

LONDON MARKET REVIEW

WINTER 2014



GARRINGTON

LOCALLY

LONDON

As momentum gathers in both the global and UK economies, London continues to demonstrate its status as a real estate investment hub. London house prices grew by 11.2% in 2013 according to the Land Registry, fuelled by both solid domestic and international demand.

Economic recovery is gathering pace. The Centre for Economics and Business Research expect the London economy to grow by 3.8% in 2014 compared to 2.7% across the UK as a whole. Outperformance is also anticipated in the housing market.

With the strongest consensus among surveyors about future house price growth since 1999, the Royal Institution of Chartered Surveyors (RICS) forecasts an 8% national rise in 2014. However, with low levels of supply failing to keep pace with purchaser activity, they expect London house prices to rise by 11% over the year.

"THE CONTINUED RECOVERY OF THE UK ECONOMY IS SUPPORTING A PROPERTY MARKET, PARTICULARLY IN LONDON, WHERE THERE ARE STRONG FOUNDATIONS FOR CONTINUED GROWTH."

JONATHAN HOPPER, MANAGING DIRECTOR

PRIME CENTRAL LONDON

£1,501

Average sales price per square foot in 2013

34%

Growth in transactions in 2013 compared to 2012

147%

Total growth in average price per square foot over the past 10 years

MAYFAIR

£2,070

Average sales price per square foot in 2013

53%

Growth in transactions in 2013 compared to 2012

184%

Total growth in average price per square foot over the past 10 years

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

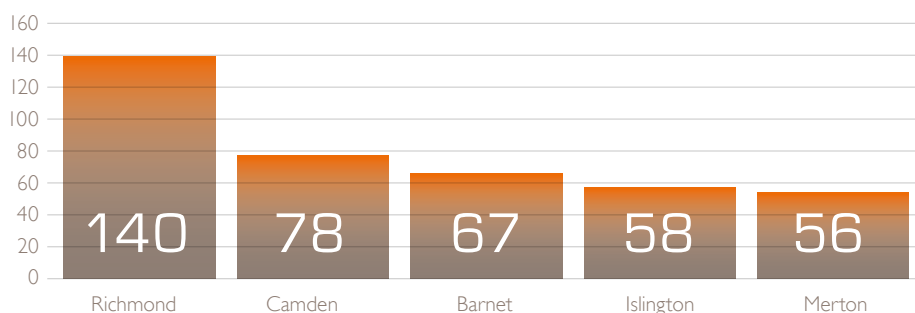
OFFICE TO RESIDENTIAL CONVERSIONS

In May 2013, the government introduced changes to permitted development rights legislation allowing the change of use of B1 office space to residential without the need for planning permission. The purpose is to bring forward under-utilised office space. However, some Councils fear the loss of business opportunities in local areas.

Whilst many inner London boroughs have therefore been granted an exemption from the new legislation, the impact of the

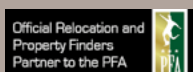
changes is now being felt across London as applications exceed government expectations. Richmond has so far received 140 notifications, the highest so far and equalling the government's annual expectation of conversions for the whole country. Current plans are for the conversion of 215,000 square foot of office space to provide 200 new homes. In December 2013, the councils of Richmond, Islington, Camden and Lambeth failed to overturn these planning laws in High Court.

