research

from Hurford Salvi Carr

MIDTOWN, CITY AND DOCKLANDS

RESIDENTIAL REVIEW 1ST HALF 2009

Hurford Salvi Carr is an innovative firm of property advisors and development consultants who have become synonymous with urban living in central London. Our experience and expertise in both the residential and commercial markets, in the City, West End, Docklands and East London puts us at the forefront of property agency.

Since 1996 Hurford Salvi Carr has been a driving force of the 'city living' phenomenon having sold more than 3,000 new homes in over 175 developments, the majority created from former commercial premises, and we have played a pivotal role in the repopulation of Clerkenwell and the City fringes.

As real estate agents we are widely respected throughout London and are well known in property circles around the world. Our reputation is based on the accuracy of our advice, the quality of our marketing, and most importantly for achieving results.

The Company is divided into six divisions, specialising in Residential Sales, New Homes, Residential Lettings, Residential Investment, Commercial Agency, and Property Management. In many instances the skills of each division combine to provide our clients with best advice. Our fresh approach and award winning marketing expertise complements our service.

We are committed to providing a personal service to each of our clients and we maintain the highest standards in every aspect of our business.

HURFORD SALVI CARR

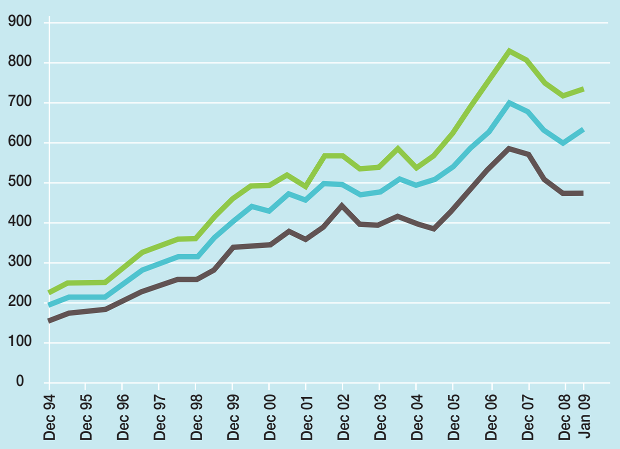
market overview

MIDTOWN AND CITY BOUNCE BACK, DOCKLANDS STABILISES

In the first half of 2009 there was compelling evidence from the Midtown, City and Docklands residential property markets that the market had turned, with sales volumes and prices rising quickly between March and June 2009. This dramatic turnaround was quite unexpected. Our own forecast, made in December 2008, was for a further 5% reduction in sales prices in the first half of 2009, with prices predicted to stabilise in the second half of 2009. This was, at the time, a more optimistic forecast than other market commentators.

The rate of sales remained low in January and February 2009, but prices were stable in Midtown, City and Docklands. From March 2009 onwards, however, the level of activity in the sales market steadily increased in all three sub-markets. The impact of this was to increase sales prices in Midtown and the City and to maintain prices in Docklands (Figure 1). To summarise, in the first half of 2009, residential sales prices increased by 5% in the City, 2% in Midtown and there was no change in prices in Docklands.

FIGURE 1 : THE HURFORD SALVI CARR PRICE INDEX



Source: Hurford Salvi Carr, CCR

Regional and national data continued to show declining sales rates and falling prices until April 2009 and there was little positive media coverage on the market until May, when reports of "green shoots" in the London market started to appear in the press. It has often been the case historically that London in general, and central London in particular, is ahead of the wider regional and national markets in terms of market and pricing trends.

