research

from Hurford Salvi Carr

MIDTOWN, CITY AND DOCKLANDS

RESIDENTIAL 1ST HALF 2015

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HURFORD SALVI CARR

Market Overview

STABILITY RETURNS FOLLOWING ELECTION RESULT

The first half of 2015 played out very differently in our markets than it did in the western reaches of Central London. Buyers and sellers in the high value markets spanning Mayfair to Notting Hill acted rather like rabbits in headlights, unable or unwilling to move as long as there was no clear indication of the likely outcome on election day. In Midtown, City and Docklands, the market slowed in the first quarter but at no point did it stall.

In fact, buyers and sellers in our markets absorbed the new pricing levels set in 2014 and, after a slow end to 2014, all parties have been ready and willing to act this year, albeit with an awareness of the new stamp duty threshold and some caution in the run up to the election.

There is no doubt that buyers were more guarded in the lead up to the election. There was concern over tax proposals and the prospect of strict regulation of the rental market. A Mansion Tax which would have kicked in at £2 million and stepped up at £3 million, was never a widespread threat for the typical buyer in our markets and neither were the initiatives aimed at first time buyers of much help. The new SDLT introduced in December 2014 is of far greater significance. Its impact is felt at around £1.5 million and we noticed a fall in enquiries above that level.

Pre-election caution was evident in the second hand market. Sales of new homes on the other hand, were robust throughout – perhaps because developers worked hard to create sales packages that maintained buyers' interest and addressed their reservations. We logged more buyer enquiries in the first six months of 2015 than we had in the preceding six months and whilst sales were slower, prices edged upwards for entry-level one bed flats and remained stable for two beds. Overall, across all areas and property types, capital values grew by around 2% in H1 2015.

Once the conservative administration had secured another 5 years in office - and this time with a clear majority albeit a small one - there was an increase in viewings, offers and reservations. The share price of listed house-builders and estate agents rose 14% on the news. Our markets quickly returned to 'normal'. We sensed a tangible lifting of spirits amongst buyers with bigger budgets whether investors or owner-occupiers and interest from corners of the globe that are new in our markets, such as Brazil, as well as the more familiar buyers from the least economically stable members of the EU like Greece and Italy. More than ever, London looks like a secure, attractive place in which to gain a foothold.

CITY ROAD EC1 - STUDIO APARTMENT, SOLD APRIL 2015 £470,000

Perhaps one of the most interesting indications of the strength of the London market, is the decision by Warren Buffett to enter the market with his estate agency chain Berkshire Hathaway Home Services (BHHS). His is one of many American businesses looking to expand in London. Several specialist private rental management companies are establishing a presence too with high service levels and internationally recognisable rental products.

Rents did not move in 2015 but the private rental sector is becoming an established component of the mainstream occupational market in London. Expanded supply is likely to create more stable rental conditions and a move towards longer term stability.

Ironically, for the income-driven investor, some well-considered regulation of the rental market could have added to that stability by encouraging landlords and tenants to commit to longer lease terms. In our view, longer leases are already becoming more common, with or without political intervention, as markets in City and Docklands experience an oversupply of accommodation.

June ended with Greece failing to make a scheduled payment of €1.6 billion to the IMF. The news caused added uncertainty across Europe with the Greek government announcing a referendum for the 5th July which ultimately will determine if Greece remains in the European Union. So as the year started with concern over the UK General Election it ended the half year with concern over a referendum in Greece.

> “Capital values grew by around 2% in H1 2015.”

Economic Overview

EMPLOYMENT GROWTH FUELS HOUSING DEMAND

The UK economy hit zero inflation in the first half of 2015. That is almost unprecedented and the lowest rate for half a century. Interest rates remained at 0.5%, where they have been since March 2009 – making David Cameron the only Prime Minister since the 1950s to preside over a whole term in office with a constant rate of bank lending. It also made deflation a real possibility and any increase in house prices even more rewarding for investors.

The three factors that drove low inflation were further falls in the price of oil, low wages growth and a strong pound - which reduced the price of imported goods for the consumer. Supermarket price wars were also a factor in containing the cost of food and other household goods.

Most commentators expect low levels of inflation to return by the end of 2015, but still well within the Bank of England's target rate of sub-2%. The greatest threat with a zero inflation economy is that consumers stop spending because they expect prices to fall further but spending has held up well in the UK, supported by the strong pound and low cost imports from other deflationary economies.

The Bank of England said, in its May quarterly inflation report, that it expects interest rates to gradually increase to 1.5% over the next three years with the first rise likely in the middle of 2016. It also downgraded its forecast for GDP growth, bringing it in line with other forecasters at 2.6% for 2015, compared with the OBR forecasts of 2.5% in 2015 and 2.3% in 2016.

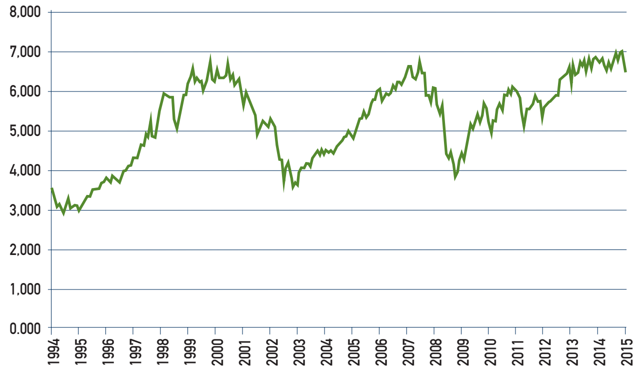
Low interest rates do little to entice savers, indeed they encourage borrowing – a combination which makes the government's recent pension reforms even more likely to create new buy-to-let investors. Under the new rules, introduced in April 2015, pension fund investors can withdraw capital from their pension pots and, rather than being obliged to invest in an annuity, they are free to re-invest in any way they see fit. While it is too early to measure the effect of the changes on the property market, there has been a tangible surge in interest in the buy to let market, urged on by media coverage and it is likely to provide a boost to the investor market across London and the UK.

