research

from Hurford Salvi Carr

MIDTOWN, CITY AND EAST LONDON

RESIDENTIAL 2019

“

Buyers slowly returned to the sales market across Central London in 2019

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HURFORD SALVI CARR

Market Overview

GREEN SHOOTS OF RECOVERY

On December 12th a Conservative government was elected for a new 5 year term. The British public relieved the deadlock in the House of Commons and delivered certainty on the direction of Brexit. For these reasons, we expect a boost to confidence that will underwrite stability in London's financial and property markets for the year ahead.

Buyers slowly returned to the sales market across Central London in 2019. After a long hiatus, buyers have become more decisive, especially first-time buyers, sensing that prices have fallen as far as they are likely to and the time to act, may be now. Perhaps the political and economic uncertainty has finally encouraged the next generation to seek the security of home ownership. Certainly, we see young, well-paid professionals back in the market. Prices did not rise in 2019 but they are no longer falling.

The number of properties for sale remained low throughout 2019. With cheap debt and buyers scarce, or cautious, there is little to motivate owners to sell. Buyers hoping to negotiate a discount have been disappointed. Those willing to make realistic offers, have been rewarded.

In the rental market, rents did rise in 2019 in Central London, and at the highest rate for almost a decade. In the City, rents ended the year 8% up while the West End and Midtown recorded increases of 6% and in East London and Docklands the uplift was 4%. These rises have been driven by a combination of low supply and higher costs for landlords who now bear all the fees associated with a new tenancy as well as the progressive loss of mortgage tax relief and Stamp Duty surcharges for buy to let investors. With the threat of rent controls hanging in the air in the latter months of the year, tenants as well as landlords will be relieved that this is now off the table.

Over the course of the year, capital values in our markets slipped by around 3% but that downward trajectory petered out in H2 and we do not expect any further falls in 2020. Values for one and two bed apartments have stabilised at around 15% below 2015 prices - though for higher value homes (£1.5 million +), the gap is wider at between 25% and 35%.

The effect of rising rents on reduced property values, resulted in significant yield improvement, nearing 5% by the end of the year. It was not enough to tempt UK investors back to the market but overseas investors recognise the opportunity that London's pricing represents.

BLOOMSBURY WC1 - 3 BEDROOM APARTMENT, LET AUGUST 2019 £1,250 PW

Non-domestic buyers have an added incentive as the continued pressure on sterling helps to off-set other costs. There was a return of overseas buyers to our markets in the latter months of 2019. The simple fact that overseas buyers are making commitments to Central London property is a reminder that, at current prices and with the prevailing exchange rate, London remains an attractive proposition to the international community.

CITY ROAD EC1 - 2 BEDROOM APARTMENT, SOLD SEPTEMBER 2019 £1,195,000

Predictably, interest continues from China and the Far East as well as Turkey and parts of the Middle East. Less predictable, is the presence of European buyers who, irrespective of the current political uncertainty, have strong networks in the UK through work and education. For many of them, this looks like a good time to put down roots, while prices are down.

While market conditions have piqued the interest of overseas investors and first time buyers, UK investors remain disengaged, with the nation in a perpetual state of Brexit-limbo and tax penalties for investors. Ironically, there was a little more interest over the summer, in between Prime Ministers, when there was a semblance of calm.

When Boris Johnson first took office as Prime Minister, he spoke about reducing Stamp Duty but when the prospect of an election became real, the talk shifted to bold spending commitments to support a post-Brexit economy. The latest housing minister, Esther McVey has lent her support to homeownership and specifically first time buyers.

It is difficult to remember a period of political uncertainty to match the past 4 years but during that time London has continued to be a successful economic power. London's position as a global city remain undiminished and it continues to be a leading financial and legal centre, international tech companies and be magnet for media, design and the arts. As we enter a post Brexit world London enjoys high levels of employment, a world class restaurant scene and offers a warm welcome to the world's visitors.

Economic Overview

MARKETS RISE AFTER ELECTION RESULT

The economy has proved remarkably resilient against a backdrop of constantly shifting sands throughout 2019. After a night of high drama, the convincing election of Boris Johnson, with the highest Conservative majority since Margaret Thatcher in 1987, has broken the deadlock and removed the political uncertainty that has dogged the UK since the referendum vote in 2016. The UK is now more than likely to leave the EU at the start of 2020, stage one of the Brexit process looks to finally be complete.

The markets reacted positively to the news, the value of Sterling rising against the US $ and hitting its highest level since July 2016 against the Euro. On the stock market the FTSE 100 share index rose to 7,519 on 16th December, while the FTSE 250 rose 413 points reaching a recored high of 21,920..

The latest OBR forecasts remain those published in March, with no update likely until the Chancellor delivers a budget, anticipated to be February 2020. In one of the first independent assessments of how the economy will fare under the Brexit deal currently on the table, the National Institute of Economic and Social Research (NIESR) assert the UK will be £70 billion worse off than if it had remained in the EU, concluding that GDP would be 3.5% lower in 10 years' time under the deal. The Treasury remain tight-lipped as to the economic impact of the current deal, it has said however, it plans on 'a more ambitious' agreement with the EU than the assumptions underpinning the NIESR findings. Mark Carney, the Governor of the Bank of England, welcomed the new deal saying it was "net economic positive" as it "takes away the tail risk of a disorderly Brexit", however stated it "remains to be seen" if the overall deal would be as positive for the UK economy as the deal put forward by Theresa May. The reality; no-one really knows.

The UK economy remained static in the three months to October and is forecast to grow by just 0.1% during the final quarter. At 1.3% annual growth is set to be marginally lower than 1.4% recorded the in 2018 and the weakest since 2009, when the economy fell by 4.2% year on year.

Official employment figures confirm that the UK had record employment in Q3 of 76.2%. The number of people in work rose 24,000 in October to 32.8 million and unemployment fell to its lowest since 1975 at 3.8%. The latest employment survey released by KPMG and REC reports growth in demand for staff is at its lowest level in a decade, however the number of permanent placements available rose in several regions including London. Data from the IHS Markit/CIPS monthly Construction, Manufacturing and Service report all indicate the economy is in balance. All indexes were below 50 (50 divides growth from contraction) in November, although business optimism in the service sector registered a four-month high, while the construction sector recorded its slowest fall in four months.

