# research

*from* Hurford Salvi Carr

**MIDTOWN, CITY AND DOCKLANDS**

RESIDENTIAL REVIEW 1ST HALF 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 3,000 new homes in over 200 developments, the majority created from former commercial premises, and we have played a pivotal role in the repopulation of Clerkenwell and the City fringes.

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 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

# market overview

## THE MARKET PAUSES FOR BREATH

Residential prices across Midtown, City and Docklands rose by an average of 3.5% in the first half of 2012 with the increases being concentrated in the first quarter of the year and the market cooling down in the second quarter as prices remained unchanged. In the three years since March 2009 the value of residential property in Midtown, City and Docklands has increased by an average of 25% at a time when the UK economy has struggled to keep out of recession.

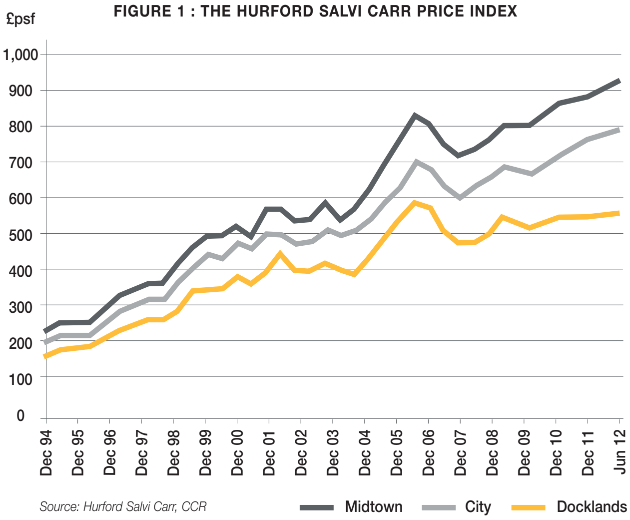
It is therefore no surprise that the sales market slowed down in the second quarter of 2012 as the it paused for breath with a shortage of new stock coming to the market and domestic buyers unwilling or unable to meet to sellers' price expectations.

In the rental market we witnessed a continued narrowing of the price gap between one and two bedroom accommodation. Rents remained unchanged for one bedroom apartments in Midtown and the City while continuing to rise in Docklands and East London, at the same time that two bedroom apartments fell by a significant 8% across all markets in the first half of 2012, as tenant demand focused on smaller units. Overall there were a record number of new tenancies in the first half of 2012, as tenants moved in larger numbers assisted by a better choice of new accommodation, at lower or comparable rents for the first time since June 2009. This was in marked contrast from 2011 where we reported tenants were renewing their tenancies in large numbers as rents were rising.

New Home sales continued to be split between overseas sales in the Far East and an increasing number of UK launches with many producing strong results. However, the new homes market is not immune to pricing sensitivities and there were a number of examples of development launches overseas and in the UK that failed to generate the expected level of sales. Central London's new homes market remained highly dependent on overseas buyers but there are signs that this is about to change as more off plan launches target UK buyers to take advantage of a strong domestic market hungry for new stock.

The Hurford Salvi Carr Price Index, which is based on average prices per sq ft in the re-sale market, illustrates price changes in the first half of 2012 for the Midtown, City and Docklands sub-markets. Note that the £ per sq ft prices in the re-sale market are lower than the premium prices being paid for New Homes.

FIGURE 1 : THE HURFORD SALVI CARR PRICE INDEX




*Source: Hurford Salvi Carr, CCR*


BOUNDARY APARTMENTS, BOUNDARY STREET, E2 - 8 APARTMENTS SOLD MAY 2012

- **Midtown** prices increased by 4% from £886 to £921 per sq ft
- **City** prices increased by 3.5% from £763 to £790 per sq ft
- **Docklands** prices increased by 3% from £546 to £562 per sq ft

It is worth noting that the above increases were recorded in the first quarter and that prices remained unchanged in the second quarter of the year. The increases are never the less impressive given a backdrop of economic problems that show no signs of easing. In many respects the residential market has followed London's weather pattern with the welcome sunshine in March followed by rain clouds in April, May and June which kept buyers indoors as the seasonal spring upturn in the sales market failed to materialise.

