research

from Hurford Salvi Carr

MIDTOWN, CITY AND EAST LONDON

RESIDENTIAL 2017

“

Prices across Midtown, City and East London are now back at 2013/2014 levels.

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Market Overview

ECONOMIC UNCERTAINTY HITS HOME

2017 was the year that the property press, house builders and owners, finally acknowledged the slowdown in the London property market. London's prime central areas began to slow in late 2014, when stamp duty unexpectedly shot up and the deceleration continued through 2015 and 2016.

The Government's difficulties with Brexit negotiations together with a marginal rise in interest rates in November for the first time in a decade, did little to lift the mood. There was some good news in the Autumn Budget on November 22nd when the Chancellor announced that first time buyers would be exempt from Stamp Duty on the first £300,000.

After three challenging years in the residential market, prices across Midtown, City and East London are now back at 2013/2014 levels. Our mainstream markets, between £500,000 and £1 million, had price falls of 4% in 2017 after having held their values in the first 6 months of the year. Larger properties priced above £1m experienced corrections of up to 10%.

Across the West End, Bloomsbury, Kings Cross, Clerkenwell, the City, Shoreditch, Canary Wharf and East London we sense that the economic uncertainty triggered by unpredictable Brexit negotiations, has served to dent buyer confidence and reinforce a wait-and-see attitude.

That wait-and-see attitude has helped foster a new-found equilibrium in London's property market, characterised by 'low demand and low supply'. That said, there are still new opportunities for buyers who have the patience to track properties coming to the market. We noticed that the level of viewings which had reached a low point in 2016, started to recover in 2017. Serious buyers were able to buy with little competition and, while transaction numbers remained low, owners seem to have a much greater understanding of the need to be realistic in their price expectations.

All of this will be welcome news to the Government who have used Stamp Duty to calm what they saw as an overheated housing market, and at the same time raise additional revenue.

Of course, the property industry is united in its call for reform of Stamp Duty. The scale of acquisition costs is unprecedented in the UK market and buyers are constantly taken by surprise when they realise the impact of tax on their buying power. Price reductions attract bargain-hunters but they are disappointed when they find that the price saving would be swallowed up by the tax bill. Falls of 25% above £2 million have had little effect and have not yet been enough to kick-start the market.

At the same time the Government pursues an anti-landlord agenda by targeting second home owners and the Buy To Let market. Second home owners are increasingly being blamed for the UK's housing shortage and there are rumours that further tax measures could be in store for private landlords. Across London 75% of all new build in the past 10 years has been sold to investors and second home owners.

Having introduced an additional 3% Stamp Duty levy for second home buyers and investors in April 2016 the government now has existing landlords in its sights. The list of measures so far includes: reductions in tax relief on mortgage payments, new regulation, tougher lending criteria for buy to let - including higher rental income requirements, and if that were not enough, local authorities are also targeting this sector with compulsory licensing fees for landlords. This cocktail of measures has been successful in reducing demand from investors looking to plan for their retirement, add to their portfolios or enter the market for the first time in central London. There are higher costs still to come with the ban on tenants' fees including references, lease agreements and inventory costs.

At the same time Government continues to promote large scale institutional investment in the Private Rental Sector (PRS) as one of the solutions to the UK's housing crisis. We now have plentiful supply of rented stock across London, with PRS landlords starting to release more units in major development hubs at Wembley, Croydon, Stratford, Canary Wharf, Vauxhall and Battersea in addition to stock coming on stream in zones 2-5 via Permitted Development Rights (PDR) (zone 1 is largely excluded from PD) which allow the automatic conversion of commercial buildings into homes without planning consent. This level of supply will mean rents remain stable in London and make it difficult for landlords to pass on additional costs by way of rent increases to tenants. This increase in supply does not apply to other regions where new homes are desperately required.

So we have an increasingly pro-PRS and anti-small landlord regulatory environment.

Developers have their sights on two categories of buyer – Chinese and institutional PRS investors. Chinese still value an opportunity to put money into the UK and London's residential market, most often to provide a home for family members studying at London universities. The weak pound has helped to support this segment of the market. Developers have a need to sell completed stock but also to maintain headline prices, so the incentive to help out with buying costs - and their capacity to do so - is much greater than for other types of vendors.

House Builders have also been packaging up portfolios of new apartments to sell to institutional investors and, although the stock might not be ideal for the purpose, it provides a faster route to market for the institutions than Build to Rent (BTR) which involves a long and complex process of land acquisition, planning, design, construction and development finance. There is now an interesting landscape emerging in which large corporate landlords will be competing with individual or small scale landlords.

The big winners as previously highlighted in our reports are renters. Despite the headlines bemoaning high rents in London, the quality of rental product has improved almost beyond recognition over the last decade while the cost has risen only gently.

Economic Overview

INTEREST RATES RISE

The apparent resilience of the UK economy has been a repeated source of surprise and relief over the past year, with indicators pointing to growth despite the shadow of Brexit. However, the general consensus amongst economists is that it is only a matter of time before cracks begins to show. The Chancellor's downgrading of economic growth forecasts in his Autumn Budget are perhaps the first concrete acknowledgement of the difficulties ahead.

The UK economy grew 0.4% in Q3 2017 and the OBR forecast is for 1.5% in 2018 and 1.4% in 2019, down from 2% in its previous forecast. As recently as July 2015, it had been predicting 2.5%. The implications for living standards and national budgeting are significant – with growth of 1.5% the government will struggle to fund public services without raising taxes.

In reality, the economy has been buoyed by widespread global recovery but its relative growth is poor in relation to other leading economies. The UK has moved from the top of the G7 growth league table to the bottom.

The fall in sterling has not been the boon to inward investment that it should have been and businesses are concerned about looming labour shortages. That disappointment has been echoed in the residential market where overseas buyers have pulled back from the market, despite their increased buying power of their currencies.