The relative stability of the UK economy, together with the impressive record on job creation, was probably a major factor in the conservative victory at the General Election. The chancellor has committed to further austerity measures and has announced a 'stability' budget on July 8th to set out, amongst other things, how he intends to save a further £12 billion from the welfare budget and to boost the UK's sluggish productivity by investing in apprenticeships and skills. He has also promised to "crack down hard on tax avoidance and aggressive tax planning by the rich".

The FTSE 100 is a useful lead-indicator of demand in our markets. When the stock market is performing strongly, profits rise amongst City businesses and that translates into bonus payments - which, in turn, fuel the Midtown, City and Docklands property markets. The FTSE reached an all time high in April 2015 at 7,103.98, (figure 1) having climbed fairly consistently from its low point after the 2008 financial crisis, but ended the half year at 6,521 as stock markets slumped following the Greek decision to order emergency credit controls that limit cash withdrawals to €60 per day ahead of a referendum on July 5th. The Euro was valued at 1.41 against the pound, close to an 8 year low, with implications for overseas investment in London.

FIGURE 1

FTSE 100 ADJUSTED CLOSING PRICES (PCM)



Source: Hurford Salvi Carr *Half Year Positions*

City employment has also begun to rise and is forecast to continue to grow. Our markets respond quickly to changing rates of employment growth in the City of London. Quite simply, a flourishing City of London drives demand for homes in the surrounding residential markets.

In June 2015 the City of London Economic Development published a report written by Cambridge Econometrics and Centre for Cities examining the growth prospects for the City of London economy. It forecasts that employment in the City's successful knowledge economies will expand by 39,000 jobs by 2025, from 397,000 to 436,000. The report also forecasts improvements in productivity and increases in output. The City's productivity is projected to rise from £114,000 per job in 2014, to £141,000 per job in 2025.

The Financial and Insurance sector accounts for 38% of jobs in the City of London and professional sector for 20%, of which, legal and accounting is 14%. Average output growth is forecast for Finance and Insurance (3.3% pa); Media IT and Communications (3.2%) and Legal and Accounting services (1.1%). These three sectors account for 70% of the employment growth.

For Central London as a whole, the report forecasts an additional 145,000 jobs by 2025 – an 8% increase on today's number which, if correct, will continue to fuel demand for housing across Central London.

The big question hanging over the UK now is the prospect of an in-out EU referendum. As David Cameron negotiates over the current terms of the UK's membership, economists, business leaders and the media are beginning to line up with their reflections on the pros and cons of being a part of the European Union.

On the 9th of June HSBC announced that it is to cut 8,000 jobs in the UK as it tries to reduce costs. The cuts will come from both its retail and investment banking operations. The Hong Kong and Shanghai Bank is culturally linked to the Far East and they are talking about reintroducing the Midland Bank and First Direct to the UK. This will affect some serviced rental operators who have long standing contracts to supply short-term accommodation to bank employees many of whom are based in Canary Wharf.

Old Street Regeneration

In 2010 the government christened the area to the north east of the City 'Tech City' and announced tax breaks for start-up IT businesses. Since then, the Tech City brand has gathered global recognition. At the heart of Tech City is Old Street roundabout – the traffic island that inspired the original Silicon Roundabout moniker. As well as being a traffic system, it is the entrance to the underground at Old Street Station on the Northern Line. Old Street roundabout is busy and chaotic and presents an unattractive first impression to visiting businesses or prospective investors. Now, there are plans to improve both the access to the underground and transform the public space at street level.

The number of jobs in Tech City in the digital economy alone, has risen to 18,679 from 16,578 in 2012. While being one of the government's success stories, Tech City has put enormous pressure on the local infrastructure. The number of people using Old Street station has risen at a rate of 1,000 per week over the last 5 years and today it serves 21 million passengers a year. There were 44 traffic collisions between February 2010 and January 2013 in the vicinity of the roundabout, 80% involving a pedestrian or a cyclist. A recent survey found that 26% of Tech companies are currently considering moving citing inadequate broadband speed and high occupation costs as their primary reasons.

The plan is to convert the roundabout into a peninsula by closing its north-western arm and incorporating the existing central island into the surrounding footway. There will also be new surface level crossings, changes to bus lanes, cycling provision, cycle parking and a new entrance to the underground on the peninsula. The peninsula will be transformed into an attractive element of the public realm with new planting and other landscaping improvements.

The work is scheduled to start in mid 2016 and be completed by 2018.

Sales Market

REBOUND AFTER ELECTION RESULT

In the wake of an uneventful 2014 and December's SDLT changes it should come as no surprise that 2015 started slowly and without our cyclical New Year bounce. By the end of March however all our offices were reporting a strengthening in buyer demand and applicant registrations, although pre-election caution and a lack of new supply restricted transaction numbers.

The confidence that followed the election result brought an acceptance of the pricing levels set in 2014 and activity increased to heights not seen for almost a year.

Contrary to most expectations at the end of 2014, the price of a one bed apartment in our markets continued to rise in the first six months of 2015, despite the prospect of a general election in May. Prices climbed by 3% in City and Midtown and by 5% in Docklands in the first six months of 2015 (table 1). In many cases, small apartments attracted multiple bids.