During the first six months of the year, London's property market had the following external economic and political factors to contend with:

- Continual concern over Greece. Greece's hope of clinging to its euro membership was boosted as the pro-bailout New Democracy part clinched a slender victory in a second election on the 17th June. If 'Grexit' becomes a reality and Greece exits the Euro even with effective firewalls, there is a risk of contagion across the region.
- By the beginning of June pressure had spread to Spain and the Spanish banks that were exposed to an epic boom and bust in the Spanish property sector, where prices have fallen 30% from the 2007 peak. On 9th June Spain applied for £100 billion Euros in aid from the European Financial Stability Facility to bail out its crippled banks. In doing, so Spain became the fourth and biggest country in the eurozone to demand a rescue.
- The Bank of England maintained the base rate at 0.5% at each of the monthly meetings of its Monetary Policy Committee (MPC), a rate that by its 7th June meeting had been in place for 39 months.
- The UK slipped back into recession in the first quarter of 2012. The Office of National Statistics (ONS) recorded GDP at 0.3% with a major factor being the deterioration of he UK's construction industry. The economy has shrunk by 0.6% in the current recession. This compares with the 7% contraction in 2008/2009. This is the first double dip recession in Britain since 1975.
- On a positive note, the Office for Budget Responsibility (OBR), the independent watchdog set up by the Chancellor after the coalition was formed in 2010, suggested that the housing market will tread water in 2012, but will enjoy a 20% surge in transactions in 2013, followed by further increases in volume until 2016. The OBR also predicts house prices to rise during the next 4 years.

- UK inflation fell from 3.5% in March to 3% in April. It is expected to continue to fall due to lower commodity prices and the effect of a stronger pound for import prices.
- The outlook for jobs was gloomy with the British Chamber of Commerce forecasting that the number of unemployed in Britain was set to rise by 275,000 to 2.9 million in 2013 despite falls in unemployment in the first half of 2012.
- George Osborne's third Budget on 21st March 2012 included the good news of a reduction of the top rate of income tax from 50p to 45p, an increase in personal allowances and cuts in Corporation Tax, but the Chancellor also announced an increase in Stamp Duty on UK residential properties sold for more than £2 million risingfrom 5% to 7% and introduced a punitive 15% charge on company purchases. The rate of stamp duty above £1 million remained at 5% having increased in April 2011. Billed as a crackdown on Stamp Duty avoidance, the consequences for the prime central London property market which includes Midtown, City and Docklands was immediate not only for properties worth over £2 million but the announcement played a large part in dampening demand along with confidence at the top end of London's residential property.
- The FTSE 100 that had climbed to 5,989 points in March, suffered its steepest one day fall to 5,260 on 1st June. Global investors dumped shares and sold Euros amid EU leaders stepping up preparations for a single currency without Greece. By 18th June the FTSE had recovered some ground to finish at 5,491 following Spain's bailout and news of the Greek election result.
- The Euro hit a 21 month low against the Dollar on 23rd May touching $1.2563 and a three and half year low of 79.85p against sterling on 29th May.
- Despite base rates remaining unchanged during April and May UK banks including Halifax, Clydesdale Bank, Yorkshire Bank, Royal Bank of Scotland and NatWest increased their Standard Variable Rates (SVRs) for borrowers. In June, First Direct and Santander increased the rates on some of their mortgage deals.
- In June 2012 the government announced plans for a new £100bn support package designed to help banks increase lending levels and protect the UK economy from the eurozone crisis. Under the scheme, working jointly with the Treasury, banks will be able to swap loans to individuals and firms for government bonds, as long as they agree to lend out the money at cheap rates.

City bonuses that have become such a seasonal feature of our market (including the past 2 years), played little part in fuelling demand in the spring of 2012 as banks, law firms and other financial institutions combined lower cash bonuses with share options as a means of rewarding their top performers.

**ST JOHN STREET, CLERKENWELL, EC1 - 3 BED APARTMENT SOLD JUNE 2012 £1,380,000**

**ST JOHN'S LANE, CLERKENWELL, EC1 - 3 BED APARTMENT SOLD JUNE 2012 £1,320,000**

A low level of supply has underpinned prices in the first half of 2012. With stock markets volatile, savings rates offering low levels of interest and buying costs associated with UK property at record highs, it is not surprising that stock levels in the sales market have remained low as owners look to retain a safe home for their capital. The opposite has been true in the rental market where the supply of accommodation increased. Tenants have a wider choice and the prices being paid for two bedroom apartments have fallen. Property owners in London continue to turn to the rental market as a long term investment strategy rather than capitalise on historically high sales values.

