research

from Hurford Salvi Carr

MIDTOWN, CITY AND DOCKLANDS

RESIDENTIAL REVIEW 2012

Hurford Salvi Carr is an innovative firm of property advisors and development consultants who have become synonymous with urban living in central London. Our experience and expertise in both the residential and commercial markets, in the City, West End, Docklands and East London puts us at the forefront of property agency.

Since 1996 Hurford Salvi Carr has been a driving force of the 'city living' phenomenon having sold more than 4,000 new homes in over 300 developments, the majority created from former commercial premises, and we have played a pivotal role in the repopulation of Bloomsbury, Clerkenwell, Shoreditch and the City.

As real estate agents we are widely respected throughout London and are well known in property circles around the world. Our reputation is based on the accuracy of our advice, the quality of our marketing, and most importantly for achieving results.

The Company is divided into six divisions, specialising in Residential Sales, New Homes, Residential Lettings, Residential Investment, Commercial Agency, and Property Management. In many instances the skills of each division combine to provide our clients with best advice. Our fresh approach and award winning on-line marketing expertise complement our service.

We are committed to providing a personal service to each of our clients and we maintain the highest standards in every aspect of our business.

HURFORD SALVI CARR

Overview

OLYMPIC BOOST TO CONFIDENCE

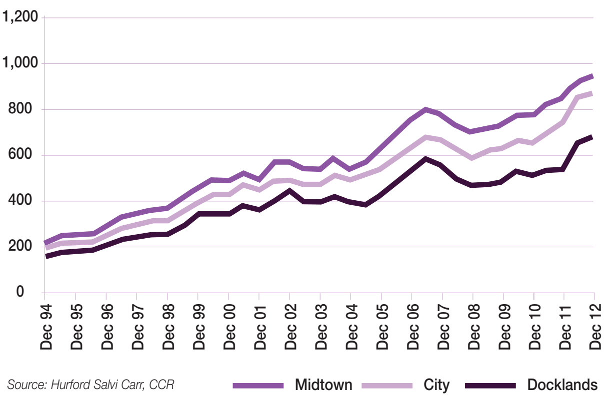
Sales values performed strongly in the 2nd half of 2012 across Midtown, City and Docklands ended the year 27% higher than at the end of 2008. London's rental market has also performed strongly and the capital's residential property market again turned in another confident performance.

The UK economy, however, remained weak throughout 2012. Despite some faltering improvement in output statistics in Q3, there was never any real sense that the economy had returned to growth. In November the Governor of the Bank of England warned that, while we appeared to be on the road to recovery, we should expect a long, slow and zig-zag journey. Few commentators would be bold enough to rule out a triple dip recession.

It is perhaps surprising then, against this backdrop, that the London residential markets were so robust in 2012. But the scale of demand to live in the centre of London is such that the market struggles to produce enough supply and there remain plenty of buyers with discretionary income or capital, who are keen to invest. Sale prices had been driven up steeply in 2011 and continued to rise, although at a slower pace in 2012.

Midtown and City grew at similar rates of 5% and 5.5% respectively, while Docklands prices rose by 3%. We consider this level of capital growth to be reasonable and sustainable. The pattern of growth undulated in 2012. It was at its steepest in the early months of the year, flattened out in the spring, dipped over the summer and then rose gently in the autumn before flattening out again towards the end of the year. Over the course of the year, the price of a one bed apartment in the resale market rose by around 5% to £405,000. Most of the growth occurred in Q1 with a second wind in the autumn.

FIGURE 1
THE HURFORD SALVI CARR PRICE TRACKER



Data based on the value of a 500 sq ft one bed apartment in the re-sale market

The New Homes sales market in Midtown, City and Docklands was also strong. In Midtown, sales made overseas achieved significant premiums above prices that were paid locally. This trend appears to be confined to Midtown where overseas buyers area attracted by proximity to the West End, while in Docklands and East London the evidence was that the domestic market paid high prices.

Rental values fluctuated over the course of 2012, although, for one-bed apartments they ended up pretty much where they began, at £425 per week in Midtown, £450 in the City and £350 in Docklands.

Average rents for two bed apartments fell in all three submarkets in the 1st half of 2012 before rebounding in the 2nd half of the year finishing approximately 4% down on pricing at the end of 2011. There was an Olympic effect, particularly in Docklands where rental values were raised in the lead up to the Games and fell back afterwards as stock was returned to the market. The returned stock, is the main reason that there was no autumn increase in rents this year, despite the usual high volumes of demand.

WHITTINGTON HOUSE, CITY, EC4 - 8 FLATS SOLD SEPT 2012

Rental values were high coming into 2012 after two years of upward pressure and so a levelling off in values is to some extent understandable. We noticed a far greater incidence of tenants ending tenancies early in a bid to track the values as they dipped. The average length of time that a tenant would stay in a property shifted from 30 to 24 months, during 2012, as they sought lower rental deals or alternative, lower value locations.

Centre for Economic and Business Research (CEBR) issued some dismal employment forecasts in November, for the banking and financial sector in the City of London. They forecast that by 2013, the number of jobs would fall to its lowest level for 20 years and that the earliest they would expect any growth would be 2017.

While the fall is attributed in part to the weak economy and financial crisis, they also cite increasing regulation as a brake on growth as well as a rebalancing of the global financial hierarchy that will see Hong Kong overtake London by 2015 in terms of number of jobs in the sector.

Earlier in the year, GLA Economics, also predicted a loss of employment in the financial sector. Their forecast was of a 9% fall in the number employed in the sector across Central London between 2011 and 2031, although this forecast expected the fall to be counterbalanced by growth in information technology and business services employment.

The secondary office market in City fringe locations and particularly around Shoreditch and Clerkenwell performed strongly in 2012 fuelled by media, telecoms and technology companies together with fashion retailers and showroom occupiers. In December, funding for the redevelopment of 'TechCity' Old Street Roundabout was confirmed which will further boost local employment in non banking sectors.