SHOREDITCH EC2 - TWO BEDROOM APARTMENT, SOLD MARCH 2015 £1,325,000

The same was not true of the two bed market – where prices remained virtually unchanged in Midtown and City and managed to creep up by 2% in Docklands. At higher prices SDLT continues to be a significant burden for buyers as Central London's housing market has been most affected by the increases above £1 million and that is inevitably dampening house price growth – satisfying one of the government's intentions in formulating this policy.

TABLE 1

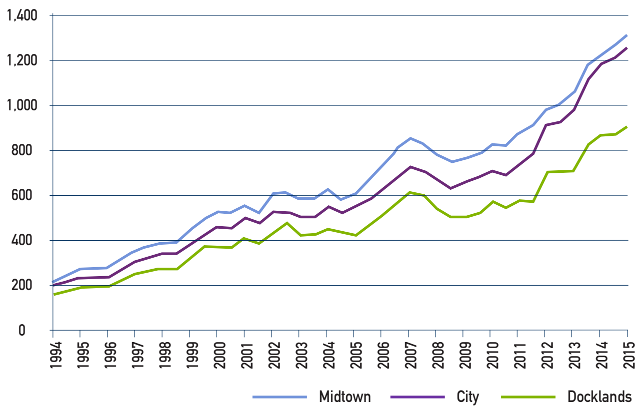
PRICES AND ANNUAL GROWTH IN THE RESALE MARKET AT YEAR END

Submarket		2013 £	2014 £	2015 £	Change H1 2015
Midtown	1 Bed	580,000	620,000	640,000	3%
Midtown	2 Bed	950,000	960,000	960,000	0%
City	1 Bed	550,000	595,000	615,000	3%
City	2 Bed	800,000	810,000	820,000	1%
Docklands	1 Bed	400,000	420,000	440,000	5%
Docklands	2 Bed	580,000	600,000	610,000	2%

Source: Hurford Salvi Carr *1 Bed is 500 sq ft, 2 bed is 750 sq ft with 2 baths*

FIGURE 2

THE HURFORD SALVI CARR PRICE TRACKER



Source: Hurford Salvi Carr *Data based on the value of a 500 sq ft one bed apartment in the re-sale market*

Demand strengthened in H1 2015 but, since choice was limited, buyers proved willing to wait for new properties to come to the market and that dampened activity.

Supply of new instructions across our markets remained low as typical owners were, and are, under no pressure to sell. Sales took longer to agree and exchange too, especially where mortgage funding was involved. It was not unusual for buyers to take up to 3 months in negotiations on a property before agreeing a purchase.

The price of a one bed apartment averaged across City, Midtown and Docklands is now £540,000, having risen by 4% in H1 2015. (See table 3). There is a significant differential between our markets with Midtown commanding £640,000 for a one bed compared with £440,000 in Docklands. In fact, the price of a one bed in Midtown or City would comfortably buy a two bed apartment in Docklands.

LIMEHOUSE BASIN E14 - TWO BEDROOM APARTMENT, SOLD MAY 2015 £635,000

CLERKENWELL EC1 - THREE BEDROOM PENTHOUSE, SOLD APRIL 2015 £2,550,000

The price tracker shows how the gap has opened up between markets since 2011 with prices in Docklands trailing. Markets now are being driven by affordability and a property priced at over £1.5 million is out of reach of the average mainstream UK buyer. Above that level the markets are highly dependent on overseas buyers and activity has been constrained by the increase in SDLT.

As the market stalled at prices over £1.5 million in the more established prime locations, we saw some 'up and coming' fringe locations begin to narrow the gap. A Shoreditch address has become a 'must-have' accessory, with developments across East London claiming to be in or close to Shoreditch and buyers often prepared to pay a premium for the privilege.

Second hand stock in Midtown and West End struggled to secure buyers once prices edged over £1,500 per sq ft. At this level the market is increasingly dependent on overseas buyers and there was definite resistance.

TABLE 2

LONG RUN PRICE CHANGES FOR A ONE BEDROOM APARTMENT IN THE RESALE MARKET

	1994 - MID 2015	2000 - MID 2015	2007 - MID 2015	2008 - MID 2015
Midtown	574%	156%	54%	70%
City	603%	183%	74%	92%
Docklands	577%	159%	49%	73%

Source: Hurford Salvi Carr *1 Bed is 500 sq ft, 2 bed is 750 sq ft with 2 baths*

The rate of growth has been similar in all three markets over the past 20 year period, with all three recording 5 or 6 fold rises (table 2). The City has experienced the highest growth since 2007/8 - it started from a lower base and has gained strength and popularity as a residential market. A decade ago, the City's stock was small and consisted primarily of 1960s purpose built blocks.

TABLE 3

PRICES AND ANNUAL GROWTH FOR ONE BEDROOM 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
2014	7%	520,000	34,000
Mid 2015	4%	540,000	20,000

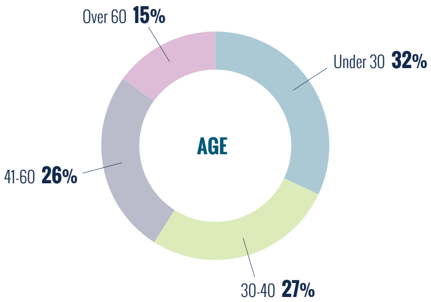
Source: Hurford Salvi Carr

BLOOMSBURY WC1 - STUDIO, SOLD MAY 2015 £485,000

In April we welcomed The Law Society's new online software system in conjunction with Mastek UK to streamline the process of conveyancing. The website www.veyo.com provides a secure portal for the exchange of information, monitoring progress and completing transactions.