Wages are currently rising at 3.6%, double the rate of inflation (currently 1.5%) and at 2.39% the average mortgage rate remain historically low.

Base rates were held at 0.75% in November, although 60% of households do expect the base rate to rise within the next 12 months (IHS Markit UK Household Finance Index).
Continued consumer spending has been the main driver of economic growth since the Referendum but the latest editions of both the GFK indices and UK Household Finance Index, indicate consumer confidence in their personal financial situation is also stalling. Any reduction in consumer spending may well pose a risk to the economy longer term. The latest edition of both these surveys reports on sentiment prior to the election. Commentators will be watching with interest to see whether, as per the currency and stock markets, the election result has buoyed consumer confidence too.

The government's plans to boost the economy post Brexit will be key to the UK's performance in the next 12 months.

CONSERVATIVE MANIFESTO PLEDGES

The Conservative party has made bold spending pledges designed to boost the UK economy as it steps outside of the EU. Plans include a £20bn per annum infrastructure fund for roads, railways, schools and hospitals as well as measures to accelerate the UK's knowledge economy. The government has already begun to amend the rules on student visas to allow foreign students to stay in the UK for two years after graduation as well as fast-track visas for science researchers. There are plans to use an Australian style points system to attract the 'brightest and best' to the UK after Brexit.

In terms of housing policy, the Conservative government is committed to expanding home-ownership and protecting renters. Policies in the manifesto include:

- Target of 300,000 new homes per annum by the mid 2020s and a 'promise' of 1 million new homes by 2025, which would be largely delivered by the private sector.
- A "First-homes" - which will be sold with a 30% discount for first-time buyers
- An additional 3% Stamp Duty surcharge for non-UK resident buyers, which will take the top rate on the most expensive properties to 18%.
- Extend the housing association Right to Buy pilot scheme from the Midlands to other areas.
- Leasehold reform – ban new leasehold houses, introduce peppercorn ground rents
- Life-time fixed rate mortgages with 5% deposits
- End 'no fault' evictions, under s21, making it more difficult for landlords to regain possession of their investment properties but with strengthened possession rights for 'good landlords' and a dedicated housing court.
- Lifetime' deposits that move with renters between tenancies.
- To simplify shared ownership.
- To speed up the planning process.

Sales Market

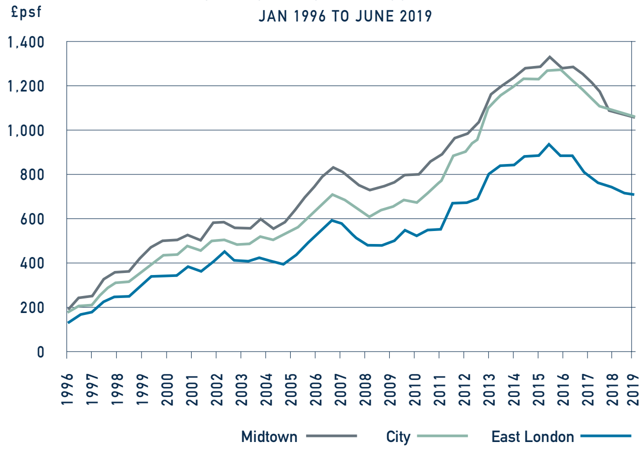
TRANSACTION NUMBERS RISE

After five years of downward pressures on prices, the market stabilised in 2019. Encouraging signs of recovery emerged in the summer months with viewing numbers, offers received and sales agreed all above levels recorded in any of the previous 3 years. There were vendors who had tried unsuccessfully to sell their properties for up to three years, who finally secured sales in 2019.

One reliable indicator of change, is the state of the listings websites. In the years from 2016 to 2018, price reductions dominated the portals but in 2019 "under offer" flags became more widespread than "price reductions".

However, this all happened against a backdrop of low transaction volumes. Many owners remained reluctant to list homes for sale while prices were low and uncertainty prevailed in the economic and political climate. Passing yet another Brexit deadline on October 31st, took its toll and the market paused again, then the announcement of a General Election was enough to ensure that activity would stay subdued to the year end.

FIGURE 1
PRICE TRACKER - ONE BEDROOM APARTMENT
JAN 1996 TO JUNE 2019



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

The price tracker (figure 1) shows that all three of our markets have experienced a similar trajectory with prices stabilising at levels last recorded around 2013.

It is worth repeating that owners in our markets are rarely forced sellers and throughout the downturn in the market, the supply of properties for sale has remained low. Political uncertainty has only served to exacerbate that position, making owners even more reluctant to crystallise values. With bank interest rates on deposits at an all time low, owners have little incentive to accept an offer that falls below a 5% margin of the asking price.

A Conservative majority with a five-year term ahead, forms a solid base for the housing market and the renewed confidence and national 'sigh of relief, will create the conditions for future growth. Prospective investors, for instance, who had postponed decisions until they knew whether to expect rent controls, will now be stirred into action.

Certainly, 2019 presented opportunities for buyers who were prepared to act and owners with a need to sell, were likely to find a buyer. Lower prices and low interest rates will always make a heady combination for the confident buyer.

During the second half of 2019, there were examples of properties attracting multiple offers. It is not an epidemic, it is not even a trend but, for the first time in many years, we experienced contract races and have sold properties at asking prices.

The price of an average one bed apartment in our markets fell by around 2% in 2019, following a loss of 8.5% in 2018 and 4.5% in 2017, that cumulative loss took the average price of a one bed apartment in our markets back to £475,000 – a price last seen in 2013 – and 15% below the peak of the market in 2016. (Table 1)

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
2018	-8.5%	485,000	-45,000
2019	-2.1%	475,000	-10,000

Source: Hurford Salvi Carr

The average one bed figure is taken across all of our markets, Midtown, City and East London and it disguises considerable differences, although the average percentage fall from the peak in 2015/16 is fairly consistent for one and two bed units, at around 15% (see table 2) in Midtown and East London and a little better in The City where values fell by around 10%.