For a time in the summer and autumn the Euro crisis seemed to recede. It faded from the front pages, if not from the minds of economists, and the mood in the UK lifted, helped by London's staging of the olympic games and an exceptional summer of sporting success. But by November, there were general strikes and mass demonstrations against austerity measures in several European countries including Spain, Italy, Portugal and Greece which made it all too clear that the crisis was far from over and the UK's demands for a spending freeze had caused offence in Brussels.

Inflation was disappointingly high in Q3, fuelled, amongst other things, by university tuition fees and output was lower than expected. The most positive indicator was employment where UK-wide figures continued to buck the trend, highlighting a reduction in productivity as employees were retained despite the falls in output. Some commentators expect there to be an adjustment in 2013 as employers look for more ways to cut overheads. In the Chancellor's Autumn Statement delivered on 5th December, it was reported that the UK was set to miss it's key economic performance targets.

The Government hopes for boosting economic growth through private sector infrastructure spending have been frustrated by the unwillingness of investors to invest in high-risk projects. Its ambitions for the residential sector have also been thwarted by the lack of credit available from mortgage lenders and by their risk-averse attitudes. It remains an important plank of Government policy however and we outline proposals to encourage investment in the private rented sector later in the report. (See Investment section).

FITZROVIA, W1 - 3 BED PENTHOUSE SOLD NOV 2012 £2,400,000

BOUNDARY STREET, SHOREDITCH, E2 - 8 NEW APARTMENTS LET OCT 2012

The Montague Report, published in August, examined the barriers to institutional investment in private rented housing stock and laid out some proposals to encourage greater investment. The Government has already announced £10 billion of debt guarantees to support growth of the sector. There are clearly some major hurdles to overcome but it seems almost inevitable that it will eventually emerge as an investment sector alongside commercial property for the UK institutions as long as they find a way to achieve their target returns on capital and to reduce the risk associated with residential management.

Buy-to-let remains a popular route to investment for individual investors across Midtown, City and Docklands, as more conventional pension funds fail to perform and the next generation struggles to get a foothold in the home ownership market. The buyers who underpinned the sales market in this part of London in 2012 were overseas investors, particularly from the Far East, Italy and Greece; UK buy-to-let investors; affluent London workers seeking a pied-a-terre and first time buyers, often helped out by their parents. Three of these four categories of buyer are likely to become private landlords. The scale of interest in the rental market has led to a wave of new initiatives to regulate landlords, which, we believe, will ultimately flow through to the tenant and add to the cost of renting in London.

It is a feature of our core markets that in 2012 purchasers were not dependant on high loan to value borrowing. However lenders were still the cause of additional delays during the sales process by introducing additional levels of due diligence for lawyers undertaking the conveyance process.

Sales Market

RETURN OF AN AUTUMN MARKET

The residential markets in Midtown, City and Docklands were eerily quiet throughout most of July and August but we had been prepared for that. The Olympics, following close on the heels of the Queen's Jubilee, were always expected to distract attention from most other activities, including thoughts of purchasing a property. But the aftermath of the Olympic triumph proved to be a potent force in the residential markets.

Sentiment shifted in the mainstream media from cynical self-deprecation – the usual British condition - to self-belief and national pride. For us, something positive happened in the last week of August – confidence sprang back - which caused a steep rise in enquiries in all our offices as well as a record number of hits on the Hurford Salvi Carr website; there were many more viewings and a far greater probability of viewings converting into sales as the pace quickened. In essence, the residential sales market turned. It seemed that all concerns about the condition of the wider UK economy, or the continuing uncertainty in the Eurozone, were forgotten.

NARROW STREET, LIMEHOUSE, E14 - THREE BED FLAT SOLD NOV 2012 £690,000

For the first time since 2006, we had a tangible 'autumn market' and the return of properties going to 'best bids' with multiple buyers competing to secure the purchase. An autumn market is always short - a 6 week period, from the end of the summer until the clocks go back at the end of October, but this year, committed buyers were out in force. 62% of buyers in Midtown and City were able to pay cash in 2012, up from 54% the year before. In Docklands the proportion of cash buyers is around 15%. Nevertheless, the number of 100% cash buyers is still lower than it was in 2009 when there was a perception that the banks would not lend and cash was the only realistic option.

But it was not a return to the excesses of 2011 when the market in our view began to overheat. Then, prices were rising at a pace that did not seem to relate to the fundamentals of the market and, although growth continued in the first quarter of 2012, the market had slowed considerably by Q2.

The growth generated in autumn 2012 was at a more sensible pace and therefore likely to be more sustainable. In fact the annual growth in capital values of residential property has been relatively modest in 2012 by historic standards, at 5% for a 1 bed apartment in the resale market, taking the average price to £405,000 (excluding New Homes) at the end of the year (table 1).

TABLE 1
PRICES AND PRICE CHANGES FOR ONE BED APARTMENTS IN THE RESALE MARKET AT YEAR END : AVERAGE FOR MIDTOWN, CITY AND DOCKLANDS

Year	Anual Price Change	Market Value (£)	Annual Change in Value (£)
1998	N/A	150,000	N/A
1999	26%	189,000	39,000
2000	11%	210,000	21,000
2001	10%	230,000	20,000
2002	13%	260,000	30,000
2003	-8%	245,000	-15,000
2004	0%	246,000	1,000
2005	10%	270,000	24,000
2006	26%	340,000	70,000
2007	9%	371,000	31,000
2008	-15%	318,000	-53,000
2009	8%	338,000	20,000
2010	4%	351,000	13,000
2011	10%	386,000	35,000
2012	5%	405,000	19,000

Source: Hurford Salvi Carr, CCR

The London residential market rarely forms neat patterns of price change and 2012 was no exception. Despite the boost to the market in the autumn, most of the annual growth occurred in the first quarter of the year when pressure was strong from Far Eastern and European buyers seeking a safe haven for their currency. By June however, we noted price reductions in the resale market to adjust for overly optimistic pricing by owners and agents. While prices in Midtown rose by 5.0% in 2012, and 5.5% in the City, Docklands prices rose by only 3% over the year and that increase occured in the first half of the year – in other words, there was no uplift in Docklands values at all in the second half of 2012 (table 2). In Docklands, and only in Docklands, prices still remain below the level of the 2007 market peak (table 3).