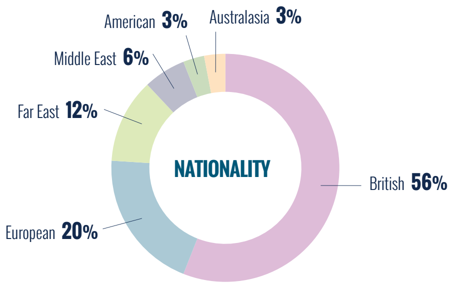
H1 2015 BUYER PROFILES

There was a big increase in the proportion of buyers under 30 in 2015 from 12% in 2014 to 32% in the first half of 2015. Shoreditch, Islington and Bloomsbury had the strongest bias towards younger buyers, while the average buyer in Clerkenwell and City were most likely to be over 40.



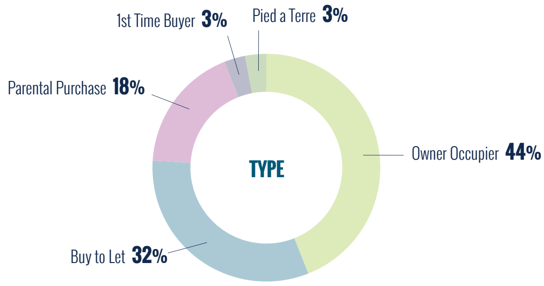
British buyers made up 56% of the total in the first half of 2015 and the proportion was similar across all areas. Europeans of various origins were the second most prominent group while our Docklands office was most likely to deal with Middle Eastern buyers so far this year.

In 2014, British buyers accounted for 69% of all sales at our offices and we note that Asian buyers are less active in our markets than in earlier years as lower rental returns and higher capital values deter overseas investors.

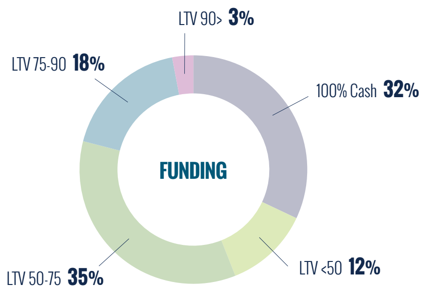


Above Data compiled by Hurford Salvi Carr for the period January to June 2015

Parental assisted purchases made the biggest impact in the early months of 2015, rising from 8% of sales in 2014 to 18% in H1 2015. This correlated to an increase in buyers under the age of 30. Once again, Islington was the exception with two thirds of its sales defined as parent-assisted purchases. Owner-occupiers remained the dominant group in City, Clerkenwell and Docklands - making just over half of the purchases. Buy to let investors returned to the market and accounted for 32% of buyers across our offices.



Cash buyers remain important in our markets, accounting for 32% of purchases in the first half of 2015 but significantly lower than in 2014 when they accounted for 46% of transactions. In our new Shoreditch and Islington office two thirds of buyers used 100% cash while the proportion of buyers drawing on debt finance rose significantly in our longer established offices. It seems likely that the parental purchases in the Shoreditch and Islington office were also behind the cash buyers.



Proposal to extend Right to Buy to Housing Associations

The Conservatives' manifesto pledges on housing focused on increasing the chances of young and less affluent voters to become home-owners. On the whole they were of little direct relevance to Central London markets. The one proposal that could have a direct impact however, was to extend Right to Buy to tenants living in a home owned by a housing association.

Under the proposal, a tenant would acquire the right to buy their home at a discounted value once they had rented for three years. The discount to market value would be worth up to £102,700 in London and £77,00 in other parts of England (though not Scotland or Wales where Right to Buy is being abolished). It is set at 35% for a house and rises to 50% of the value of a flat.

The proposal would also oblige councils to sell off the most valuable homes from their remaining stock – most of which will be in London and many in Central London. According to g15 – the group of London's largest housing associations – they own between them, 410,000 homes and house one in ten of London's population. Many commentators are of the view that this proposal is unworkable in its current form. Assuming that it is implemented in some form, it will effectively expand the privately owned stock of residential property in London and create pricing distortions.

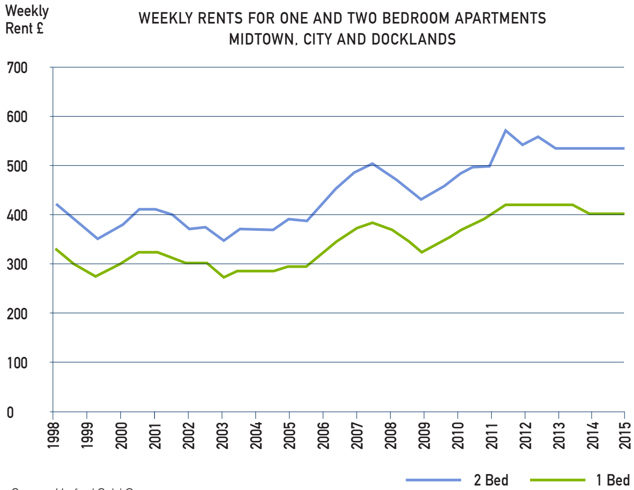
Lettings Market

RENTS UNCHANGED

There was no change in rental values in the first half of 2015 in any of our markets as supply continued to outpace demand. Rents have changed very little for the last three years in Midtown and Docklands, while in the City, they are still lower than they were in 2012.

