research

from Hurford Salvi Carr

MIDTOWN, CITY AND DOCKLANDS

RESIDENTIAL REVIEW 1ST HALF 2014

“

The number of transactions was sustained but the mood was calmer and the pace slower. In this climate, opportunistic sellers will have to be more realistic about the market if they genuinely wish to sell.

”

HURFORD SALVI CARR

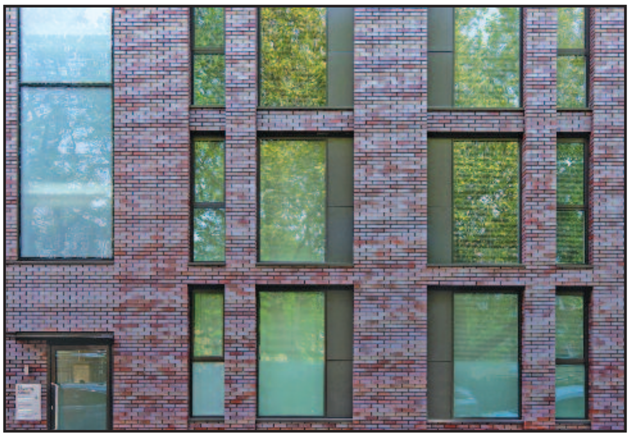
Market Overview

SLOWDOWN RECORDED IN SALES AND LETTINGS

The direct relationship between rents and capital values has been broken in Central London, at least for the time being, because of a huge increase in the supply of homes to rent. Sale prices continued to grow in 2014, albeit at a reduced rate, while rents fell across our markets for the first time since 2008.

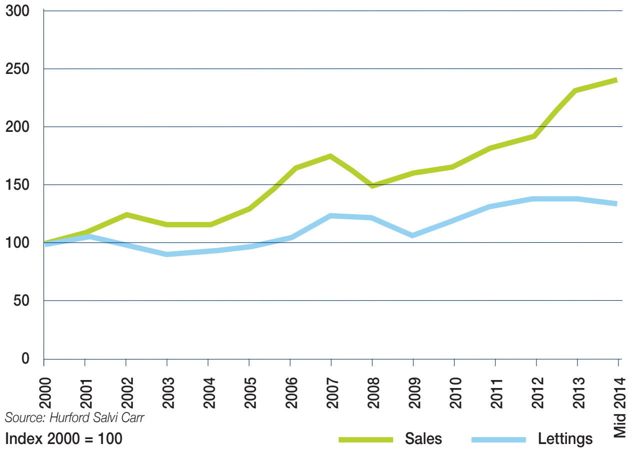
The pressure to build more homes in London has resulted in a surge of rental properties coming to the market, as cash-rich investors snap up homes off-plan before mortgage-dependent buyers get a look in.

Rental values tracked sale prices closely for most of the last decade but the two indicators began to diverge in 2012 when rental values flattened – see figure 1. The change is reflected in income yields from investment properties, which now average 4.2% for a one bedroom apartment in the resale market and sub 4% for new homes.



63 COMPTON, CLERKENWELL EC1 - 4 LATERAL APARTMENTS BY NORD, COMPLETED MAY 2014

FIGURE 1
SALE PRICES V RENTAL VALUES FOR CENTRAL LONDON APARTMENTS



That is not to say that the residential letting market is in poor health. There remains a large pool of people in London for whom renting is the preferred option. They are typically footloose, or on temporary contracts, perhaps not permanently resident in the UK, young, or in non-permanent households and yet in well-paid employment, or with support from an affluent family. For them, renting has become more affordable as the choice of properties has expanded.

Of course, our experience is based on a relatively high value segment of the Central London market and supply and affordability both remain critical issues in the wider market and the social rental sector.

Housing dominated political debate in the 1st half of 2014, and London has been the focus for much of it, with particular concern about escalating prices; overseas investors and how to accelerate the development of new stock. At the instigation of the Mayor, house builders and developers made a commitment to launch new schemes in London first. At Hurford Salvi Carr we sold a higher proportion of properties to UK buyers in the first half of 2014. However this is of little help to first time buyers, or those on average incomes. New developments are almost always sold to cash buyers, whether they are from overseas or the UK, investors continue to set the tone of the Central London market.

In 2014, there seems to be a growing acceptance that London residential property provides not only places for Londoners to live but also a safe home for internationally mobile capital.

Key market signals H1 2014:

- The price of a one bed flat grew by 5% in six months – after rising 20% in 2013.
- The proportion of sales to UK buyers rose from 61% in 2013, to 76% in H1 2014.
- More properties came to the market but many owners were over ambitious in the prices they hoped to achieve, enticed by gushing news headlines.
- Vendors proved more likely than purchasers to pull out of sales, even those nursing generous offers, finding that there is no better place to reinvest the proceeds.
- Tenants had far more stock to choose from as the number of properties to rent expanded. This put downward pressure on rental values.
- Rents fell by an average of 3%.
- Income yields for a typical one bed apartment fell further, to just 4.2% - the lowest since our time series began in 1996.

TABLE 1
INCOME, VALUES AND INITIAL YIELDS FOR ONE BED APARTMENTS AVERAGE OF MIDTOWN, CITY AND DOCKLANDS 2002 TO MID 2014

	Dec 2002	Dec 2003	Dec 2004	Dec 2005	Dec 2006	Dec 2007	Dec 2008	Dec 2009	Dec 2010	Dec 2011	Dec 2012	Dec 2013	Mid 2014
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	21,185
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	505,000
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	4.2

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

Source: Hurford Salvi Carr, CCR

Economic Overview

INTEREST RATE RISE EXPECTED

The UK's long-awaited economic recovery truly materialised in 2014. GDP grew by 0.8% in Q1, its fastest rate since the end of 2007, raising hopes that it could finally overtake its pre-crisis output this summer. The service sector accounted for most of the growth, reinforcing the strength of London's economy. Unemployment fell below 7% - the threshold at which the Bank of England had said it would consider a rise in interest rates.