TABLE 2
PRICES AND PRICE CHANGES FOR ONE BED APARTMENTS IN THE RESALE MARKET AT YEAR END

£'000S	2011	2012	Annual Change
Midtown	465,000	490,000	+5.0%
City	425,000	450,000	+5.5%
Docklands	325,000	335,000	+3.0%

Source: Hurford Salvi Carr

INGERSOLL BUILDING, CLERKENWELL, EC1 - PENTHOUSE SOLD 2012 £1,773,000

TABLE 3 PRICE CHANGES BETWEEN MARKET PEAK OR TROUGH AND END 2012, FOR ONE BED APARTMENT IN THE RESALE MARKET					
£'000S	2007 Peak	2008 Low Point	2012	Peak to Current	Low to Current
Midtown	433,000	386,000	490,000	13%	27%
City	395,000	365,000	450,000	14%	23%
Docklands	350,000	282,000	335,000	-4.0%	19%

Source: Hurford Salvi Carr

In the early part of 2012, there was a clear shift in buyer demand eastwards to the City. The City has become liveable, just as Midtown became liveable 15 years ago. It has the full range of convenience stores and the foundations of a number of village-like communities – albeit still immature compared with the more established markets. The key determinants of price within this broad geographical area are: quality of development; locality and street-scene.

GLOBE VIEW EC4 - 2 BED FLAT SOLD DEC 2012 SOLD £600,000

Sentiment is 'on the pulse' in all of these markets. Unlike most residential markets, this one is not driven by the usual demographic indicators - births, deaths and marriages, it responds to business and economic confidence and changes in discretionary spending power. Levels of activity generally fluctuate in tandem with the FTSE 100. On 12th December the FTSE reached 5941 close to the year's high of 5966 recorded on 16th March 2012. In August 2007, as soon as the US sub-prime market imploded and Northern Rock collapsed, these London residential markets stopped trading – it was immediate. We knew that we would return in September to a moribund market and we did. It is because the buyers in this market are discretionary. So when the mood swings low, the buyers retreat.

The 7% stamp duty band introduced in the March budget for homes over £2 million, had a marked impact on the volume of sales in this price bracket. According to the Land Registry, sales of between £2 million and £5 million in London in Q3 2012 were down by 53% compared with the same period in 2011. Across Midtown, City and Docklands, enquiries for homes above £2 million were considerably down on 2011.

Residential properties worth more than £2 million, bought using corporate structures, will be liable for Annual Residential Property Tax (ARPT) that starts at £15,000 p.a. for properties valued at between £2 million and £5 million. Exemptions announced in the draft Finance Bill on 11th December confirmed that landlords and devleopers who buy in corporate structures could reduce the duty to 7%, the same rate as individual purchasers of properties worth more than £2 million pay.

More stock came to the market in the 2nd half of 2012 in new developments, which eased the pressure on supply, but well-designed and well-presented schemes sold very quickly, as we illustrate in the New Homes section. Mortgage rates remained competitive for buyers with large deposits but lenders have remained highly averse to risk and have continued to prolong the conveyancing process by insisting that a second solicitor review the documentation before they will release funds.

There was a wide range of buyers in the market in 2012. Overseas buyers originated predominantly in Asia and Europe, where France and Italy were the key nationalities. UK buyers ranged from investors looking out for buy-to-let opportunities: to those searching for a pied-a-terre for part time occupation and first time buyers, who were often assisted by 'bank of Mum and Dad'.

NEWMAN STREET, W1 - FOUR FLATS SOLD WINTER 2012

New Homes Market

UK OFF PLAN SALES NOW ESTABLISHED

The new homes market in the 2nd half of 2012 benefitted from the general improvement described in the sales section of this report. The number of developments offered first to buyers in the UK, rather than in the Far East, increased in 2012, a trend we noted in our mid year report. This meant there was greater choice for purchasers in the London market and buyers responded in large numbers.

At the same time, it became evident during 2012, that, at least in Midtown, selling overseas could achieve premiums over local prices for well-located new developments. As a result, a number of schemes that were initially marketed overseas, have struggled to sell the remaining units when they are offered in the UK at completion. This is not the case to the east of the City where prices paid by domestic purchasers are often higher than overseas buyers.

In the second half of 2012 we launched a range of new residential developments across Midtown, City and Docklands, in each case, resulting in strong sales.

IXIA, EAST ROAD, SHOREDITCH, N1 - 40 SALES, AUTUMN 2012

We launched **Ixia, East Road, N1**, with a new show apartment, on July 5th on behalf of Crest Nicholson, after a soft launch in June 2012. Located just a short walk from Old Street station, the scheme generated an average of 2.5 sales per week and by the end of December only 7 apartments remained to be sold out of a total of 48 private units. Sale prices averaged £720/sq ft with the remaining two bedroom apartment priced at £620,000 and the three bedroom penthouses on the 8th floor priced between £950,000 and £1,250,000.

In Docklands **The Panoramic, Willis Street, E14** was launched overseas in spring 2012 and then in the UK in June 2012. This impressive Telford Homes 20 storey tower has 90 apartments on the 5th to the 19th floors and 22 shared ownership units on the ground to the 4th floors. 45 apartments were sold overseas and 30 in the UK at prices averaging £400/sq ft with very little marketing apart from the development model in our Limehouse office. The one bedroom apartments sold out but two bedroom apartments remain available from £300,000 and three bedrooms start at £338,000.

