research

from Hurford Salvi Carr

MIDTOWN, CITY AND DOCKLANDS

RESIDENTIAL REVIEW 2013

"2013 produced the highest annual price growth for residential property in Central London since 2006"

HURFORD SALVI CARR

Market Overview

AN EXCEPTIONAL YEAR FOR CAPITAL VALUES

2013 was an exceptional year in London's residential property market. It began with the spectacular launch of Battersea Power Station in January, which completed 600 sales in four days - 480 secured in the Far East and 120 in the UK. By the end of the year, prices for one-bedroom apartments across Midtown, City and Docklands had risen by 20%.

This was the strongest annual growth in the London residential market since 2006, when we reported prices rises of 26%.

But these price rises were not matched by growth in rental values. Nor indeed is there any reason to expect that they should be. In fact, rental value growth slowed in 2013 to nil or a nominal increase and actually declined in the City. And, since prices have risen strongly and rents have not, yields from residential investments have fallen this year.

In City Midtown and Docklands, 80% of new home purchases (and 33% of all sales) were intended as buy-to-let investments and will find their way into the private rental stock. It is this flow of new supply that is maintaining stability in rental values and we see this trend continuing in 2014.

Looking ahead, any threat to the future of the sales market will come from taxation reform aimed at overseas investors, or steep rises in interest rates, which could destabilise domestic demand. No matter how subtle, the prospect of either of these has the potential to dent confidence. The market has yet to fully absorb the impact of higher rate SDLT introduced in Mrch 2012 at 7% for properties above £2,000,000.

That said, we are not expecting a substantial slowdown in demand or transaction numbers or a major price correction. Owners in our markets are well-funded and we know from experience that when demand falls owners turn in greater numbers to the rental market rather than become forced sellers. This was demonstrated between September 2007 and February 2009 when despite a steep decline in transactions following the banking crisis, central London had very few distressed sales and even fewer repossessions.

Pressure for residential property is unlikely to ease as long as London's population continues to expand. Between 2011 and 2012 the number of people living in London grew by 1.3% to 8.3 million and it is forecast to grow by another million before 2021.

London has a housing shortage. The mayor of London's office has responded by setting ambitious targets of building 400,000 homes in London over the next 10 years. Even if this figure were to be achieved, London would still have a housing shortage. Already, 26% of London's households live in the private rental sector and we expect this proportion to grow over the next 5 years.

There are two critical dates looming. The first is the unknown date of an inevitable rise in interest rates. It seems unlikely that the Bank of England will wait for the 7% unemployment trigger before making a change and we do not rule out a small rise towards the end of 2014 provided the wider economy continues to improve.

The second date is the widely expected General Election in May 2015. We expect the coalition government to resist introducing any controversial new policies over the next 18 months. The prospect of a General Election and consequent political positioning creates uncertainty which can cause the market to stall in the six-month lead-in, starting at the end of 2014.

Our market craves certainty and, from experience, we anticipate a bounce in confidence following the General Election, whichever party is elected and more buyers in the market from June 2015, which may well fuel further price rises.

PRICE PER SQ FT RESALE MARKET 2013

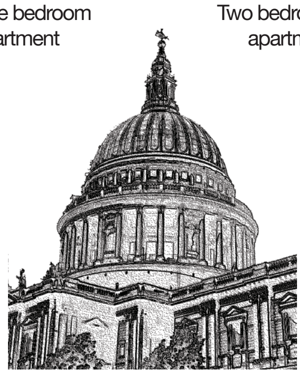
1,160£psf
One bedroom apartment

1,133£psf
Two bedroom apartment

MIDTOWN

1,100£psf
One bedroom apartment

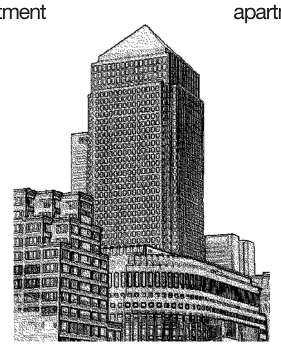
1,067£psf
Two bedroom apartment



CITY

800£psf
One bedroom apartment

773£psf
Two bedroom apartment



DOCKLANDS

Economic Overview

GROWTH RETURNS

The UK economy will have grown 1.4% in 2013 according to the latest forecast from the Office for Budget Responsibility (OBR) announced in the Chancellor's Autumn Statement in early December. For 2014, OBR expects growth to rise to 2.4%. Back in March, the OBR's forecasts were 0.6% and 1.8% - showing just how much the economy has improved during 2013 (and the margin of error in forecasts, even in very short term forecasts). The International Monetary Fund (IMF) is forecasting a slightly more modest 1.9% growth for the UK in 2014 but that still puts the UK ahead of Germany (1.4%) and well ahead of the Eurozone average of 1%.

Nevertheless it is heartening to see economic growth forecast for the Eurozone - the UK's biggest export market and the cause of much economic uncertainty. This suggests that its prolonged economic downturn may finally be over.

There is a concern about the heavy dependence of the UK's recovery on consumer spending and house price growth as well as the rising level of debt being used to fuel the resurgence. This is leading many commentators to forecast slower growth in 2015 and this is in line with the Hurford Salvi Carr forecast for the London housing market of a slowdown in the lead up to the 2015 General Election.

London's economy has continued to outperform all other parts of the UK. In the five years since 2007, the capital's economic output has grown by 15.4%, almost double the UK as a whole (8.5%), and this is despite the global financial crisis which damaged London's important financial sector. It underlines the diversity of the London economy and the contribution of other long established professional sectors such as legal services as well as newer and rapidly expanding sectors such as digital media and creative industries.

