LONDON MARKET REVIEW

AUTUMN 2013

GARRINGTON

LOCALLY

LONDON

The evolution and success of the London housing market over the years has resulted from its many intertwining strands of buyer demand, ebbing and peaking at different times.

The buoyancy of the current market is, in part, reflective of the high levels of more than one type of demand; overseas and domestic, investor and occupier. Other factors impacting on current market trends are the restricted availability of properties to buy and continued low interest rates. Given this, prices across Greater London are rising at an annual rate of 7.1%.

Confidence in the London market is highlighted in the latest Royal Institute of Chartered Surveyors (RICS) Survey, which reports on expectations of a 9% rise in values on average over the next five years, compared to 4.9% average growth across the UK.

"WITH DEMAND IN LONDON CONTINUING TO EXCEED SUPPLY, THE RESULTING GROWTH IN VALUES HAS ENCOURAGED MORE INVESTORS SEEKING LONG TERM CAPITAL GROWTH, AS WELL AS RESIDENTIAL PURCHASERS SEEKING AFFORDABILITY WHILE THEY STILL CAN." NICHOLAS FINN

PRIME CENTRAL LONDON	VICTORIA AND PIMLICO
£2,170,832 Average sales price, 2013 to date	£989,201 Average sales price, 2013 to date
£3,515 Average monthly rent, Q3 2013	£2,412 Average monthly rent, Q3 2013
2.8% Growth in average price per square foot achieved over past quarter	3.3% Growth in average price per square foot achieved over past quarter

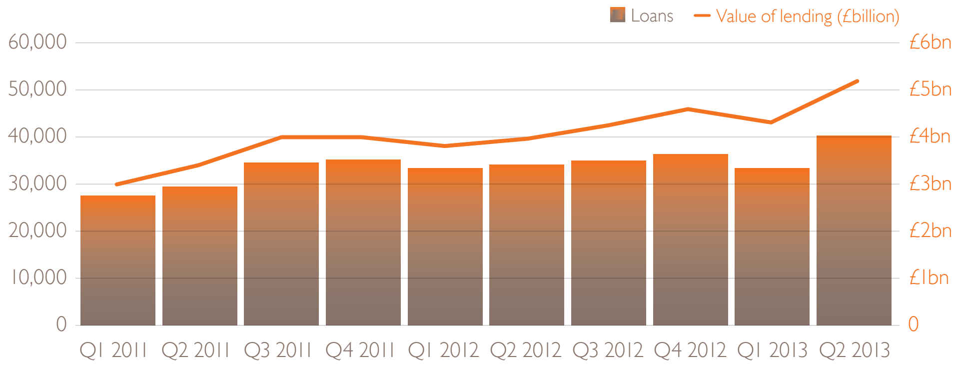
Victoria and Pimlico has been highlighted here, as it is our chosen area for this issue's Focus page (see page 4).
Source: Lonres N.B. Prime central London includes the postcode districts of SW1, SW10, SW3, SW7 and W1.

INVESTMENT MARKET

Buy-to-let lending across the country is strong and at its highest level since Q3 2008, according to the Council of Mortgage Lenders. In London, Garrington have witnessed a 54% increase in investment enquiries in August 2013, compared to a year earlier.

ARLA research recently sought to compare the returns on the cash purchase of a prime central London investment property versus a geared investment, assuming a 75% buy-to-let mortgage. The results showed that over a five-year term, the cash purchase produces a compound annual rate of return of 9.14%. The geared investment, over the same period, produces a compound annual rate of return of 22.2% (blended between yield and capital appreciation). Residential investment property is therefore proving to be an increasingly attractive investment for individuals and institutions alike.

