LONDON
MARKET REVIEW

SPRING 2014

GARRINGTON

LOCALLY

LONDON

The welcome arrival of spring cements a feeling of optimism in both the UK economy and housing market. Macroeconomic conditions have improved significantly, with falling unemployment levels, rising consumer confidence and improving economic growth. The IMF now expect the UK to have the fastest growing economy in the G7 in 2014, rising by 2.9%.

This positive backdrop has encouraged recovery in the national housing market and in the Capital, with values rising at an annual rate of 13.8% according to the Land Registry. This is the highest level of annual growth since the start of the downturn in November 2007. The mortgage market is also supporting growth, with lending in February at its highest February level since 2008 (CML).

There is much debate about whether or not a housing market bubble is building. Therefore, understanding the many different segments in the market will be more important than ever.

"REINFORCED BY AN IMPROVING UK ECONOMY, THE HOUSING MARKET NATIONALLY REMAINS IN GOOD HEALTH. IMPROVED CONFIDENCE IN THE MARKET IS SUPPORTING GROWTH IN BOTH PRICES AND TRANSACTIONS."

NICHOLAS FINN, EXECUTIVE DIRECTOR

PRIME CENTRAL LONDON	KNIGHTSBRIDGE
£1,594	**£2,248**
Average £ per square foot for Q1 2014 (all property)	Average £ per square foot for Q1 2014 (all property)
10.1%	**4.6%**
% increase in £ per square foot of flats in Q1 2014 (compared to Q1 2013)	% increase in £ per square foot of flats in Q1 2014 (compared to Q1 2013)
146%	**210%**
Total growth in average price per square foot over the past 10 years	Total growth in average price per square foot over the past 10 years

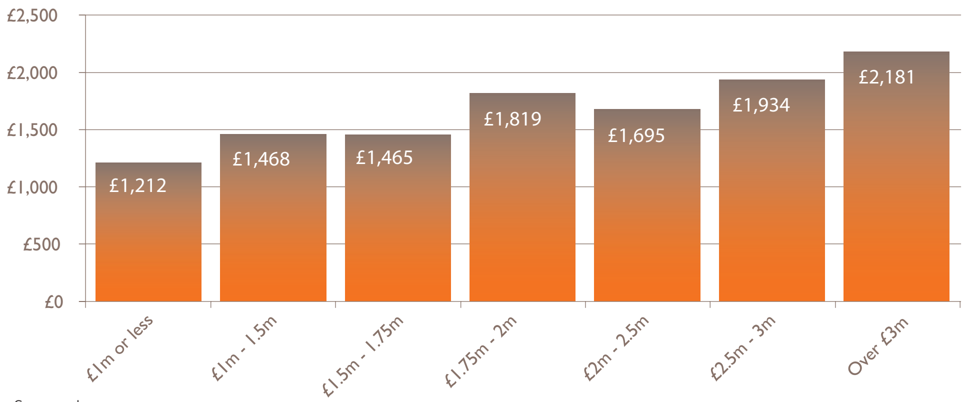
Knightsbridge has been highlighted here, as it is our chosen area for this issue's Focus page (see page 4).
Source: Lonres N.B. Prime central London includes the postcode districts of SW1, SW10, SW3, SW7 and W1.

STAMP DUTY LAND TAX

The introduction of new rates of Stamp Duty Land Tax (SDLT) on properties over £2 million, has definitely impacted the market since its launch over two years ago. In prime central London, sales volumes over the past 12 months for properties between £2 million and £2.25 million are 14% lower than the 12 month period leading up to the stamp duty change. Meanwhile across all of the price bands, sales were up by 9%. This additional stamp duty has, however, led to some interesting buying opportunities. In the first quarter of 2014, the average price paid per square foot for properties between £2 million and £2.5 million was 6.8% lower than properties priced between £1.75 million and £2 million. Going forward, the issue of taxing properties at the top end of the market is still high on the political agenda with much speculation about what will happen after the election next year. It was also evidenced in the Budget in March with the announcement that the tax threshold for those looking to buy within a corporate structure was lowered to £500,000 from £2,000,000.