London's strong economy has also been supported by a growing population, which has risen to 8.3 million and is forecast to be 10 million by 2030. This stokes demand for homes in the sales and rental markets.

Mark Carney, governor of the Bank of England remains reluctant to raise interest rates and has indicated that the threshold of 7% unemployment might now be too soon. The bank has brought forward its forecast of 7% from the end of 2016 to the end of 2014. He has said: " it is unlikely that equilibrium interest rates will return to historically normal levels any time soon". It now seems that the MPC will wait for 'a prolonged period of strong growth' with significantly lower unemployment and higher real incomes before making any changes to interest rates.

Given the government policy aimed at boosting the housing market, the Governor will not wish to risk an overheated housing market, nor plunging it into recession and it seems likely that he will employ other controls over excessive mortgage lending to regulate the housing market.

CAPITAL GAINS TAX FOR OVERSEAS OWNERS

As had been expected, the Chancellor announced in his Autumn Statement that overseas owners of UK property would no longer be exempt from capital gains tax. However, the new rule will not take effect until April 2015.

Under the current system, the tax, which is typically levied at 28% of the gain in value realised on sale of the property, only applies to second home-owners who are UK residents.

The new rule is a response to steep growth in residential property values in London and the large numbers of foreign investors buying homes that they do not live in for any or most of the year. Most commentators see this as an inevitable and fair change to UK taxation. Chancellor, George Osborne said:

"Britain is an open country that welcomes investment from all over the world, including investment in our residential property. But it's not right that those who live in this country pay capital gains tax when they sell a home that is not their primary residence – while those who don't live here do not."

It is not expected to have a significant impact on buying patterns and will discourage overseas buyers from selling to realise past price gains. It is not yet clear whether the tax will apply to properties bought before the change but if so, it could prompt some profit taking before the tax comes into effect in April 2015. It seems likely that the government will take this into account when drafting details. There are also questions over how it will be administered. Some commentators think the responsibility for collection will fall to agents or solicitors.

Sales Market

STEEPEST RISE SINCE 2006

The price of a one bedroom apartment in Central London rose by 20% in 2013. For larger units, the growth was equally impressive at 15%. Most of that occurred in the second half of the year because supply began to dry up and, as competition to secure a diminishing supply of properties intensified, prices were driven upwards.

Price growth of 20% was not universal. The market for one bedroom apartments (+20%) was stronger than for two or three beds (+15%) and for properties with a value of over £2million, price growth was around 8%.

London property prices make dramatic newspaper headlines and prominent media coverage often acts as a brake, rather than a spur, to demand. Towards the end of the year, as the press reported double-figure price inflation, we sensed an air of caution amongst potential buyers.

KINGSWAY PLACE, CLERKENWELL EC1 - TWO BED FLAT SOLD JULY 2013 £1,700,000

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

Year	Annual 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
2013	20%	486,000	81,000

Source: Hurford Salvi Carr, CCR

We do however expect a resurgence early in the new year. Economic indicators for the UK economy improved as 2013 progressed and by the end of the year, with banks lending once more and every reason to expect the usual bonus season to be relatively lucrative, the market looks poised for further price rises. This should, in turn, encourage more stock into the market as owners seek to consolidate capital gains.

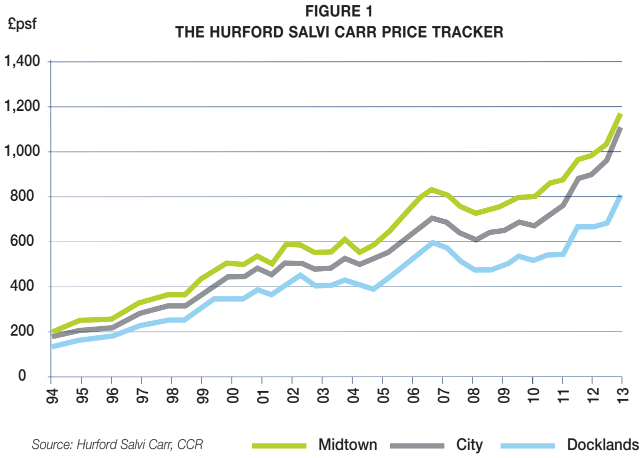
The Hurford Salvi Carr price tracker (Figure 1) shows a fairly consistent upward trend in capital values over a twenty year period. The only notable dip followed the financial crisis in 2008 and values regained their 2007 peak sometime in 2011. We have analysed the prices changes in more detail below.

In 2013, the City achieved the highest rate of growth, taking the price for a one bedroom apartment to around £550,000, an increase of 22% and a price of £1,100 per sq ft – almost equal to Midtown at £1,160 per sq ft. Both these markets remain significantly more expensive than Docklands, where high quality new developments in the best locations can still be purchased for £800 per sq ft.

By the end of the year, it was increasingly difficult to buy a one bedroom apartment for less than £550,000 anywhere in the City or Midtown and larger one bedroom apartments could achieve between £600,000 and £700,000. Two bedroom apartments still command a significant premium at their optimal size (750 sq ft) where there is virtually no difference to their one bedroom neighbours.