# sales market

## LOW LEVELS OF SUPPLY UNDERPIN VALUES

The first half of 2012 was characterised by a shortage of instructions across Midtown, City and Docklands. This resulted in;

- A lower level of transactions compared to 2011
- Prices rising by an average of 3.5% with rises concentrated in the first quarter of 2012
- Sealed bids still common for trophy homes and apartments with sought after outside space
- Buy to let investors snapping up one bedroom apartments
- Frustration amongst UK based purchasers as they were out bid by overseas buyers
- Asking prices starting to look and feel overpriced

Prices rose across all our sub markets between January and March before confidence was undermined in the second quarter of the year by the wider economic uncertainty emanating from Greece's sovereign debt problems, GDP figures which confirmed that the UK had slipped back into recession, and the rise in Stamp Duty announced in the Budget on 21st March.

Against this backdrop the sales market held up particularly well with buyers represented amongst the following profiles;

- Equity rich second home owners looking for a pied a terre in London
- European buyers looking to house family members working or studying in London coupled with a safe haven for their cash outside of the eurozone.
- Far Eastern and European buyers looking for buy to let investments
- London buyers looking for larger penthouses and houses with outside space.

ST JOHN'S PATH, CLERKENWELL, EC1 - 3 BED APARTMENT SOLD MAY 2012 £2,450,000

First time buyers were under-represented in Midtown, City and Docklands as larger deposits were required to qualify for mortgages and prices were driven upwards by the groups described above. As London cements its position as a World City it becomes increasingly difficult for London buyers to compete for London's best homes. This situation is no longer restricted to South West, West and North West London but increasingly the 'villages' in and around the City including Bloomsbury, Fitzrovia, Clerkenwell, Bankside, Borough, Spitalfields, Shoreditch and Islington.

First time buyers supported by 'The Bank of Mum and Dad' are active in Docklands and East London where neighbourhoods, shopping facilities (Canary Wharf and Stratford) and transport connections with easy access to the City and West End have all improved over the past decade.

45% of Hurford Salvi Carr buyers purchased with 100% cash in the first half of 2012 as our market continues to be dominated by the equity rich. This figure has fallen from 54% in 2011, 62% in 2010 and 73% in 2009 when the banks and building societies deserted the mortgage lending markets.

As more buyers take up mortgage offers for low Loan to Value (LTV) deals, transaction times have moved out to an average of 9 weeks before buyers are ready to exchange contracts. Although the delays are down to a range of factors including unprepared sellers, one of the biggest problems has been the extra level of information that buyer's solicitor now requires to satisfy banks and building societies. A natural consequence of these delays is where sales over run on agreed time scales; sellers and buyers lose confidence in the deal and sales can fall through.

Given the delays the market is encountering, HSBC's decision in January 2012 to couple some very attractive mortgage products with a requirement for buyers to use one of their preferred panel solicitors caused a further problem. The move was made to help prevent fraud and to protect the bank. Borrowers went from being able to choose from thousands of solicitors to a panel of just 48 firms. Customers experienced additional delays that sometimes cost them their purchase and Hurford Salvi Carr had to advise vendors and buyers of the additional delays they could expect to encounter if the purchase was supported by a loan offer from HSBC. Thankfully after pressure from The Law Society and The Times, HSBC reversed their position on 16th May 2012 promising to increase the number of solicitors it uses for property transactions to more than 1,400. In the risk adverse financial world, in which we all now operate, an increase in compliance can come with service issues and delays that do not all always benefit the customer.

**TABLE 1: ILLUSTRATED PRICE CHANGES FOR ONE-BEDROOM FLATS 1998 - JUNE 2012 IN MIDTOWN, CITY AND DOCKLANDS**

| Year End | Price Change % | One bedroom Illustration | |
|---|---|---|---|
| | | Market Value (£) | 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 | -6% | 245,000 | -15,000 |
| 2004 | +0.4% | 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 | +6% | 338,000 | +20,000 |
| 2010 | +4% | 351,000 | +13,000 |
| 2011 | +10% | 386,000 | +35,000 |
| 2012 June | +3.5% | 400,000 | +14,000 |

*Source: Hurford Salvi Carr, CCR*

GREAT RUSSELL STREET, WC1 - 4 BED MANSION FLAT SOLD SPRING 2012 £1,000,000

At the end of June the average price of a one bedroom apartment in Midtown, City and Docklands had reached £400,000 (Table 1). Entry level one bedroom apartments in Docklands start from £235,000 while £500,000 is no longer a barrier for oversized one bedroom apartments in the better residential developments in Midtown and the City.

Prices have now risen by an average of 25% since 2009 and at the end of June 2012 they were 8% higher than their previous high recorded in June 2007 with the Midtown and City prices 11% higher and Docklands still behind by 4% (Table 2).