Unemployment at its lowest level since 1975 is normally a positive signal of a flourishing economy but the prospect of restrictions on migration from the EU, means that recruitment could become increasingly difficult, particularly in London which has relied so heavily on an internationally mobile labour force. London has built a sizeable cluster of biotech and medical businesses, as well as the more widely-heralded tech and its established financial sectors but these can only prosper with access to a global pool of talent.

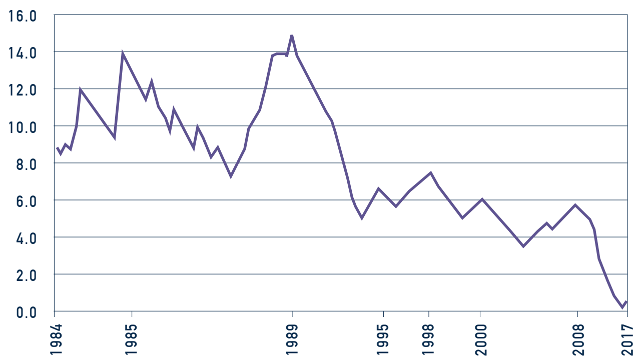
Employment, thus far, has remained remarkably strong in London and it continues to rely on a highly qualified and mobile international workforce. However, the uncertainty surrounding the UK's future place in the global economy, underlines the benefits of flexibility associated with renting rather than buying. We may now have a certain date for leaving the EU, 29th March 2019 but the future of the London economy is far from certain.

Inflation rose to 3% in 2017 and was still at that level in October, although the OBR predicted that it would fall back to 2% within a year. At this rate, wages growth, which rose at an annual rate of 2.2% in Q3, is not keeping pace. In fact, wages growth has been below inflation for seven consecutive months.

The indicator that is causing most concern seems to be productivity. It has not increased for a decade and the OBR's forecast that it will improve to half its historic rate offers little comfort. That is primarily a function of investment and the UK needs to remain an attractive investment proposition. The lack of progress on talks with the EU was becoming increasingly unsettling for the financial sector who had hoped to find that their base in London would be protected but we ended the year with a Stage One agreement on Brexit negotiations and optimism for trade talks moving into 2018.

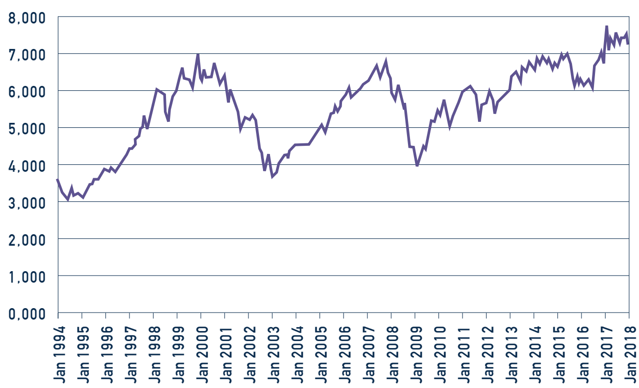
In November, the Bank of England announced the first rise in interest rates for a decade, moving them from 0.25% to 0.5%. A doubling in the rate of interest will have implications for some highly geared borrowers but, at 0.5%, it remains at a historically low level and the Bank sought to reassure borrowers that they would not rise above 1%.

FIGURE 1
INTEREST RATES 1984 - 2017



All of this feels somewhat precarious and the mood at the end of 2017 is sober. Policymakers in Dublin, Frankfurt and Paris are alert to opportunities created by London's weaknesses but, however appealing it might be for them to imagine taking over from London as Europe's financial capital and leading global city, the reality must be daunting. There is no doubt that the scale and momentum of London's economy, cultural offering and cosmopolitan population, remains a powerful force to be reckoned with.

FIGURE 2
FTSE 100 ADJUSTED CLOSING PRICES (PCM)



Sales Market

SMALLER HOMES IN DEMAND

Reality returned to the market in 2017, if only because the loss of confidence was less dramatic than it was in 2016. The initial shock of Brexit has subsided and prices have come down along the way. Gone are the heady days of buyers queuing to secure homes on launch day, now, we see buyers who are in it for the long term with more owner occupiers and fewer investors.

Buyers remained cautious but it felt like a better time to buy than 2016, although if they hoped for a buyers' market with discounts, they were disappointed as vendors were not so amenable. Forced sellers are a rare beast in these markets and, most owners are in the mood to 'hold' not 'sell'.

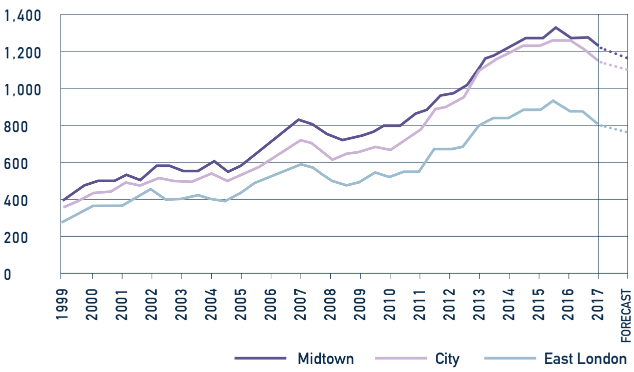
It was no surprise when The Royal Institute of Chartered Surveyors reported that the number of homes listed for sale had fallen to a record low in 2017.

CLERKENWELL EC1 - 2 BEDROOM FLAT, SOLD DECEMBER 2017 £1,575,000

The price of a one bed apartment in City, Midtown and East London dipped slightly in the immediate aftermath of the General Election in May and by the year end it had lost 5%, knocking around £25,000 off the value of an average one bed. In the summer, we had hoped that the steepest price falls would be confined to properties over £1 million and that the market for one bedroom apartments would be relatively immune but uncertainty has taken its toll even in this part of the market.