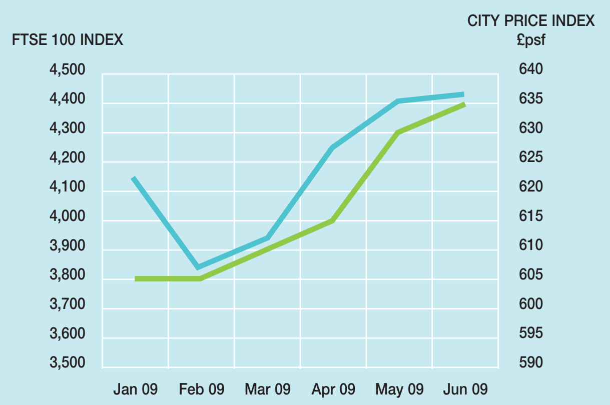
Against a backcloth of deepening recession, company failure and growing unemployment, The Bank of England's Monetary Policy Committee made successive cuts of 0.5% points at its meetings on 8th January, 5th February and 5th March 2009. This took the Official Bank Rate from 2% at the end of 2008 to just 0.5% in March 2009, the lowest rate since records began in 1694. This had a significant impact on reducing the monthly repayments of mortgage holders with tracker mortgages, but with banks still reluctant to lend, it had little impact on the all important first-time buyers.

In Midtown, City and Docklands the resurgence in the market has been underpinned by buyers with significant equity stakes and outright cash buyers. The reduction in the Bank Rate was of only marginal significance to this group of purchasers. On the other hand the reduction in the Bank Rate to 0.5% by early March had a positive effect on general market confidence in Midtown, City and Docklands.

Buyers and sellers in our market are financially literate and would be well aware that the interest rate cycle had reached the bottom, with the Bank of England forced to opt for other means of stimulating the economy. As the cycle appeared to be heading to the bottom, "bricks and mortar" were seen to offer better prospects of an investment return, compared to the slivers of interest being offered on savings accounts by the banks.

Having reduced the Bank Rate to virtually zero percent, the Bank of England was forced to look at other options to influence the economy and high street lending continued to be restricted. It made a decision to undertake "quantitative easing" of the economy by buying sterling denominated corporate bonds and had acquired £400 million worth by the end of April 2009. In spite of the political turmoil engendered by the potential implosion of Gordon Brown's Labour Government in the June rebellion by MPs, there were indicators from March 2009 that the medicine prescribed for the economy was working. Not least, the stock market staged an impressive recovery, rising 994 points or 28% from a closing low of 3,512 on 3rd March 2009 to 4,506 on 1st June 2009. Figure 2 juxtaposes our price index for the City sub-market with the FTSE 100 index.

FIGURE 2 : THE FTSE 100 INDEX AND THE HURFORD SALVI CARR CITY RESIDENTIAL PRICE INDEX, FIRST HALF 2009



Source: Financial Times, Hurford Salvi Carr, CCR

Sales prices rebounded, but residential rents in Midtown, City and Docklands continued to fall in the first half of 2009. By the end of June 2009, rents had been falling for 18 months, down 16%. Demand from tenants was weaker due to the fragile employment market, but the main influence on rents was the over-supply of units in the rental market. Rental market stock continued to be buoyed by "accidental landlords" renting out rather than selling on. On average, rents fell by 7% across Midtown, City and Docklands in the first half of 2009. Taken in combination with rising prices, the overall effect of falling rents was to reduce gross initial yields to 5.2% and hence reduce the attractiveness of residential as an investment medium.

We remain cautiously optimistic about the prospects for the Midtown, City and Docklands residential market in the second half of 2009. Although the economic and political outlook for the UK is uncertain, the residential market has been resilient in spite of external factors that were mainly negative. It is possible, therefore, that we will look back on February 2009 as marking the bottom of the current cycle in the Midtown, City and Docklands housing market.

sales market

CASH BUYERS OUT IN FORCE

The four months from March to June 2009 witnessed an unexpected increase in confidence and optimism amongst buyers and a renewed willingness to sell amongst vendors. In the second half of 2008, we reported that the sales market in Midtown, City and Docklands was characterised by falling prices and a historically low level of transactions. We pointed out, however, that the rate at which prices were falling decelerated in the second half of 2008 compared to the first half of the year.

In broad terms, the market continued in this vein in January and February 2009: sales activity was moribund. There was evidence, however, in Midtown, City and Docklands that prices had stabilised at the beginning of the year, albeit the limited number of transactions meant that evidence was thin and inconclusive.