31% increase in buy-to-let lending in Q2 2013 compared to Q2 2012



Source: Council of Mortgage Lenders

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ANALYSIS

NORTH-SOUTH DIVIDE

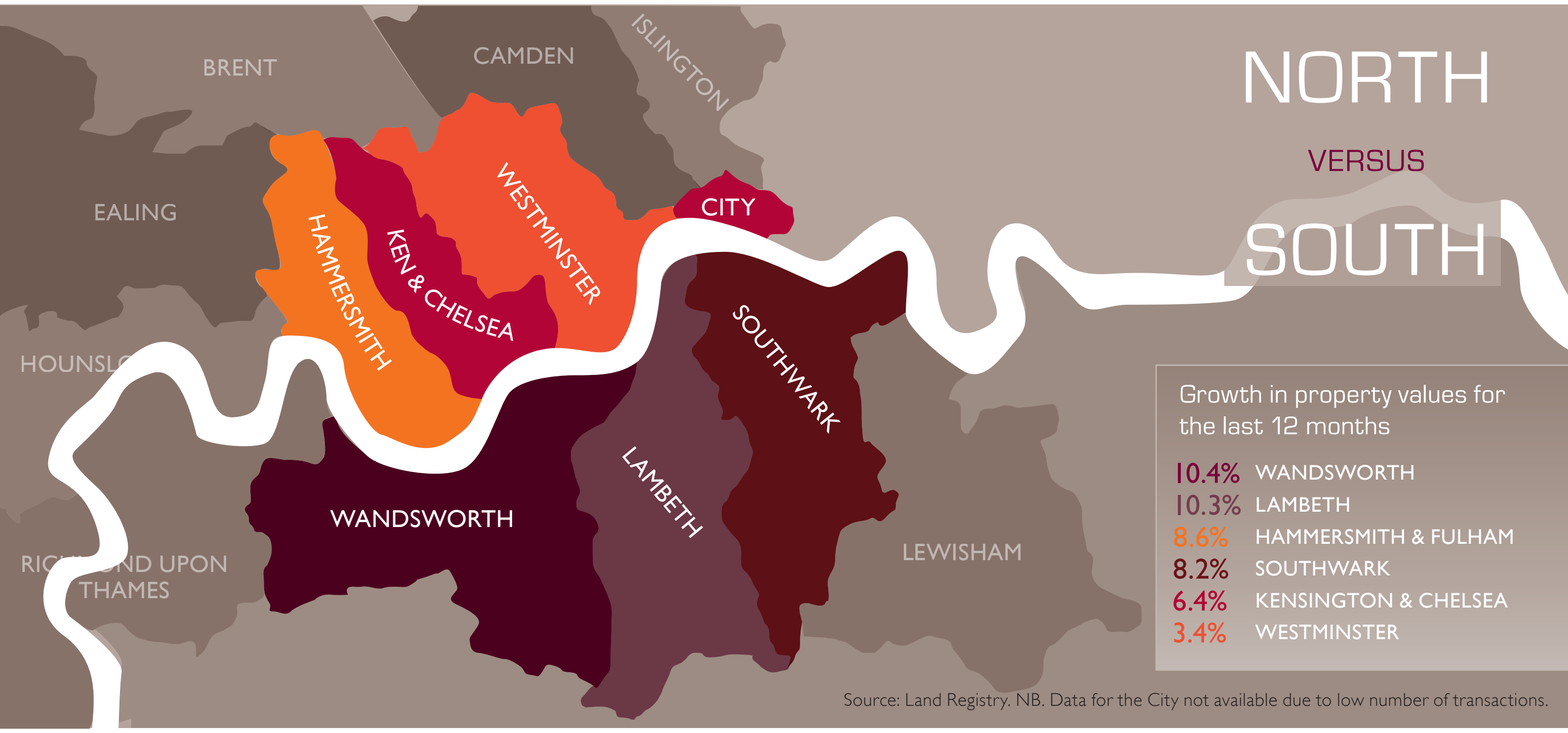
London primarily evolved as a settlement to the north of the River Thames. Urbanisation extended southwards when new land was needed closer to the centre via ferries, bridges and tunnels. The historical dominance of the north is still reflected in the imbalance of today's transport infrastructure, Government, financial powerhouses and blue chip office buildings, to name but a few examples.

A comparison of average price growth in 2013 to date and over the last 3 years, shows that the balance of growth has tipped in this period from north to south. A ripple effect appears to be taking place, as the boroughs immediately south of the river start to play catch up. In the year to date, the southern boroughs have seen average house prices grow by 8.7% compared to 6.2% growth in the north. Lambeth, Wandsworth and Southwark are now all recording rates of annual house price growth above the northern boroughs.