Source: Lonres

Average price per square foot paid in Q1 2014 by value band



Source: Lonres

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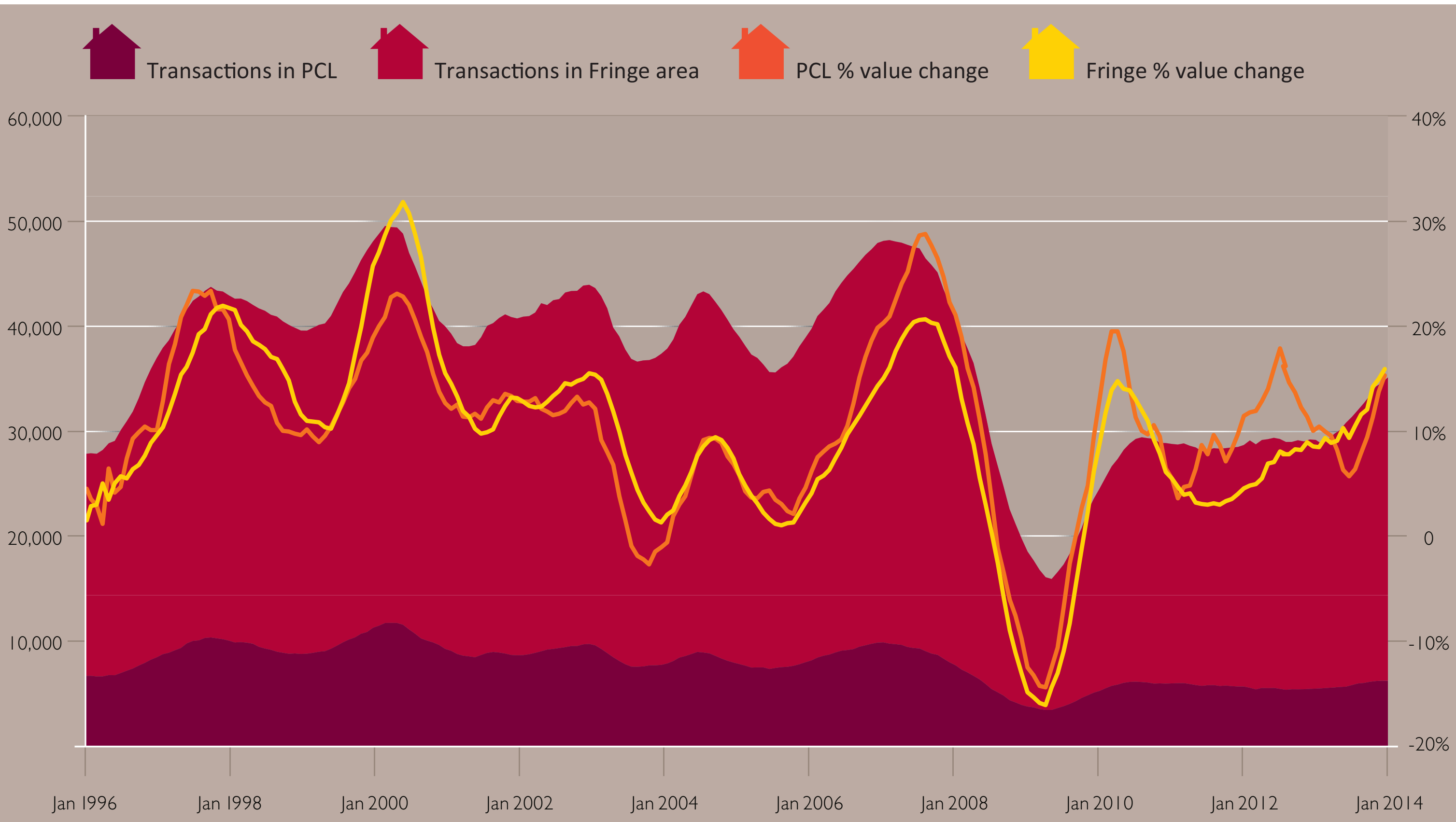
CENTRAL AND FRINGE ANALYSIS



Source: Land Registry.
Prime central London (PCL) includes Boroughs of Kensington & Chelsea and City of Westminster.
Fringe includes Boroughs of Camden, Islington, Hammersmith & Fulham, Southwark, Lambeth, Wandsworth and Lewisham.
% value change (right hand axis) shows year on year change in house prices (averaged across the borough level data).
Transactions (left hand axis) show a rolling 12 month total with estimates for January and February 2014.

	PCL	Fringe
Current annual house price growth	15.3%	16.0%
Borough with highest annual house price growth	Westminster (15.8%)	Islington (17.7%)
How much values have risen above previous peak (average at borough level)	46.6%	28.5%
Growth in transactions over 2013	14.4%	18.9%
Transactions in 2013 compared to peak year of 2006	-36.4%	-25.3%

GROWTH IN FRINGE MARKETS

Prime central London (PCL) has led the recovery in the housing market from early 2009. However, since the second half of 2013, annual growth in house prices in PCL has been overtaken by the fringe markets around it. As the domestic market drew strength from buoyed confidence in the economy, improved job prospects and increased availability of mortgage finance, so demand for properties increased. With many priced out of the most central parts, limited by a lack of supply or taking advantage of greater value for money, the non-traditionally prime markets have begun to flourish.