There was little variation between sub-markets in the rate of growth in sales prices in the first half of 2012 across Midtown, City and Docklands with all areas reporting stronger demand for one bedroom apartments than for two bedroom homes. This in part is driven by affordability issues but is indicative of price movements across all sectors of the sales market in the first half of 2012.

By June 2012 there was growing evidence of overly optimistic asking prices in the second hand market being reduced to reflect a more realistic sentiment in the market.

**TABLE 2: PRICE CHANGES FOR TYPICAL ONE-BEDROOM FLATS IN THE RE-SALE MARKET IN JUNE 2012 AND COMPARISON TO MARKET PEAK**

| Sub-Market | Price at Dec 2011 (£) | Price at Jun 2012 (£) | Annual Change 2011 (%) | Price at Sept 2007 Peak (£) | Change Peak (2007) to Current (%) |
|---|---|---|---|---|---|
| **Midtown** Bloomsbury, WC1 | 465,000 | 480,000 | +4% | 433,000 | +11% |
| **City** Clerkenwell, EC1 | 425,000 | 440,000 | +3.5% | 395,000 | +11% |
| **Docklands** Limehouse, E14 | 325,000 | 335,000 | +3% | 350,000 | -4% |

*Source: Hurford Salvi Carr*

To conclude; the sales market continued to perform strongly in the early part of 2012 following 3 years of exceptional growth and we expect a period of stability to follow in the second half of 2012. With higher levels of supply to be provided from the new homes market in the next 18 months, the equilibrium should be addressed in 2013 providing a platform for stability.

# new homes market

## UK PURCHASERS GIVEN MORE OPPORTUNITIES TO BUY OFF PLAN

Development launches in the first half of 2012 were lower in number than anticipated at the end of 2011 but this can be seen as the calm before the storm as a large number of high quality residential developments will be coming to the market over the next 24 months.

The increase in the development pipeline across Camden, Islington, Hackney, The Corporation of London and Tower Hamlets will supply significant numbers of new homes close to London's financial and business districts, including 'Tech City', London's new media and IT hub around Old Street and the Aldgate.

This significant increase in supply is being managed by off plan marketing strategies targeting UK buyers alongside overseas investors. This year we have seen more developers targeting UK purchasers at an early stage, instead of risking higher marketing costs associated with exhibitions in the Far East, and we expect to see this trend continue in the second half of 2012, as overseas buyers express concern about the UK economy being caught in the aftermath of the problems in the eurozone.

In May we sold a refurbishment of 5 apartments for Jaspar Properties at **Savage Gardens, EC3** close to Tower Hill in the City where we achieved £1,000 per sq ft for the four one bedroom apartments.

At the end of June we launched **Ixia, East Road, N1** a development of 48 apartments on behalf of Crest Nicholson. Prices start from £384,950 for one bedroom apartments and £499,950 for two bedroom apartments with 8 individual penthouses on the 7th and 8th floors where the prices range from £650,000 to £1,250,000. The apartments all have private terraces and distinctive aluminium shutters, underfloor heating and comfort cooling.

SAVAGE GARDENS, TOWER HILL, EC3 - 5 APARTMENTS SOLD SPRING 2012

Also in Shoreditch, United House launched 9 apartments in **Paul Street, EC2** in May at prices averaging £970 per sq ft while London Square launched 27 apartments in June 2012 following 17 overseas sales in 2011 at **18-30 Leonard Street, EC2**.

While in Bloomsbury we launched 3 stunning contemporary houses in **Wakefield Street, WC1** for Great Marlborough Estates designed by Piercy Architects. The houses are exquisitely finished and quietly located close to the Brunswick Centre with roof terraces and views over St George's Gardens with the houses priced at £2,500,000 equating to £1,250 per sq ft. In July 2012 we will be launching a refurbishment of 5 mews houses in **The Colonnades, WC1** located just behind Russell Square. Also at St George's Gardens, in **Sidmouth Street, WC1**, Crest Nicholson in partnership with Passion Properties will start work on a new development of 44 apartments in the autumn, with completions anticipated by the end of 2013. Pricing is expected to average £1,000 per sq ft.

BLOOMSBURY COLLECTION, WAKEFIELD ST, WC1 - 3 BED HOUSE SOLD MAY 2012 £2,500,000

In May, **Fitzroy Place, W1** (the former Middlesex Hospital site) was offered in the Far East by Exemplar Developments. Reports indicate that 118 of the 237 apartments were sold off plan at pricing averaging £1,700 per sq ft. At **Kings Cross, NW1** Argent successfully released the first private block of 114 apartments in the Far East with completion due at the end of 2013.