The prospect of a General Election might dampen the political will to tamper with interest rates, but the likelihood of an increase grew in the 1st half of 2014.

There is no doubt that the mood shifted at the Bank of England too, not least because Mark Carney has clear and well-founded concerns about the housing market and specifically about the unintended consequences of Help to Buy.

He stated in a TV interview that: "the biggest risks to the economy… centre in the housing market" which he described as having 'deep, deep structural problems'.

The structural problem he refers to is undersupply of homes to purchase and he makes the point that, while supply is not within the control of the Bank, it can operate other levers. Help to Buy is widely believed to have exacerbated demand pressures across the UK and, although there has not been widespread take up in London, there is no doubt that it has helped to bolster confidence here too and it is London prices that have caused the greatest concern.

In June, the Bank announced that no more than 15% of any lender's new loans can be issued with income multipliers higher than 4.5, and that no such loan could be made as part of Help to Buy. It is a fairly benign intervention, unlikely to affect the market in London unless prices rise excessively but its significance lies in the clear sign of intent that the Bank is prepared to intervene to prevent a 'slide into riskier lending and higher indebtedness' and to avoid a credit-fuelled economic boom.

The Bank has previously warned that new "lending at high loan to income ratios has surpassed pre-crisis levels". Even the EU has offered advice to the UK government about risks within the housing market, suggesting that it should consider raising taxes on high value properties,[1] adjust Help to Buy, mitigate risks related to high mortgage debt and build more homes.

While buyers in Central London typically make substantial equity contributions, any increase in interest rates could affect demand, if only because of the impact on confidence. Interest rates have stayed at 0.5% since 2009 and it is unrealistic to expect them to remain at that level for much longer.

UK inflation has been on a downward trajectory since summer 2013, falling each month between June 2013 and March 2014, when the annual rate of inflation, as measured by the Consumer Price Index (CPI), was 1.6%. There was a slight reversal in April when the rate rose to 1.8% but inflation remains on a declining trend and many commentators expect it to be down to 1% by the year-end. In any event, it seems sure to be below the Bank of England target of 2% and likely to be below wage inflation which in June 2014 stood at 1.7%.

So inflation is not the factor that will prompt a rise in interest rates. Despite a unanimous vote by the MPC to hold rates unchanged in May, the minutes recorded that: "for some members, the monetary policy decision was becoming more balanced" which the FT interpreted as 'suggesting there may be some dissenting votes as early as this summer.' This is not a surprise. We predicted in our 2013 year-end report, that interest rates could rise by the end of 2014.

In a low inflationary environment with low interest rates, long-term risk-averse investments are sought after. That, combined with a surplus of capital in the global economy, has been driving investment to London and continues to underwrite the long term appeal of London residential property to investors from all over the world.

[1] Annual assessment of EU member states' policies to boost growth and jobs. June 2014

Sales Market

OWNER OCCUPIERS REPLACE INVESTORS

There was a tangible change in the pace of Central London's residential market in the early months of 2014, and it became far more difficult to align the expectations of buyers and sellers. The real price inflation shifted to outer London while Central London experienced more modest growth.

Many investment purchasers, discouraged by the size of deposit needed to enter the Central London market and falling income returns, turned their focus to other parts of London. That created opportunities for cash-rich owner occupiers to buy in the centre, without the pressure of best bids or gazumping that had become common in 2012 and 2013. While it took longer to secure sales, prices continued to set new records.

TABLE 2
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
Mid 2014	5%	505,000	19,000

Source: Hurford Salvi Carr, CCR

A gulf opened up between the markets for one and two bed apartments (see table 3). In our City office for instance, the majority of one-bed apartments went to sealed bids, while regular two beds took longer to sell as demand slowed and prices moved close to £1 million. This pattern was repeated in our Docklands and West End offices where demand for entry-level apartments outstripped the rest of the market.

There were plenty of new buyers registering their interest but it became much harder to find the product they sought at a price they could, or wished to, pay. With the exception of Docklands it is no longer possible to buy an apartment anywhere in our area for less than £500,000 and that pushed more buyers into zones 2 and 3.

High asking prices and positive headlines proved tempting to owners, bringing more properties to the market and fuelling vendors' price expectations to the point that a genuine affordability gap opened up, even for the most affluent purchasers.

But then vendors proved more likely than buyers to withdraw from a sale, despite receiving extravagant offers, because of genuine concerns that there was nowhere better to reinvest the proceeds. There is no doubt that owners are reluctant to give up their stake in London's property market while other forms of investment look high risk.

PRICE GROWTH H1 2014

5% One bedroom apartment

2% Two bedroom apartment

Prices increased by an average of 3% in the first half of 2014 (5% for a one bed and 2% for a two bed). We see this as the beginning of a cooling down period with stable prices in prospect for the rest of 2014 and into 2015.

Already, a slowing down is evident from the speed at which transactions have been agreed - at overseas sales exhibitions as well as in the UK. The number of transactions was sustained but the mood was calmer and the pace slower. We expect a similar tone for the second half of the year, during the build up to next spring's General Election. In this climate, opportunistic sellers will have to be more realistic about the market if they genuinely wish to sell.

We saw deals falter when vendors over-estimated the market value of their assets. For example in Fitzrovia the success of Fitzroy Place has coloured owners' expectations for their more modest apartments.