WHITTINGTON HOUSE, CITY, EC4 - 2,011 SQ FT TWO BED FLAT SOLD 2012, £1,900,000

In the first week of September while London still basked in the afterglow of the Olympics, we launched a development of 8 spacious apartments including an exceptional first floor unit, all converted from a Grade II listed building at **Whittington House, College Hill, EC4** for the Jaspar Group. This extraordinary building, built in 1832 on the site of a home occupied by Dick Whittington, Lord Mayor of London, has been refurbished to a high standard with the apartments retaining original features. Located in the heart of the City close to St Pauls Cathedral we secured 7 sales by the end of September at prices averaging £890/sq ft, which reflected the unusually large size of the apartments.

Also in September we released 9 apartments in a converted office building behind St Bartholomew's Hospital at **39 – 40 Bartholomew Close, EC1**. Prices started at £449,950 for a one bedroom apartment, £599,950 for a two bedroom apartment and £725,000 for a three bedroom apartment. The scheme again proved the desirability of this historic location within the Corporation of London's Square Mile and close to Barbican Underground Station. All the apartments were finished and fitted out to an exceptionally high standard and achieved an average sale price of £900/sq ft.

On 4th October we invited pre registered applicants to visit the residential floors of **30 Kirby Street, EC1**, a small development of just 5 apartments on top of a fully refurbished office block. With access to the apartments via an external hoist and equipped with hard hats, we showed 30 applicants the early stages of what will be will be well crafted apartments designed by Buckley Grey Yeoman. There are 2 one bedroom apartments, 2 two bedroom apartments and a fabulous two bedroom penthouse on the 5th floor with its own 800 sq ft roof terrace – a jewel in Hatton Garden! The development, by Mercer Real Estate Partners and Seven Capital is close to all the amenities of Farringdon, the City and Clerkenwell. Both one bedroom apartments were sold at £499,000 achieving £920/sq ft. Completion is expected spring 2013.

On 18th October Telford Homes opened their new marketing suite at **Avant-garde, Bethnal Green Road, E1**. All 12 apartments, released on this date, were sold within 2 weeks. The majority of the units (186) in this 25 storey mixed use tower development had already been sold in 2011 both overseas and in the UK and had achieved an average £710/sq ft. The balance of 71 units, were intended to be 'drip fed 'to the market over a 12 month period, beginning with the October 2012 release. Prices achieved in the October release were almost 13% higher than the original launch at in excess of £802/sq ft. Prices start from £315,000 for a studio apartment, £380,000 for one bedroom apartments and £525,000 for two bedroom apartments.

At the end of October we launched 5 freehold houses converted by the Aitch Group from former garaging and workshops in a secluded mews behind Russell Square at **The Colonnades, WC1**. Prices started at £1,335,000 for a two bedroom house and £1,375,000 for a three bedroom house and 3 out of the 5 houses were sold within five days, achieving an average of £1,347/sq ft. The houses blended a traditional exterior with a contemporary 21st century interior design and are an excellent example of individual homes being created from former commercial premises.

In November we released a small boutique development of 4 apartments, some with terraces at **54-56 Old Street, EC1** designed by USE Architects with a distinctive terracotta and glass facade. Prices started at £450,000 for one bedroom apartments and the 4 apartments averaged £821/sq ft.

The new homes market in 2013 will continue to see a number of small high quality boutique developments catering for the domestic market and larger developments including Lehman Street E1 by Berkeley Homes, 2 new tower blocks by Mount Anvil on City Road N1, and Bloomsbury Gardens WC1 by Crest Nicholson all of which will have a wide international appeal.

THE COLONNADES, BLOOMSBURY, WC1 - 5 MEWS HOUSES, £1,335,000-£1,750,000

In November the CPC Group which is owned by The Candy Brothers submitted plans to the City of London for 165 homes at The Sugar Quay site on the bank north of the River Thames. The plans by Foster and Partners include shops, cafes and offices on the ground floor. Following the success of The Heron, the City is now rightly established as a prime residential address in London.

Value through Design

The quality of place-making, landscaping and exterior architecture is critical to the value of residential developments across Midtown, City and Docklands. In our experience, it is unlikely that a developer will misjudge the internal layouts but it is still all too common to find the treatment of external elevations being compromised in order to reduce costs as part of the value engineering process with the building contractor. This can have a negative impact on value since buyers are highly discriminating. For this reason, the role of the architect along with the design team in creating value should not be underestimated.

It is a great strength of the Midtown and City markets that they have not, in general, churned out formulaic apartment blocks. Most schemes have character and are of a quality that has contributed positively to the streetscene and helped to create the village atmosphere. We include in this the volume house-builders that operate in Midtown, City and Docklands, who have demonstrated an understanding of place-making and have been prepared to invest in an appropriate quality of finishes. Good examples are Central St Giles WC2 by United House, Central Square EC1 by Mount Anvil and Pan Peninsula, Canary Wharf E14 by Ballymore where strong design principles are evident.

The vibrant street-scenes created by the pavement cafes, restaurants and independent retailers in many of the new London villages are a critical part of the mix but residents also play an important part in ensuring that these places become living, successful communities and the desireability factor increases value.

Planning Reforms

In response to a desire by the coalition Government to get the UK house building industry moving and stimulate the economy, the Government have been pushing for planning reform. After some initial objections from bodies such as the National Trust, the long awaited National Planning Policy Framework was published in March 2012. The new emphasis on testing for economic social and environmental sustainability and the drive to expedite some of the delivery processes was welcome.

Unfortunately the Government's subsequent announcement on September 6th with proposals which were designed to promote economic growth and particularly to remove barriers to house-building have not had a positive response from the London Boroughs. The general view seems to be 'why fix what wasn't broken' and many in the industry now question the extent to which the government appears to be dismantling the planning process.