FIGURE 3

WEEKLY RENTS FOR ONE AND TWO BEDROOM APARTMENTS MIDTOWN, CITY AND DOCKLANDS



Source: Hurford Salvi Carr

This runs counter to the common perception of London rents as an ever more burdensome living cost. There were small uplifts for some landlords on renewal where the tenant is often willing to shoulder a modest increase to avoid the disruption of moving home and this is further evidence of the myths that persevere in the landlord-tenant arena. It is simply not the case that landlords or tenants want leases to churn every year. Both parties benefit from a stable relationship and the average tenancy across our rental portfolio is now approaching three years. The most common reason for tenants to end a tenancy is their employment circumstances and the most common reason given by our landlords for terminating a tenancy is when they decide to sell their interest.

While existing landlords are satisfied with securing a rent increase of between 1% and 3% on renewal, we still experience resistance amongst new landlords who expect rents to have risen in line with capital values.

For the first time we include a table showing indicative rents per sq ft for a typical one and two bed apartment in Midtown, City and Docklands. It is interesting to compare residential rents with commercial offices. Strong demand has pushed office rents steeply upwards in the past two years and the premium for residential over office space, which fuelled an enormous round of change of uses from commercial to residential property, has been eroded.

Our figures show that residential rents range between £30 and £50 per sq ft in Midtown and City - which is comparable to mid range commercial rents. While we recognise that these figures are not entirely comparable because they do not take account of different gross to net ratios, they demonstrate that, given that the cost of refurbishing and fitting out an office space is often substantially lower than residential, the viability calculation has shifted in favour of commercial space in many cases and residential is no longer the obvious land use in Central London (table 4).

TABLE 4

ANNUAL RENT PAYABLE AND RENT PER SQ FT FOR ONE AND TWO BEDROOM APARTMENTS : H1 2015

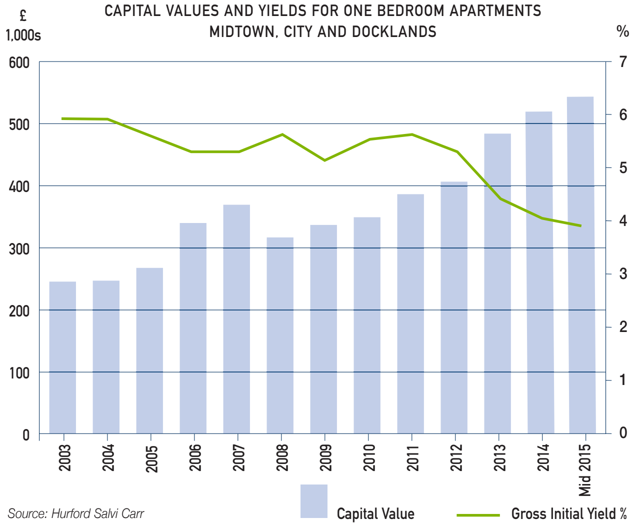
Submarket		Total Rent Payable Per Annum £	Rent Per Square Foot £
Midtown	1 Bed	22,100	44
Midtown	2 Bed	32,500	43
City	1 Bed	22,100	44
City	2 Bed	28,600	38
Docklands	1 Bed	18,720	37
Docklands	2 Bed	22,360	30

Source: Hurford Salvi Carr *1 Bed is 500 sq ft, 2 bed is 750 sq ft with 2 baths*

Gross yields are now below 4% for the first time on our time series and, after typical costs are factored in, the net return is below 2% (figure 4 and table 5)

FIGURE 4

CAPITAL VALUES AND YIELDS FOR ONE BEDROOM APARTMENTS MIDTOWN, CITY AND DOCKLANDS



Source: Hurford Salvi Carr

TABLE 5

INCOME, VALUES AND INITIAL YIELDS FOR ONE BEDROOM APARTMENTS AVERAGE OF MIDTOWN, CITY AND DOCKLANDS 2002 TO MID 2015

	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	MID 2015
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	21,060	21,060
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	520,000	540,000
Gross Initial Yield %	6.0	6.0	6.0	5.7	5.4	5.4	5.7	5.2	5.6	5.7	5.4	4.5	4.1	3.9

Source: Hurford Salvi Carr *Note: Gross yields are typically reduced by 2.5% points by costs and voids*

Longer contracts, of 18 to 24 months have become more common, tenants have requested longer contracts to achieve a longer fixed rent and landlords seek greater income security. The motivation of tenants to fix rent is based on a misconceived perception that rents would rise steeply without the longer lease, rather than reality of the market over the past few years in which rents have not changed.

There has been a notable rise in the number of short term tenancies. In March the government announced that it would make it easier for tenants to sub let a room by legislating to "prevent the use of clauses in private fixed-term residential tenancy agreements that expressly rule out subletting." The intention is to make better use of under-used homes but many fear that it will make it too easy for unscrupulous tenants to re-rent homes at a profit, or encourage overcrowding or unsuitable occupiers who have not been vetted by the landlord or landlord's agent. The Association of Residential Letting Agents (ARLA) and Residential Landlords Association have both expressed concerns about the proposal.

BLOOMSBURY SQUARE WC1 - 7 REFURBISHED APARTMENTS, LET MAY 2015 FROM £425 PER WEEK

BERGLEN COURT E14 - THREE BEDROOM APARTMENT, LET APRIL 2015 £715 PER WEEK

The Association of Residential Managing Agents (ARMA) has welcomed the CMA report on block management (see box below) though still has concerns about the large number of agents that do not operate under ARMA and it will continue to lobby for greater regulation of the sector.