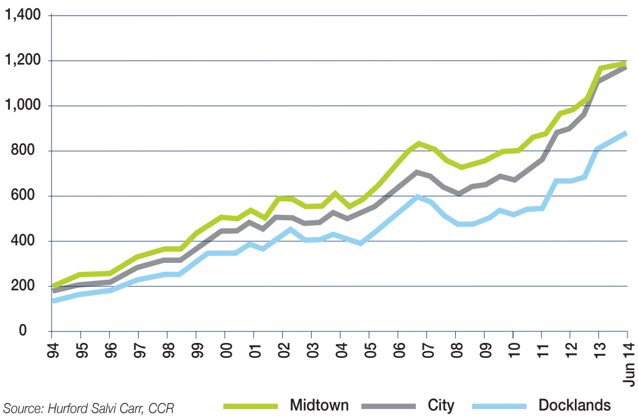
That said, price thresholds were breached many times over in early 2014, with an unprecedented number of apartments sold for over £1 million in our more westerly markets. Similar pressures were evident to the east of the City and in Docklands, where an increased number of properties came to the market with asking prices of over £1 million.

One reason for the slowdown in the market seems to be the growing burden of due diligence on mortgage lenders. It can take up to 12 weeks for a borrower to receive a mortgage offer because of the backlog of cases in the system. The extended waiting time gives owners the chance to reconsider their options and we saw a higher number of sales collapse because owners pulled out of sales.

LIMEHOUSE BASIN E14 - TWO BED FLAT SOLD JUNE 2014 £675,000

In contrast, new home sales typically exchange within 21 days, indicating that purchasers are buying with 100% cash or securing funding in the period between exchange and completion. The time lapse, between exchange and completion is typically 28 days for a second hand property, whereas for new homes it can range from 3 months to 2 years or more, plenty of time for a secure purchaser to arrange funding. For this reason, buyers in a chain are effectively excluded from purchasing a new home by their inability to exchange quickly.

FIGURE 2
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

There is no doubt that demand seeped out from the highest value Central London locations into more affordable areas in the 1st half of 2014. While that has largely manifested in outer London, we noticed an influx of new cash-buyer registrations in our Docklands office, particularly from UK buyers.

There was a parallel increase in the number of properties for sale, as owners contemplated capital gains earned from steep price increases. It became more commonplace for long-resident owners to request off-market campaigns, preferring not to publicise their intentions to friends and neighbours until they had made a firm commitment to sell.

Prices in Central London have edged upwards in 2014, and an entry level one bed flat in Bloomsbury, Clerkenwell or the City, is now established at £600,000, with £700,000 not unreasonable for apartments that have outside space, in fact it is now possible to achieve £800,000 for larger one bed apartments.

TABLE 3
PRICES AND PRICE CHANGES FOR ONE AND TWO BED APARTMENTS IN THE RESALE MARKET AT YEAR END IN INDIVIDUAL SUBMARKETS

Submarket	2013 £	June 2014 £	Half Year Change	2014 £psf
Midtown One Bed	580,000	595,000	3%	1,190
Midtown Two Bed	950,000	975,000	3%	1,300
City One Bed	550,000	580,000	5%	1,160
City Two Bed	800,000	810,000	1%	1,080
Docklands One Bed	400,000	420,000	5%	840
Docklands Two Bed	580,000	600,000	3%	800

Source: Hurford Salvi Carr, CCR

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

BEDFORD SQUARE WC1 - THREE BED FLAT SOLD MAY 2014 £1,930,000

Overseas buyers were less prominent in our sales statistics this year, which we attribute to a combination of renewed vigour amongst UK buyers and falling rental returns, making UK property a little less appealing to overseas investors. Politicians should take note that the free-market may naturally curtail demand without the rate of price inflation needing to reach a crisis point.

We believe that the market is at the tail end of a price expansion phase. To place that in context, we expect a short period of price stability within a long-term trajectory of growth. A look back over price change in the Price Tracker in Figure 2 confirms that growth fluctuates while table 3 shows the long term strength of price growth in a series of time spans over the past 20 years.

TABLE 4
LONG RUN PRICE CHANGES
BASED ON ONE BEDROOM APARTMENT IN THE RESALE MARKET

	1994 - Mid 2014	2000 - Mid 2014	2007 - Mid 2014	2008 - Mid 2014
Midtown	541%	144%	47%	61%
City	560%	166%	64%	80%
Docklands	534%	142%	40%	62%

Source: Hurford Salvi Carr

Overseas investment in London homes continued to generate impassioned debate in the early months of 2014, with concerns over the impact it has on price inflation; the availability of stock and the threat to community cohesion from underused homes.

Some commentators also feared that loans taken out in a buyer's home market, make the London market vulnerable to fragility in overseas economic and financial systems. However, the experience of 2008 suggests to us that when confidence evaporates from the London property market, overseas owners sit tight, often accepting marginal rates of rental return rather than sell in a downturn. In fact, if anything, London's status is enhanced as a safe haven and a stable place for property investment.

As an added safeguard, larger projects are likely to fix a second staged payment during construction, over and above the 10% exchange deposit, in order to protect the developer should buyers fail to complete.

BUYER PROFILES

There was a marked change in the type of buyer prevalent in our markets in 2014. They were, in general, older and more likely to be British. In 2013, almost 30% of our buyers had been under the age of 25 – in most cases with substantial help from parents, whereas in the first half of 2014, 89% of our buyers were over the age of 30. The proportion of overseas buyers fell from 38% in 2013, to 24% in the 1st half of 2014.