The majority of Central London's planning authorities have expressed concern over the proposal for Permitted Development Rights to allow automatic conversion of commercial to residential use without any planning process because it will mean they can no longer control the loss of employment space and it will compromise their the ability to take a strategic view of where conversion is appropriate and constructive.

In our experience, the planning authorities that operate in our markets: Camden; City; Hackney; Islington; Southwark; Tower Hamlets and Westminster, have all been open to change of use to residential and have actively promoted more liveable places in London over the past decade and not acted as a barrier to change. The government's September 6th proposals will potentially end that comfortable and co-operative attitude towards conversion, not because the authorities necessarily wish to restrict the rate of home building but because they will feel disempowered by the new proposals and will therefore respond by creating policies that allow them to retain control. We confidently expect planning authorities to 'rebel' against centrally imposed policy and to seek exemption rights.

The Corporation of London considers that its status as a global business location would be undermined if its concentration of commercial stock is diluted to any great degree, although in its latest Local Plan, which is out for consultation in January 2013, has stated aims to greatly increase the quantum of retail space.

In Islington, new revenue generating policies are being implemented. Until now, the threshold above which a development proposal was required to include affordable housing was 10 units and as a consequence smaller developments tended to be 9-unit schemes. Under an earlier policy the threshold was 15 and then 14-unit schemes were popular. Under its new Affordable Housing Small Sites consultation document, published in August 2012, Islington proposed to impose a flat charge of £50,000 per residential unit in the north of the borough and £60,000 in the south of the borough to increase funds for affordable housing. It should be noted that these payments are in addition to Community Infrastructure Levy (CIL).

A possible response to Islington's new policy is that developers will take the line of least resistance and turn their attentions to locations with more realistic policies. It is likely that development will therefore decline and by 2015, once the current planning consents expire, we expect there to be shortages of new homes in the planning pipeline. The inevitable consequence of that supply constraint is capital value growth.

In fact, we have a very real concern that the changes to planning regulation will, far from facilitating the flow of residential development, create new barriers and will inhibit residential development in Midtown, City and Docklands and affect the delivery of new homes from 2015 onwards, once the stock of existing consents has been used up. There are already a raft of new contributions such as CIL and Crossrail and these, together with the new controls and costs we anticipate from planning authorities will add to the cost of development and impact on viability, or encourage developers to seek easier routes to development. In sum, it will curtail the flow of land to the market which is the opposite to what the Government has set out to achieve.

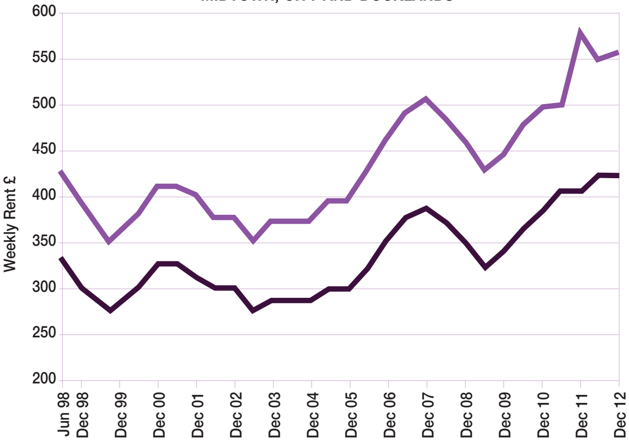
rental market

TENANTS PREPARED TO RELOCATE IN SEARCH OF VALUE

The impact of the Olympic Games on the rental market was, in the end, less dramatic than many observers expected and more muted than many owners might have hoped. Nevertheless there was an impact, particularly in Docklands, where values rose in the middle of the year and fell back again in in the autumn. The price wave was caused by owners restricting the supply of rental property in the lead up to the Games, in the hope of benefitting from a windfall boost in rental values and then returning stock to the market in September. Elsewhere, only a small proportion of the stock was affected and the impact on value was minimal.

There is normally an influx of prospective tenants in September as new graduates enter the job market and students return for the new academic year. This year was no exception and there was the added pressure of tenants who had hung back from agreeing new tenancies in the pre-Olympic period to avoid fixing rents at inflated values. However, whereas the seasonal influx would usually cause rents to rise, this did not happen in 2012 and this can be explained in part, by the Olympics. The autumn increase in demand was more than matched by the volume of stock returned to the market after the Games, which meant that rents remained broadly stable or, in the case of Docklands, fell. By the end of November, the surplus supply had been mopped up in time for the quieter period between November and January.

FIGURE 2
WEEKLY RENTS FOR ONE AND TWO BED APARTMENTS
MIDTOWN, CITY AND DOCKLANDS



Source: Hurford Salvi Carr, CCR

Over the year as a whole, there was little change in the rental values of one bed apartments in City or Midtown. In Docklands, rents ended the year lower than they began, despite peaking during the summer. Generally, the market has been stronger for one bed than two bed apartments.

Rents for two bed apartments that had dropped in all three submarkets at the half year stage rebounded in the second half of the year. Despite this recovery in the later months of the year, rents in the City and Docklands still ended the year down on 2011 (table 4).

The rental market is highly responsive and values had become over-inflated during 2011. There has been an adjustment in 2012.

TURNMILL STREET, FARRINGDON, EC1 - THREE WEEK OLYMPIC LET SUMMER 2012

One symptom of this adjustment was a significant increase in the incidence of tenants ending their tenancies at the earliest opportunity and a consequent reduction in the average length of tenancy from 30 months to 24. This was common in Midtown and City and was, in our view, prompted by a price-conscious tenant-base, taking the opportunity to adjust to the new market rent, or to relocate to lower cost areas.

Perhaps tenants were reacting to more difficult economic conditions, or simply recognising that rental values are significantly lower in other parts of the capital. People in rented accommodation are inevitably less committed to a location or building than owner-occupiers – and so the rental market is more fluid and therefore more reactive. We do not however expect any further downward adjustment in rents in 2013.