Number of office to residential notifications



Source: Estates Gazette

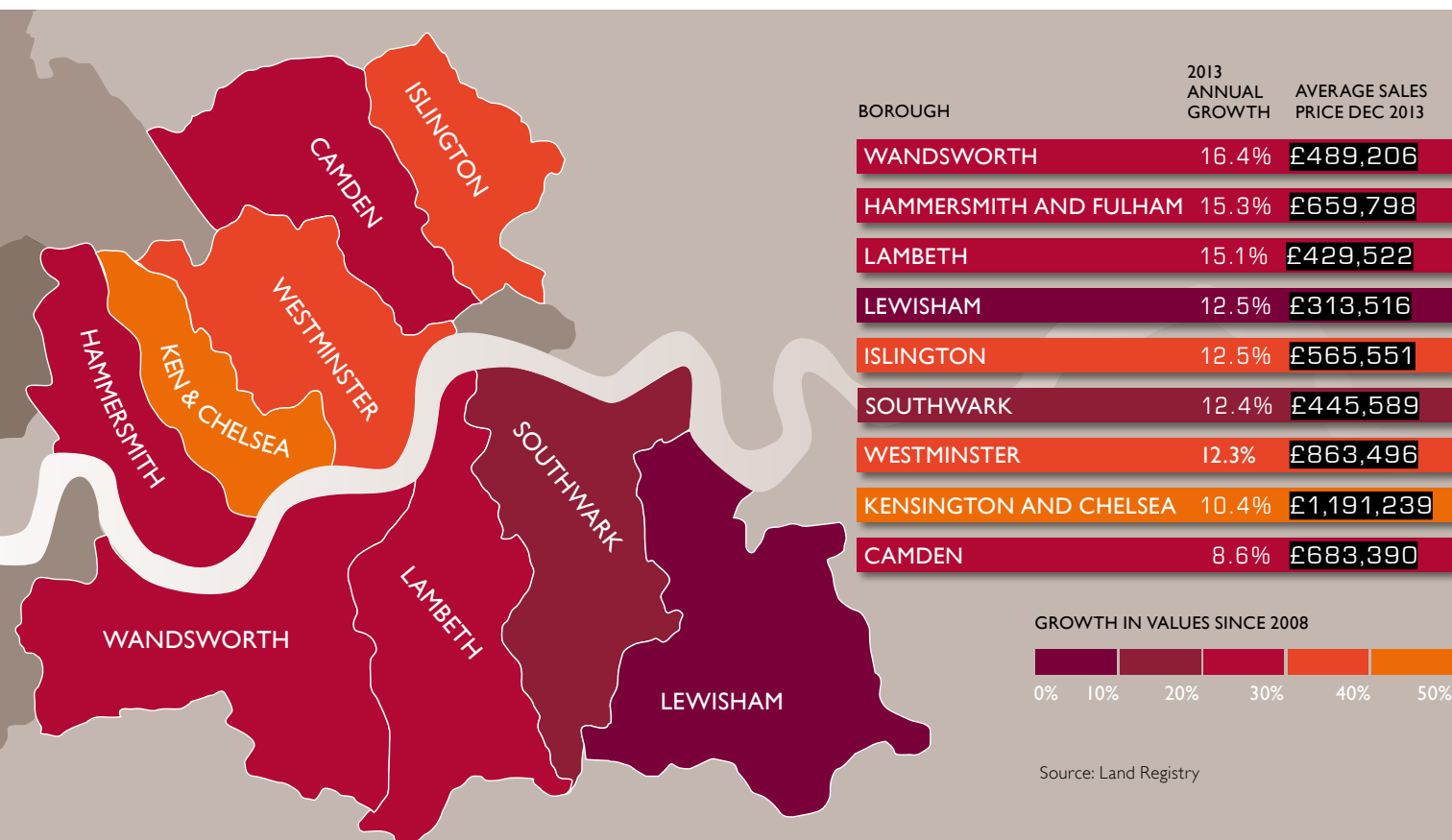
The Property Search Consultancy



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

MARKET-PERFORMANCE 2013



PROJECTED INCREASE IN HOUSEHOLDS 2013-2021*

1 SOUTHWARK	19.7%
2 LEWISHAM	14.8%
3 WESTMINSTER	13.3%
4 ISLINGTON	13.2%
5 CAMDEN	13.2%
6 LAMBETH	10.4%
7 WANDSWORTH	9.2%
8 HAMMERSMITH AND FULHAM	4.1%
9 KENSINGTON AND CHELSEA	3.4%

Source: DCLG

*one person living alone, or a group of people (not necessarily related) living at the same address with common housekeeping – i.e. sharing a living room or sitting room or at least one meal a day

DEVELOPMENT PIPELINE (NO. OF PRIVATE UNITS)

1 WANDSWORTH	12,984
2 HAMMERSMITH AND FULHAM	12,981
3 SOUTHWARK	9,002
4 LAMBETH	6,550
5 LEWISHAM	6,522
6 WESTMINSTER	6,042
7 ISLINGTON	4,758
8 CAMDEN	3,721
9 KENSINGTON AND CHELSEA	1,509

Source: EGI

AVERAGE ANNUAL HOUSING COMPLETIONS 2008-2013

1 SOUTHWARK	985
2 WANDSWORTH	614
3 LEWISHAM	453
4 WESTMINSTER	360
5 LAMBETH	349
6 ISLINGTON	333
7 CAMDEN	170
8 HAMMERSMITH AND FULHAM	150
9 KENSINGTON AND CHELSEA	128

Source: DCLG

THE YEAR AHEAD

Forecasters are predicting that 2014 will witness a slowing in house price growth of prime central London areas compared to the surrounding boroughs and projections for new employment, population and planning developments all indicate a move from the core prime areas. Hammersmith and Fulham is predicted to experience a 28% rise in employment from 2013-2036 and Islington a 13.2% rise in households. Likewise, to the south of the City, Southwark is expected to see a 23% rise in employment and a 20% increase in households by 2021. Wandsworth, which

saw the highest growth in house prices in 2013, is seeing massive amounts of new investment and development and has over 12,900 new private units in the pipeline.