LIMEHOUSE BASIN E14 - THREE BED FLAT SOLD NOVEMBER 2013 £620,000

FIGURE 1
THE HURFORD SALVI CARR PRICE TRACKER



Source: Hurford Salvi Carr, CCR

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

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

Submarket	2012 £	2013 £	Annual change	2013 £psf
Midtown One Bed	490,000	580,000	18%	1,160
Midtown Two Bed	770,000	850,000	10%	1,133
City One Bed	450,000	550,000	22%	1,100
City Two Bed	695,000	800,000	15%	1,067
Docklands One Bed	335,000	400,000	19%	800
Docklands Two Bed	480,000	580,000	21%	773

One Bed is 500 sq ft
Two Bed is 750 sq ft and Two Baths

Source: Hurford Salvi Carr, CCR

Table 3 illustrates price change in City, Midtown and Docklands for a range of periods dating back to 1994. Over the full twenty years, all three markets delivered remarkably similar rates of capital growth, each achieving more than five-fold increases in value. But the trajectories of that growth varied and it is evident that the City gained

BEDFORD AVENUE WC1 - TWO BED FLAT SOLD DECEMBER 2013 £1,800,000

value more rapidly in the last decade as its stock of new residential property expanded - albeit subject to supply constraints imposed by the City planners.

PRICE GROWTH 2013

20% One bedroom apartment

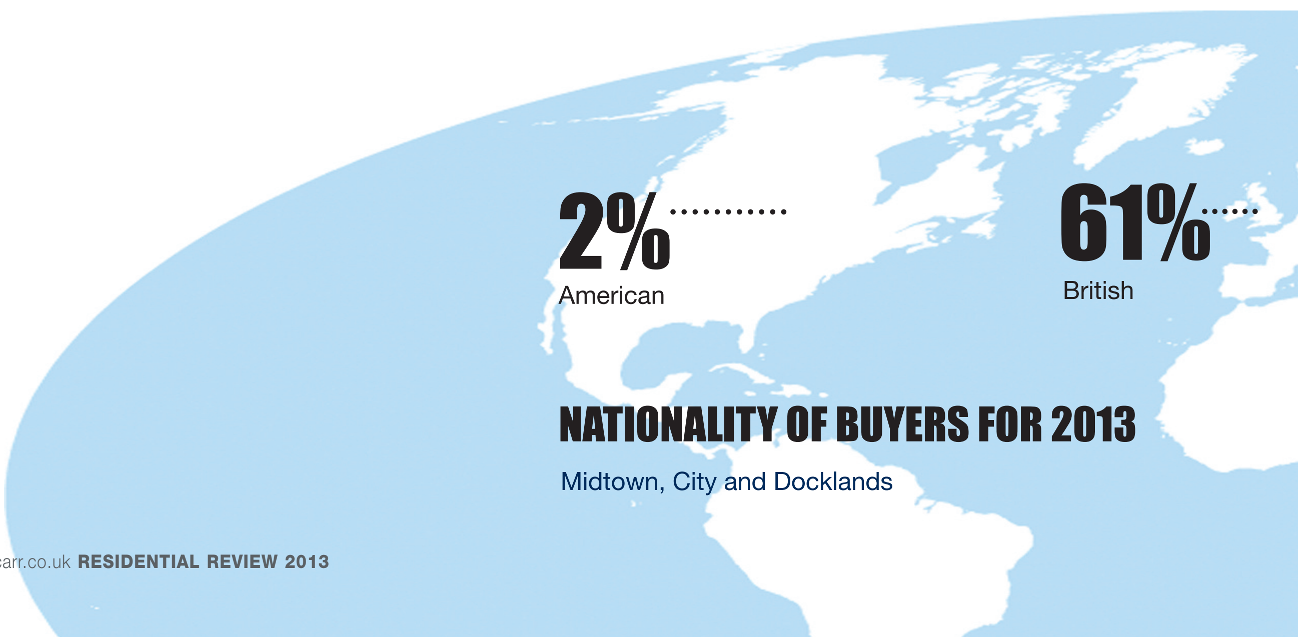
15% Two or three bedroom apartment

8% Properties over £2m

Capital growth in the City has out performed the other two markets for each of the three most recent periods, since 2000, 2007 and 2008 and in the last five years it achieved 33% more growth than Midtown. The narrowing of the price gap between City and Midtown is clear in figure 1. We do not expect the differential growth to continue now that the margin has been narrowed and the City has an established market. Whilst the Corporation of London has imposed strict limits on the new supply of residential property, the same is not true of its neighbouring boroughs within the City, so the stock will continue to expand.

The government's flagship Help to Buy scheme has played no direct part in the strength of the Central London market for two reasons: first, the cap of £600,000 rules out the majority of properties and second, typical buyers in Central London are equity rich.

Analysis of buyers active in our markets in 2013, showed that just under 40% were from overseas but the majority (61%) were British. The two largest groups after British, were the Far East, which provided 17% of our buyers and Europe which accounted for 14%. There are often concerns expressed in the national press that overseas buyers are dominating residential sales in London but their purchasing activity tends to focus on new developments and new build makes up a relatively small proportion of total sales.



4,000 SQ FT UNMODERNISED HOUSE - CHARTERHOUSE SQ EC1
SOLD DECEMBER 2013 £3,400,000

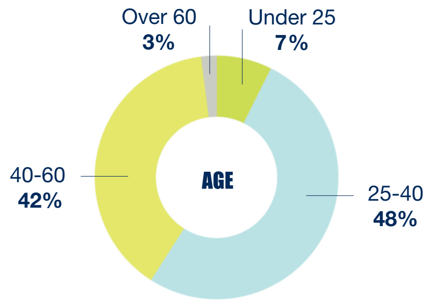
Another common concern, is the volume of purchases intended as buy-to-let investments rather than as a home for the purchaser. The proportion of our buyers who were investing in a property for this purpose stayed constant at 33% but there was stronger demand from established home owners relocating who made up 47% of buyers over the whole year, up from 40% in the first six months.