LIMEHOUSE E14 - 3 BEDROOM PENTHOUSE, SOLD NOVEMBER 2019 £999,995

TABLE 2
PRICES & PRICE CHANGES FOR 1.2 & 3 BEDROOM APARTMENTS
IN THE RESALE MARKET AT END OF 2019

		2018 £	2019 £	£ per sq ft	Change % 2018 - 2019	Change % from 2015
Midtown	1 Bed	550,000	550,000	1,100	0%	-15%
	2 Bed	850,000	850,000	1,133	0%	-15%
	3 Bed	1,750,000	1,650,000	1,067	-9%	-38%
City	1 Bed	585,000	560,000	1,120	-4%	-11%
	2 Bed	800,000	765,000	1,020	-5%	-9%
	3 Bed	1,500,000	1,400,000	933	-7%	-26%
East London	1 Bed	400,000	390,000	780	-3%	-13%
	2 Bed	540,000	525,000	700	-3%	-16%
	3 Bed	925,000	900,000	600	-3%	-28%

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*

In all three areas, larger units have taken the brunt of the losses, most markedly in Midtown where the price of a three -bed penthouse is almost 40% below its peak. Larger units, with higher price tags, suffered most from the punitive changes to Stamp Duty in December 2014 and it has inevitably flowed through to prices that can be achieved.

Sales volumes for London as a whole, fell some 33% below the peak of the market. Prime areas were hardest hit, with sales in the first six months of 2019, (on a rolling twelve-month basis) lower than they were at the height of the global financial crisis and at half the level experienced at its peak.

CLERKENWELL EC1 - 2 BEDROOM PENTHOUSE, SOLD OCTOBER 2019 £1,380,000

It is no surprise that annual Stamp Duty take from London was low in H1 2019, when compared to the previous year. In the financial year to the end of April there was a net reduction of £380 million (2018/19 versus 2017/18), making the capital responsible for half the total loss across England as a whole (£750 million). However, there was an uptick in Q3 2019, with sales in prime London up by 2.5% (again, a rolling 12 month basis) according to LonRes.

Across England as a whole, predicted Stamp Duty intake from residential sales between July and September up by 0.4% year on year at £2.35 billion, and the number of liable transactions over £1 million rose to its highest quarterly level in two years. All of which supports our assertion that activity levels improved in 2019, even if they remained low overall.

TABLE 3
TRANSACTIONS VOLUMES : FROM PEAK TO TROUGH

	Midtown, City and East London	Greater London
Peak annual transaction volume (date)	June 2014	Sept 2014
Peak annual transaction volume	7,058	125,473
10 year average annual	5,249	97,989
Current annual level	4,722	83,236
Current versus peak (%)	-33.10%	-33.70%

Source: dataloft, Land Registry
Midtown, City & East London : WC1, WC2, EC1, EC2, EC3, EC4, E1, E2, E14, N1

Turnover in our markets, at around 5,000 sales per annum, represents around 5% of the total volume for Greater London but it is disproportionately affected by Stamp Duty because it is a high value market.

A two bed apartment in Midtown, sold at the average price of £850,000 would attract Stamp Duty liability of £32,500, for second home owner, it would be £50,000. An investor buying a penthouse or 3 bed apartment in City or in Midtown can expect a Stamp Duty bill of well over £100,000. There is no doubt that Stamp Duty has suppressed demand and driven down prices for larger homes in our markets.

TABLE 4
STAMP DUTY PAYABLE AT VARIOUS PURCHASE PRICES
2019

Purchase Price	Main Home SDLT payable	% of purchase price	Second Home SDLT payable	% of purchase price
£650,000	£22,500	3.5%	£42,000	6.5%
£850,000	£32,500	3.8%	£50,000	6.8%
£1 million	£43,750	4.4%	£73,750	7.4%
£1.25 million	£68,750	5.5%	£106,250	8.5%
£1.5 million	£93,750	6.3%	£138,750	9.3%
£2 million	£153,750	7.7%	£213,750	10.7%

Source: Hurford Salvi Carr

There is a strong lobby group in London to reduce the top rates of Stamp Duty, arguing that the tax has suffocated transaction volumes and the government is missing out on revenue. However, the statistics on Stamp Duty take suggest otherwise. In 2013/14, before the introduction of big Stamp Duty increases, the Treasury received £6.45 billion from Stamp Duty on 1.13 million residential transactions. In 2018/19, the tax yielded £8.37 billion for the Treasury, from 1.04 million transactions. In other words, the number of transactions may have fallen but the revenue is higher.

We compared the cost of Stamp Duty with annual rent because this is a choice that many prospective buyers are faced with if they are in London on a relatively short term assignment. Before Stamp Duty changes in 2016, it was quite usual for a family living in London for 2 or 3 years to invest in buying a home in the capital but today, the Stamp Duty alone on a three bed home in the City, would fund rental costs for almost three years.

For overseas investors the other consideration is the Sterling exchange rate. Since Sterling lost value against the dollar in the wake of the EU referendum, the buying power of many currencies has offered a significant advantage to overseas buyers and certainly off-sets the Stamp Duty for most.

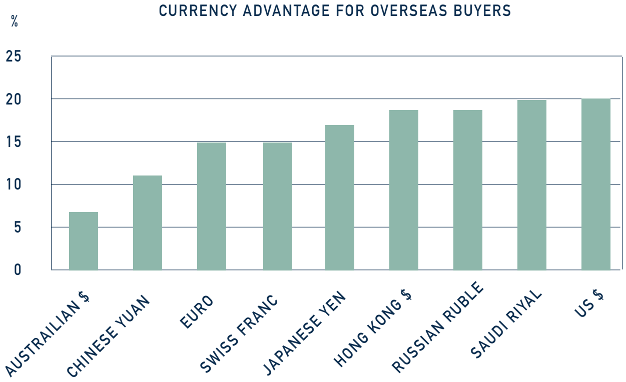
TABLE 5
COMPARING COSTS OF STAMP DUTY AND ANNUAL RENT

	Price	SDLT	SDLT with 3%	Annual Rent
Midtown 2 Bed	£850,000	£32,500	£50,000	£34,320
City 3 Bed	£1,425,000	£93,750	£138,750	£49,000

Source: Hurford Salvi Carr

An analysis of currency advantage for non-sterling buyers based on prices and Stamp Duty in September 2019 for a second home buyer, shows that a dollar-denominated buyer would have 20% more spending power than a UK buyer. Currency advantage helps to off-set Stamp Duty even for a property over the £937,500 Stamp Duty threshold, below that price the advantage is significant.