In the City at **Roman House, Wood Street, EC2** Berkeley Homes targeted UK buyers in June with an off plan launch of 90 private apartments. Studio suites started at £499,995.

The largest residential development project in the City is Berkeley Homes' Goodman's Fields site in **Leman Street, E1** which has consent for 805 apartments above retail and commercial spaces which commence marketing in the autumn of 2012. This is game changing for Aldgate and with Barratt's 171 apartments at **Altitude, Ailie Street, E1** being marketed off plan in the UK and Redrow's **One Commercial Street, E1** above Aldgate Station with 145 apartments all within close proximity there is marketing momentum growing for 'city living' to the east of the City. All three developments have prices starting at £800 per sq ft.

In East London we hosted an off plan launch of 51 apartments for UK purchasers of **The Panoramic, Willis Street, E14** for Telford Homes on the last weekend of June 2012 at the Marriott Hotel, Canary Wharf. The Panoramic is a 20 storey tower in Poplar E14 following a successful first phase launch in the Far East in the spring of 2012 when 44 apartments were sold at prices averaging £400 per sq ft. Completion is at the end of 2013.

The new National Planning Policy framework was published on 27th March and included the presumption in favour of sustainable development. The final publication cut down 1,000 pages of established planning policy guidelines down to fewer than 50 pages. Councils have 12 months to draw up local plans before the presumption comes into force. There is no clear definition of what sustainable development is but it includes economic, social and environmental issues.

Less widely reported in the March Budget was the announcement of an additional £150 million for the Get Britain Building fund. The initiative is designed to boost the construction industry, restarting building at stalled sites by releasing commercial loans to builders. This addition brings the total available to £570 million – a welcome increase, as the fund is three times over subscribed. With the UK's major house builders now active across Midtown, City and Docklands this initiative has the potential to boost economic activity and the City's property market.

As we reported in our Residential Review 2011, demand for sites in Midtown, City and Docklands, with and without planning is insatiable, as developers and housebuilders have secured equity partners in place of conventional bank funding to acquire sites with banks funding the build. This level of sites under construction ensures a higher level of supply and indicates that pricing will stabilise at current levels over the second half of 2012.

THE PANORAMIC, E14 - PREVIEW LAUNCH OF 20 STOREY TOWER JUNE 2012

# rental market

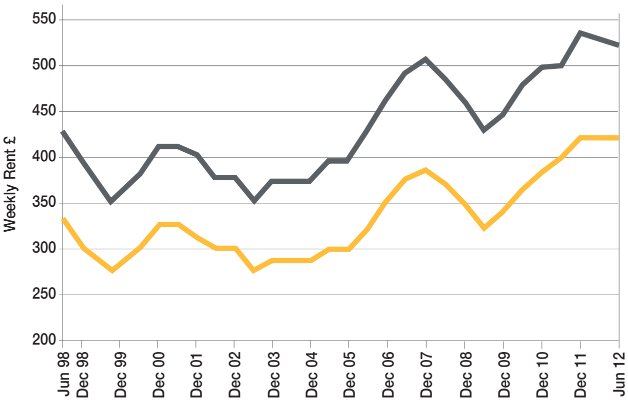
## GAP CLOSES BETWEEN ONE AND TWO BEDROOM RENTS

The first half of 2012 saw a shift in the residential lettings market in Midtown, City and Docklands with an increase in supply encouraging more mobility across the sector and tenants taking advantage of static or falling rents to find new accommodation.

Supporters of the Private Rented Sector (PRS) have long proclaimed that the flexibility provided by 12 months Assured Shorthold Tenancies (ASTs) is one of its attractions, and in the first half of 2012 this was evidenced at first hand. Overall the rental market experienced a larger number of new tenancies during the first half of 2012 as tenants moved in larger numbers assisted by a better choice of new accommodation at lower or comparable rents for the first time since June 2009. This was a marked change from 2011 where we reported tenants were renewing their tenancies in large numbers.

Rental values for one bedroom flats remained unchanged (Figure 2) while two bedroom properties saw a clear downward pressure on weekly rent levels falling a significant 8% back to January 2011 levels. The overall effect was to close the price gap between one and two bedroom apartments reflecting tenants' budget constraints and a reduction of corporate accommodation budgets as a consequence of the economic downturn.