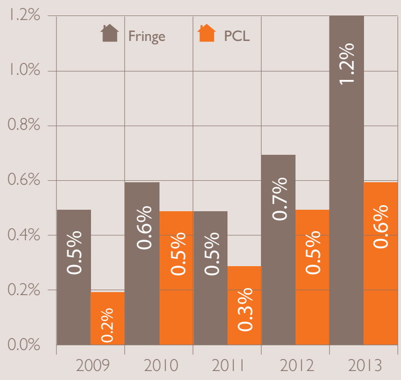
This is not an unusual occurrence in the housing market cycle. In 1998, 2000 and 2003, value growth rippled out from core parts, with values rising more strongly in the fringe markets.

However, while the rate of growth in values in prime central London did slow over 2013, largely due to uncertainty in potential changes to SDLT, early indications are that growth has picked up once again in 2014. Annual price rises in the most central areas are now largely on a par with fringe markets just outside them. Strongest annual growth has now filtered even further out, with the highest performing boroughs currently being Hackney (21.5%) and Waltham Forest (20.1%).

While annual growth figures are fairly consistent between the two markets, the fringe areas are seeing a greater increase in transactions. Although still some way from the peak achieved in 2006, a combination of increased supply, along with very high levels of demand saw sales levels increase by 19% over 2013 in the fringe markets.

DEVELOPMENT MARKET IN FRINGE AND PRIME

Sales of new homes – fringe vs PCL



Source: Molior, CLG

The new homes market has picked up considerably over the last year, especially where site availability is less of an issue.

Sales of new homes accounted for 1.2% of private housing stock in the fringe area of central London in 2013. This is compared to 0.5% in prime central London.

NEW DEVELOPMENT MARKET

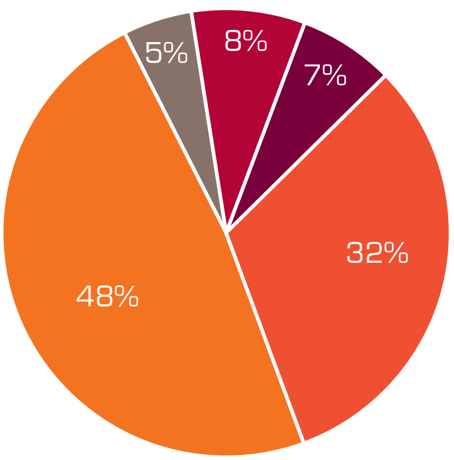
The British Property Federation (BPF) recently published a report that investigated who bought new homes in London in 2013. This followed much speculation about the levels of investment purchases, in particular from overseas buyers. It concluded that 39% of new properties were bought by owner-occupiers (7% via shared ownership). The remaining 61% were purchased by investors.

43% of Garrington's investor clients this year have purchased new build (up to five years old) or off-plan properties. These are ideal for renting out and are therefore appealing to investors, who seek regular income while also building capital appreciation on their asset.

The BPF findings confirmed that the level of investment purchase varied by location and price band. For units averaging less than £450 per square foot, owner-occupiers dominated and 80% of the relevant developments were located in outer London. Investors were most prevalent in the £1,000 to £1,500 per square foot band and 70% of these developments were located in inner and prime central London. Owner-occupiers were the dominant purchaser type again in the £2,000+ per square foot band, accounting for 70% of sales. However, many of the properties will be bought as a base in London, rather than a main residence.

Almost a third of buy-to-let investors (or 15% of new home sales overall) were overseas buyers (i.e. purchasers who usually reside overseas), according to the BPF. This is much lower than the media headlines might have suggested in recent years.

Who bought new homes in London in 2013?



48%	Buy-to-let investors
32%	Owner-occupiers (outright purchase)
8%	Build-to-let investors
7%	Market sale units that have ended up affordable (usually shared ownership)
5%	Buy-to-sell investors (speculators)

Source: BPF, February 2014

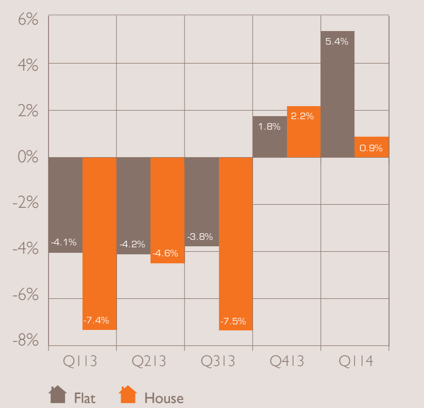
LONDON RENTAL MARKET

Historically the winter is a quiet period for the rental market, resulting in low levels of new instructions. This, together with the easing in mortgage finance availability, will have enticed some previous and potential tenants to the sales market.

