LONDON

MARKET REVIEW

WINTER 2013

GARRINGTON

LOCALLY

LONDON

Many will look back fondly on London in 2012, after the thrills and spills of a glorious summer for the capital. The worry for many Londoners was that 2013 would feel like the hangover after the party. Yet signs now point to the fact that there is plenty for London to stay excited about.

London is still viewed globally as a place that embraces opportunity and change and attracts investors from a myriad of international locations. Its ever evolving vista, from the peaked majesty of the Shard, to the rapidly developing Battersea Power Station and the regeneration of areas like Paddington shows that interest in the city remains unabated.

In stark contrast to the rest of the UK, the most prime parts of London posted double digit growth in 2012. Average prices in Kensington and Chelsea rose by 13.4% in the last 12 months, outperforming gold (2.2%*) and the FTSE 100 (5.8%).

*GOLDPRICE.ORG

"WITH CLARITY ON UK PROPERTY TAXES AND POSITIVE HOUSE PRICE REPORTS, 2013 HAS ALL THE MAKINGS OF BEING ANOTHER STRONG YEAR FOR THE LONDON PROPERTY MARKET."

NICHOLAS FINN, LONDON DIRECTOR

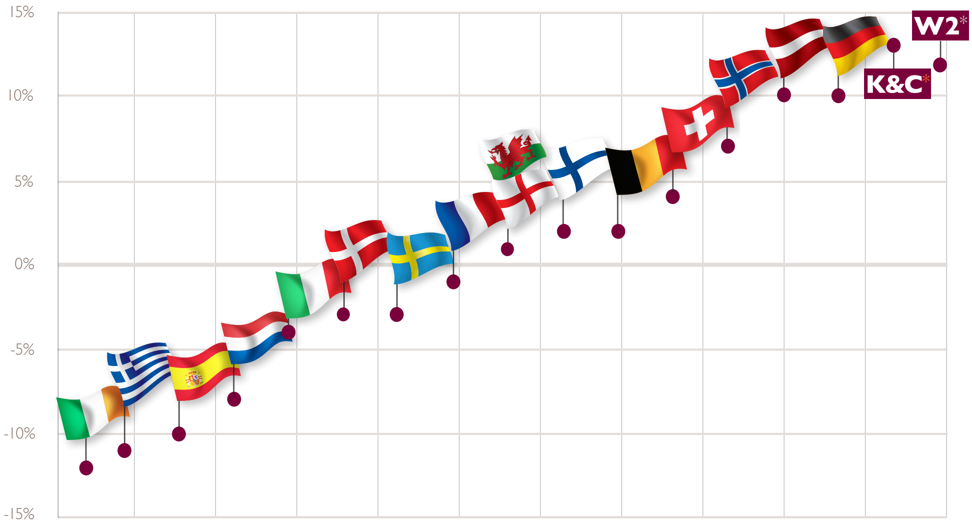
LONDON	PADDINGTON & BAYSWATER (W2)
£9,557 Average price growth per month for homes in K&C* over the last 12 months	**£1,123** Average £ per square foot achieved over the last 12 months
125% Premium for average London house prices over England and Wales	**31%** Increase in average £ per square foot in W2 since 2007
27% Increase in new home registrations in London in 2012 vs. 2011 (Sept - Nov)	**Over 1/3** Of sales in 2012 were over £1 million

Paddington and Bayswater (*W2) has been highlighted here, as it is our chosen area for this issue's Focus page (see page 4). * Royal Borough of Kensington and Chelsea.

LONDON OUTPERFORMS EUROPE

While London property continued to shine, many of our European neighbours still experienced house price declines in 2012. For example in the Madrid area, prices at the end of 2012 were more than 12% below their value from the previous year. In Paris, uncertainty over proposed wealth taxes saw transaction numbers plummet in the third quarter of 2012 and prices began to follow. In contrast, as a result of recessionary conditions, in the last five years, domestic and overseas investors have pushed up residential values in historically stable Berlin.

Prime London postcodes outperform European housing markets in 2012



Source: Land Registry/ OECD/ Austrian National Bank (ONB)