FIGURE 3

PRICE TRACKER - ONE BEDROOM APARTMENT



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

The unexpected General Election result may have been one shock too many, especially as the government continues to treat this part of the housing market as its very own 'bank of mum and dad' with an endless capacity to produce extra cash when it is needed through property taxes.

Nevertheless, the one bedroom apartment market remains more resilient than the higher price brackets. Demand comes from pied-a-terre buyers looking for a London base, parents buying for children close to one of the London Universities and a limited number of buy to let investors who see the current downturn as a buying opportunity.

The life-cycle triggers that stimulate activity in most housing markets – marriage, births, deaths - have never been key drivers in our markets. The prospect of capital growth has always been the primary motivation but this has been lost, at least for the time being. Investors shy away from the 3% Stamp Duty surcharge and homebuyers have turned their attention to more affordable markets. Even the overseas investors, who stand to benefit from the weakness of sterling, have been scouring other cities in search of better returns.

TABLE 1

PRICES AND ANNUAL GROWTH FOR ONE BEDROOM APARTMENTS IN THE RESALE MARKET AT YEAR END : AVERAGE FOR MIDTOWN, CITY & EAST LONDON

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	8%	520,000	34,000
2015	6%	550,000	30,000
2016	1%	555,000	5,000
2017	-4.5%	530,000	-25,000

Source: Hurford Salvi Carr

The price tracker shows a distinct downturn across all three areas of our market and we expect that downward trajectory to persist into 2018. As at the end of 2017, prices for one bedroom apartments have returned to their 2014 levels. This part of the market would have weathered the stamp duty reform at the end of 2014, but the fact that stamp duty on properties below one million was reduced has been almost forgotten as the series of knock-backs since then have progressively undermined confidence across the wider market.

Still it is the larger properties that have taken the brunt of the pain. In all three of our areas, the price of a three-bedroom apartment has fallen by 9% in the past 12 months and around 20% since the end of 2015. Those 3 bedroom apartments, were often included in design to satisfy planning requirements for "family homes" and the target market – whether families or luxury - was always limited. So far price changes for one-bedroom apartments still fall within the margins of a normal sale negotiation.

TABLE 2
PRICES & PRICE CHANGES FOR 1,2 & 3 BED APARTMENTS IN THE RESALE MARKET

		2015 £	2016 £	2017 £	Change 2017	Change % 2015 peak	£ per sq ft
Midtown	1 Bed	650,000	650,000	625,000	-4%	-4%	1,250
	2 Bed	1,000,000	950,000	900,000	-5%	-10%	1,200
	3 Bed	2,600,000	2,200,000	2,000,000	-9%	-23%	1,333
City	1 Bed	630,000	650,000	630,000	-3%	0%	1,260
	2 Bed	840,000	840,000	800,000	-5%	-5%	1,067
	3 Bed	1,900,000	1,750,000	1,600,000	-9%	-16%	1,067
East London	1 Bed	450,000	450,000	430,000	-4%	-4%	860
	2 Bed	625,000	600,000	580,000	-3%	-7%	773
	3 Bed	1,250,000	1,100,000	1,000,000	-9%	-20%	667

Source: Hurford Salvi Carr *1 Bed is 500 sq ft, 2 Bed is 750 sq ft with 2 Baths, 3 Bed is 1,500 sq ft*

The quest to own a piece of central London, following 5 years of exceptional growth between 2009 and 2014, waned in 2015 and finally ground to halt in 2016 and 2017 as buyers initially refused to contemplate paying higher rate Stamp Duty charges, then lost interest with the realisation that property prices had stopped rising and looked unlikely to grow for the foreseeable future.

BLOOMSBURY WC1 - 1 BEDROOM GATEHOUSE, SOLD DECEMBER 2017 £795,000

Home owners in central London rarely feel the need to sell in a buyers' market as they are all sitting on substantial assets with limited borrowings. The average purchaser in the past 9 years has borrowed only 50% of the original purchase price, in part the result of tougher lending criteria introduced after the banking crisis in 2008.

The result is an expanded rental sector where once potential buyers are now content in the knowledge that they are better off renting than buying as long as there is an abundance of homes to rent and their landlord pays for building insurance, repairs and on site services.

After a decade-long building boom in central London, rental stock is plentiful and renters get to keep their hard-earned income rather than hand large sums over to the Government in Stamp Duty Tax.

In his Autumn Budget, the Chancellor announced that SDLT would be abolished for first time buyers on homes up to £300,000 and, on homes up to £500,000, the concession would be maintained on the first £300,000. This will undoubtedly boost the sales market, especially in outer London and the wider south east where entry level prices are high but not generally above this threshold. In our markets the benefits are more limited.

TABLE 3 STAMP DUTY PAYABLE BY DIFFERENT BUYER TYPES

House Price	Stamp Duty payable by 1st-time buyers	Stamp Duty payable by non 1st-time buyers, main home	Stamp Duty payable by non 1st-time buyers, additional home	Stamp Duty for additional home buyers: effective rate %
£300,000	Nil	£5,000	£14,000	4.7%
£350,000	£2,500	£7,500	£18,000	5.1%
£400,000	£5,000	£10,000	£22,000	5.5%
£450,000	£7,500	£12,000	£26,000	5.8%
£500,000	£10,000	£15,000	£30,000	6%

Source: Hurford Salvi Carr

This will give FTB competitive advantage over other buyers who will have to pay 2% of the purchase price over £125,000 and 5% between £250,000 and £500,000. If it is an 'additional home', there will be an additional 3% surcharge on those rates. Table 3 sets out the difference in up-front costs for buyers competing for the same real estate.