Transport improvements have boosted the appeal of areas outside prime central London in recent years. There is also an ongoing £320 million investment programme to deliver an additional 25% capacity to the overground network. In addition, plans are being considered to extend the Northern Line to Nine Elms and Battersea which, subject to approval and secured funding, could be open by 2020. The anticipated

arrival of Crossrail has already ensured significant investment and development with latest forecasts suggesting 250 million passengers a year will use it to access the three central London stations (Tottenham Court Road, Bond Street and Farringdon) when it opens in 2018, 66 million more than originally estimated.

With transport improvements, increased accessibility, infrastructure and investment, the appeal of the peripheral London boroughs will remain solid and these are likely to see outperformance in price growth in coming years.

LONDON

RENTAL

MARKET

CENTRAL LONDON MARKET PERFORMANCE 2013

Buoyed by investor interest from both home and abroad and a severe shortage of stock, prices have risen in the prime central London boroughs of Kensington and Chelsea and Westminster by 40.2% and 38.5% respectively since their previous peak in 2008. However, these areas have witnessed some of the lowest levels of growth over 2013 (9-10%) and the lowest level of stock turnover. With average sale prices of around £1.2 million in Kensington and Chelsea, properties are now out of reach for all but the most wealthy buyers and domestic purchasers and investors have been drawn to other parts of the Capital.

NEW DEVELOPMENT MARKET

A recent study of the future supply of prime residential units to be delivered into the central London housing market in the next 10 years identifies a pipeline of 20,000 prime units. These schemes have a minimum average sales price of £1,250 per square foot or more, equating to over £50 billion of investment.

Despite some renewed activity and the emergence of potential development sites, such as various international Embassies moving out of prime central London, the core prime areas of London still account for a very small amount of new future supply. The pipeline outlined in this study contains just 2.7% of units in Mayfair, 2.5% in Belgravia and 2.1% in Knightsbridge.

At the very top end of the market, developers have been competing to secure

the most prime and exclusive sites. The study estimates that there are 3,640 super-prime units across London to be built over the next 10 years, which have an average sale price of £2,200 per square foot.

With homes set to be built in some of the world's most elite postcodes, new developments coming to the market in coming years look set to push the boundaries even further in terms of prestige, specification and pricing. Along with the US Embassy site and Navy HQ on Grosvenor Square, other schemes of interest include the former Canadian High Commission building at 1 Grosvenor Square which was sold at the end of 2013. Outside of Mayfair, other high profile schemes include Chelsea Barracks and Alpha Place in Chelsea along with De Vere Gardens and Holland Green in Kensington.

Increased stock levels in 2013 kept the growth in rental values low across prime central London. Average rents increased by just 0.3% between the final quarter of 2012 and the fourth quarter of 2013. Stronger capital appreciation, relative to rental growth meant that yields hardened further. Over 2013 gross yields averaged 2.9% for a two bedroom flat, down from 3.3% in 2012.

Despite low yields, prime central London remains a key investment choice for overseas buyers with long-term investors motivated by its capital growth prospects rather than income potential. In Mayfair, in particular, while gross yields average around 2.8% for two bedroom flats, the average price paid per square foot has increased by 37% since 2008.

With the introduction of Capital Gains Tax for foreign owners of properties on future gains from April 2015, however, income yields may gain in importance.

Capital appreciation and gross yields

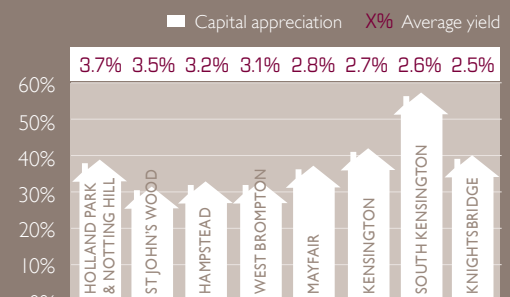
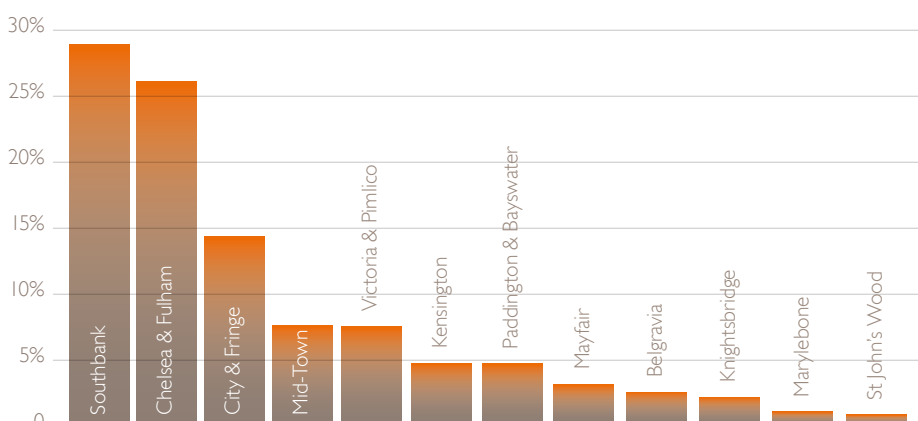