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

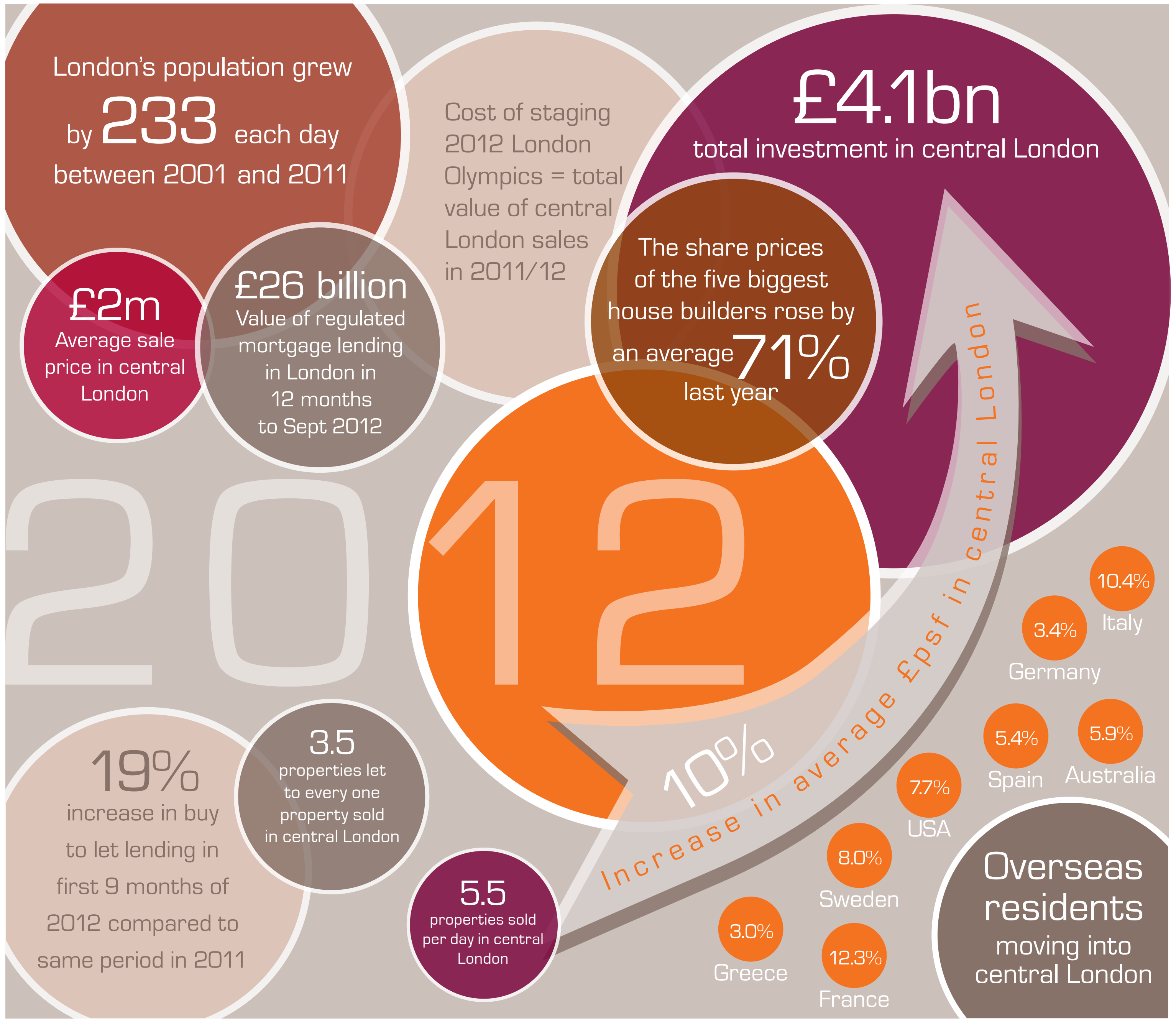
LONDON UNDER THE SPOTLIGHT

London property remained a highly sought after commodity in 2012, attracting both domestic and global buyers for a variety of reasons. It is this diverse buyer market which will continue to underpin London's undivided popularity in 2013.

Overseas investment in London property has continued to be a key support to the market, as political upheaval and unstable economic conditions across the world helped to attract individuals with substantial liquid assets. In 2013 the UK looks set to retain its position of strength and security relative to other countries.

Headline-grabbing announcements at the beginning of the year confirm that 2013 has started in a position of strength. At Battersea Power Station, 75% of the first phase units are reported to have been reserved with penthouses expected to start at £6 million and the pipeline of exciting developments in the capital is building. According to recent industry research, new-build demand is at an all-time high with 48% of all units under construction having sold over the last year, exceeding levels seen before the peak in 2007.

London continues to evolve as a first class city and residential property remains an enticing investment opportunity. With demand remaining high, buyers are willing to explore new areas and the boundaries of 'prime' London are being pushed.



Source: Lonres, DWP, Rightmove, 2011 Census, CML.