TABLE 4
LONG RUN PRICE CHANGES FOR A 1 BED APARTMENT IN THE RESALE MARKET

Submarket	1994 - 2017	2000 - 2017	2007 - 2017	2008 - 2017
Midtown	547%	146%	48%	63%
City	569%	169%	66%	83%
East London	515%	135%	36%	57%

Source: Hurford Salvi Carr

There are caveats which will disappoint some prospective buyers. Couples buying together must both be first time buyers. A buyer can only be a first time buyer(FTB) if they have never owned any interest in a property whether in the UK or overseas. However, the OBR estimated that the SDLT concession could translate directly into price growth of 0.3% over 5 years as buyers reassign the budget they would have spent on SDLT, to raise their bids. This logic is the reverse of the position on homes over £937,500 where the imposition of higher SDLT caused a fall in prices as vendors tended to absorb the additional purchase costs.

Table 4 shows that the period of extraordinary price growth, triggered by London's rise to a global financial centre, largely ended with the Global Financial Crisis in 2008/9. In Midtown, the average growth for the period 1994-2017 was almost 23% per annum, whereas in the 10 years since the Global Financial Crisis growth has averaged just over 6% per annum.

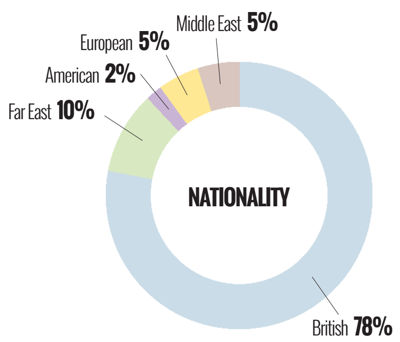
2017 BUYER PROFILES

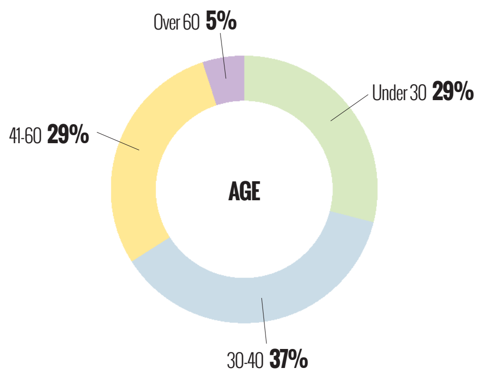
Nationality

British buyers accounted for the vast majority of sales conducted through our offices in 2017. European buyers, who had made up 19% in the previous year, dropped to only 5% - and that is a smaller proportion of a less active market. Far Easterners were the most active group of overseas buyers, maintaining their market share at 10%, most of them from China. Back in 2013 and 2014, Far Eastern buyers made up between 20% and 25% of all sales but their share began to fall in 2015.

Age

The age profile of buyers in our markets has been relatively stable over the years but in 2017, we noted a significant rise in the proportion of buyers under 30 years old, rising to 29% from less than 10% in 2016. This is surprising given the high entry level pricing but in East London there has been a boost from the government's Help to Buy scheme. The over 60 age group also figured larger than in previous years, accounting for 5% of buyers.



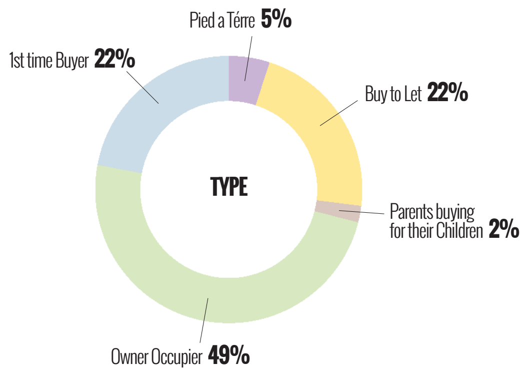


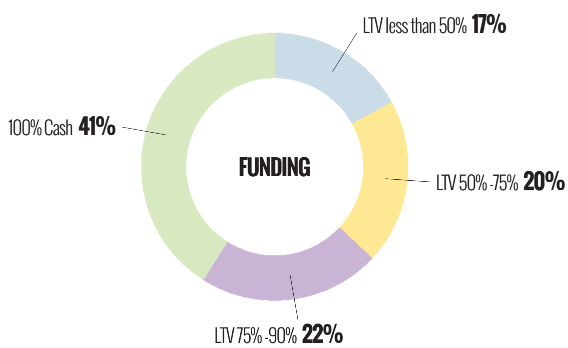
Buyer Intention

The proportion of buy to let investors appears to have stabilised in 2017 at around 20%. They have, in the past, made up closer to a third of all sales. The pied-a-terre market has shrunk to half the level of 2016, falling from 10% to 5%. Perhaps they have made space for owner occupiers to enter the market, because their share has continued to climb, from 36% in 2016, to 49% in 2017.

Funding

Over 40% of all sales through our offices were funded entirely with cash in 2017. Cash buyers have always been common in our areas accounting, in the past, for around 30% of the market but changes to taxation for buy to let mortgage-holders have encouraged investors with the means to lean towards cash purchases.





New Homes

DEVELOPMENT ACTIVITY SLOWS

Over the last 15 years, inner London's housing stock has risen by 17.6%, compared with 9.4% in outer London. The rate of increase fluctuates from year to year but at its peak in 2009, Tower Hamlets added 3.5% to its stock in a single year, 2,500 new private units.

Tower Hamlets continues to deliver more new homes than any other London borough but the rate of new planning applications and consents has slowed markedly in 2017 and there have been media reports that the councillors are beginning to resist new developments. The Estates Gazette reported Tower Hamlets Mayor saying: "The Isle of Dogs has witnessed a tide of development over the past 30 years. However, in recent years, it has really accelerated. Put simply, the scale of development cannot continue indefinitely."

BOW WHARF E3 - 4 BEDROOM HOUSES, SOLD 2017 £999,950 - £1,100,000

This change of heart at local level coincides with a more general slowdown in development activity across all of Inner London, as developers see an end to the run of price rises. The number of units gaining planning consent each month in 2017 in Inner London was 45% lower than in 2016.