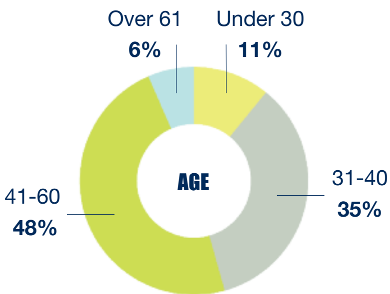
These were substantial shifts. The number of parental purchases fell, as did buy to lets, while properties bought for owner occupation rose from 47% in 2013, to 57% in H1 2014 and a similar proportion were able to fund their purchases without any borrowings. The buy to let purchasers turned their attention to Zones 2 or 3 in search of better value.

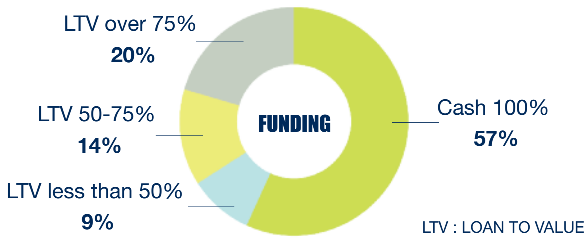
So, our typical buyer in 2014 was older, more likely to be British and, perhaps most surprisingly, most likely to have been 100% cash buyer. In other words, buyers in our area were not taking advantage of Help to Buy, or even the greater availability of mortgage finance. Mortgage finance has never been a strong driver of demand in Central London but the dominance of UK, rather than overseas cash buyers, was notable.

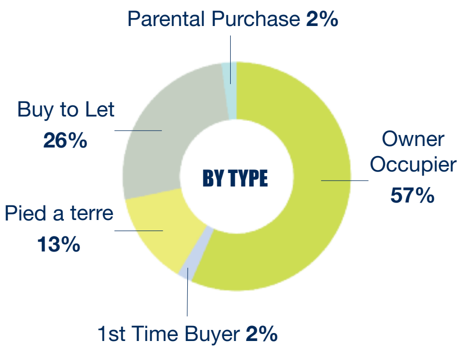
CLERKENWELL EC1 - THREE BED PENTHOUSE SOLD MAY 2014 £4,100,000

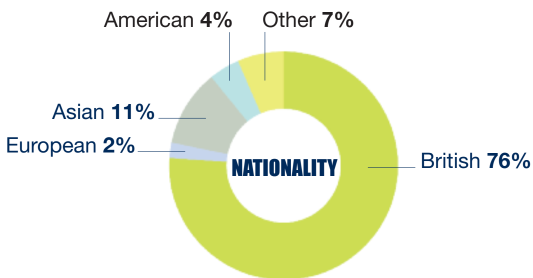
In the 1st half of 2014 the number of 1st time buyers fell from 5% to just 2% of sales agreed at our offices, confirming that the Central London residential market is not overly dependent on the mortgage market.

H1 2014 BUYER PROFILES









Lettings Market

RENTS FALL BY 3%

Lettings have been sluggish in Central London this year and very much slower than last year. Tenants have a far greater choice of properties to consider across the whole of London and the situation was compounded by rental stock coming to the market from newly completed developments. More tenants have taken advantage of lower rents in the market and have relocated. The result is that voids increased and rents have fallen this year and we expect them to continue to fall once the seasonal peak has passed from October onwards.

Rental values have been under downward pressure for the past five years in Central London, with a short-term blip during the Olympics. This fact has gone largely unreported in the media. Unlike movements in sale prices, which attract regular headlines, a decline in rental values has slipped below the radar. Rents still make up a large proportion of the average salary but the average rental value of a one bed apartment in our markets today, is just 4% more than it was in 2007.

TABLE 5
WEEKLY RENTS AND ANNUAL CHANGES FOR ONE AND TWO BED APARTMENTS IN MIDTOWN, CITY, DOCKLANDS AT YEAR END

Submarket	2012 £	2013 £	Mid 2014 £	% Change Since Dec 2013	% Change Since Dec 2012
Midtown One Bed	425	425	425	0%	0%
Midtown Two Bed	620	650	650	0%	5%
City One Bed	450	425	400	-6%	-11%
City Two Bed	630	575	550	-4%	-13%
Docklands One Bed	340	350	350	0%	3%
Docklands Two Bed	425	425	415	-2%	-2%

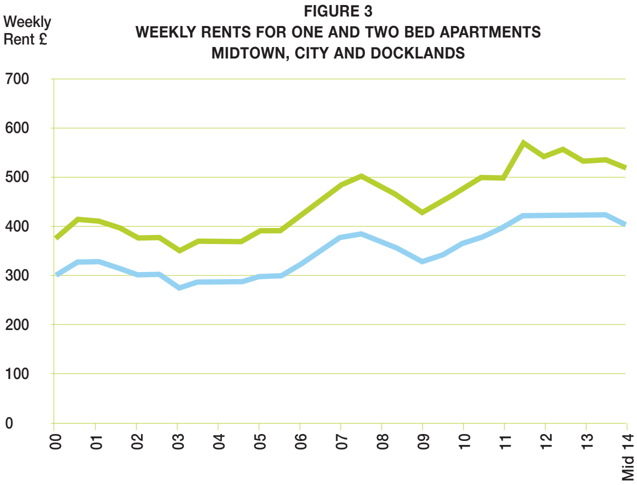
Source: Hurford Salvi Carr, CCR

The main cause of declining rents has been an increase in the supply of rental property but there has been an additional pressure in 2014 as some longer-term tenants have purchased homes for themselves.