2012 has seen the emergence of a high-end residential market in the City, with rental values of £900 to £2,000 per week for larger homes no longer uncommon. Our records suggest that there has been a 3-fold increase in the number of new tenancies agreed in this price band. There is no such thing as a typical profile but the sort of characteristics that would command this level of rent are: a floor area of more than 1,200 sq ft; a height premium and/or a volume element (warehouse) and an outdoor terrace. Whereas in the past, tenants with generous budgets would have sought out houses in Notting Hill,

BLOOMSBURY, WC1 - A REFURBISHED TWO BED FLAT LET DEC 2012 £725 PER WEEK

TABLE 4
WEEKLY RENTS AND ANNUAL CHANGE FOR ONE AND TWO BED FLATS IN MIDTOWN, CITY AND DOCKLANDS AT YEAR END

Market	Unit Size	December 2011 £	December 2012 £	Annual Change
Midtown	1 bedroom	425	425	0.0%
	2 bedroom	620	620	0.0%
City	1 bedroom	450	450	0.0%
	2 bedroom	650	630	-3.1%
Docklands	1 bedroom	350	340	-2.9%
	2 bedroom	450	425	-5.6%

Source: Hurford Salvi Carr

St John's Wood or Kensington, today they are keen to be in and around the City. We have also noticed a growing willingness amongst owners of larger residential properties around the City to consider renting out their homes.

Docklands has a robust supply of rental stock and it serves a useful role in offering a well priced alternative for those wishing to rent within easy reach of Central London. In our experience however, most of those renters look westwards when they wish to buy, or relocate when considering schools for their own children.

LIMEHOUSE BASIN, E14 - THREE BED FLAT LET DECEMBER 2012 £675 PER WEEK

Regulation of the Private Rented Sector

There are a number of initiatives from various bodies to tighten up the regulation of the private rented sector. The Department of Communities and Local Government, (DCLG) Select Committee will consider whether rent controls should be introduced, the standard and quality of housing in the sector and whether letting agents fees and charges are fair;.

While the benefits of this are evident and there are undoubtedly some landlords across the UK who are guilty of exploiting their position, a greater buden of regulation will bring with it additional costs that will fall initially on the landlord but ultimately will flow through to the tenant in some form – whether that is indirectly through reduced supply, or directly though increased rents.

One example is the DCLG consultation on tenancy agreement costs, which is no doubt designed to relieve the tenant of these costs and transfer them to the landlord or agent. Compliance, if mandatory, would impact on the agent through additional responsibilities, but the cost will be passed on to the landlord through management fees and eventually recouped from the tenant via the rent.

Newham has introduced a scheme to license private landlords from 1st January 2013, ostensibly to avoid illegal letting. The cost of a 5 year license will be £500. While it is right to protect tenants from unscrupulous landlords, it will inevitably have an effect on the majority of landlords who do not exploit tenants and our concern is that it will be adopted and rolled out by other boroughs as a revenue generating exercise. It imposes an additional burden on the cost of managing private rented stock which will reduce landlords income.

An investor-landlord will seek to achieve a target rate of return, net of management costs. While measures outlined above are broadly welcomed as a way to ensure high standards, it is inevitable that, in a supply-constrained market such as Central London, the end result will be an increase in rents.

ARLA (The Association of Residential Letting Agents) are lobbying for greater regulation of the rental sector and in particular the statutory regulation of letting agents.

Investment

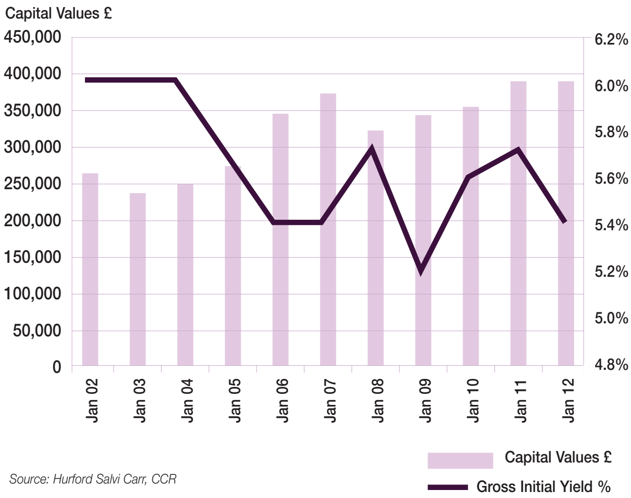
PRIVATE RENTAL SECTOR ATTRACTS ATTENTION

The Montague report, published in August 2012, reviewed the barriers to institutional investment in private rented homes and recommended ways to encourage greater investment.

There was a suggestion in the report that a separate planning use be created for private rented accommodation. This would be an effective way to retain stock in the sector but it was mooted as a 10 year license, whereas, we cannot see why the use should be restricted to 10 years, and perhaps a separate use class should be created.

The initiative that would have a greater influence on the future direction of the sector, would be to allow SIPPs (Self Invested Personal Pensions) to invest in the private rented sector and we were dissapointed that this was not raised in the Montague Report.

FIGURE 3
CAPITAL VALUES AND YIELDS FOR ONE BEDROOM FLATS IN MIDTOWN, CITY AND DOCKLANDS 2002 - 2012



Source: Hurford Salvi Carr, CCR

Hearthstone is collecting funds from the market (including SIPPs), with a view to investing in the private rented sector and has some pre-acquisitions lined up. It is a welcome development and we expect this fund to do well. The Hearthstone UK Residential Property Fund is the UK's first residential-focused property authorised investment trust. Its target is £250 million in the first 18 to 24 months, rising to over £1 billion by the fifth year. It has been reported that Hearthstone is already planning to launch a second fund.

The proposals to boost housing growth, announced by Government on September 6th, included measures to improve development viability by reducing the scale of planning obligations, particularly for affordable housing and to attract new sources of funding by offering government guarantees on 30 year debt in return for investors agreeing to buy newly built market rented housing.