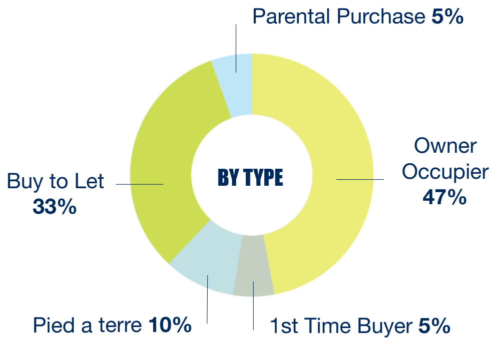
TABLE 3
LONG RUN PRICE CHANGES
BASED ON ONE BEDROOM APARTMENT IN THE RESALE MARKET

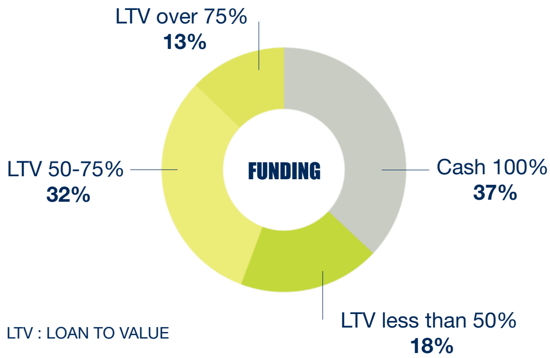
	1994-2013	2000-2013	2007-2013	2008-2013
Midtown	511%	132%	40%	54%
City	529%	153%	56%	72%
Docklands	515%	135%	36%	57%

Source: Hurford Salvi Carr

It is not surprising to find that 48% of our buyers were under the age of 40, given London's young age profile, although a growing number of young people are staying in the private rental sector into their 30s and the average age of a first time buyer has risen to 31. Our buyers are far from typical however. Only 13% needed to borrow more than 75% of the purchase price and 37% raised no debt at all to fund their purchase.

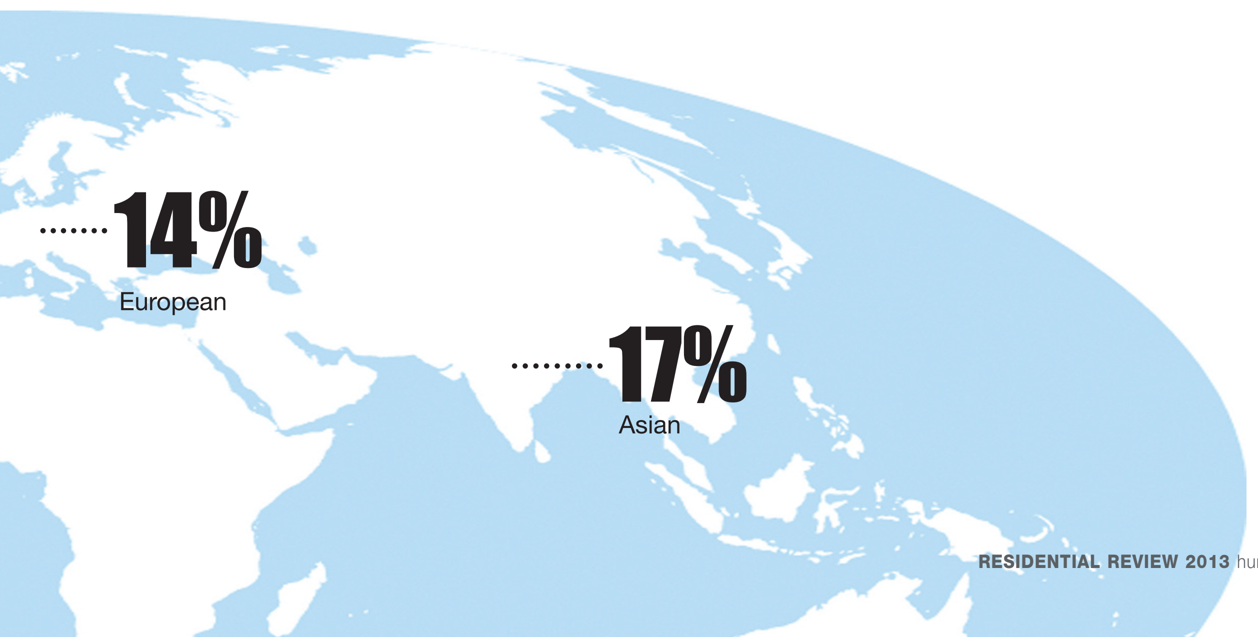






LTV : LOAN TO VALUE

2013 BUYER PROFILES



Lettings Market

SUPPLY INCREASES

The story that is rarely heard in discussions about London's housing markets is that there has been no inflation in rents for Central London residential property. Rental values have been broadly flat for the past two years.

This is not for want of demand. Rather, it is the result of an increase in supply. The expanded supply of properties to rent across City, Midtown and Docklands, has three main sources:

- newly developed apartments that are sold to investors – often, though by no means always, overseas investors,
- investors in the second hand market, more often of UK origin and planning to substitute or supplement pension income,
- and an expanding stock of high-quality, purpose-built, student housing.

These three sources have significantly expanded the supply of privately rented stock at AST level, increased choice for the consumer and held rental values at fairly constant levels since 2011. This confounds many of the sensational reports suggesting that rents have been rising.