FIGURE 2
CURRENCY ADVANTAGE FOR OVERSEAS BUYERS



Source: Dataloft, Bank of England, LonRes, based on comparison of exchange rates 23.06.16 and 3.09.19 and savings made on a property purchased as at September 2019 price including SDLT and 3% surcharge.

In the City, which has been transformed as a residential market in the past decade, price growth since 2007 is more than 50% but in Midtown, which was already an established market, the rise in 12 years is around 28%. A comparison with capital value growth since 2008 shows the opportunity presented by buying in a weak market. A City buyer in the immediate aftermath of the global financial crisis would have seen their capital grow by 66% compared to 50% and over a shorter period (by one year). Similarly, in Midtown, the same comparison would be 40% over 11 years versus 28% over 10 years.

TABLE 6
LONG RUN PRICE CHANGES
FOR A 1 BEDROOM APARTMENT IN THE RESALE MARKET

Submarket	2007 - 2019	2008 - 2019	2015 - 2019
Midtown	28%	40%	-15%
City	50%	66%	-11%
East London	19%	38%	-13%

Source: Hurford Salvi Carr

BLOOMSBURY WC1 - 2 BEDROOM PENTHOUSE, SOLD DECEMBER 2019 £1,750,000

An unforeseen outcome of a long period of low transaction volumes, is that legal practices reduced the size of their conveyancing teams. The loss of experience and headcount has noticeably slowed the process between offer accepted and exchange, especially as lenders have also become more cautious. The time taken to exchange contracts has risen to around 4 months, with local authority searches taking up to 8 weeks.

In December the Royal Institute of Chartered Surveyors (RICS) published requirements for owners of blocks of more than six storeys (18m) to get a new External Wall Review certificate.

The external wall review procedure comes after it was disclosed in October that the owners of at least half a million flats have been unable to sell their proprieties or change mortgage because surveyors working for lenders were valuing the flats at zero value amid uncertainty about the safety of cladding.

The government is spending £600 million to remove the type of cladding used at Grenfell Tower from about 300 blocks but there are concerns that other forms of cladding might also be unsafe.

Mortgage valuers will now check whether the building had an External Wall Fire Review certificate, which has to be commissioned by the freeholder from a fire safety inspector. In the majority of cases the cost of the reports are expected to be funded through the service charge.

Although a certificate would not be a legal requirement, valuers reserve the right to declare a property worthless without one. The certificate would have to be renewed every five years.

The Association of Residential Managing Agents (ARMA) have written to its members to ensure that owners organise test certificates to assist leaseholders sell and remortgage their flats.

The government consultation on leasehold reform has been an additional drag on the conveyancing process. There is all party agreement that there will be regulation to deal with new ground rents and existing lease structures.

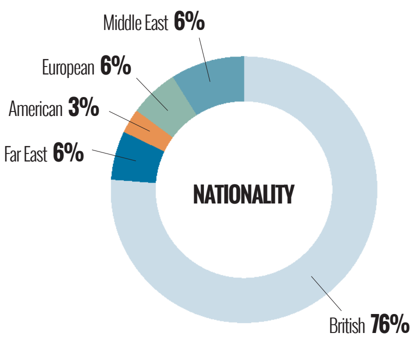
BUYER PROFILES 2019

Nationality

Around one quarter of the buyers in our markets in 2019 were non-British. While still important, it is significantly lower than in previous years. Europeans made only 6% of buyers, compared to 16% in the previous three-year period.

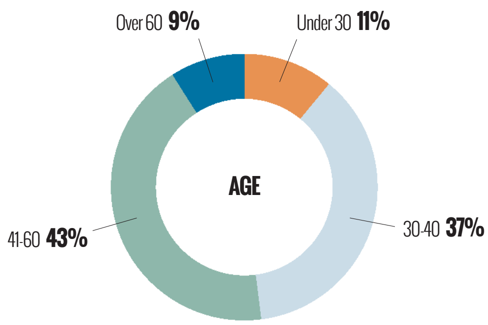
In contrast, we noted an increased level of activity from the Middle East accounting for 9% of all transactions in 2019, more than 4 times the number in the period 2016 -2018.

We showed on p5 the currency impact of a weakened sterling and the Saudi Riyal was one of the greatest beneficiaries, along with dollar buyers.



Buyers were older in 2019 than in previous years. The proportion of buyers under 30 averaged 11% in 2019 compared with 18% over the period 2015-2018, while those in the age band 41- 60 increased from 38% to 43%.

There was a distinct difference in age structure between our different markets. We analysed the breakdown between offices for the whole five year period 2015-2019 and found that buyers in the City and West End were generally older, predominantly over 40 and those in Aldgate, City, Islington and Shoredtich and East London, were predominantly under 40.

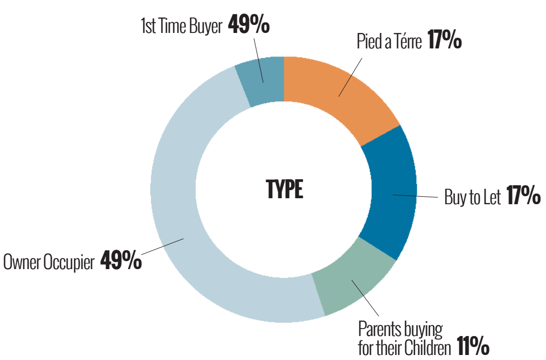


Household Type

Despite the additional Stamp Duty taxation burden on investors, still 17% of sales in our markets in 2019 were to investors. While that is a smaller proportion than in the preceding four year period, it is nevertheless a significant percentage of the total.

Owner occupiers was the most common category (49% overall) and accounted for 57% of purchases in the City, which also had the highest proportion of pied-a-terre buyers (14%).