The level of new homes completed in inner London over the past 15 years is at odds with the housing crisis nationally and one problem is that while demand is acute at the affordable end of the market, supply is being delivered at the highest end of the property market.

The number of households in London is projected to increase by 8.2% over the five year period from 2017 to 2022, compared to 4.8% across England in the same period. Boroughs in the east of London are expected to experience the highest rates of household growth. In Tower Hamlets for instance, growth of 14% is projected. For London as a whole, the GLA has raised its target for housing need from 42,000 per annum to 64,935. Tower Hamlets has had its target lowered slightly in the latest London Plan.

Average asking prices (not sale price) for new homes across the Inner London boroughs averaged £1,347 per sq ft ranging from £1,000 per sq ft in Tower Hamlets to £2,024 per sq ft in Westminster. It is interesting to note that in a market where prices have been falling the asking prices of new homes have actually risen by 7% since 2015.

CLERKENWELL EC1 - 7 NEW LOFT APARTMENTS, LET OCT 2017 £650 PW - £850 PW

Overseas buyers have been an important source of demand in our markets. Selling London developments at overseas exhibitions remains commonplace, despite policy-makers' attempts to discourage it - but the destination now is almost exclusively China.

The Autumn Budget was hailed as a 'Housing Budget' designed to tackle the housing crisis. The government raised its target for building new homes from 250,000 to 300,000 per annum. Ambitious and possibly unrealistic, it was nevertheless welcomed by campaigners concerned to put a lid on UK house price inflation.

In London, very few homes qualified for the government Help to Buy scheme because of the upper price limit at £600,000. For those areas with prices under the limit, buyers can qualify for a loan on up to 40% of the purchase price, with a deposit of just 5%. That, combined with the lifting of Stamp Duty for first time buyers on the first £300,000 up to a price of £500,000, will continue to stoke demand in that segment of the market. For us, the impact is only felt in East London.

LIMEHOUSE E14 - 14 APARTMENTS, SOLD 2017 £365,000 - £535,000

THE HUDSON, CURTAIN ROAD, SHOREDITCH EC2

1 & 2 BEDROOM APARTMENTS, £895,000 - £1,600,000

HAMILTON COURT DEVELOPMENTS

Lettings Market

SUPPLY CONTINUES TO INCREASE

Rents for one and two bed apartments stabilised in the second half of the year, after dipping in the first half, as demand rose from corporates, students and graduates entering the employment market over the busier summer months. The market has been buffeted by fluctuating levels of supply and demand and the upshot has been a market in balance with little real change in values.

LIMEHOUSE E14 - 1 BEDROOM APARTMENT, LET DEC 2017 £360 PW

The supply of rental stock in our markets continues to expand with the completion of new apartment blocks many of which were sold to investors and further boosted by owners who chose to rent properties rather than sell at current prices. However, those increases were off-set by a loss of stock to the serviced apartment operators as more landlords have targeted short stay guests – a sector that is now an established feature of central London's residential market.

The rental sector is still rising across the UK. In a period when capital values are not forecast to rise significantly, renting becomes increasingly attractive, especially in blocks that come with amenities such as concierge services, gyms, private cinemas or roof gardens that are included in the rent, while the landlord pays for services via the service charge.

HOXTON N1 - 2 BEDROOM APARTMENT, LET OCT 2017 £550 PW

In September, the Labour party announced at its Conference, an intention to reintroduce rent control if they were elected, which prompted concern amongst landlords as well as a growing number of institutional investors in the Build to rent or Private Rental Sector. ARLA expressed the industry's view that: 'Whenever and wherever rent controls are introduced, the quantity and quality of available housing reduces significantly, and the conditions in privately rented properties deteriorate dramatically.'

In October, the government announced a consultation on plans to improve protection for tenants and leaseholders and give them more 'say over their agent'. It is intended to protect consumers from overpriced service charges and unfair costs and could include 'a new independent regulatory body'.

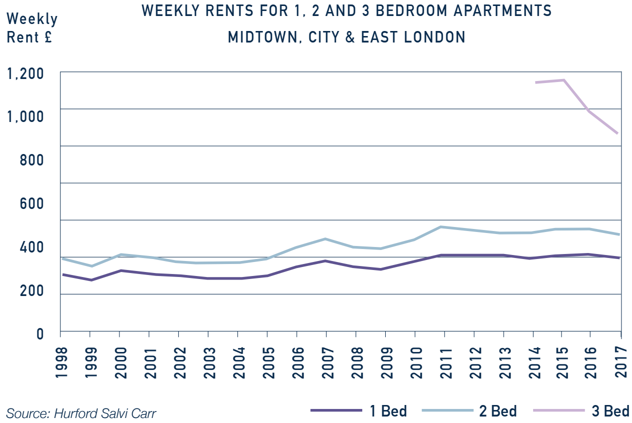
On November 1st 2017 the Tenant Fees Bill began its journey through parliament. Once enacted, it will mean that letting agents and landlords will no longer be able to pass on the costs of setting up a tenancy to tenants in the private rental sector, other than the rent and the deposit.

The ban will apply to costs associated with 'making arrangements for the grant, renewal or continuance of a tenancy' on Assured Shorthold Tenancies (ASTs) or licences. The legislation applies only in England and does not apply to holiday lets, long leaseholds, social housing, company lets or non-Housing Act tenancies.

FIGURE 4

WEEKLY RENTS FOR 1, 2 AND 3 BEDROOM APARTMENTS

MIDTOWN, CITY & EAST LONDON



Source: Hurford Salvi Carr

Currently it is industry standard for tenants to cover the cost of the tenancy agreement, the inventory, reference and right to rent checks. Under the provisions of the new act these will ultimately be borne by the landlord. In future, the only costs that the tenant will be liable for are the rent, a refundable security deposit of no more than 6 weeks rent; a refundable holding deposit of no more than 1 week's rent and a payment in the event of tenant default such as late payment or breach of the tenancy agreement.