House price growth by area

	NORTH	SOUTH
2010	12.2%	5.3%
2011	5.5%	3.1%
2012	13.8%	7.4%
2013 TO DATE	6.2%	8.7%

Chart shows average house price growth in boroughs north and south of the river by year and in 2013 to date.
Source: Land Registry



NORTH-SOUTH PRICE GAP

Despite the boroughs to the south of the river playing catch-up over the past year, they still remain more affordable than their northern counterparts.

The strong pick-up in average sales prices in the most prime boroughs north of the river in the years following the financial crisis, have allowed the differential between north and south to widen. Back in 2007, average prices in the south were around 60% of those in the north. However, average sales prices achieved in the southern boroughs over the past month were just 51% of those north of the river.

The price differential will continue to help secure inward investment to the south as a more affordable option, although some consideration will need to be taken in the phasing of residential units on large schemes in order to not saturate the market.

With greater availability of properties, transaction levels in the south have already started to rise. In the past three months, there were 12% more sales than in the previous three, whereas the north saw a rise of just 6%. Southwark has seen the largest increase in transactions, a 19% increase over just three months.

"HIGH PROFILE SCHEMES SUCH AS BATTERSEA POWER STATION HAVE LED THE CHARGE OF THE SOUTHERN BOROUGHS AS THE RIVER STRIP NOW OFFICIALLY BECOMES 'PRIME CENTRAL LONDON', THUS ADDING TO THE UNDERLYING STRENGTH OF THE AREA."

JONATHAN HOPPER, MANAGING DIRECTOR

DEVELOPMENT MARKET

	FUTURE PLANNING PIPELINE	POTENTIAL GROWTH IN PRIVATE HOUSING STOCK
NORTH		
HAMMERSMITH & FULHAM	12,977	23.4%
KENSINGTON & CHELSEA	2,735	4.6%
WESTMINSTER	6,515	8.3%
SOUTH		
LAMBETH	7,862	9.3%
SOUTHWARK	11,146	16.4%
WANDSWORTH	14,075	13.5%

Chart shows private residential units in the planning pipeline (application granted, submitted or under construction) by borough, along with potential growth in private stock should all units be built. N.B. Hammersmith and Fulham includes the supply of 5,500 units at Earls Court. Source: EGI/LRR, 2011 Census

The availability of land for new development of any kind is incredibly scarce to the north of the river. Sites that have been identified for development in the London Plan are more plentiful and generally larger, less complicated and more affordable to develop to the south of the river. The London Plan is the Mayor of London's development strategy document for Greater London.

As a result, these southern boroughs have been successful in recent years in attracting the likes of the US Government, who needed a site big enough to create a new purpose-built Embassy. Nine Elms in Wandsworth fitted the bill perfectly. Indeed, the planning pipeline south of the river contains some 10,000 more private units than in the north and includes iconic developments such as Battersea Power Station and the Shard. Should all units currently in the planning pipeline be built out, private housing stock in southern boroughs would increase by 13%.

North of the river, developer interest in both Victoria and Pimlico has intensified in recent years. So far this year, developers have submitted applications for 412 private residential units within the area, compared with an average of 218 per annum over the previous five years. Two significant applications include Portland House in Victoria (206 private units) and on Buckingham Gate, the conversion from office to residential of a stucco-fronted building to provide 78 residential units.

PROPERTY SPOTLIGHT

LONDON RENTAL MARKET

The rental market north of the river is well established. Over a third (36%) of households live in privately-rented accommodation, with weekly rents in 2013 averaging £754 per week. Strong capital growth prospects in core, central parts maintain its appeal to long term investors. However, weaker rental growth compared to capital appreciation has reduced the yield potential. North of the river, the average gross yield of a two bedroom flat so far in 2013 has been 3.2%.

South of the river the rental market is in transition, with a 66% increase in the number of households renting privately since 2001. Despite this, the sector is still smaller than in the north, comprising 28% of households. Average rents are currently £510 a week in the south, having risen by 3.5% over the past quarter, with gross yields for a two bedroom flat in 2013 being 4.7%, an attractive proposition for investors.