TABLE 6

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

Submarket		2012 £	2013 £	2014 £	H1 2015 £	% Change 6 months
Midtown	1 Bed	425	425	425	425	0
Midtown	2 Bed	620	650	625	625	0
City	1 Bed	450	425	425	425	0
City	2 Bed	630	575	550	550	0
Docklands	1 Bed	340	350	360	360	0
Docklands	2 Bed	425	425	430	430	0

Source: Hurford Salvi Carr *1 Bed is 500 sq ft, 2 bed is 750 sq ft with 2 baths*

Residential Block Management Services

In December 2014 the Competition and Markets Authority (CMA) published the findings of its 12 month investigation into the market for residential property management services. The CMA consulted with consumer groups, leaseholders, industry and government and concluded that there is no need to introduce any new formal regulation and endorsed the industry's moves to self-regulate through ARMA-Q. The issues highlighted were:

- Leaseholders' lack of control over the appointment of property managers;
- High charges for management services provided, or poor service levels
- Unexpected costs or apparently unnecessary works
- Poor communication and lack of transparency
- Difficulty of getting redress
- Poor understanding amongst leaseholders of their obligations and liabilities.

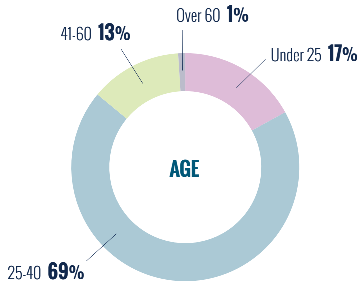
The report recommended that measures are introduced to:

- Improve a leaseholder's awareness of their obligations
- Improve disclosure, transparency and communication between property managers and leaseholders
- Provide access to appropriate forms of redress

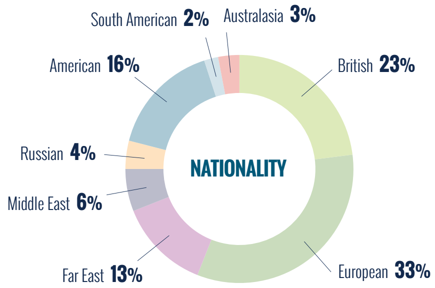
The CMA called for changes to existing legislation around rights to consultation on major works and Right to Manage legislation.

H1 2015 TENANT PROFILES

It is worth noting that the tenant profiles can change significantly between Half 1 and Half 2 in any year because the third quarter is by far the most popular time to start or renew a tenancy. September is when students and new graduates start afresh in London and by default it becomes the most common time for a lease to expire and thus this annual pattern is embedded into the market.

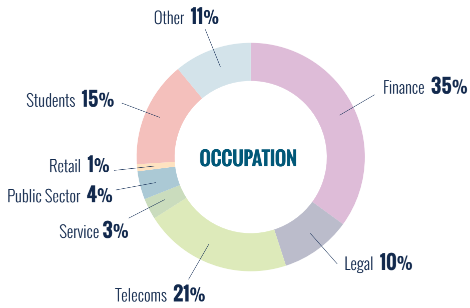


The age profile of the tenants who leased properties through our offices was older in H1 2015 than in 2014, with 17% of tenants under 25 compared with 33% in the whole of 2014. However, that may be a quirk of the cycle of letting activity in London, which hinges on the September intake of new students and graduates. It is also an indicator of employment growth in the capital – graduate recruitment, promotions and secondment project relocations are also associated with this time of year.

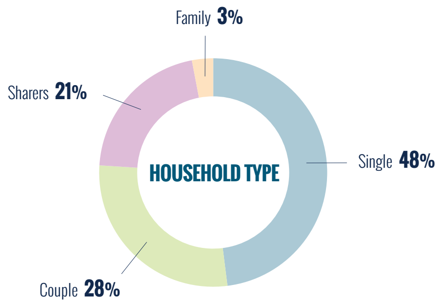


More than three quarters of all renters in H1 2015 were of overseas origin. Mainland Europeans were the largest group of renters, accounting for 33% of the total - similar to their 2014 share, whereas British renters declined from 32% of the market to 23% so far this year. There were more Americans this year, (16% compared with 7% in 2014), perhaps reflecting a change in employment markets in the City. The reduction in British tenants reflects a weakness in demand and underlines the dominance of overseas tenants in Central London.

Above Data compiled by Hurford Salvi Carr for the period January to June 2015

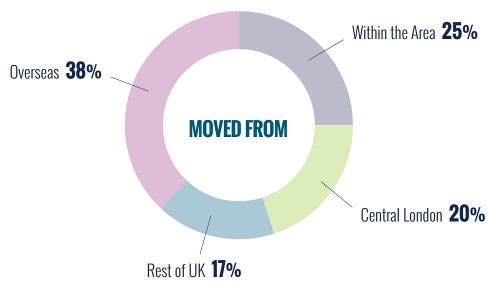


There was an increase in renters working in the financial sector this year at 34% of the total compared with 26% in 2014 and also in TMT, up from 13% to 21%. This is probably a combination of economic recovery and rising employment in the traditional City employers but we believe it also reflects a shift in our data arising from our new office in City Rd at the heart of the Tech City area to the north of the City.



For the first time this year we recorded data on household type and found that just under half of renters in our markets were single and only 3% were family groups. As this dataset develops we will gain new insights into the nature of demand for property in our areas. From this initial analysis, it is hard to say whether the household profiles are driven by demand or by the nature of the stock which makes it most suitable for small households of singles, couples or sharers. There were differences between the offices with Shoreditch and Islington most likely to attract couples while City, Clerkenwell and Midtown dealt with more singles and sharers.

We also began to monitor the distance over which renters had moved and found that the largest proportion, 38% came from overseas but only 17% from other parts of the UK.