Chart shows growth in average price paid per square foot for a two bedroom flat between 2008 and 2013 and the calculated average gross yield in 2013

Source: Lonres

Location of future pipeline of prime residential units across central London



Source: EC Harris, includes units on schemes with average sales value over £1,250 per square foot.

"CHANGES IN PLANNING LEGISLATION COMBINED WITH NEW AND FUTURE TRANSPORT SYSTEMS IS HOLDING PROMISE FOR A BALANCING OF THE DEMAND AND SUPPLY LEVELS THROUGHOUT ALL LONDON BOROUGH."

NICK FINN, EXECUTIVE DIRECTOR

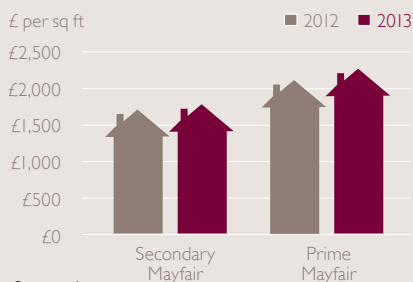
FOCUS ON MAYFAIR

Bordered by Oxford Street, Regent Street, Piccadilly and Park Lane, Mayfair, as we know it today, was redeveloped by the Grosvenor family in the 1720s and has long been associated with privacy, wealth and gentrification. The annual May Fair, Mayfair's namesake, ran here for almost 80 years on what is now Shepherd Market, before being moved east to Bow in 1764, following complaints about its image from the upmarket residents.

Today, it is known for its prime shopping on New and Old Bond Street, with world renowned auction houses and car showrooms, top restaurants and some of London's most elegant hotels including The Dorchester and Claridge's.

Residents here benefit from proximity to Hyde Park, Green Park and beautiful squares such as Berkeley, Grosvenor and Hanover.

Prime Mayfair areas achieved 25% higher prices than in secondary areas in 2013



Source: Lonres



"MAYFAIR, THE PRIME BASTION OF THE UK PROPERTY MARKET, DRAWING THE SUPER WEALTHY AND MEGA RICH FROM ACROSS THE GLOBE, IS CURRENTLY EXPERIENCING A RESURGENCE AS MANY COMMERCIAL PROPERTIES ARE CONVERTED TO RESIDENTIAL."

NICK DAWSON, ASSOCIATE

MARKET OVERVIEW

Mayfair remains one of London's most expensive areas to live in, with 17.4% of properties sold in 2013 achieving more than £5 million. In 2013, the average price per square foot value achieved in Mayfair exceeded £2,000 for the first time, at £2,070 per square foot. While such high values tend not to attract yield focused buy-to-let investors, the capital growth opportunities appeal to wealthy owner-occupiers and those looking for long-term, secure investments.

Strong demand from both UK and overseas buyers from the Middle East, Russia, India, China and the US, has helped Mayfair prices (on a square foot basis) increase by 184% on average in the last 10 years compared to the prime central London average of 147%. Attractive prime areas of Mayfair between Upper Brook Street, Curzon Street and Berkeley Square, achieved values which were 25% higher than in secondary areas of Mayfair in 2013.

The volume of Mayfair property transactions increased by 53% in 2013 compared to 2012. Similar to other parts of London, Mayfair now has insufficient available stock relative to current demand levels, particularly in the large, lateral house and mansion flat market. However, a number of exciting new schemes are in the pipeline and include the redevelopment of the US Embassy on Grosvenor Square.

At present, 75% of schemes currently under construction or in the planning pipeline in Mayfair comprise office to residential conversions. There are 65 such schemes in Mayfair*. If built, they will provide 383 private residential units. They include those on Sackville Street, Albemarle Street, Savile Row, 30 Charles Street, 68 Mount Street as well as 14 and 15 Park Street.

*Source: London Residential Research database

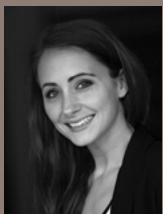
MEET THE LONDON TEAM



Jonathan Hopper



Nicholas Finn



Amy Simpson



Nick Dawson



Mellony Morgan



James Rawes



Mandy Bissell



Lisa Burton



Andrea Hewitt

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The Property Search Consultancy

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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