Housing stock – North versus South

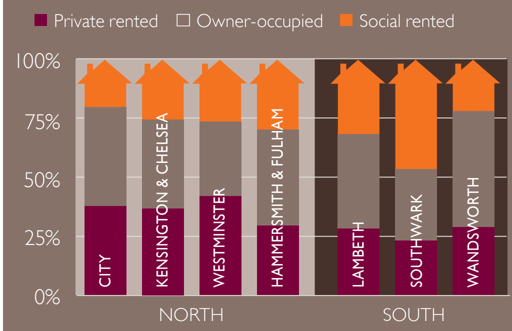


Chart shows profile of housing stock in each borough. Source: 2011 Census

KEY FACTS

	NORTH	SOUTH
HOUSING STOCK	291,019 (% FLATS 83%, % HOUSES 17%)	390,097 (% FLATS 71%, % HOUSES 29%)
TRANSACTIONS	3,957 FIRST HALF 2013	6,236 FIRST HALF 2013
AV. SALES PRICE	£819,838 FIRST HALF 2013	£414,122 FIRST HALF 2013
POPULATION	567,913 (10.8% GROWTH IN POPULATION 2001-2011)	898,364 (16.5% GROWTH IN POPULATION 2001-2011)
SIZE OF AREA	5,291 HECTARES	8,994 HECTARES
TUBE STATIONS	70	23

FOCUS ON

VICTORIA AND PIMLICO

Victoria and Pimlico, both districts in the City of Westminster, have historically been overshadowed by neighbouring Belgravia and Chelsea. Prospects for the area are changing as major investment is channelled into redeveloping some of the largest sites identified in the Mayor's London Plan north of the river.

Transport links are also exceptional with, for example, the Gatwick Express from Victoria Station enabling people to reach Gatwick Airport within 30 minutes. With the arrival of Crossrail in London, operating fully by 2019, Victoria Station's transport hub credentials will further be enhanced. The journey from Victoria to Heathrow airport will take approximately 40 minutes via Bond Street.

Average price paid per square foot in Victoria/Pimlico compared to Belgravia

Source: Lonres

"VICTORIA AND PIMLICO REALLY ARE PRIME WITHOUT THE PRICES. THEY OFFER VALUE FOR MONEY YET A CHOICE OF GRAND ARCHITECTURE, GREAT TRANSPORT AND A CENTRAL LONDON LOCATION."

NICK DAWSON

MARKET OVERVIEW

Both Victoria and Pimlico comprise a varied range of housing stock, including grand period mansions, ex-local authority housing and an increasing number of new developments.

Interest in homes in the area has increased this year. Between January and August, the number of properties sold in Victoria and Pimlico has risen 23% compared with the same period in 2012.

Homes in the area are increasingly sought-after by both owner-occupiers and investors. Strong demand has meant prices in Victoria and Pimlico have increased 11.7% and 10.3% respectively over the last year. Average £ per square foot values have increased by 33% in the past five years. However, compared with neighbouring Belgravia and Mayfair, prices are significantly lower. So far this year, properties sold in Victoria and Pimlico have achieved, on average, £983 per square foot. In neighbouring Belgravia, properties sold over the same period achieved more than double that price.

Privately rented properties account for 35% of all homes in Victoria and Pimlico, with strong tenant demand in the area. Average rents for a two bedroom property are £617 per week.

The most affordable homes in the area are found within the ex-local authority estates in Pimlico. These estates (Churchill, Linnington and Longmore Gardens) are now designated as conservation areas. One bedroom flats start at around £400,000 with two bedroom properties starting at just under £500,000.

For those looking to secure a regency property on one of the Thomas Cubitt designed streets in the heart of the Pimlico conservation area, prices rise to £974 per square foot, with the best streets commanding significant premiums. Warwick Square remains one of the most sought-after addresses in Pimlico, with two flats sold on the Square this year both achieving in excess of £1,350 per square foot.

MEET THE LONDON TEAM

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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.

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