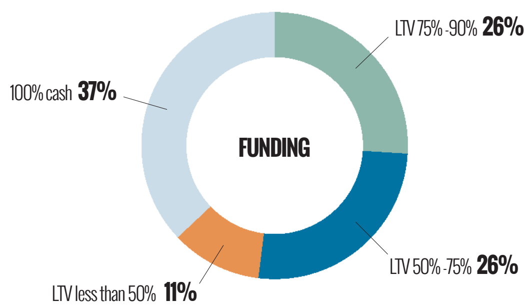
The localities with the highest incidence of investors over the five year period 2015-2019, were West End and East London, in both of which 27% of purchases were for investment. The most popular area for parents buying on behalf of their children was Islington and Shoreditch while first time buyers accounted for around 30% of purchases in East London and Aldgate but low proportions elsewhere.



Funding

Cash buyers made up 37% of all purchases in our markets in 2019. The proportion of 100% cash buyers is higher in 2019 than in the previous four year period when the average was 33%.

We looked at the differences between locations for the whole study period (2015-2019) and found that the West End, had by far the largest proportion of cash buyers with 62% of all purchases made with 100% cash, in stark contrast to East London where it was just 9%. This fits with the older age profile in these markets.



New Homes

DEMAND SET TO INCREASE

Development activity continues to decline in our markets. The combination of falling transaction numbers and prices, increased planning costs, Community Infrastructure Levy (CIL) contributions and major building cost inflation, has curtailed the number of planning applications across Central London. Add the loss of ground rent income on new homes and it is little wonder that sites are being developed for other uses including offices, hotels and student housing.

A slowdown in residential development will have a knock-on effect on the delivery of affordable housing across London and will increase the pressure on the public sector to bring forward sites. The Mayor set a target of completing 17,000 new homes in the 2019/20 financial year and 116,000 affordable homes by 2020.

THE MAKERS, NILE STREET N1

In some parts of the city, notably Canary Wharf and Covent Garden, the legacy of significant development activity means that there remains a localised oversupply of new homes completed, giving buyers a wide choice and putting acute pressure on prices. The top end of the market, in any event, continues to struggle with the impact of SDLT.

THE MAKERS, NILE STREET N1

Most policy interventions are aimed squarely at first time buyers and are unlikely to stimulate activity in our markets. Overseas investors continue to be attracted to new developments in London, especially in large schemes with amenities. Some are actively seeking opportunities to buy in a weak market and volume housebuilders have acknowledged that they have not achieved the prices anticipated in their appraisals.

THE MAKERS, NILE STREET N1

IMPROVING THE PROCESS OF HOME BUYING AND SELLING

The Home Buying and Selling Group, set up in 2017 under the chairmanship of Kate Faulkner, is formulating proposals to reform the home buying process and speed up the average time from listing to sale from the current 20 weeks to between 6 and 8 weeks.

Seller information pack
One proposal is the introduction of up-front information packs that provide a single, consistent set of facts about any property. The information would be compiled before a property is listed for sale and a summary would appear on the agents' particulars, websites and portals. The current working title for this document is "BASPI' – buying and selling property Information.

Reservation agreements
Under a Reservation Agreement, the buyer will pay a non-refundable deposit to secure the property. This system exists successfully in Scotland and substantially reduces the rate of fall-throughs. There is still some discussion over the size of the non-refundable deposit. Too big and people will be put off moving, too small and it will not deter parties from walking away.

Most legal experts agree that in principle the idea of a Reservation Agreement is good and will give purchases some protection, but lawyers are concerned as how "reasonable cause" is to be defined as a reason to withdraw without penalities.

We are in favour of Reservation Agreements as a way of providing greater security to buyers and sellers. The new homes industry have successfully used Reservation Agreements for many years.

Lettings Market

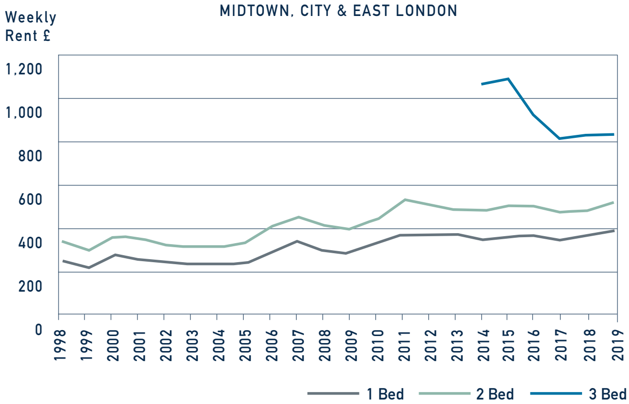
RENTS RISE AFTER TENANT FEE BAN

The rental market outperformed expectations in 2019, achieving steady growth in the number of new lettings, more lease renewals (tenants staying longer in the same property) and rising rental values. Rental values tend not to move dramatically in the way of the sales market but the increase in 2019 is the highest since 2011 and this kind of steady change results in a significant improvement to yields for investors.

We stated in our half year report that we expected rental values to continue on the path of moderate uplift as landlords sought to recover the costs of the tenant fee ban that took effect in June.

The value of one bed apartments in the City rose by 9% in 2019 to an average of £490 per week, meaning they are now virtually the same value as Midtown one bed apartments. There was no discernible difference between City and Midtown for two beds (6% and 7%) while East London also grew at a slower pace.

FIGURE 3
WEEKLY RENTS FOR 1, 2 AND 3 BEDROOM APARTMENTS
MIDTOWN, CITY & EAST LONDON



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 exception is for larger 3 and 4 bed family homes where supply has been boosted by accidental landlords renting rather than selling in the hope that prices will improve. Rents have not risen for properties of this type.