A significant proportion of those who rent in Central London are frustrated first-time buyers, who have effectively been excluded from the sales market for several years. Some have now grabbed at the opportunity to use public subsidy to fund a property purchase, most often in outer London or beyond. While it had little impact on sale volumes or prices in Central London, Help to Buy has weakened the rental market in Central London. The likelihood that Help to Buy will

FARRINGDON EC1 - TWO BED LOFT APARTMENT LET JUNE 2014 £1,400 PER WEEK

FIGURE 3
WEEKLY RENTS FOR ONE AND TWO BED APARTMENTS MIDTOWN, CITY AND DOCKLANDS



Source: Hurford Salvi Carr, CCR

be short-lived in its current form, has created a particular urgency amongst well-informed tenants which makes them reluctant to commit to new annual tenancies and that affected the rental market.

Rental markets self-correct far more quickly than sales markets. When buyer-demand declines, the sales market stalls as owners withdraw properties and the number of transactions falls, rather than prices. When, on the other hand, tenant-demand declines, rental values quickly adjust downwards. Most tenants agree yearly tenancies and are therefore in a position to renegotiate their terms of occupation regularly.

ST GEORGE'S GARDENS, BLOOMSBURY WC1 - TWO BED FLAT LET MAY 2014 £600 PER WEEK

Table 5 shows rental values for one and two bedroom apartments in City, Midtown and Docklands. The greatest falls have been in the City where rents for one bed apartments fell by 6% this year and by 4% for two beds.

We have drawn attention to downward pressure on rental values in previous issues of this research report. Figure 3 shows average rents for one and two bed flats averaged across all our markets. A downturn was evident in 2011 for two bedroom flats but one beds were stable until this year.

In 2013, we attributed the slowdown to the plentiful new stock flowing from completed developments but now that the pool of renters is more thinly spread across a wider geographical area, rents have fallen. It is our view that the market for good quality rental accommodation is now well served and this will ensure that rents remain attractive for tenants willing and able to live in Central London.

It is ironic that, despite the severity of the 'housing crisis' in London, there is an oversupply of homes to rent in several parts of the market. The typical prospective tenant is very well paid and in reliable employment, or has parents who are willing to pay a year in advance. Areas that have benefitted from increased supply delivered through London's building boom are now facing an oversupply of rental stock. These include: Battersea; Stratford; Isle of Dogs; Aldgate and South Bank. Other locations, such as the City fringe, are adequately supplied, with more homes to rent in the pipeline. Looking east, the volume of construction now underway could be a concern to landlords.

This is particularly worrying given the growing interest in institutional build to rent and support for it as a solution to the housing crisis. There is a shortage of homes at affordable prices but the market is not delivering those homes in any significant numbers. Around the Olympic Park for instance, there is unsatisfied demand for homes to live in at a price that is affordable, whether as renters or owners but the question is whether the stock planned will be able to meet that demand. Investors buying flats to rent out generally pay prices that dictate a minimum rental level to achieve an acceptable investment return.

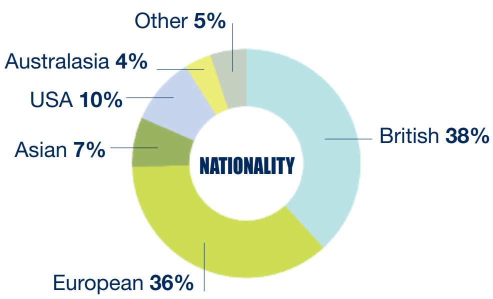
The Labour party is in favour of introducing three-year lease terms to enhance security of tenure for tenants and promote more stable communities. We believe that landlords would also welcome such a move – as long as there are provisions for rent review at which rents can be increased in line with the market, albeit 'not unfairly increased'. Longer leases not only provide greater security of income for the landlord but also reduce void periods.

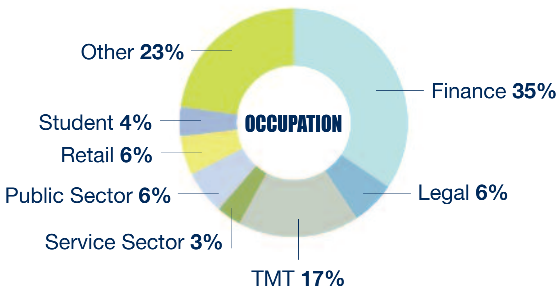
ST JOHN STREET EC1 - TWO BED FLAT LET JUNE 2014 £1,650 PER WEEK

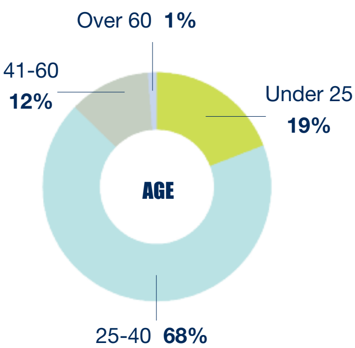
However, any legislation to introduce rent control or unilateral, long term, security of tenure would drive investors away from the private rental sector which, while some would see it as a desirable outcome, would substantially reduce the supply of property to rent and curtail interest in the institutional private rental sector. We expect to hear extensive debate on this subject in the build up to the election.

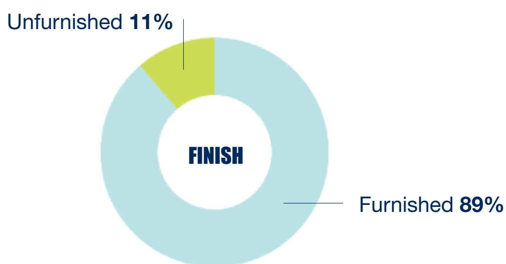
It is our view that any attempt by the government to lower the prices of rents in the private rental sector will be catastrophic and solutions to London's housing problem need to be found in the public sector.