The major area of concern is if the ban includes inventory reports where costs are currently shared between landlord and tenant with both parties given the opportunity to agree the documents. However, if the ban includes inventory costs then these documents will become the property of the landlord and, as such, the landlord or agent will have no obligation to share them with the tenant. The inventory clerk will be under no obligation

TABLE 5

WEEKLY RENTS FOR 1, 2 & 3 BEDROOM APARTMENTS IN MIDTOWN, CITY & EAST LONDON AT YEAR END

Submarket		2015 £	2016 £	H1 2017 £	% Change 2017
Midtown	1 Bed	440	475	450	-5
	2 Bed	640	660	600	-9
	3 Bed	1,500	1,300	1,100	-15
City	1 Bed	440	430	450	5
	2 Bed	580	560	560	0
	3 Bed	1,200	950	925	-3
East London	1 Bed	370	360	320	-11
	2 Bed	450	450	425	-6
	3 Bed	725	675	575	-15

Source: Hurford Salvi Carr *1 Bed is 500 sq ft, 2 Bed is 750 sq ft with 2 Baths, 3 Bed is 1,500 sq ft*

to report 'independently', thereby compromising the rights of the consumer as an unintended consequence.

This will give the landlord an advantage in the case of disputes and put the tenant at a disadvantage at the end of the tenancy when they will be looking for a deposit to be returned condition. Hopefully common sense will prevail and the current funding of inventory's will be excluded from the final drafting of the legislation.

CLERKENWELL EC1 - 7 APARTMENTS, LET NOV 2017 £590 PW - £610 PW

The City held its rent levels in 2017 for one and 2 bed apartments but prices in the other markets slipped by up to 11%. For larger properties, values fell across all markets and by as much as 15% in Midtown and East London. Rents per sq ft are highest for smaller apartments. One beds consistently command higher rents per sq ft than two beds and the premium over the 3 bed apartments is substantial. The monthly outlay may be higher but the three beds are significantly better value for money – clearly attractive for professional sharers.

TABLE 6

LONG TERM RENTAL GROWTH

	2000 - 2017	2007 - 2017	2007 - 2017
1 Bed	25%	5%	16%
2 Bed	29%	5%	15%

Source: Hurford Salvi Carr *1 Bed is 500 sq ft, 2 Bed is 750 sq ft with 2 Baths, 3 Bed is 1,500 sq ft*

BLOOMSBURY WC1 - 2 BEDROOM APARTMENT, LET OCT 2017 £750 PW

TABLE 7

ANNUAL RENTS FOR 1, 2 & 3 BEDROOM APARTMENTS IN MIDTOWN, CITY & EAST LONDON 2017

Submarket		Weekly Rent £	Sq ft	Rent p.a.	Rent psf
Midtown	1 Bed	£450	500	£23,400	£46.80
	2 Bed	£600	750	£31,200	£41.60
	3 Bed	£1,100	1,500	£57,200	£38.13
City	1 Bed	£450	500	£23,400	£46.80
	2 Bed	£560	750	£29,120	£38.83
	3 Bed	£925	1,500	£48,100	£32.07
East London	1 Bed	£320	500	£16,640	£33.28
	2 Bed	£425	750	£22,100	£29.47
	3 Bed	£575	1,500	£29,900	£19.93

Source: Hurford Salvi Carr *1 Bed is 500 sq ft, 2 Bed is 750 sq ft with 2 Baths, 3 Bed is 1,500 sq ft*

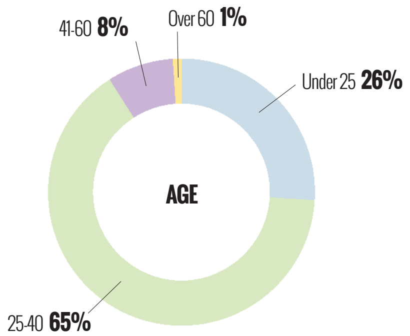
Long term rental growth has been modest but it needs to be seen as part of a bigger picture. Capital values have risen substantially and income is generally secure but in the last decade, rents have risen by just 5% - contrary to common assumptions.

COVENT GARDEN WC2 - ONE BEDROOM APARTMENT, LET NOV 2017 £650 PW

H1 2017 TENANT PROFILES

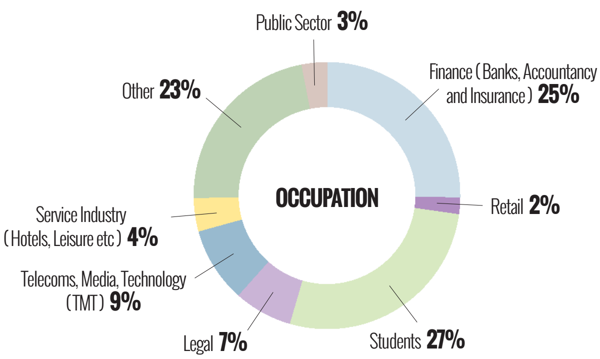
Age

The average age of renters always falls in the second half of the year, when students and new graduates enter, or move around the market. Over the whole of 2017, the under 25s made up just over a quarter of all rentals (twice the level in the first half of the year). Over 90% of all renters are aged under 40 and that is a consistent feature of our rental market.