The seasonal peak in the rental market, which regularly occurs in the late summer, has been smoothed out in 2013. It was evident but muted. Demand for homes to rent has been far more evenly spread throughout 2013.

BEDFORD COURT MANSIONS WC1 - THREE BED FLAT LET AUGUST 2013 £920 PER WEEK

Table 4 shows current rental values for one and two bed apartments in our core markets. The cost of renting in the City has declined in 2013, which we attribute to its relative immaturity as a residential market compared to Midtown. Supply has increased as new stock has been added and it has greatly increased choice for tenants. Rental values in the City slipped to £425 per week for a one bedroom apartment – on a par with Midtown but lower than they had been for the past two years in the City.

In Midtown, rents for one bed apartments slipped to £425 per week, from £450 at the middle of year, putting them back where they began in January and at the same level as they were in January 2012. It was a similar story in Docklands where a modest increase in 2013 simply brought rents back to their January 2012 levels.

KIRBY STREET EC1 - TWO BED FLAT LET SEPTEMBER 2013 £1,400 PER WEEK

For two bed apartments, there was a small increase in Midtown, no change in Docklands and a decline in the City. Midtown rents rose by 5% in 2013 whereas in the City, rents fell by 9% and ended the year 12% lower than they had been in January 2012. There was a more modest downward adjustment in Docklands where, after falling 6% in 2012, they remained stable in 2013.

For the time being, there appears to be a ceiling on rental values - which we attribute to affordability - above which, many tenants decide to move further away from the centre of London, to get better value, in the form of a lower rent, or a larger space. It is interesting to note that the rent of a one bed apartment in Midtown or City would be enough to secure a two bed apartment in Docklands.

These broad trends do mask fluctuations as stock waxes and wanes. In Docklands for instance, Q2 was particularly quiet and the summer began with a discernable excess of supply over demand (otherwise known as choice for the tenant) but it was gradually absorbed and by the end of October, stock was limited and the rental value of a one bed apartment values crept up from £340 per week to £350 while two beds remained at £425.

Equally, new developments coming to the market, can have a substantial impact on the performance figures in any given period. Given a choice, most tenants prefer to rent a brand new apartment with its pristene kitchen and bathroom fittings. These invariably attract a premium.

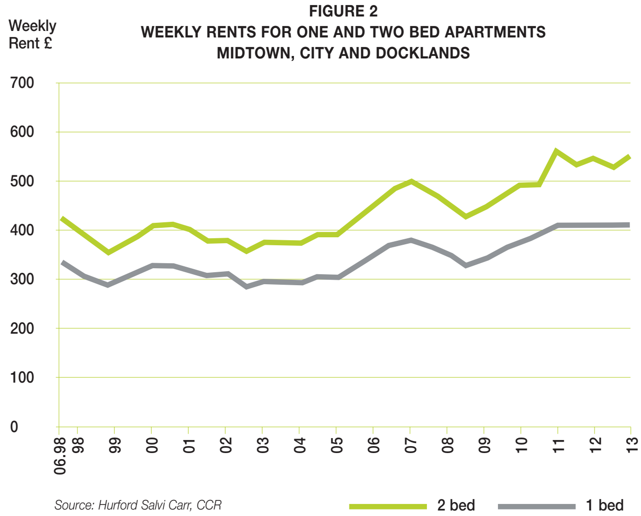
TABLE 4
WEEKLY RENTS AND ANNUAL CHANGES FOR ONE AND TWO BED APARTMENTS IN MIDTOWN, CITY, DOCKLANDS AT YEAR END

Submarket	2011 £	2012 £	2013 £	% Change One Year	% Change Two Years
Midtown One Bed	425	425	425	0%	0%
Midtown Two Bed	620	620	650	5%	5%
City One Bed	450	450	425	-6%	-6%
City Two Bed	650	630	575	-9%	-12%
Docklands One Bed	350	340	350	3%	0%
Docklands Two Bed	450	425	425	0%	-6%

Source: Hurford Salvi Carr, CCR

The majority of tenants signing new leases through our offices in 2013 were from overseas. This is perhaps unsurprising given that overseas citizens are more likely to be working in London on a temporary basis. London is an international business location and its workforce is drawn from across the globe. 37% of the tenants were from Europe and 12% from Asia.

