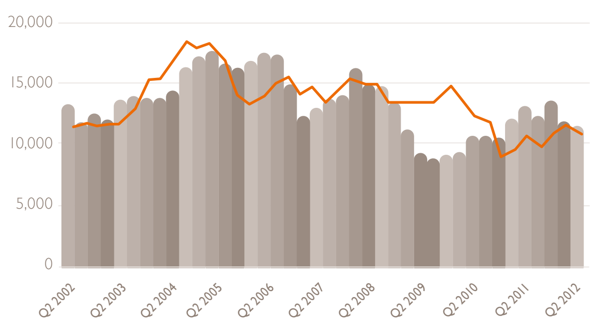
DEVELOPERS AND INVESTORS

Other south west London postcodes are set to see a number of new schemes. They include 'Kingsgate House' SW1, a mixed use scheme, where Land Securities (the UK's largest commercial property company), has announced the development of 100 prime residential apartments scheduled for completion by April 2015 at the earliest.

Lack of competition in SW1 is a factor which has led Land Securities to recently take top position in the JP Morgan Cazenove annual UK property handbook, which assesses who is likely to benefit from the boom in residential property.

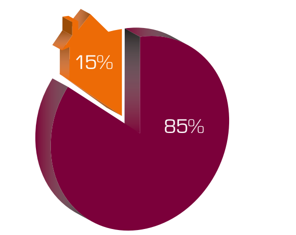
This adds to the wave of non-traditional house builders such as commercial developers, investors, niche residential development companies and regeneration companies becoming active in London's residential sector. Individual talented developers are starting to create a new face of London and this trend is expected to continue.

Quarterly housing construction starts and completions



Source: ONS

Ownership of future supply in Inner London



% of units in Inner London in the planning pipeline.

Source: EGI

LONDON

RENTAL MARKET

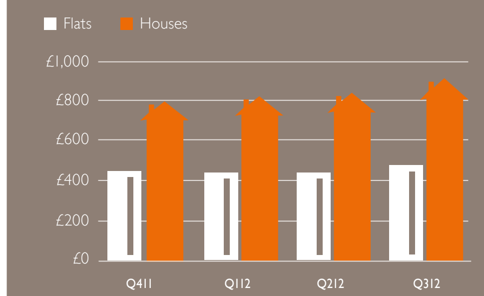
The London rental market is intrinsically linked to the state of the London economy with central areas closely tied to prospects in the City jobs market. It is of little surprise therefore that continued uncertainty in the Eurozone, job losses in the City and weakened confidence put the brakes on the strong growth in the rental market which was enjoyed over 2010 and the early part of 2011.

Over the first half of 2012 an increase in the availability of rental property allowed more choice for tenants and the level of properties let increased. However, this increased supply along with economic constraints resulted in rental values falling slightly. The third quarter of 2012, however, has seen a stabilising in the level of available properties while demand levels have increased slightly and we have seen rental values rise by 1.4% over the quarter.

While the most prime central areas are still feeling the effects of low confidence and City job losses, the strongest levels of rental growth in 2012 have been in southern and western parts of London where values have risen by 7.2% over the course of the year. The gap between the Capital's rental market and the rest of the UK has also increased with HomeLet recently reporting that London's rental values are now nearly double those elsewhere.

Along with corporate demand for properties on the riverside, growth here has been particularly boosted by an increase in domestic family demand. Some of this increase can be explained by the time of year and families seeking to be settled before the start of the new school term. However, there is also evidence of otherwise would-be purchasers turning to the rental market either to wait until the outlook for the market is more secure or because they are unable to source finance to buy.

Average rental values in South and West London



Source: Lonres

Footnote: Average rental values per week in SE1, SE11, SW11, SW4, SW6, SW8, W4 and W6

FOCUS ON MARYLEBONE

Marylebone has emerged as a stylish area of the Capital with a thriving centre for shopping, dining, business activity and employment. The revival of Marylebone High Street through a concentrated effort by the Howard De Walden Estate in the late 1990s has helped increase the area's popularity and stature in recent years and the growth in Marylebone's residential market showcases this.

In the first year of the new millennium, a one bedroom flat on Marylebone High Street sold for £389 per sq ft. Twelve years later, the same property sold for three times this amount. Average values for one and two bedroom houses currently stand at £1,175 per sq ft and three bedroom flats at £1,194 per sq ft.



"COSMOPOLITAN MARYLEBONE IS NOT ONLY VERY CENTRAL WITH OUTSTANDING TRANSPORT AND AMENITIES BUT OFFERS EXCELLENT VALUE FOR MONEY WHEN COMPARED TO NEIGHBOURING MAYFAIR AND REGENTS PARK"

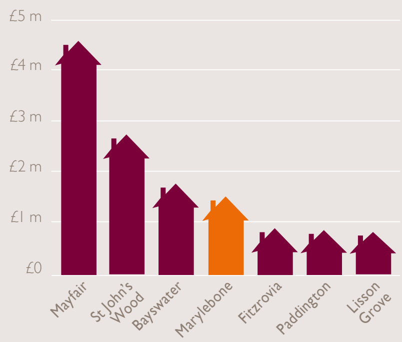
NICK DAWSON , ASSOCIATE

MARKET OVERVIEW

Strong overseas demand for residential property in central London has resulted in significant price growth in core, prime areas such as Mayfair and Belgravia.

Although historically not viewed as a prime location, Marylebone has seen an increase in popularity in recent years. This is evident on the high street which now has an eclectic mix of shops and restaurants. Demand from wealthy purchasers migrating from more expensive areas nearby has increased and the average sales value so far in 2012 is 28% higher than values achieved in 2007.

Average sales price 2012



Source: Lonres

Further investment in the area is expected from the Howard de Walden Estate. They are currently under offer to buy 28-34 Wigmore Street and 6 Welbeck Way from Scottish Widows Investment Partnership for £15.8m. Because the company owns almost all of the surrounding buildings on the site under offer, the deal is expected to provide a large-scale, medium term redevelopment opportunity. By 2014, the estate is due to deliver projects totalling £170m.

While Marylebone is now considered alongside the most prime parts of central London, with an average sales price of just over £1.4m so far in 2012, prices here are still below neighbouring Mayfair, St John's Wood and Bayswater. This means that demand from these areas is spilling over into Marylebone where buyers get more for their money. They are likely to continue benefiting from this value differential, driving the market forward.

MEET THE LONDON TEAM


Jonathan Hopper


Nicholas Finn


Amanda Collings


Nick Dawson


Mellony Morgan


James Rawes


Lisa Burton


Liza Kouppari

Garrington work on behalf of private and/or corporate clients who want to buy, rent or invest in property throughout the UK.

The Property Search Consultancy

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