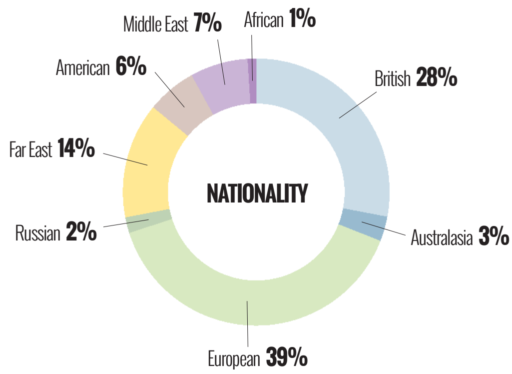
Occupation

The employment structure in our markets is relatively consistent, with bank and financial sector making up between 25% and 30% of all tenants, and technology and media around 10%. Student rentals are very seasonal but over the whole year represent around 25% of all transactions, half years they made up 35%.



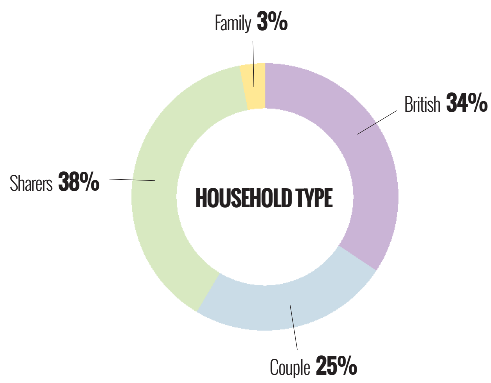
Nationality

The largest category of renter was European in 2017, accounting for 39% of all properties let through our offices. UK citizens made up 28% - significantly lower than in the first half of the year, while the proportion of tenants from the Far East had doubled to 14%. We noted early in the year that EU citizens were more prominent. One possible explanation is that they are more reluctant to buy because of the uncertainty of their position in the UK and so rental is a more attractive option.



Household Type

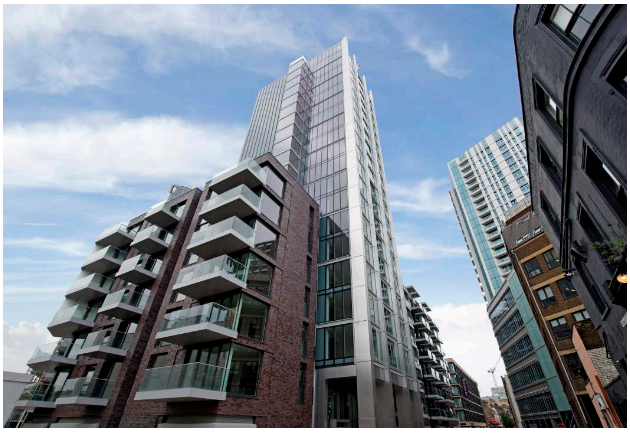
Singles and sharers dominate our markets, accounting for three quarters between them. Perhaps the most interesting feature is the high proportion of singles – representing over a third of all rentals. This underlines the strength of the one bed market in our areas, 58% of lettings were to singles or couples, the prime consumers of one bed apartments. Families on the other hand, are a rare feature.



Investment

LANDLORDS PLAY LONG GAME

The greatest risk in this market is that small landlords begin to sell out and flood the market with sale stock as the government continues its onslaught on their income. The 3% Stamp Duty surcharge for additional homes, on top of the loss of tax concessions, has already tipped the balance for some investors and there are rumours that the Government is contemplating additional taxes on rental income or even an increase in Capital Gains Tax on residential investment properties.



ALDGATE E1 - 22 APARTMENTS, LET 2017

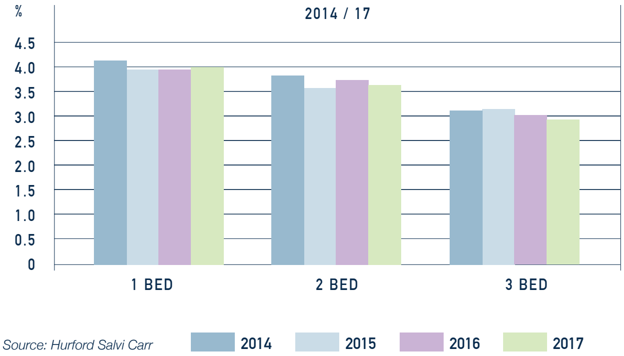
Ten year growth rates are still reassuring for long term owners. Across Midtown, City and East London residential markets have risen by 60% or more, representing an attractive return on investment – especially for those who have received rental income along the way, or who have enjoyed a central London lifestyle. For anyone who has had a stake in the London market for 20 years or more, their investment has increased in value five-fold. An investment made in the FTSE index over the same period, would have only just doubled in value. If we compare the two alternatives investments made in 2000, the FTSE is at around the same level today as it was in 2000 while a London property would have risen by around 150%.

East London is an interesting case. It is the only one of our markets that has been able to offer a more affordable product and developers here have benefitted from the Help to Buy scheme designed to assist buyers of New Homes up to £600,000. There is no doubt that the market has shown some resilience but the volume of new construction meant that the spectre of oversupply was always a shadowy presence. Tower Hamlets has continued to deliver more new homes than any other single London borough.

FIGURE 6

YIELDS FOR CITY, MIDTOWN & EAST LONDON

2014 / 17



Source: Hurford Salvi Carr

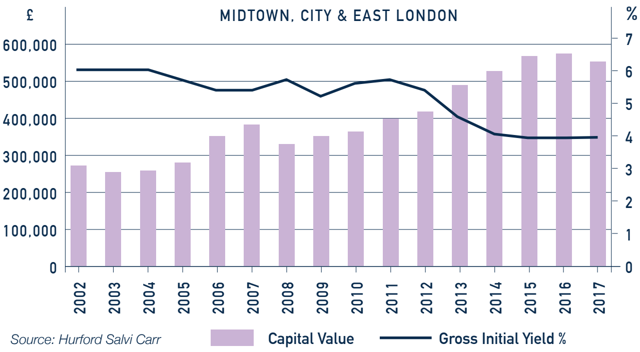
There is some evidence to suggest that buy to let investors, as a sector of the housing market, have already become net sellers. UK Finance (formerly Council of Mortgage Lenders) publishes data on the number of new buy to let mortgages and also the number of properties owned with a buy to let mortgage.