> "INTERNATIONAL BUYERS, PRIMARILY FROM HIGH-GROWTH ASIAN COUNTRIES, HAVE BEEN A FUNDAMENTAL FACTOR FOR THE ROBUST SALES RATES RECORDED AT LONDON NEW BUILD SCHEMES, SPENDING AN ESTIMATED £2.2 BILLION IN 2012, ACCORDING TO RESEARCH."
>
> JONATHAN HOPPER, MANAGING DIRECTOR

KEY TAX REFORMS

In addition to world economic and political events, domestic policy changes also influenced investor sentiment in 2012. Early in the year came the introduction of a 7% stamp duty on properties bought for £2 million and uncertainty prevailed as speculation intensified about further tax proposals. This led many buyers and vendors to put their purchase or sale on hold, leading to low levels of activity.

Eventually, the government's December 5th Autumn Statement provided clarity on a number of issues. Importantly, no new tax on property values and no net rise in taxes were introduced, easing owner and investor confidence. Following this, the 11th December Finance Bill outlined proposed new measures seeking to regulate 'offshore' owners of high value (£2 million plus) property.

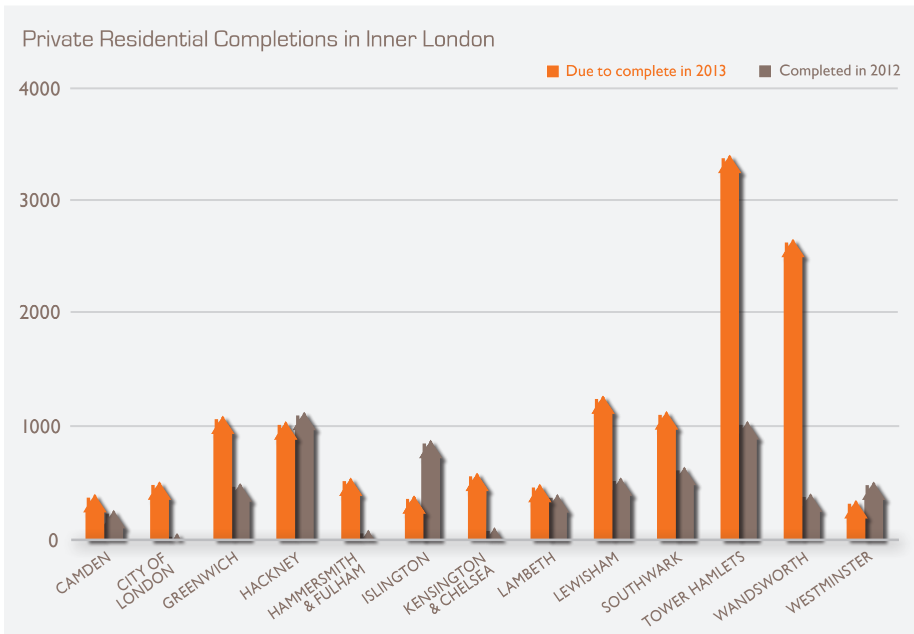
Currently still in draft, the legislation (effective as of April 2013) proposes the introduction of an annual residential property tax (ARPT), a 15% stamp duty land tax rate on the acquisition of such properties and Capital Gains Tax (CGT) of 28% on their disposal (although the fact that the CGT is unlikely to be back-dated came as a relief to many investors). Importantly, a number of significant reliefs from all three of these taxes were announced for genuine businesses carrying out authentic commercial activity such as property developers and commercial landlords.

Clarity on these issues has led to a more optimistic outlook for London's prime property market in the year ahead, albeit with lower growth levels expected. However, at the very top of the market, 'Super Prime' buyers are expected to absorb the ARPT as an additional ownership cost, and it is unlikely to have a profound effect on transaction volumes and values.

DEVELOPMENT MARKET

The year saw the completion of The Shard and continued record prices at One Hyde Park. In total, 359 schemes emerged across Greater London, creating around 12,000 private residential units. 66% of completed schemes in the Capital in 2012 were located within inner London boroughs.

In 2013, 376 schemes are due for completion, with the majority being in Tower Hamlets and Wandsworth. The successful launch of the first phase of Battersea Power Station is a good demand indicator for the new build market in 2013 with international demand expected to remain strong.



Source: LRR/EGi. Total private units on schemes completed in 2012 and due to complete in 2013

LONDON

RENTAL

MARKET

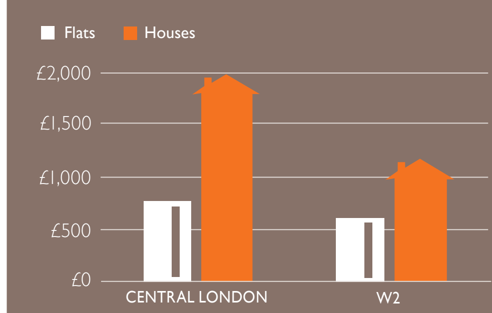
Considered the 'gateway' to Europe and ideally located to benefit from both Asian and US market opening hours, London continues to attract overseas companies seeking to open a European office. At the end of 2012, two of India's high growth financial service companies and a tech firm established London operations. Benefiting from London's diverse employment base, there is a continued flow of foreign nationals relocating to the capital, driving demand for rented accommodation at all levels of the market.