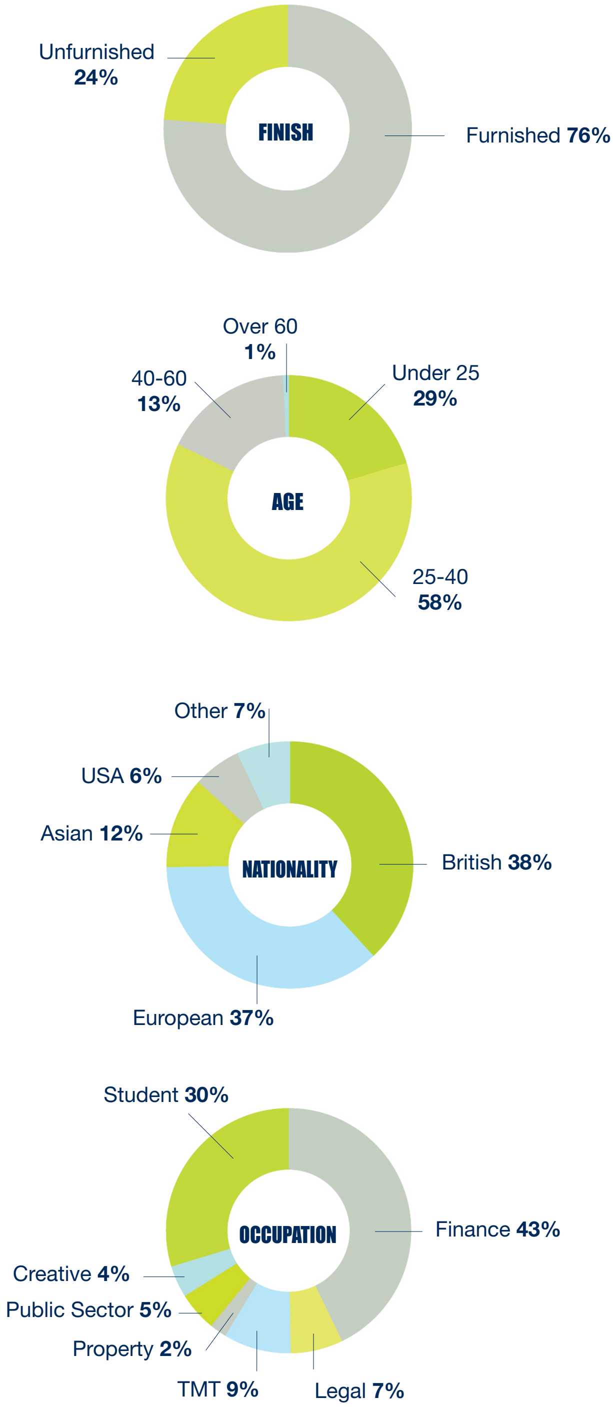
FIGURE 2
WEEKLY RENTS FOR ONE AND TWO BED APARTMENTS
MIDTOWN, CITY AND DOCKLANDS



Source: Hurford Salvi Carr, CCR

By far the largest occupation group was the financial sector, which accounted for 43% of the tenants in 2013 and only 9% in TMT – showing that the fashionable and much discussed tech sector is still dwarfed by the established financial sector in our markets. Students were the second most active occupation group, making up 30% of the tenants in 2013. Student activity fluctuates with the academic year and in the first half of 2013 they made up only 14% of tenants.

WEST INDIA QUAY E14 - ONE BED FLAT LET JUNE 2013 £500 PER WEEK



2013 TENANT PROFILES

New Homes Market

PRE-SALES DOMINATE

One of the trends that marked out 2013 as an exceptional year, was the volume of sales agreed off-plan against the development pipeline across Central London and including Midtown, City and Docklands.

With strong domestic and overseas interest in new homes, developers and agents adopted a range of marketing strategies in order to secure pre-sales at record prices and thereby 'de-risk' their developments.

ROMAN HOUSE, WOOD STREET EC2

Contrary to popular perceptions, UK purchasers were an important part of this scene, with large numbers attending the wave of new homes launches offered off plan in marketing suites and show homes across Midtown, City and Docklands. Meanwhile, overseas buyers were active in large numbers at weekly exhibitions in Hong Kong, Singapore and Kuala Lumpur.

Unsurprisingly, the majority of buyers both in the UK and overseas were buy-to-let investors looking for long term growth and prepared to buy high quality apartments in 2013 for completions that stretch through to 2017.

The net result was that developers had an exceptional year exchanging contracts on projects that completed not only in 2013, but also a large percentage of developments not due for completion until 2014, 2015 or 2016. Our records show that 80% of new homes sales were made to investors and it is expected that the majority of these apartments will be passed over to the rental market on completion.

It is not the case that new apartment blocks in Midtown, City and Docklands are left empty by overseas purchasers unlike One Hyde Park which is regularly held up in the press as an example of investor activity damaging communities and street vitality. Apartments purchased in our areas are occupied by their owners or by tenants and investment activity in these markets helps to ease demand for housing in central London.

Help to Buy did however play an indirect role in bolstering confidence in the UK markets. Several national house-builders have posted substantial uplifts in sales and profits following the launch of Help to Buy and anticipate far higher volumes in 2014. Reports of rising residential prices tend to prompt caution amongst UK buyers, who might hold back until the indicators are stable but for overseas buyers, evidence of rising prices offers reassurance and encourages further investment into the UK.

Thus, overseas sales were stronger in 2013 than in 2012 and the number of overseas property exhibitions proliferated.

The Government's Help to Buy scheme played no part in any of our new homes development sales in 2013, partly due to the £600,000 price limit, partly due the larger deposits off plan investor-purchasers tend to put down and also the fact that there is still a lack of mortgage products available to UK off-plan purchasers.

The net result is that record numbers of new homes have been delivered in 2013 but very few owner occupiers have benefitted from London's current building boom. There is therefore no end to the acute shortage of homes being offered for sale across central London and this will in our opinion only lead to higher prices being asked and being achieved in 2014.

The pricing of new homes across our area reflect global demand for residential property in central London and therefore national price and affordability indices linked to UK salaries, interest rates or GDP have less bearing on price than currency rates, UK tax policies for overseas purchasers and confidence in the UK political climate. (See investment section)

Lower gross rental returns of between 3.5% and 4.5% in 2013, have not dented demand from UK or overseas investors, who continue to see residential property in Central London as a long term investment.

BLOOMSBURY GARDENS, BLOOMSBURY WC1

NEW DEVELOPMENTS

The flow of developments in 2013 fell broadly into two major hubs at Aldgate E1 and City Road EC1. Here, we describe some of the launch highlights of the second half of 2013.

The Eagle, City Road EC1 by Mount Anvil which launched in the UK on 19th September with approximately 40 sales to add to the 71 sales achieved earlier in the year. A combination of well planned and designed apartments, great onsite facilities and an impressive marketing suite assisted the sales rate where prices averaged £1,050/sqft. Completion of the 206 private apartments is not expected until 2015.