H1 2014 TENANT PROFILES









In Central London, tenants may well lose the flexibility that attracts them to this particular type of tenure in the first place. Politicians tamper with the residential market at their peril. History shows the many unintended consequences of well-intentioned policies.

We have more confidence in the prospects for build to rent, or institutional private rental sector, in parts of outer London and the commuter belt where there has not been a huge amount of new construction and rental values can be pitched at more reasonable or affordable levels. Areas such as Harrow, Sutton or Enfield, offer good prospects for landlords with far less competition.

The average graduate starting salary in London is: £27,000 per annum. The average weekly rent for a one bedroom flat is £400 per week – or £20,800 per annum. Even a couple with two salaries would struggle to afford this out of their combined net income.

The rental cycle has been elongated in recent years as young adults have delayed their first home purchase. Many have chosen to stay in Central London and compromise on the amount of space they occupy in return for the amenity of a Central London location.

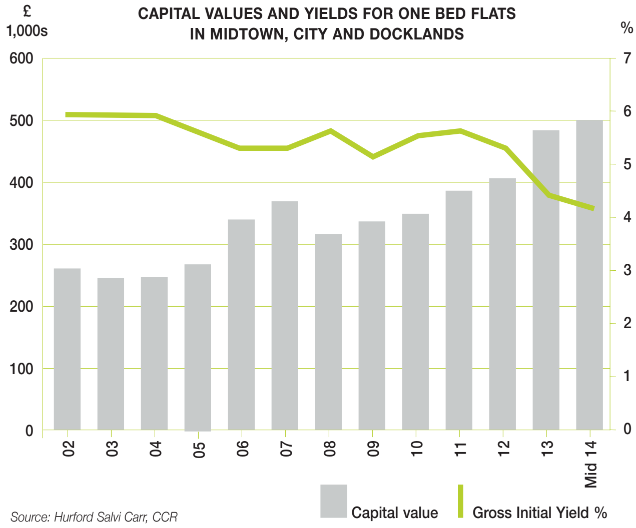
BERGLEN COURT, LIMEHOUSE E14 - THREE BED FLAT LET MAY 2014 £830 PER WEEK

However, when they come to buy, this is often the time that they move out from the centre in exchange for more affordable prices and larger homes.

We have noticed in Docklands in particular, that accidental landlords are beginning to sell as prices hit record highs and yields have become less attractive. Professional landlords however, continue to hold on to their assets for the long term.

The number of serviced rental operators continues to increase across the City and Docklands providing short-term rental accommodation at premium rates. This specialist part of the rental market may come under pressure if legislation is introduced to allow home-owners to let their properties for less than 90 days without requiring planning consent.

FIGURE 4
CAPITAL VALUES AND YIELDS FOR ONE BED FLATS IN MIDTOWN, CITY AND DOCKLANDS



Source: Hurford Salvi Carr, CCR

CHANGES TO PENSION ANNUITIES

The 2014 budget announced that individuals are to be given greater access to capital tied up in pension pots, and it is highly likely that they would channel more funds into Buy to Let investments.

The changes mean that people will no longer be required to buy an annuity with their pension savings on retirement and instead, they will be able to take their savings as a lump sum, subject to tax, or to draw down a series of capital sums over a period of time.

As our buyer profiles show, Buy to Let is already an important driver of demand in Central London and the liberalisation of pension rules could well create new demand. Newly available capital sums could also be used to help children or grandchildren raise deposits for home ownership and increase 'parent assisted' purchases.

Initially the sums involved are small and may have little impact. From March 2014 pensioners over 60 are able to withdraw sums up to £30,000. The government is still consulting on the how the rules will be applied from April 2015 but it seems likely that the first 25% of the funds withdrawn will be tax free and any additional withdrawal would be taxed as top slice income. For some, this could mean substantial new funds made available for capital purchases, including property.

New Homes Market

QUALITY PRODUCTS ATTRACT PREMIUM PRICES

A number of smaller high quality boutique developments were launched to the market in Bloomsbury, Clerkenwell and City fringe in the first half of 2014 along with larger developments at Kings Cross, the Southbank and in Docklands close to Canary Wharf.

With the exception of higher value apartments priced at over £2 million, where supply was plentiful, all developments continued to attract strong interest and sales to predominantly cash and lowly geared purchasers.

ROSEBERY AVENUE EC1 - 4 PENTHOUSES BY LONDONEWCASTLE JUNE 2014

While international sales did take place it was at a much lower level in Midtown and the City than in previous years. We believe this was in part due to the lower rental returns available in Central London that for new homes have now dipped below 4% as the combination of higher prices and static rents made Central London less attractive compared with other markets including developments in zones 2 and 3 where rental returns of 5% are still possible. It is not surprising that exhibition rooms in the Far East continued to produce results for new developments in Docklands where rental projections can still show 5%.

In March The Mayor of London, Boris Johnson asked developers at the international property forum at MIPIM in Cannes to join him in a new deal to market and sell London homes to Londoners first. The initiative was supported by the major developer groups, London First, London Chamber of Commerce and the Home Builders Federation and signed by 50 big and small developers in London.

While we support the Mayor's initiative, the fact remains that fewer domestic purchasers are prepared to put down cash deposits up to 3 years ahead of projected completions and so London's house builders have continued to use Hong Kong and Singapore sales exhibitions to underwrite their sales targets.

The Mayor explained, 'I do not in any way want to deter international investment - you can see astonishing transformation in London thanks to international investment – and I recognise the important economic contributions migrants make to our city. 'But you will understand however, I want Londoners to be able to live near where they work and to raise their families in our boroughs.'