The objective is to bring institutional investment into the private rented housing market. There have been early indications that some businesses are making ready. Barratt, for instance, has announced that it sees private rented sector as a 'big opportunity' and has suggested that it would like to build up to 5,000 homes per annum for the private rented sector in London. Its intention would be to build and sell on to a long term investor. It has however said that its business model relies on recommendations in the Montague report being implemented.

There is much talk in the property press about the emergence of an institutional investment market for private rented property. There is no doubt that pension funds and insurance companies continue to weigh up the opportunities in this market and to assess the returns that could be made from developing and owning private rented homes. In our areas however, buying into new developments of scale remains extremely difficult due to the strength of competition in the open market.

It is clear that the UK institutions remain unready to invest in the private rented sector (PRS). They cannot meet their target internal rates of return and for this reason, they are not able or willing to compete on price. One stumbling block is management costs which effectively reduce what appear to be fairly attractive gross yields of around 5.5% to a net yield of around 3%.

The reticence is overcome however, when the leaseholder is a social rented landlord. PRUPIM was reported in November to be in advanced negotiations with Genesis Housing Association over the sale and leaseback of its Stratford Halo scheme close to the Olympic Village. The scheme comprises 700 homes and 30,000 sq ft of commercial space. Under the proposal, Genesis would sell a long lease to the investor and then lease the properties back on a shorter lease with a rent linked to RPI. This kind of opportunity appeals to institutional investors because it seems highly unlikely that social landlords would be allowed to fail and thus the risk profile is attractive and income and liability can be reconciled.

Generally, effective management is critical in the rental sector to ensure that investment value is maintained. Other important considerations are that, as a rule, properties are cared for better when they are new and well-designed.

There are examples from less traditional corners of the institutional market. The Athletes Village for instance, on the Olympic Park, has been bought by a Qatari investment fund as private rented stock. At the moment however, there is less of an appetite for second hand stock – which has serious implications for this as a mainstream investment sector. London and Quadrant purchased a portfolio of 135 apartments in 8 buildings in October, which included properties in the City and West End.

TABLE 5
INCOME, VALUES AND INITIAL YIELDS FOR ONE BED APARTMENTS, AVERAGE OF MIDTOWN, CITY AND DOCKLANDS 2002 TO 2012

	Dec 2002	Dec 2003	Dec 2004	Dec 2005	Dec 2006	Dec 2007	Dec 2008	Dec 2009	Dec 2010	Dec 2011	Dec 2012
Gross Annual Income £	15,600	14,820	14,820	15,340	18,200	20,020	18,200	17,680	19,760	21,840	21,840
Capital Value £	260,000	245,000	246,000	270,000	340,000	371,000	318,000	338,000	352,000	386,000	405,000
Gross Initial Yield %	6.0	6.0	6.0	5.7	5.4	5.4	5.7	5.2	5.6	5.7	5.4

Note : gross yields are typically reduced by 2.5% points by costs and voids

Source: Hurford Salvi Carr, CCR

The established buy-to-let market has been strong in 2012. There is a good supply of funds to acquire properties and borrowing costs are favourable. There has been an increase in the number of buyers acquiring residential properties for their pensions (outside SIPP). Buyers come with a wide range of professional backgrounds and are having to compete with overseas buyers who are also releasing stock into the private rented sector.

Housebuilders often need to achieve pre-sales on developments in order to demonstrate to the banks that they qualify for funding. Developers recognise that the the buy-to-let market is able to deliver early sales in the development process. This opportunity is generally not as attractive to private buyers who are looking for a home because they do not want to wait over 12 months to move home.

During 2012 it has become far more difficult to sell-on a pre-purchase contract before the development is completed. In the past, a purchaser could enter into a contract to buy a property early in the development process (off-plan) and then sell that contract on to a second purchaser at a profit. But banks, with their new risk-averse habits, will no longer lend money for the purchase of a contract that is being sold at a value above the original contract price, or even, in many cases, when it is being sold at the original sale price. The result is that the re-sale of pre-sale contracts is now only open to cash purchasers.

Initial yields shifted from 5.7% to 5.5% at the mid year and by a further basis point in the 2nd half of 2012 to end the year at 5.4%. This was driven by the improvement in capital values while rental values were broadly unchanged over the course of 2012.

Sustainable Trends

It is clear that the public and in particular the younger generation is increasingly aware of the need for energy efficiency, if only to control their household bills. This will inevitably transfer along the residential chain as those young people who currently frequent the rental market mature and move through the housing market. We have yet to see the EPC (Engergy Performance Certificate) be used as a negotiating tool but we expect that to be the case in future, initially in the rental sector.

There has been a fundamental shift in attitudes towards cycle storage facilities. When the first car-free developments came to the market offering cycle racks, they were used very little but today, the offer of a secure, good quality bicycle shed with a keypad is a measurable attraction. We also feature the location of convenient Boris Bike docking stands in our letting details.

Silicon Roundabout to become TechCity

On the 6th December, David Cameron and Boris Johnson announced £50 million of funding for the Architecture 00:/- designed a High-Tech institute at Old Street Roundabout, which is the centre of London's fast growing TechCity zone. Old Street roundabout will be transformed into Europe's largest indoor civic space for start-up companies and entrepreneurs, teaching 10,000 students alongside global firms. After regeneration TechCity Roundabout will have a 400 seat auditorium, boardrooms, labs, a 3D printing centre, lecture halls and retail units. The development is scheduled for completion in 2016.

The announcement from the Government was accompanied by a raft of corporate commitments to TechCity, including Microsoft looking to establish a Technology Development Centre; Cisco, DC Thomson and UCL opening IDEALondon, an innovation centre in Shoreditch; KPMG announcing the opening of an office in Shoreditch, with a dedicated team to support early stage technology companies; and IBM bringing its entrepreneur programme to the area.