Any increase in stock coming to the market will impact directly on our listings and we are alert to any early indications of a change especially from our rental portfolio where we manage our clients investments.

FIGURE 5

CAPITAL VALUES AND YIELDS FOR ONE BEDROOM APARTMENTS

MIDTOWN, CITY & EAST LONDON



Source: Hurford Salvi Carr

TABLE 8

INCOME, VALUES AND INITIAL YIELDS FOR ONE BEDROOM APARTMENTS

AVERAGE OF MIDTOWN, CITY AND EAST LONDON 2003 TO 2017

	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017
Gross Annual Income £	14,820	14,820	15,340	18,200	20,020	18,200	17,680	19,760	21,840	21,840	21,840	21,060	21,580	21,840	21,060
Capital Value £	245,000	246,000	270,000	340,000	371,000	318,000	338,000	352,000	386,000	405,000	486,000	520,000	550,000	555,000	530,000
Gross Initial Yield %	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	3.9	4.0

Source: Hurford Salvi Carr

Future Prospects

MARKET DEVELOPS EUROPEAN CHARACTERISTICS

The Government seems unsympathetic to calls for Stamp Duty reform on high value homes, preferring instead to give policy support to first time buyers which is more politically expedient when competition for the 'young vote' is strong. In our view, concessions on Stamp Duty are the key to restoring much needed confidence to London's residential property. Failing that, the UK's traditionally liquid housing market will be fundamentally changed into one that has lower turnover, with homeowners discouraged from moving by high acquisition costs.

The small rise in interest rates is unlikely to impact on our markets where purchasers usually buy with large deposits and interest rates are still at historically low levels.

With little signs of capital growth returning to property prices in the near future there is less incentive for investors to return to the market, but as we see greater clarity in UK trade talks with the European Union we expect to see the return of owner occupiers. The supply of properties coming to the market remains low and this is likely to help support current prices across Midtown, City and East London. Nevertheless given the reduction in transaction numbers we expect the price of a property under £1 million to slip by 2-3% in 2018 and by a further 5% for homes priced over £1 million. By the end of 2018, it is possible that homes over £2 million will have lost 25% of their value since 2014.

Hopes that demand from overseas investors would be boosted by a weak sterling exchange rate have been largely disappointed and we do not envisage that changing. Overseas buyers have been feeling less welcome since changes were introduced to Capital Gains Tax and the clamp down on corporate ownership structures. Both of these moves were justified in the interests of fairness but the addition of UK-first sales campaigns, campaigning around Brexit vote and continual negative media coverage, have only weakened demand for London property from overseas buyers.

It is reported that the Treasury are looking at ways to make it more difficult for foreign buyers to purchase British property as part of a drive to get more Britons on the housing ladder. They are not happy that so many new homes are purchased off plan by Far Eastern buyers and first time buyers don't get a look in. There seems to be a lack of realism at Whitehall when it comes to understanding the price points that central London real estate commands and the genuine requirements of first time buyers who are looking for starter homes.

We expect to see the continuation of investment by Chinese buyers in 2018. London is not the only beneficiary of Chinese investment but it is an important one. Chinese buyers come in search of high quality educational opportunities and political stability. Their interest looks set to endure for some time yet – and, in our experience, they are keen to take advantage of greater negotiating power in the current sales market.

In the longer term we see the prospect of increased demand from UK and overseas buyers in 2019 as the prospects for London and the UK operating outside of the EU becomes clearer.

On a positive note the government has said that it will work with the Law Society to make the process of purchasing a freehold or extending a lease easier, faster and cheaper. In December Sajid Javid the Communities Secretary announced that ground rents will be outlawed on all new built apartments which is an extension to previous action promised to outlaw ground rents on leasehold houses where the rents doubled every 10 years.

The potential for growth in the rental market is driven by the shift from buying to renting. When the motivations to buy are reduced, the alternative is renting and the large influx of new properties to rent in London in recent years has suppressed rental growth, making it an even more appealing option for tenants.

Landlords will seek to recoup the additional costs of tenant referencing, preparing tenancy agreements and inventory fees by raising their asking rents once the ban on tenants fee becomes law as their returns will be squeezed.

In the longer term, if the Government gets what it seems determined to achieve, there will be an increased number of buy to let properties coming to the market for sale from landlords who tire of rising costs and taxes. If small landlords do decide to withdraw from the market in significant numbers then there is a risk that eventually this will reduce supply of rental stock and exert pressure on rents once more. This would be an unintended consequence of policies designed to attract young voters.

Institutional PRS offers a possible solution to a loss of rental stock but it will take many years to build up portfolios and land values in Central London continues to be challenging for Build to Rent developers.

Meanwhile, the mainstream 12 month AST rental market looks likely to be fundamentally strong in 2018 and we expect tenants to remain in tenancies for longer periods.

As institutional stock comes to the market, tenants will lead increasingly charmed lives with a wide choice of homes, built to a high standard, with on-site services and a range of amenities from cinema rooms to free WiFi included in the weekly cost. The likely outcome is that people will stay in rented accommodation until (and if) they are lucky enough to inherit wealth in later life. In a post Brexit-world the UK's property market is heading for a more European flavour!

Let's not forget that one of London's most ambitious infrastructure projects will be completed at the end of next year. The Elizabeth Line is due to open in December 2018 linking Heathrow to Canary Wharf and improving travel times and capacity across London.

As we approach the end of the Brexit negotiations in March 2019 and with greater clarity on the terms of our new relationship with Europe, we expect that confidence will return to central London's property market. For this reason 2018 represents a good opportunity for buyers with greater certainty for the economy on the horizon.

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