This initiative has come about after growing political and social concern about London prices being pushed up by demand from overseas buyers who are adding to their property portfolios and then leaving properties empty. While this may be true in West London boroughs such as Westminster and Kensington and Chelsea it is our experience that the overwhelming majority of investment sales across Midtown, City and Docklands are dependent on rental income and are not left empty.

The pricing of London's development pipeline outperformed the general sales market in the first half of 2014 with asking prices jumping by an average of 8% compared to the 3% growth in average sales prices that we cover in our sales report.

New homes premiums are not unusual but with almost universal reports of a shortage of homes being built in London, the premiums being asked are making buyers think long and hard before making offers. The consequence of these higher asking prices has been a slow down in the sales rate across developments in Midtown, City and Docklands as buyers take longer to commit to making reservations and look at other locations before making a commitment to purchase. A higher percentage of buyers in the first half of 2014 required mortgages and a greater number had properties to sell in order to meet developers' new price expectations.

Demand for entry level one bedroom apartments, as has been reported elsewhere in this report, ensured long waiting lists and high capital and £/sq ft prices being achieved in new developments. The sales rate of higher value homes above £2 million remains slow as demand has not kept pace with the increasing supply of these luxury homes where many penthouses are priced in excess of £3 million. Accordingly there is a range of £/sq ft rates across any development and it is the capital sums that ultimately attract and reflect demand for each individual home.

As we move towards the General Election in May 2015 we expect market conditions to remain largely unchanged with well designed new homes across Midtown, City and Docklands selling to buyers who are buying for long term investment and personal use rather than short term buy to let returns.

BLACKFRIARS EC4 - 16 APARTMENTS LAUNCHED OFF PLAN MARCH 2014

CityLiving™

@ City Road with Hurford Salvi Carr

New Islington & Shoreditch Office

Q4 2014

HURFORD SALVI CARR

NEW DEVELOPMENTS

In the first half of 2014 a number of high quality well located residential developments were launched including:

33 Blackfriars EC4 by Northridge Capital a comprehensive refurbishment of 16 two and three bedroom apartments located off Ludgate Hill close to St Pauls Cathedral. 7 of the 16 units were sold off plan with completion expected by the end of 2014. Prices ranged from £835,000 to £1,950,000 and averaged £1,200 / sq ft.

In Midtown at **The Grays, Grays Inn Road WC1** a development of 13 apartments including studio, one bedroom and two bedroom apartments were offered in Hong Kong with 7 reservations being taken at prices approaching £1,750 / sq ft.

63 Compton EC1 a new landmark Clerkenwell building of only 4 outstanding apartments with south facing roof terraces, was completed in June by NORD. Prices range from £1,750,000 to £1,825,000 with direct lift access and a share in the freehold. The penthouse was sold within 7 days of launch.

Also in Clerkenwell at **62-68 Rosebery Avenue EC1** 4 new two bedroom duplex penthouses with outstanding south facing views and terraces by Londonewcastle were launched with prices ranging from £1,375,000 to £1,700,000 in June. Again two sales were agreed within 10 days of release.

At **Canaletto, 259 City Road EC1** a 31 storey tower of 190 private apartments by Groveworld launched offering residents 24 hour concierge service, a restaurant, private Club Canaletto with a sky terrace, 24 floors above London, a fabulous 15 metre swimming pool, spa and gymnasium. At half year it was reported that 133 apartments had sold with the latest pricing starting from £830,000 for a one bedroom apartment on the 19th floor. Prices averaged £1,200 / sq ft.

Next door at **The Lexicon, 261 City Road EC1** a new 36 storey tower by SOM architects was launched by Mount Anvil on 5th June 2014 with completion scheduled for spring 2016. The building offers 146 private apartments.

In May Telford Homes successfully launched **Vibe, Dalston E8** in the UK and overseas, a redevelopment of Holy Trinity School. 75 pre sales were secured both in the UK in the Far East with 26 apartments held back scheduled to be launched in the autumn.

At Kings Cross Argent launched **The Plimsoll Building N1C** in March in the UK and Asia following the success of The Art House and Tapestry Building. It was reported that 102 units of the 178 apartments had been sold with prices exceeding £1,400 / sq ft. Completion is due by the end of 2015.

In Docklands Galliard was the star performer with **Royal Gateway at Canning Town**, a development of 336 apartments that was launched in the UK off plan in February 2014 with the earliest completion scheduled for September 2016. By the end of February 70% of the apartments had sold in the UK or as the Galliard adverts proclaimed; 268 in a three day sales release.

The **Royal Gateway E16** scheme, designed by architects Studio Egret West, will see 336 new homes built in five blocks on a two acre former bakery and light industry site by early 2017. Prices started from £250,000 for a 550 sq ft one bed flat, making them less than half the price of homes in many new apartment blocks on the Thames. £2,000 deposits were taken at the launch weekend held in the UK. By April it was announced that 80% had been sold and that the prices of the remaining units started from £280,000.

In June a similar level of interest was shown for a development of 24 new apartments at **321 Holloway Road N7** that we launched for Rooff, where over 300 pre-registered applicants reserved 15 apartments within 24 hours at prices averaging £700 / sq ft. This reflects a wider trend of purchasers seeking affordability which has resulted in a flight to value within transport zones 2 and 3 in London.

In the second half of 2014 Helical Bar are launching **Barts Square EC1** at Little Britain next to St Bartholmew Hospital in the City and demand from UK and overseas buyers is expected to be high due to the combination of location, specification and the developer's highly held reputation. At completion there will be a total of 215 private apartments. Also in the City Brookfield and Concord Pacific will be launching **Principal Tower, Bishopsgate EC2** a 50 storey luxury block of 243 apartments. These two landmark projects are expected to rival The Heron as the City's premier residential address.