TABLE 7
WEEKLY RENTS FOR 1, 2 & 3 BEDROOM APARTMENTS
IN MIDTOWN, CITY & EAST LONDON AT END 2019

Submarket		2016 £	2017 £	2018 £	2019 £	% Change 2018 - 2019
Midtown	1 Bed	475	450	475	500	5
	2 Bed	660	600	640	680	6
	3 Bed	1,300	1,100	1,100	1,100	0
City	1 Bed	430	450	450	490	9
	2 Bed	560	560	560	600	7
	3 Bed	950	925	950	975	3
East London	1 Bed	360	320	340	350	3
	2 Bed	450	425	425	440	4
	3 Bed	675	575	575	575	0

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*

ISLINGTON N1 - 2 BEDROOM APARTMENT, LET NOVEMBER 2019 £923 PW

The same is not true for larger properties let to groups of sharers. The number of larger homes offered to sharers is likely to decline as landlords are deterred by the additional cost of HMO licencing and the additional compliance requirements by many Inner London boroughs - which mean that third (or fourth) bedrooms often fall below the size threshold and properties previously let to three adults are no longer compliant. There is less pressure driving rental growth in East London because supply remains plentiful, and there is still a significant development pipeline.

The supply of properties for rent is no longer regularly replenished by the influx of buy to let investments, or new build completions, making it easier for landlords to secure rent increases, even on renewal.

Across our markets as a whole, we expect continuous decline in the supply of property to rent as development activity slows down and investors lose enthusiasm for the market. Four years on from HRAD (higher Stamp Duty rates for additional dwellings), the full impact of the drop in new supply is only just beginning to have an effect. Build to rent will not fill the gap unless the quality of purpose built schemes can persuade renters to move further along the tube lines into zones 2 and 3.

East London could be the exception. Institutional investors have been able to secure sites for purpose built rental around Stratford and Canary Wharf and will bring forward high value stock with amenities that could represent an attractive alternative to more central locations.

TABLE 8
ANNUAL RENTS FOR 1, 2 & 3 BEDROOM APARTMENTS
IN MIDTOWN, CITY & EAST LONDON 2019

Submarket		Weekly Rent £	Sq ft	Rent p.a.	Rent psf
Midtown	1 Bed	£500	500	£26,000	£52.00
	2 Bed	£680	750	£35,360	£47.15
	3 Bed	£1,100	1,500	£57,200	£38.13
City	1 Bed	£490	500	£25,480	£50.96
	2 Bed	£600	750	£31,200	£41.60
	3 Bed	£975	1,500	£50,700	£33.80
East London	1 Bed	£350	500	£18,200	£36.40
	2 Bed	£440	750	£22,880	£30.51
	3 Bed	£575	1,500	£29,900	£19.93

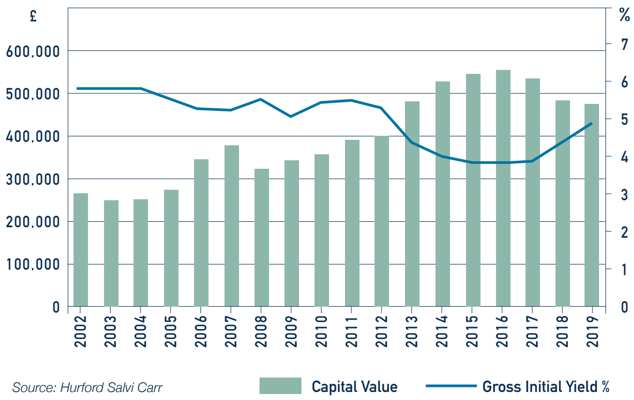
Source: Hurford Salvi Carr *1 Bed is 500 sq ft, 2 Bed is 750 sq ft with 2 Baths, 3 Bed is 1,500 sq ft*

TABLE 9
LONG TERM RENTAL GROWTH

	2000 - 2019	2007 - 2019	2008 - 2019	2014 - 2019
1 Bed	37%	16%	27%	10%
2 Bed	39%	13%	24%	6%
3 Bed	N/A	N/A	N/A	-21%
Inflation (CPI)				

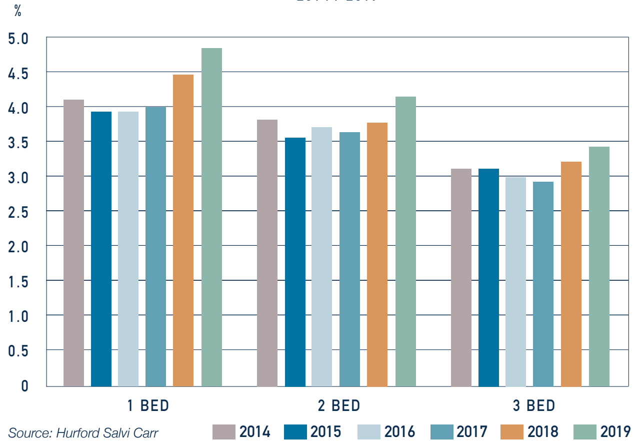
Source: Hurford Salvi Carr *1 Bed is 500 sq ft, 2 Bed is 750 sq ft with 2 Baths, 3 Bed is 1,500 sq ft*

FIGURE 4
CAPITAL VALUES AND YIELDS FOR ONE BEDROOM APARTMENTS
MIDTOWN, CITY & EAST LONDON



Source: Hurford Salvi Carr

FIGURE 5
CHANGE IN YIELDS FOR CITY, MIDTOWN & EAST LONDON
2014 / 2019



Source: Hurford Salvi Carr

RENTERS' REFORM BILL

The Queen's Speech on 18th December confirmed that the Government will bring forward "new measures to protect tenants". While the speech itself did not go into any details, the ensuing small print confirms that a new Renters Reform Bill will be introduced to protect tenants, and this will remove Section 21 from the Housing Act while "strengthening the rights of landlords who need to gain possession of their property when they have a valid reason to do so".

This may result in the phasing out of the AST (Assured Shorthold Tenancy) agreement that has been a mainstay of the rental market for 30 years. Landlords face the prospect of applying to the courts for possession orders under section 8 of the 1988 Housing Act incurring additional costs, delays and uncertainty.

The vast majority of the UK's 4.5 million private rented tenants in England occupy under an AST (Assured Shorthold Tenancy). In most cases, tenancies in the UK are ended by the tenant choosing to leave but a landlord does have the legal right to terminate an agreement by giving 2 months' notice through serving a Section 21 Notice.

The Government has consulted on whether there should be a minimum period for any fixed-term tenancy and has indicated a preference for longer 3 year terms. There are consequences for landlord and tenant. For instance, new rules will be needed to protect tenants to ensure the provision of Gas Safety Certificates and the protection of the tenant's deposit.