Average rents are holding up and are being driven by renewals more than new tenancies. Prime central London has seen average weekly rents rise in the last two consecutive quarters for both houses and flats. In the first quarter of 2014, the increase in rental values stood at 5.4% and 0.9% for houses and flats respectively.

There are a couple of areas of prime central London which have seen average weekly rents fall slightly during the last quarter, including Knightsbridge (-1.2%) and South Kensington (-3.8%). All other areas have recorded rents increasing over Q1 2014.

Annual change in average weekly rent in prime central London



Source: Lonres

"THE DEVELOPMENT MARKET HAS PICKED UP SINCE THE RECESSION, WITH INVESTORS MAKING UP THE LARGEST PROPORTION OF BUYERS OF NEW BUILD PROPERTIES."

JONATHAN HOPPER, MANAGING DIRECTOR

FOCUS ON
KNIGHTSBRIDGE

Knightsbridge is one of London's most exclusive neighbourhoods, lying between Chelsea, Kensington, Mayfair and Hyde Park. The area derives its name from the bridge which crossed River Westbourne, now an underground river.

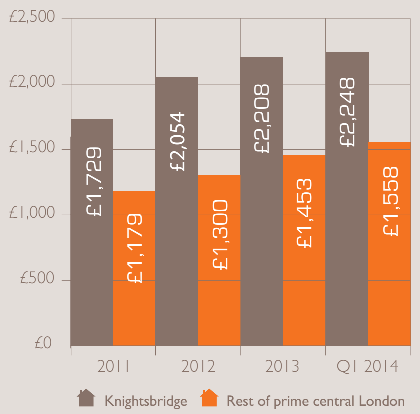
The area's population quadruples in the daytime as Knightsbridge attracts high-spend international visitors to its prime shopping environment. It has been the home of Harrods and Harvey Nichols department stores since the 1880s. Today, designer boutiques line Sloane Street and Brompton Road, along with private banks and luxury hotels. It is a highly international area. UK-born residents comprise just 38% of the population (2011 census), followed by those from other European countries and the US, whose children benefit from schools such as Hill House International School.



"KNIGHTSBRIDGE IS HOME TO EXCEPTIONAL SHOPPING VENUES, DISTINGUISHED EATERIES, EXCELLENT SCHOOLS AND OF COURSE SOME OF THE WORLD'S MOST EXCLUSIVE PROPERTIES, UNDERPINNING ITS POSITION AS A TRULY GLOBAL ADDRESS."

MELLONY MORGAN, ASSOCIATE

Average £ per square foot values



Source: Lonres (all property)

MARKET OVERVIEW

Some of the world's wealthiest individuals boast Knightsbridge addresses. The area not only offers an abundance of elegant stucco-fronted properties, large period homes, mews houses and grand mansion blocks, but it is also the focus for many of London's high profile new homes schemes. These include some of the world's most expensive properties, such as One Hyde Park, a development surpassing all previous similar schemes in terms of prestige and prices.

Strong overseas and UK demand has also made Knightsbridge one of the most expensive neighbourhoods in London. Even when price data is contrasted with purely prime central London, the premium values that different property types in Knightsbridge command is profound. At £2,307 per square foot in the first quarter of 2014, Knightsbridge houses achieved a 26% price premium over average house prices in the rest of prime central London. This premium rises further to 50% for flats at £2,228, firmly demonstrating the appeal of conveniently placed pied-à-terres with access to Knightsbridge's luxury amenities and services.

Growth in Knightsbridge residential values has also outperformed prime central London over the last decade, rising by 210%, compared to 146% in prime central London on average. This has helped to attract investors seeking solid capital growth returns.

In the last 12 months, more than half of property sales (53%) have achieved in excess of £3 million. So far in 2014, the highest achieved price in the area was a house at Lyall Mews for £7.7 million, while a two bedroom flat on Eaton Place achieved the highest price on a square foot basis at £3,650.

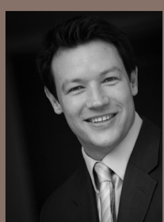
There are an abundance of attractive garden squares including Lowndes Square, Cadogan Square and Hans Place, which, despite its proximity to Harrods, has achieved an average of £1,836 per square foot on flat sales since 2013, 18% less than the average for Knightsbridge as a whole. As demand for Knightsbridge property continues to exceed supply, the need for inside market knowledge is key. In particular, owing to vendor discretion, many properties in Knightsbridge are sold off-market.

MEET THE LONDON TEAM


Jonathan Hopper


Nicholas Finn


Amy Simpson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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

Official Relocation and Property Finders Partner to the PFA

The Property Ombudsman