In Wapping St George received planning permission in March for **London Dock, Pennington Street E1** totalling 1,561 private apartments on the site of the former News International Headquarters. The first launch, Admiralty Wharf, is due in October 2014.

In July we will be launching a development of 8 spacious two bedroom apartments with spectacular views towards the West End, Primrose Hill and The City at **21 John Street WC1** in a 7 storey converted 1930s office building. This development is set to propel Bloomsbury prices north of £1,500 / sq ft.

In September we will be launching a development of 13 new one and two bedroom apartments at **Chancery Quarter WC1** opposite Chancery Lane underground station on Grays Inn Road. The building is close to the Law Courts, the City and Bloomsbury and will offer buyers the opportunity of living in a high quality comfort cooled building with private balconies. Pricing for the two bedroom apartments is expected to start from £950,000 with completion due by the end of the year.

At Kings Cross a development of 8 two bedroom penthouse apartments is being created above a refurbished office building at the **Spitfire Building, Collier Street N1**. The apartments are situated on the 4th and 5th floors, all have terraces and the west facing apartments benefit from outstanding views over St Pancras. Pricing is expected to range from £700,000 to £950,000.

We support the trend to give greater recognition to the architects and interior design teams in the marketing and promotion of London's new developments. London's design community has some of the world's leading architects and design practices and a proven track record of creating value through design.

Market Prospects

STRONG LONDON ECONOMY UNDERPINS MARKET

We have downgraded our forecasts of price growth to 5% by the year end, from 7% which we predicted at the end of 2013. So far this year, prices have risen by an average of 3% and we expect only modest further uplift in the 2nd half.

After that, we expect sale prices to be stable until summer 2015, after the General Election. Our market recovered strongly in March 2009 and continued to exceed commentators' expectations but we believe it is now approaching the top of the current cycle.

If we are right about this it will be no surprise to regular readers of our reports who will recognise the regularity of 7-year cycles in the property industry.

As ever, the particular set of drivers has been unique to the cycle. This time, the key factors have been: a global financial crisis; new sources of overseas investment capital; a development boom enabled largely by the rise of residential land values relative to commercial and finally the prospect of a general election in the sixth year.

Good quality, well built, well located apartments are now available in almost all parts of the city. That said, robust demand underpins capital values and the economy appears to be strong, supported by a bouyant London economy that is generating jobs and corporate profits, so it is realistic to expect a return to growth of capital values by 2016.

The long term average over the past decade indicates an 8% annual price rise in capital values for Midtown, City and Docklands. While this trend may not be repeated over the next decade, we expect growth to continue over the longer term.

Matters are different in the rental market because of a structural increase in the supply of high quality apartments in Central London of the type that appeal to the typical young professional in the early stages of a career. We expect rental values to remain unchanged in second half ending the year down 3% even though we anticipate the usual seasonal increase in activity in Q3.

The rationale for our forecasts is based on the following observations:

- The increase in capital values over the past 2 years has meant much higher sums are needed for deposits and that has created an affordability gap.
- Entry-level values have been pushed up to over £400,000 in Docklands, or £600,000 in City and Midtown.
- That means many occupier buyers have been pushed into outer London.
- Rental returns have become a concern to investors and enticed investor buyers to the outer boroughs.
- Over ambitious asking prices, driven by owners' expectations, have ultimately proved to be unachievable.
- The threat of new property taxes in prospect have deterred some investors.
- As always, confidence is, to an extent, undermined in the build up to an election – particularly in the light of debates and proposals regarding taxation such as a mansion tax and empty property tax. The build up to the election seems to have started surprisingly early this time.
- The growing conviction that an interest rate rise cannot be far away creates caution, it is, after all, a mechanism for controlling house prices and prospective buyers are aware that a rise is imminent.
- The date of the General Election is likely to have some influence on interest rate rises.

PROPOSALS FOR A MANSION TAX

Many commentators have concluded that the current system for calculating property taxes has anomalies. A study recently published by Westminster City Council found that 'there would be little resistance to an increase in the rate of Council Tax, or the introduction of additional bands amongst the owners of high value homes.

Politicians have mooted various ways to redress the imbalances and, as we described in the last report, the government withdrew the Capital Gains Tax exemption on homes held by overseas owners, with effect from April 2015. This is a populist (and fair) policy and the key date, just one month before the General Election, is probably no coincidence.

A more controversial suggestion backed by both Labour and Liberal Democrats, is for a 'Mansion Tax', which would impose a substantial annual charge on owners of high value properties. Under the Liberal Democrats' initial proposals, an annual tax would have been applied at a rate of 1% of the value over £2 million. Thus, a property with a value of £5 million would incur an annual Mansion Tax bill of £30,000. The fear was that these charges would have hit hard long-standing owners of homes that had escalated in value while their income remained relatively modest - the 'asset rich, cash poor' as they have been dubbed. It has been estimated that 31% of people who own a home worth more than £2 million in London have owned it for more than 10 years and 15% for more than 20 years.

Outlining Labour's plans Ed Balls, the Shadow Chancellor, confirmed in June that Labour plan to have three bands of Mansion Tax: £2 million - £ 5million, £5 million - £20 million and over £20 million. This is clearly a London centric tax which buyers and homeowners are increasingly concerned about.

David Cameron ruled out a Mansion Tax if he is returned to office. However, both Labour and the Liberal Democrats continue to support the idea. The Lib Dems have amended their original proposal and now suggest that properties above £2 million would be put into broad price bands. Owners would still pay the band H Council Tax and the additional tax would be collected by the local authority but returned to central government. They also propose exemptions for those living in expensive homes without the means to pay high charges, which would, for instance, help the elderly.

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 4,500 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