New Homes Market

SUPPLY CONTINUES TO INCREASE

New residential developments which were offered across our area in the first half of 2015 provided buyers with choice in a market that has a shortage of second hand properties. Visitor numbers to new homes sites bounced following the election result to provide a strong end to the first half of 2015.

As reported in our 2014 report house builders and private developers continued to offer new homes to the local London market before targeting buyers at overseas sales exhibitions. This policy continued in 2015 and produced a steady rate of sales across Midtown, City and Docklands.

RIVER STREET MEWS, CLERKENWELL EC1 - 6 MEWS HOUSES AV. £1,300 PSF

Across our areas there are some major residential and mixed used developments under construction. Midtown, Fitzrovia and Kings Cross continued to see a high number of quality developments come to the market with the first completion at Fitzroy Place now expected in the autumn of 2015.

On 10th June we released the first phase of **The Corner House, Charlotte Street W1** for Derwent London. The 9 apartments have been designed by DSDHA and will be ready for occupation in Q4 2015. Pricing for the two bedroom apartments started from £1,750,000.

In January, developer, Almacantar, began the transformation of **Centre Point WC2** from office space into luxury residential. Centre Point, which rises above the junction of Oxford Street, High Holborn and Tottenham Court Road, will be converted into 82 apartments and 41,780 sq ft of retail space and will be completed in 2017. It was reported that the most expensive penthouse is to be priced at £55m - a 7,333 sq ft five bed duplex. One bedroom apartments of 744 sq ft are priced from £1.8m. This iconic London building sits above the new Crossrail Station and sales are expected to be to predominately overseas buyers.

In Clerkenwell at **River Street Mews EC1**,Tasou Associates and Kinnersley Kent Design proved that UK buyers will pay premium prices for high end boutique developments. River Street Mews is a development of 6 new houses with superb roof terraces off Amwell Street. Exceptional design and finishes secured prices averaging £1,300psf.

At **250 City Road EC1** directly opposite the new luxury towers of Canaletto and Lexicon, Berkeley Homes launched another major mixed use development in the UK from their marketing offices at Goodmans Fields in January 2015. Prices for studios started from £650,000, one beds from £875,000, two beds from £1,325,000, three beds from £1,650,000 and an average of £1,270 psf. By mid-year the former light industrial units had disappeared and marketing was in full swing. The scheme comprises of four blocks of between 7 and 9 storeys plus two towers of 42 storeys each. In total there are 798 private apartments plus 132 intermediate social apartments, a 190 bedroom hotel, cafes, restaurants, retail and offices and extensive landscaping over a 2 acre site. Completion is expected from 2018.

By midyear Crown House another 80s red brick office building had disappeared from the junction of East Road and City Road to make way for **Atlas** a 39 storey building that will tower above the neighbouring 24 floor Montcalm Hotel and the newly completed Eagle. Atlas will comprise of 263 private apartments, offices and retail by Rocket Investments. Marketing commenced in April in the Far East and in the UK.

Shoreditch is set to see major new developments continue to regenerate and repopulate this part of the City with a number of high quality residential developments including high rise living planned to transform the area further. The largest site is at **The Bishopsgate Goodsyard** comprising of 10 acres next to Shoreditch Station where the owners Ballymore and Hammerson are due to submit a substantial 'tech – focused' planning application that includes 1,346 new homes, warehouse style offices and up to 100 new shops plus a 2.4 acre elevated public park.

Plough Yard Developments has secured planning on **The Stage** the site of London's second oldest theatre that once played host to Shakespeare's theatre company, the Lord Chamberlain's Men and staged the first ever production of Romeo and Juliet.

The development will includes 385 apartments in a 40 storey tower, 250,000sq ft of office space, 27,000sq ft of shops and retail on a 2.3 acre site bounded by Curtain Road and Great Eastern Street. At the same time Manhattans' largest hotel operator Highgate Holdings secured planning in the first half of 2015 for a 200 bed hotel at 201-207 Shoreditch High Street, including offices, retail and leisure space.

BOW WHARF E3 - 19 APARTMENTS & 5 HOUSES, LAUNCHED APRIL 2015

This Stage will follow **Principal Tower** designed by Foster + Partners. Construction commenced in Q1 2015 for a 50 storey tower within the mixed use development at Principle Place just to the north of Broadgate. It is rumoured that 120 units out of 273 private apartments have been reserved at prices averaging £1,500 psf.

CORNER HOUSE, FITZROVIA W1 - 9 APARTMENTS, LAUNCHED JUNE 2015

At Aldgate where we open our 6th office in September at 61 Alie Street E1, British Land and Barratts are on site at **Aldgate Place** comprising of three towers of 22, 25 and 26 storeys and a series of lower buildings ranging from 6 to 9 storeys. Aldgate Place will include 463 private and affordable apartments, together with office, hotel, retail and leisure uses around a new pedestrianised street linking Alie Street to Aldgate Station. 25% of the private apartments were sold by the half year with one beds from £688,000, two beds from £809,000, three beds from £971,000 and averaging £1,100psf.

Further East we launched a development of 19 new apartments and 5 houses at **Bow Wharf E3** where the Regents Canal and The Hertford Union Canal meet at Victoria Park on behalf of Bloc (British Waterways) and Rooff. 90% of the units were reserved at launch in May 2015 at prices averaging £840psf.

At Shadwell we launched 28 apartments at **The Junction, Shadwell E1** for Telford Homes with 50% reserved by the half year and completion due for Q3 2016. Two bedroom flats are starting at £540,000 for £780psf.