FIGURE 2 : WEEKLY OPEN MARKET RENTS IN MIDTOWN, CITY AND DOCKLANDS JUNE 1998 - JUNE 2012




*Source: Hurford Salvi Carr, CCR*

This is the first drop in rents we have reported since 2009 and coincides with a slowing down in the sales market. Both markets are linked to London's employment trends which in turn is a barometer of the UK's economic performance. Like the sales market, rents are still at historically high levels with one bedroom rents having risen 30% since June 2009 and two bedroom rents now higher by 20%.

The largest falls in rents occurred in the two bedroom market in the City and Midtown where demand fell away as tenants sought more affordable and modern accommodation in other parts of London. One of the areas to benefit has been Docklands and East London where a record number of new tenancies were signed with supply often being provided by overseas investors who have been buying in large numbers off plan over the past 2 years. As these new developments complete we have maintained a strong list of tenants wanting to take up tenancies in the new apartments.

The improved retail offering at Canary Wharf and Westfield Stratford has played an important part in encouraging the shift in demand from West to East. Unconventionally, Midtown can now offer great value and we expect this situation to correct itself in the second half of 2012.

Demand is best demonstrated at **Silver Wharf, Bow E3** when we let 40 apartments on behalf of an investor within 12 weeks, demonstrating the strength of demand in the PRS in East London. At the top end of the market there were a number of tenancies agreed at or above the £1,000 per week benchmark, typically to company executives looking for the very best apartments and houses.

SILVER WHARF, BOW E3 - 2 BED APARTMENTS LET SPRING 2012 £330-£360 PER WEEK

The increase in supply that has caused the shift in pricing is expected to continue with an increase in new homes under construction across our area. In the short term there may be some localised over supply issues in September following the Olympics when more accommodation is returned to the PRS, which we anticipate will in part be taken up by this year's graduate and student intake which usually swells demand in September and October.

TABLE 3: WEEKLY RENTS FOR ONE AND TWO-BEDROOM FLATS IN MIDTOWN, CITY AND DOCKLANDS, DECEMBER 2011 AND JUNE 2012 COMPARED

| Market | Unit Size | Dec 2011 Weekly rent £ | June 2012 Weekly rent £ | Change (%) |
|---|---|---|---|---|
| Midtown | 1 bedroom | 425 | 425 | +0% |
| | 2 bedroom | 620 | 580 | -7% |
| City | 1 bedroom | 450 | 450 | +0% |
| | 2 bedroom | 650 | 600 | -8% |
| Docklands | 1 bedroom | 350 | 365 | +4% |
| | 2 bedroom | 450 | 450 | +0% |

*Source: Hurford Salvi Carr*

The first half of 2012 also brought some awaited realism to the market regarding the Olympics and the prospect of achieving sky high short term rents during the Games. Agents across London were inundated with owners interested in letting their homes out with little, if any, knowledge of the legislation that they would need to comply with as landlords. In any event demand from visitors to the games and facilitators failed to materialise with only a small number of enquiries from media groups being easily serviced by various providers.

Owners and landlords who had read in the press that they could rent their homes for 4 or 5 times the usual rates were left disappointed at the end of June as the rush had failed to materialise. In April the London Organising Committee of the Olympic Games (LOCOG) confirmed that around 20% of the room nights they had would now be returned to the hotels for them to offer to other customers. Unlike Athens, Sydney or Barcelona, London has been able to accommodate the world's visitors.

# investment market

## BUY TO LET INVESTORS LOOK FOR LONG TERM RETURNS

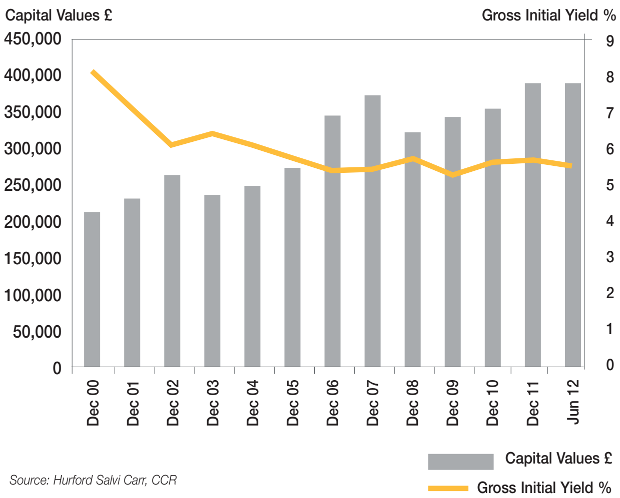
In the first half of 2012 we saw investment returns fall (Figure 3, Table 4) as rents stayed unchanged on one bedroom accommodation and slipped 8% for two bedroom apartments back to where they were in early 2011, while capital values increased by an average of 3.5% thus reducing yields.