At **Folio, Micawber Street N1** all but 2 of the 68 units were sold by Nottinghill London in the second half of 2013 following a UK launch in July. In November a limited collection of town houses was launched. Completion is expected in January 2014. Prices average £795psf.

Banyan Wharf, Wenlock Road N1 on the site of the former Ponti's distribution warehouse was launched off plan by Regal Homes this year and all 33 private apartments were sold off plan in the Far East at prices averaging £1,000psf.

Also on City Road, EC1 **Canelletto** was launched by Groveworld on 12th October supported by an extensive advertising campaign in the UK. Completion is not due until the end of 2015.

Next door at **Lexicon, 261 City Road EC1** Mount Anvil have again succeeded in selling 54 apartments off plan to an investment company before the UK launch which is scheduled for the spring of 2014. A total of 201 private apartments will be completed in 2016.

One of the most eye catching launches in the second half of 2013, was at **St Dunstans Court, Fetter Lane EC4** where it was reported that Taylor Wimpey sold 40 out of 76 apartments for prices averaging £1,650psf in the Far East. The UK launch was on the 2nd October.

At **Roman House, Wood Street EC2**, despite an early campaign to sell first in the UK, Berkeley Homes sold 50% of the 90 private apartments overseas, and then picked up UK sales later, with the opening of a marketing suite and show apartment. At the end of 2013 only 5 apartments of the 90 apartments remained available with completion expected in the second half of 2014. We understand that prices have averaged £1,350psf.

Nearby **The Heron, Milton Court EC2** by The Heron Corporation, the first completions took place in the second half of 2013 and only 14 apartments on the Penthouse floors out of a total 284 apartments remained available for purchase.

On the eastern City fringe Telford Homes were holding back the launch of the penthouse at **Avant Garde, Bethnal Green Road E1** and the two penthouses at **Cityscape**, the redevelopment of the Holland Estate at Spitalfields E1 following the earlier off plan sales of both developments.

In October one of Malaysia largest property development companys IJM Land launched **Royal Mint Gardens, Tower Gateway E1** in Kuala Lumpur, Singapore and Hong Kong. A stunning 240 out of 250 apartments were sold at prices reported to have been approaching £1,100psf with completions not expected until 2017. This development demonstrates the global nature of London residential market as this was IJL Lands first London development and attracted a loyal following of Malaysian buyers who had no hesitation in buying a London apartment 4 year s before completion from a reputable Malaysian development company.

ROYAL MINT GARDENS, ALDGATE E1

At Aldgate Redrow had secured 117out of a total of 137 sales at **One Commercial Street E1** with completions expected early in 2014. Barratts have sold 80% of **Altitude, Ailie Street** and Berkeley Homes have secured over 200 off plan sales at **Goodmans Fields, Lehman Street**.

In Midtown the second phase of **Bloomsbury Gardens WC1** was launched in the UK by Crest Nicholson on Wednesday 18th September with one bedroom apartment overlooking St Georges Gardens breaking records for WC1 by achieving between £700,000 and £780,000. By the end of the year, three quarters of the 44 apartments had been sold.

At **Fitzroy Place W1** on the site of the former Middlesex Hospital only 14 of the 235 apartments by Exemplar were unsold at the end of the year with completion not until the end of 2014. The second phase of Ridgefords **Fitzrovia Apartments** has also sold well only 3 apartments out of a total of 70 unsold at the end of the year.

Also in Midtown at Kings Cross, the developer Argent launched **The Tapestry Building N1C** with 90% of the 95 apartments sold off plan in 2013 following on from their success Arthouse where 114 apartments were sold off plan.

Baltimore Wharf, South Quay, Canary Wharf, E14 is a new 46 storey twisting tower, where Galliard has sold 290 of the 300 apartments off-plan within 6 months averaging £843psf. It was reported that 50% of the sales were achieved in the Far East. Completion is expected in the summer of 2016.

Investment

INVESTORS TAKE LONG TERM VIEW

The investment yield on a one bed apartment in the resale market had fallen to 4.5% at the end of 2013, from 5.4% at the end of 2012. The fall is a direct consequence of the strong growth in prices combined with no change in rents.

The question of a bubble is never far from the newspaper headlines. We stand by our view that this market, despite the strength of price growth, is founded on secure demand from well-resourced domestic and overseas buyers. They are investing for long term growth.

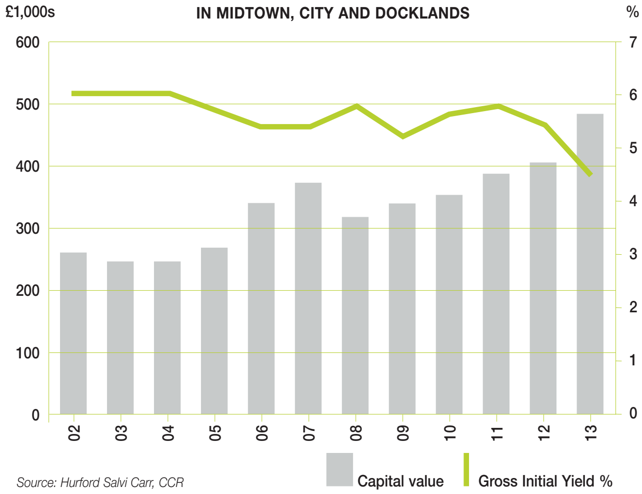
An early indication of fragility in a market is the incidence of down-valuations, where the lenders' valuation does not support the purchase price. We have not seen any evidence of these as all valuers recognise the strength of demand in the market and realise that there will be another keen buyer waiting if a sale falls through.