Ballymore launched Phase 2 of its **London City Island** scheme at Canning Town at the end of May with one bedroom prices starting at £375,000. At the same time The English National Ballet and English National Ballet School, which currently operate from separate sites in different parts of London, announced plans for a new joint home at City Island which will form an emerging creative and arts cluster. The purpose-built facility is scheduled to be ready in 2018.

In June the Canary Wharf Group commenced first phase marketing of 345 apartments at **10 Park Drive, Wood Wharf E14** with prices commencing from £495,000 for one bedroom, £795,000 for two bedroom and £1,295,000 for three bedroom apartments. The launch on 9th July promised to give priority to UK buyers. In total 3,200 homes will be built at Wood Wharf.

Galliard also launched 297 apartments at **Maine Tower** a 42 storey luxury tower part of Harbour Central at South Quay E14 on the last weekend of June at prices starting £900psf. In total, Harbour Central will offer an exemplary choice of 642 private apartments, providing a range of highly-specified studio, one, two and three bedroom apartments along with eight penthouses and elite lifestyle facilities; with the leisure complex set to include a "Resident's Club" with a proposed library, concierge, gym and spa, business suites and cinema.

The number of new homes under construction across London has doubled since the last peak in 2007. The increase in supply is likely to keep a lid on further prices rises in the next 20 years as the market will need time to absorb the thousands of new homes currently in the construction pipeline. As outlined above buyers have a wide selection of new luxury apartments to choose from across a range of areas with the promise of stunning views, high quality finishes and superior levels of services.

At the same time in June The Mayor of London announced plans for a New Homes for London Agency to help deliver housing and infrastructure for London. The Mayors office will gain new powers and it will bring City Hall closer together with the London Boroughs to increase the pace of housebuilding in the capital and help release public land. This move has all-party support and will hopefully be operational and start producing tangible results before a new Mayor is elected in 2016.

Late in 2014, the government introduced the Vacant Building Credit (VBC). It could significantly reduce the development costs on some sites by reducing the obligation to provide affordable homes.

VBC was designed to encourage developers to bring vacant buildings back into use, or demolish and rebuild them. By reducing the obligation to provide affordable housing, the development becomes more financially viable.

VBC applies only to sites that include buildings which have been vacant for a period of time. The planning authority should calculate the number of affordable homes that would normally be required to obtain planning consent and then deduct the number relating to the gross floorspace of the previously existing vacant building.

In London this has meant windfall gains for developers who happen to be redeveloping land with vacant buildings which would in any event have been financially viable. For local authorities in Central London it represents the loss of much needed contributions to affordable housing.

Market Prospects

LONDON REMAINS A SAFE HAVEN

SALES

We are confident of a stable market over the next 12 months. The economy is recovering and the uncertainty of the election has passed. We expect the number of transactions to rise in H2 2015, based on the increase in enquiries already recorded, but pricing will ultimately depend on the level of supply coming to market.

Demand will continue to focus on entry level one and two bed apartments, with young professionals representing our typical buyer. We do not expect strong demand from buyers looking for trophy homes while the market struggles to absorb the impact of stamp duty increases.

We expect modest increases in price for the low to mid-priced properties up to £1 million, of around 5% for the whole of 2015. That reflects 2% in H1 2015 and a further 3% in H2 2015.

There is likely to be slight upward movement of around 1-2% for properties between £1 million and £1.5 million and no change for those priced at over £1.5 million. That reflects our view that properties for sale at over £1.5 million are highly dependent on the overseas markets and have become less attractive to UK purchasers.

The slow down in this segment of the market, which was caused by the rise in Stamp Duty for more expensive properties, may well be the desired outcome politically.

With a shift towards UK buyers, comes greater sensitivity to price. New homes attract a price premium and we expect that to endure but to narrow over the next year as price sensitive buyers find suitable product in the second hand markets. As marketing periods are extended for new homes, there will be more UK launches and that will help to narrow the price differential.

The fall in value of the Euro against foreign currencies, including the pound, has two implications for investors. First, the UK will become less attractive to investors from the Eurozone as their buying power diminishes and second, investors from other parts of the world may choose to speculate on other cities in Europe within the Eurozone, such as Paris and Berlin to take advantage of exchange rates.

London will elect a new mayor in 2016 and depending on the political allegiances of the new mayor, we could envisage a shift in the emphasis of policies on matters such as property taxation, rent control or infrastructure investment.

RENTAL MARKET

London's private rental sector is becoming an increasingly crowded marketplace. There has been an influx of new stock as developments are completed and that is unlikely to slow for some time.

Plentiful supply means choice for tenants and that, in turn, means that rental growth will be subdued.

High specification blocks with on-site facilities and high standards of management are becoming more commonplace and offer a new style of living to Londoners and they attract premium rents.

We expect small rises in rental values in the September peak but that will settle back by the end of the year and we expect no rental growth overall in 2015.

The combination of price rises and flat rental values means that investment yields have been further eroded and are under 4% for the first time since we began reporting on the market 20 years ago.

A stable market is reassuring for tenants and acceptable to long term investors but can be frustrating for new investors or speculators who have come to expect perpetually rising income levels.

We expect the average length of tenancy in the rental market to continue to extend as tenants and landlords find their interests aligned on this issue. Already, 18 to 24 month contracts are becoming more prevalent and that trend seems set to continue.

Short-term tenancies will also become a larger component of the market, driven by the expansion of professional short-term operators that compete directly with the hotel market, as well as the growing acceptance of internet-based products, such as Airbnb. Short-lets are a convenient and appealing entry route for people relocating to London on fixed term employment contracts, enabling them to become more familiar with the city before settling on a longer-term location.

> “The market ends H1 in a better position than it began 2015 and we anticipate an equally active 2nd half of the year.”

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