London however continues to be viewed as a long term plan by investors, with a combination of modest rental returns and long-term capital growth.

There remained strong investor demand looking to invest in entry level one bedroom apartments and two bedroom, two bathroom apartments in the first six months of 2012 across Midtown, City and Docklands with a good supply of buy to let mortgages available. Despite high purchase costs that include Stamp Duty, loan agreement fees, valuation fees and legal costs, London property continues to retain its safe haven status in the current low interest rate environment.

The first half of 2012 saw a marginal shift in gross yields back to their long term trend of 5.5% down from 5.7% at the end of 2011 for an average one bedroom apartments based on a capital value of £400,000 and annual rental of £21,840.

**FIGURE 3 : CAPITAL VALUES AND YIELDS FOR ONE-BEDROOM FLATS IN MIDTOWN, CITY AND DOCKLANDS DECEMBER 2000 - JUNE 2012**




*Source: Hurford Salvi Carr, CCR*

In May 2012 we represented Shoregate Properties in the sale of 8 interior designed penthouses in a new mixed use building at **The Boundary Apartments, Shoreditch High Street, E2**. A UK investor purchased all 8 apartments just days before the public launch. The Boundary Apartments are located opposite Conran's Albion Hotel on the corner of Redchurch Street. The apartments were specified by Buckley Grey Yeoman with comfort cooling, underfloor heating, Poggenpohl kitchens and each apartment featured spectacular views over the City from private roof terraces. There was a long list of disappointed buyers who were prepared to pay close to £1,000 per sq ft to live in prime Shoreditch.

Around the corner at **Avant-Garde, Bethnal Green Road, E1** in the first six months of 2012 we have sold the contracts of 3 first phase sales to individual UK buy to let investors, at improved prices. The second phase release of Telford Homes' 27 tower is anticipated to be in the autumn of 2012. 188 of the 259 apartments have already been sold in 2011 both in the Far East and in London.

During the first half of 2012 we worked with a number of clients to take advantage of the shortage of supply and high capital values to break up blocks that had been let since the downturn in the final quarter of 2007, and drip feed apartments into the market. This strategy has proved to be highly successful for our clients who had developed new residential blocks between the end of 2007 and 2009 and had been letting the apartments as part of managed portfolios. The value of the portfolios has improved over the past 3 – 4 years. In many cases they were seeing values in excess of what could have been achieved in the early part of 2007.

Bulk investors looking to pick up distressed stock have been disappointed. With capital values in Midtown and City above 2007 levels, there have been few repossessions and discounts for bulk purchases have not been available from developers in our part of London. Equally investment companies have unrealistic expectations of discounts on offer for portfolio sales and a recurring pattern has emerged of asking prices on a number of rental portfolios being increased in line with revaluations just as investor interest hots up at the old price. It could be argued that either the buyers or the sellers are not serious, or both.

Far East investors were hit by a wall of negative reporting during the first half of 2012 on the problems with the Greek economy's potential fallout for the UK and for the financial markets. While contagion to other European countries cannot be ruled out, wild reporting about the potential for bank runs across Europe hardly instils confidence and is not how UK commentators have been reporting the risk profile.

Overall investment transactions have again been disappointing which we see as reflecting the continued strength of the sales and new homes markets supported in part the lack of distressed residential stock in central London following 25% increases in capital values across our areas in the past 3 years.

**TABLE 4: ILLUSTRATED INITIAL YIELDS FOR ONE BEDROOM FLATS IN MIDTOWN, CITY AND DOCKLANDS 2000 TO JUNE 2012**

| | Dec 2000 | Dec 2001 | Dec 2002 | Dec 2003 | Dec 2004 | Dec 2005 | Dec 2006 | Dec 2007 | Dec 2008 | Dec 2009 | Dec 2010 | Dec 2011 | Jun 2012 |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| **Gross Annual Income £** | 16,900 | 16,120 | 15,600 | 14,820 | 14,820 | 15,340 | 18,200 | 20,020 | 18,200 | 17,680 | 19,760 | 21,840 | 21,840 |
| **Capital Value £** | 210,000 | 230,000 | 260,000 | 245,000 | 246,000 | 270,000 | 340,000 | 371,000 | 318,000 | 338,000 | 352,000 | 386,000 | 400,000 |
| **Gross Initial Yield %** | 8.0 | 7.0 | 6.0 | 6.0 | 6.0 | 5.7 | 5.4 | 5.4 | 5.7 | 5.2 | 5.6 | 5.7 | 5.5 |