While grounds for possession are likely to continue to include a situation where a landlord or a family member wish to take back the property for their own use, there may also be a protected period of two years to ensure that the tenant has some certainty which in turn would encourage the grant of longer fixed term tenancies.

We understand that it is not intended that these changes will be retrospective. Landlords will therefore be able to use section 21 notices in relation to existing tenancies and at least six months' notice will be given before new legislation is implemented. A renewal of an existing tenancy may be considered as a new tenancy so care must be taken with existing tenancies.

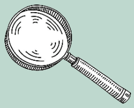
If and when Section 21 is scrapped, Section 8 must be reformed and a new specialist housing tribunal created. Without this, supply of rental properties will almost certainly fall which will have the consequential effect of raising rents and will further discourage new landlords from investing in the sector.

TABLE 10
GROSS INVESTMENT RETURNS FOR ONE BEDROOM APARTMENTS
AVERAGE OF MIDTOWN, CITY AND EAST LONDON 2012 TO 2019

	2012	2013	2014	2015	2016	2017	2018	2019
Gross Annual Income £	21,840	21,840	21,060	21,580	21,840	21,060	21,840	23,140
Capital Value £	405,000	486,000	520,000	550,000	555,000	530,000	485,000	475,000
Gross Initial Yield %	5.4	4.5	4.1	3.9	3.9	3.97	4.50	4.87

Source: Hurford Salvi Carr *Gross Yields - Gross to Net is typically depleted by 2.5%*

TENANT REFERENCING



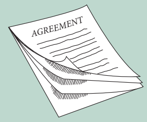
Our Tenancy Package includes an unlimited number of references, so no matter how many Tenants we have to reference, and no matter how many Tenants you choose to reject because of poor or failed references, there is no extra cost to you.

RIGHT TO RENT CHECKS

Under the Immigration Act 2016 it became a criminal offence to let your property to a person who does not have the right to reside in the UK.

To protect Landlords who choose our Tenancy Package, we will check the ID, immigration status and visa of each and every Tenant. Where a Tenant has a time limited right to remain, we will, though-out the lifetime of the Tenancy, conduct follow up checks upon visa expiry dates.

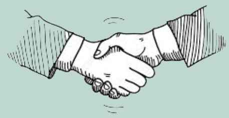
TENANCY AGREEMENTS



Upon Instruction we will provide you with a specimen Assured Shorthold Tenancy Agreement for you to review and make any changes. The Tenant will need to be supplied with this Agreement before the Holding Deposit is taken.

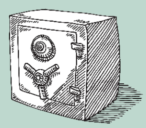
We will mediate between Landlord and Tenant, incorporating any further changes or compromises to the Agreement before supplying a final draft to all parties for Agreement. The final Tenancy Agreement will be sent digitally for all parties to e-sign.

TENANCY ADDENDUMS



Should the Landlord require any changes to the Tenancy Agreement, at any point during the Tenancy, we will negotiate with the Tenant and make necessary changes or addendums to the Agreement.

TENANCY DEPOSIT REGISTRATION



As part of our package we include the registration of the Tenancy Deposit with a government approved scheme for the initial term. One of our Lettings Accountants will register the Deposit and produce the Deposit Certificate to be provided to your Tenant with the Scheme Leaflet and Prescribed Information to ensure compliance with current legislation.

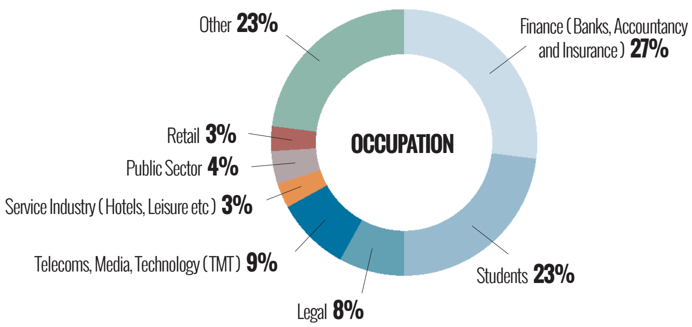
We are also part of Propertymark's Client Money Protection Scheme (CMP) that provides an additional level of insurance and protection against fraud, misuse or bankruptcy.

Occupation

The two most dominant occupations amongst tenants taking new leases in 2019 in our markets were Banking/Finance and Student. Each accounted for around a quarter of all lettings. Comparing the last year to the previous 4 year period, the proportion of students has fallen slightly from 25% to 23% while the proportion of banking finance has increased from 25% to 27%.

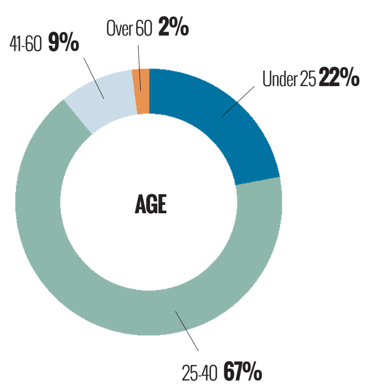
Much bigger differences are evident between our office locations. Looking over the five year period from 2015 to 2019, students account for 54% of lettings in the area we define as 'West End' which covers the university areas of Bloomsbury, Fitzrovia and Holborn where UCL, Kings College, LSE and the university hospitals all have global reputations and attract affluent overseas students. The other major category in this area of London is 'service industry' which covers hospitality and leisure. 32% of renters in the West End worked in these sectors.

In the period 2015-2019, 18% of lettings were to tech workers in Islington and Shoreditch – significantly more than any other area. The tech sector is surprisingly low overall, given its importance to the London economy and its presence around Shoreditch and Clerkenwell.



Age

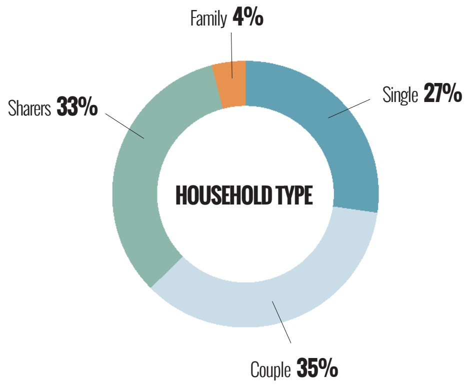
The vast majority of renters in our markets in 2019 were aged under 40 (89%) and two thirds are in the age band 25-40 years old. This is consistent with the distribution over the past 4 years too. The renter population in the West End is significantly younger than other markets with 51% of rentals 2015-2019, to tenants aged under 25 and correlates to the student demographic. The other area with a young population is Aldgate (39% under 25) whereas other areas were predominantly aged 25-40 years old.