Even as we build, we are not replenishing sales stock because the majority of new build apartments are channelled directly into the investment market as rental property.

HENAGE ST E1 - DEVELOPMENT LET TO SERVICED APARTMENT OPERATOR DECEMBER 2013

DALSTON E8 - 101 UNIT SCHEME, JOINT VENTURE AGREED 2013

FIGURE 3
CAPITAL VALUES AND YIELDS FOR ONE BED FLATS IN MIDTOWN, CITY AND DOCKLANDS



Source: Hurford Salvi Carr, CCR

TABLE 5
INCOME, VALUES AND INITIAL YIELDS FOR ONE BED APARTMENTS AVERAGE OF MIDTOWN, CITY AND DOCKLANDS 2002 TO 2013

	Dec 2002	Dec 2003	Dec 2004	Dec 2005	Dec 2006	Dec 2007	Dec 2008	Dec 2009	Dec 2010	Dec 2011	Dec 2012	Dec 2013
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	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	486,000
Gross Initial Yield %	6.0	6.0	6.0	5.7	5.4	5.4	5.7	5.2	5.7	5.7	5.4	4.5

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

Source: Hurford Salvi Carr, CCR

OVERSEAS INVESTORS

One of the more colourful stories about London residential property to have filled newspapers in 2013, is that of the naive overseas investor duped into buying from a development in a suburban location in the belief that it is in 'Central London'. There may indeed be examples of agents and developers embellishing or exaggerating the quality of a location but, in our experience, buyers in the Far East are far more knowledgeable about London post codes than the press would have you believe.

The typical Far Eastern purchaser in our experience:

- Is a regular attendee at property exhibitions in their home country, perhaps every weekend and will ask searching questions of the agents and developers presenting developments.
- Has often visited the UK as a tourist and spent time familiarising themselves with areas of London so that they know what they are buying. These are property tourists – they come to learn, and do their research.
- Wanders into agents' offices and talk, often armed with a collection of business cards amassed at exhibitions.
- Compensates for geographical detachment from London by using Google Earth.
- Asks deeper and more probing questions than an average UK buyer.
- May not have not been inside the flat intended for purchase, but neither would a UK buyer if a development is being sold off-plan.
- Puts great store on price per sq ft and will expect to be given comparables on that basis.
- Is aware of the significance of zones; lease terms; service charges; the contractor; guarantees; proximity of affordable housing and economic conditions.
- Seeks to buy:
    - A new development, located in zones 1 or 2, close to an underground or DLR station.
    - A service charge equating to £4.50 – £4.90 per sq ft unless there are exceptional communal facilities.
    - A lease term of at least 250 years and preferably 999 years.
    - The freedom to sell on the contract before completion at least once and probably more than once.
    - A watertight construction guarantee and reputable contractor.

Most Far Eastern investors are already familiar with London and have an understanding of the UK's legal structure, they are confident of its economic and social stability and freedom from corruption. Many investors of middle or older age, have been educated in the UK, either at a public school or, more often, university.

Market Prospects

POSITIVE TRENDS TO CONTINUE

It is our view that sale prices will rise by a further 7% in 2014, across City, Midtown and Docklands and that most of the growth will occur in the first half of the year before settling into a calmer second half. We expect strong demand to continue throughout the year from equity-rich buyers in the UK and overseas but growth will wane as the market takes stock of a prolonged period of rapid price rises.

The prospect and build up to a General Election in May 2015 is likely to suppress demand in the early months of 2015 but we expect a further rise of 5% in the second half of 2015 once the usual uncertainty that precedes a General Election is replaced by the certainty of a new Government being elected. We expect the same outcome no matter which party gains power.

Price pressure has been, and remains, highest for one-bedroom apartments and we do not expect the same levels of growth to be achieved for two and three bedroom apartments. For these, we would reduce our predictions to growth of 5% in 2014. The reason for this is that one bedroom apartments are more affordable and, in Central London, the rental market is stronger for a one bedroom apartment.

Another area of the market in which we anticipate strong demand in 2014, is for mixed-use freeholds with residential accommodation above retail units. There are relatively few such properties coming to the market and, for that reason, demand will continue to outstrip supply.

> "Already 26% of London's households live in the private rental sector and we expect this proportion to grow over the next five years"

> "With supply constrained by a pre-sold development pipeline, we expect values to increase by 7% in 2014"

It seems inevitable that some owners will take the opportunity to realise capital gains in 2014, following a period of such steep increases in capital values. This new stock will bring some modest relief to supply constraint, though not enough to restrain further price increases and there will be only a limited contribution from new development because so much of it has been pre sold during, or prior to, construction.

Rental stock, on the other hand, will expand in 2014, as new developments are completed and investor-owners offer them for letting. Again, one bedroom apartments are in shorter supply than larger units and thus demand is stronger in this segment of the market.

Nevertheless, we expect another flat year for rents, and the only areas we expect to experience rental growth are Midtown and the West End where supply remains low. In these two areas, we expect an uplift in rents in 2014, of 10% for a one bedroom apartment and 5% for a two bed apartment.

If our outlook for 2014 is proved right, then investment yields from prime residential property in Midtown, City and Docklands will dip towards 4% by the end of the year and close to 3.5% for new homes but even with returns of 4% we expect the demand for investment properties in the heart of London, to remain robust.

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 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

hurford-salvi-carr.co.uk