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

*Source: Hurford Salvi Carr, CCR*

# market prospects

## FORECAST FOR 2ND HALF OF 2012

Increases in capital values in the first quarter of 2012 were offset by a slow down in activity and enquiry levels in the second quarter. Prices stabilised against a backdrop of the UK dipping back into recession and the uncertainty over Greece's future within the eurozone causing volatility in the financial markets and confidence to be dented.

The outstanding performance of the residential markets across central London including Midtown, City and Docklands since 2009 has occurred in spite of mortgages only being available to the equity rich and little or no bank support for private developers and house builders.

The extra investment that London has benefitted from in regards to its transport infrastructure, leisure and retail offerings and improvements to London's streets scene in the build up to the Olympic and Paralympic Games has been immense. We anticipate that the boost that London's economy will receive as an 'Olympic City' in the aftermath of the Games from tourism in particular will continue to help London through the global economic problems that we face moving forward.

In the political arena, Boris Johnson was re-elected as London Mayor on 5th May 2012, the coalition government looks set for a further 3 years in office. The outcome of the American election in November 2012 is unlikely to have the same impact or influence on the UK economy as changes within the eurozone.

The increase in office requirements from the West End to Midtown, City and East London including the internet business hub at Silicon (Old Street) Roundabout through Shoreditch to Stratford and Canary Wharf, provides a demographic shift from west to east that brings with it an enhanced requirement for residential accommodation across Midtown, City and Docklands.

### The Sales Market

We anticipate that the shortage of stock coming to the market that was a key element in prices rising in the first half of 2012 will be alleviated by an increase offering of new homes across Midtown, City and Docklands in the second half of the year. This will be good news for buyers, and this better balance of supply and demand is likely to provide stability to the sales market not only in the second half of 2012 but also moving into 2013.

The Euro crises could easily result in money markets freezing again as they did in 2008, resulting in a further reduction in bank lending capacity. The cost of borrowing which has remained largely unchanged for 3 years is set to rise as banks increase their margins, but for equity rich buyers, including buy to let investors in our market, we do not believe the availability of funding is likely to be barrier to buying.

As we indicated in our end of year Review in December 2011 we believe that prices may see a downward correction of 1-2% in the second half of 2012 due mainly to over ambitious pricing by owners.

We see no reason to change our view but overall we expect to see prices finishing the year ahead of where they finished at the end of 2011.

Looking further ahead we expect transaction numbers which have been subdued in 2012 to increase in 2013 as developers bring a range of well designed new homes to the market including a number of new luxury tower blocks with exceptional views over the capital.

With the residential development pipeline back to pre 2007 levels we anticipate prices remaining stable, as it will become more difficult for developers to increase prices in the face of greater competition from other developments for the buyers. Pricing stability in the sales market over a longer period of time would enable tenants who have been renting over the past decade to finally get their chance to become homeowners.

### The rental market

In the short term tenants can look forward to a greater choice of apartments from September when the London market absorbs the additional units held back for short term Olympic accommodation. This increase in supply may take a number of months to work through the system during which time we would expect to see rents fall in the fourth quarter of 2012.

In the longer term looking ahead to 2013 and 2014, we expect additional supply to filter into the market from investments sales secured in 2010 through to 2012 in the Far East and locally in London to Buy to Let investors. As this additional stock comes to the market particularly to the east of the City and Docklands we can see a case for localised falls in rents by 5-10% in 2013 as tenants take advantage of the increase in choice. Landlords should be prepared to work hard to keep good tenants in their properties at lease renewals and not over negotiate.

### Conclusion

With the UK struggling to pull out of recession, a further tightening of bank lending policy and the fallout from Greece's potential withdrawal from the Euro the second half of 2012, the next 6 months are likely to be turbulent for central London's property market.

At the same time we believe London's position as a Global City will be strengthened by the staging of a first class 2012 Olympic and Paralympic Games that will have been delivered on time and on budget and the UK's status outside of the eurozone will continue to attract overseas investment into London's property markets.

In short, any loss of momentum is likely to be temporary. London's international status is set to be further enhanced this year, its effect on the residential property market for Midtown, City and Docklands should not be underestimated.

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