TECHCITY, SILICON ROUNDABOUT, EC1

market prospects

FORECASTS FOR 2013

The Sales Market

2012 ended with the residential markets in a more robust state than we had anticipated at the beginning of the year, or indeed at the half year, when confidence was dampened by the rain-sodden spring.

The upshot was a year in which price growth was moderate, in marked contrast to the exceptional growth reported in 2011. This has formed a more solid and stable platform for the year ahead. Our forecast for 2013 is that property prices in Midtown, City and Docklands will remain unchanged as the market adjusts to the higher pricing which we see as healthy and sustainable.

The sensational headlines generated about residential markets in central London are usually associated with the super prime market in West London. Those markets do have a knock-on effect on confidence and they also create an excitement around investment but the buyers in our markets have a range of options and sales remain scarce at levels above £1,400/sq ft in Midtown, £1,000/sq ft in City or £700/sq ft in Docklands. Where premium prices are above these levels they usually include valuable terraces, car parking spaces, or exceptional views.

The emergence of a new high-rise residential corridor starting at the Angel Islington running down City Road through Shoreditch and Broadgate to Aldgate, is welcome and will expand the supply of quality accommodation along the City's north and easterly borders. Pricing in these shiny new towers remains to be tested but we expect a large percentage of the sales to be concluded in the Far East where high-rise living is sought after.

The Rental Market

We were optimistic at the end of 2011 in our forecasts for rents as we saw a market where demand was rising but the stock of rental properties had not expanded in tandem. We expected that to fuel rising rents for another year but prospective tenants proved to be unwilling, or unable, to pay more and chose instead to seek out alternative parts of London. The market became price sensitive particularly for two bed properties and for this reason rents began and ended 2012 at very similar levels.

Now we believe that there is a better platform for further growth in 2013. It remains the case that demand is outstripping supply and tenants have had a year to acclimatise to the new higher rental levels. In other words, we expect rents to rise for the same reasons that we put forward at the beginning of 2012 but the movement was deferred by a year.

It is not unusual, after a growth spurt, for the market to need time to adjust to new pricing. Rental markets can be highly responsive to price changes because, unlike owner-occupiers, tenants have not made long term commitments. When rental values rose too quickly, tenants began to look elsewhere. The most obvious sign was the increase in the number of tenancies that ended at the 12 month point which had the effect of reducing the average stay to 24 months from 30 months.

We expect rents to rise by 5% in 2013 and that most of this increase will occur during the traditional spike in Q3.

Threats and Opportunities

We highlight here a few emerging trends that are likely to impact on the sales and/or the rental markets in London. Some of these are long term and others rather shorter but all are worth bearing in mind when contemplating investment decisions.

GLA Economics, predict that employment will increase in London at an average of 1% per annum over the next 20 years, with strong growth in Information technology and business services. These sectors are key drivers in Midtown, City and Docklands , although we should point out that forecasts for the financial sector are indicating decline. We see growth in the tech sector underpinning both the sales and the rental markets in our area.

Interest rates have remained low at 0.5% since March 2009 and the Bank of England has not indicated that it will change its position until the economy shows signs of real recovery. In fact the November minutes of the Monetary Policy Committee (MPC) suggested that it had considered a further cut. There were some positive economic indicators in the autumn figures but these were far from secure and many commentators remain braced for a further reversal. Indeed the Governor of the Bank of England stated in November 2012 that we should expect zig-zagging and that, while the economy is probably on the road to recovery, it will be slow.

The Coalition will, in our view, last the course of its term but as the general election approaches, ministers will be reluctant to take risks with the economy and so we anticipate a benign environment.

There is always the prospect that international conflict could hit the stock market and a very real threat of unrest and instability in the Eurozone that could affect UK export markets. The strikes and public demonstrations in Spain, Italy, Portugal and Greece in November revealed real tensions and rising public resentment towards austerity measures. Berlin and Brussels seem to be wholly focussed on preserving the Euro but it looks increasingly likely that European national governments will have to make concessions to public opinion. At the same time, the UK is in a political dispute over its contributions to the EU budget.

It is necessary to be aware of potential changes to the regulation of the private rental sector because it will have an impact, initially on net income and, as long as the market is under supply pressure, it will feed through to rental values. The reforms are, as yet, more than 12 months away but it is inevitable that the sector will be scrutinised as it expands and affects wider sections of society. ARLA (The Association of Residential Letting Agents) is supporting greater regulation of the sector and in particular the statutory regulation of letting agents as described earlier in this report.

Finally, we highlight the importance of transport infrastructure on the future of residential markets in Midtown, City and Docklands. Specifically the arrival of Crossrail with its stations in each of the three markets – Tottenham Court Road, Farringdon and Canary Wharf, will underpin property values. It is not due for completion until 2018 but its profile is ever higher and most prospective buyers and tenants are now aware of its potential to greatly improve the connectivity particularly with Heathrow and Canary Wharf as well as other locations on the east-west axis of London.

WEST END
39 Store Street
London WC1E 7DS
Sales and Lettings
020 7299 3322
westend@h-s-c.co.uk

CITY
37-41 St John Street
London EC1M 4AN
Sales and New Homes
020 7250 1012
sales@h-s-c.co.uk

CLERKENWELL
1 Britton Street
London EC1M 5NW
Lettings
020 7490 1122
lettings@h-s-c.co.uk
Commercial
020 7566 9440
commercial@h-s-c.co.uk
Development and Investment
020 7566 9444
investments@h-s-c.co.uk

DOCKLANDS
9 Branch Road
London E14 9HS
Sales
020 7791 7000
sales.docklands@h-s-c.co.uk
Lettings
020 7791 7011
lettings.docklands@h-s-c.co.uk
Property Management
020 7791 7033
management@h-s-c.co.uk

www.hurford-salvi-carr.co.uk

HURFORD SALVI CARR

www.hurford-salvi-carr.co.uk