Household Type

The household type is fairly evenly spread between singles, couples and sharers in our markets and there are very few families. The most significant change when we compare 2019 with the previous four years, is a reduction in singles and rise in the proportion of couples. Nevertheless, singles remain 27% of all rentals in 2019, making them a key group in our markets.

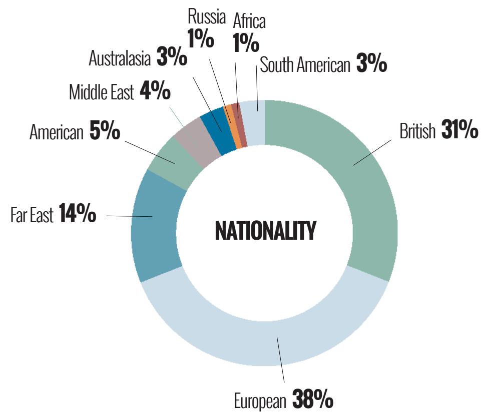
The most significant difference between areas is that sharers are the biggest group in the West End (41% of all leases 2015-2019) where universities are a so important. It is also our most expensive area and sharing helps to defray the cost of renting a home. Singles are the dominant household type in the City and Aldgate, while couples make up the biggest share of the market in East London.



Nationality

In our markets, over the past five years, more rental homes have been leased by EU citizens than by Britons and in 2019, the gap opened wider, with 38% of all new leases granted to Europeans. The only other nationality to account for more than 10% of lettings was the Far East with a 14% share.

We analysed the breakdown by nationality across our offices for the five year period 2015-2019. In East London, half (48%) of renters were British, 36% EU, making it the least cosmopolitan of our markets.
Renters from the Far East were most prominent in the West End market, where they accounted for 24% of rentals, followed by Aldgate (17%). Americans made up only 5% overall but 12% in Islington and Shoreditch.



Future Prospects

OPTIMISM RETURNS

The Conservative majority, secured in the dying days of 2019, should finally draw a line under five years of a weak and unstable housing market across Central London.

We expect the government to use its strong electoral position to foster an atmosphere of confidence, decisive action and certainty in the economy, which will filter through to employment, earnings and the housing market.

Brexit is far from over, the trade negotiations are only just beginning but, the certainty of a clear intention from government will mean that it remains a secondary issue in the housing market. This election outcome transforms the outlook for the housing market over the next 12 months.

We expect a stable housing market in 2020 and can envisage a return to modest price growth in 2021 – seven years on from the first round of Stamp Duty increases in 2014 that have caused so much damage to property prices.

Homeowner's finances are far more manageable than they were before the 2008 banking crisis as borrowers have used low interest rates to pay down their debts and this helps explain owners' reluctance to sell in the current market.

In 2020 transaction volumes will increase and new buyer enquiries will emerge. If all goes according to plan, and the government signs the Withdrawal Agreement on January 31st. We fully expect to see an increase in sales activity building on improvements in 2019. We do not envisage price rises in 2020 as the market needs time to consolidate at new price levels and there is still resistance to price rises.

With yields and affordability back to 2013 levels there will be winners as well as losers in the current market. There is no doubt that a growing number of potential buyers and sellers have understandably been waiting for clarity on the future direction for the market once Brexit is resolved before making a move. For some, this is a rare opportunity to buy at prices last available seven years ago.

Whether sellers will be prepared to accept the new low pricing is less likely especially with many predicting a Boris bounce to confidence. Stock will probably remain low as confident owners wait expectantly for price growth to resume.

The Chancellor's first Budget is now scheduled for February 2020. We do not expect the government to reform top end Stamp Duty rates in the short term because they need to fund ambitious spending plans and Stamp Duty has proved a reliable revenue generator for the Treasury even through the downturn in the transaction volumes in London.

Until there is reform of top end Stamp Duty rates, buyers will remain circumspect, buying for the medium term, or at least for long enough to recover the up-front Stamp Duty costs in price growth.

It seems likely that the Chancellor will announce policy on the overseas investors' Stamp Duty surcharge in the February budget. Whether he will stick to 3% as proposed, or whether he will delay the start date, remains unclear at the time of writing but this government will not want to offend too many of its loyal supporters while it courts the new Tory faithful.

Overseas buyers have been returning to the London market buoyed by attractive prices and a weak pound. Future participation will depend on the date of introduction for the 3% additional levy on overseas buyers and the trajectory of sterling.

The issue of fire safety certification and questions over cladding systems used over the past two decades, will cast a shadow over the market until there is more guidance from the government on what they are prepared to contribute towards the refitting costs. Potentially onerous costs to replace cladding in new buildings will impact on home-owners, lenders, managing agents, freeholders, potential tenants and prospective buyers. There is an urgent need for clarity.

In the rental market, there are some substantial new schemes reaching completion in the next year at Kings Cross, Mount Pleasant, Shoreditch, Aldgate and Canary Wharf. This should ease the upward pressure in rents on the short term.

In the longer term, the downturn in new home construction starts in Central London will restrict the supply of new rental stock and that will cause rents to rise over the next 5 years, helping to maintain returns for investors. Lack of supply and additional landlords costs will continue to drive higher rents.

In the wider London economy, the focus will be on visas for science and technology as the government works to retain its status as a centre of excellence for these sectors alongside finance. The prime minister's history of representing London will help to ensure that he is fully aware of these issues. London and the UK's future success will now be linked to trade negotiations.

The development market will be reinvigorated only once there is tangible evidence of price growth in the market. Development costs are high in Central London and there is bound to be a Brexit impact on labour availability as well as material costs.

The outlook for London's residential property market is more positive than it has been for some considerable time and we expect the green shoots of 2019 to take root in 2020.

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