For those looking for prime properties, there could be more choice this year as 'offshore' owners of high value properties seek to unlock their commercial value as new taxation measures come into force. Some relocating households have recently reported restricted housing budgets leading them to consider neighbourhoods where they can get more value for money, supporting demand in less-known locations across London.

Looking back, the London rental market was affected in 2012 by weakness in the economy both at home and abroad. City job cuts and corporate cost cutting further reduced demand for rental properties. At the same time, the supply restrictions which had supported rental price increases in the previous couple of years eased with 30% more properties being made available to let than in 2011. As a result, average rental values across prime central London fell slightly over the course of 2012.

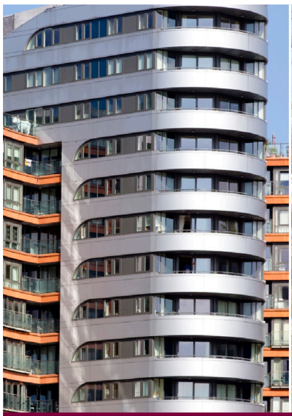
Most commentators at this point expect the market to be fairly flat in 2013. The longer term outlook is more optimistic from 2014 onwards as London leads the way out of recession and employment prospects improve in the City.

Average rental achieved per week in 2012



Source: Lonres

FOCUS ON PADDINGTON & BAYSWATER (W2)



"THERE ARE PARTS OF W2 AROUND CONNAUGHT VILLAGE, GLOUCESTER TERRACE AND UP TOWARDS WESTBOURNE GROVE AND THE ARTESIAN VILLAGE THAT CONTAIN SOME OF LONDON'S MOST ATTRACTIVE STUCCO-FRONTED PROPERTIES; AND OFFER BUYERS A MORE AFFORDABLE OPTION TO SOUTH KENSINGTON AND GLOUCESTER ROAD."

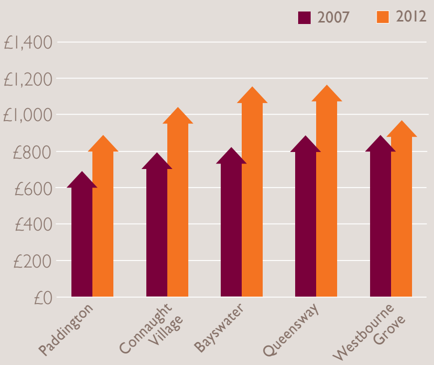
NICK DAWSON, ASSOCIATE

For those looking to live in the heart of the capital, a number of highly desirable places immediately spring to mind.

Despite their central location and fantastic access to Hyde Park and the West End, areas within W2 such as Connaught Village and Bayswater are often overlooked, with buyers choosing neighbouring Marylebone to the east and Notting Hill to the west.

However, with the most sought after areas of prime London such as Belgravia, Kensington and Mayfair often commanding prices in excess of £2,000 per square foot, many buyers are finding that they are having to compromise on size and location to remain within these postcodes. W2 offers a more cost effective alternative.

Average £ per sq ft increased across W2



Source: Lonres

MARKET OVERVIEW

Average values within W2 have experienced strong growth in recent years, rising 11.8% in 2012 alone on a £ per square foot basis. Areas located to the south within the so called 'Golden Triangle' have been the best performing. In the last five years, prices in Connaught Village increased 31% and £ per square foot values in Bayswater rose 41%. Quieter, less well known areas of Bayswater, including mews off the Moscow Road, or Courtnell Street in The Artesian Village are highly desirable and represent excellent value for money.

Areas such as Paddington and Royal Oak are 23% better value than those close to Hyde Park and still boast impressive stucco-fronted streets. Many of the properties here are held on council freeholds with long leases and lower service charges, providing secure, long-term investments.

Major investment from the Crossrail scheme will make the local area a key transport hub, spearheading its gentrification and supporting value growth. In particular the area between Sussex Gardens and Little Venice offers significant investment opportunity.

The recently completed development at 'The Lancasters' has lifted the bar on new build prices in the area, achieving average prices in excess of £2,600 per square foot. Despite substantial price growth in recent years, pockets of the 'Golden Triangle' still offer real value compared to other prime areas. Based on sales prices in 2012, buyers looking to purchase a two bedroom flat would need to find an additional £83,000 in Notting Hill and £186,000 in Kensington compared with W2.

MEET THE LONDON TEAM


Jonathan Hopper


Nicholas Finn


Amanda Collings


Nick Dawson


Mellony Morgan


James Rawes


Lisa Burton


William Le Ny Clarke

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