From the beginning of March, however, the sales market experienced a dramatic recovery. March 2009 was the first month since May 2008 that our website received more visits to sales than lettings pages. The recovery, which involved a higher volume of sales, fed through to price increases in Midtown and the City and maintained stable prices in Docklands. The increase in sales and prices affected all price-bands of residential property up to £1 million (for property priced at over £1 million, sales remained difficult to achieve). Our overall view is that prices for a typical one-bedroom flat across Midtown, City and Docklands increased marginally by 3% in the first half of 2009 (Table 1).

TABLE 1: ILLUSTRATED PRICE CHANGES FOR ONE-BEDROOM FLATS 1998-2009 IN MIDTOWN, CITY AND DOCKLANDS

Year End	Price Change %	One bedroom Illustration Market Value (£)	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	-6%	245,000	-15,000
2004	+0.4%	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 1st Half	+3%	328,000	+10,000

Source: Hurford Salvi Carr, CCR

It is important to emphasise that the banks have had little impact on this recovery in both sentiment and sales transactions. The market was created by purchasers with either very low loan to value ratios or "100% cash buyers", as the banks had yet to re-enter the business of granting mortgages. Over 70% of our sales in the first half of 2009 were to cash buyers. Investors were absent from the market, allowing us the pleasure of selling finished flats of high quality to owner-occupiers, most of whom were working locally.

Foreign buyers, especially from the Euro Zone were strongly evident in Midtown, City and Docklands, buying apartments for owner-occupation close to their workplace. Price falls of between 13% in Midtown and 20% in Docklands from September 2007, combined with the movement in the exchange rate from €1:£0.80 in October 2008 to near parity at the end of December 2008, generated enhanced "discount" for Euro Zone buyers. The Financial Times termed it "Half-price London". In recognition of the enhanced level of interest from Euro Zone buyers, Hurford Salvi Carr added a page to its website for "Clientela Italiana" in January 2009, which enhanced our volume of sales to Italian buyers. In May and June 2009, we also saw an increase in Far Eastern buyers from Hong Kong and Singapore where exhibitions of London property were once more being held.

The market was particularly strong for new homes (see New Homes, page 4) where the supply of finished apartments supplemented the limited amounts of second-hand stock on the market. By the end of March, buyers were beginning to sense that there was competition for the available stock, with achieved prices moving closer to asking prices in many cases. By June, we had clear evidence in Midtown and the City that prices had risen from the level achieved in January and February 2009. That evidence included multiple bids for new instructions leading to many "best bids" situations. In June 2009 we sold a two bedroom flat of 878 ft^2 (82 m^2) in a block on High Holborn, WC1, for £659,000, 10% above the asking price of £600,000.

HIGH HOLBORN, WC1 - 2 BEDROOM FLAT SOLD £659,000

The three sub-markets in which we operate continue to diverge in terms of both market activity and pricing (Table 2). Using the one-bedroom flat for illustration purposes, Table 2 indicates that in the first half of 2009 (in effect in the four months from the beginning of March to the end of June) prices rose in Midtown and the City by 2% and 5% respectively. In Docklands, however, prices effectively remaining unchanged.

TABLE 2: PRICES FOR TYPICAL ONE-BEDROOM FLATS (500 SQ FT) DECEMBER 2008 - JUNE 2009

Sub-Market	December 2008	June 2009	Change (%)
Bloomsbury, WC1	£378,000	£386,000	+£8,000 (+2%)
City, EC	£348,000	£365,000	+£17,000 (+5%)
Docklands, E14	£282,000	£282,000	£0 (N/A)

Source: Hurford Salvi Carr

It is possible that February 2009 represented the pricing nadir of the Midtown, City and Docklands sub-markets, albeit we are not discounting the possibility of a "W" shaped recovery in prices (see Market Prospects, page 7). In the light of this it is instructive to look at the extent to which prices have fallen since the market peak in September 2007 (Table 3). Peak to trough prices fell by 13% in Midtown, 15% in the City and 20% in Docklands. The impact of price changes in the first half of 2009 indicates that "current" (June 2009) prices were only 11% off the peak in Midtown and 10% off the peak in the City. The lack of a net increase in prices in Docklands in the first half of 2009 left "current" prices 20% adrift of the September 2007 peak.

TABLE 3: PRICES COMPARED TO THE MARKET PEAK FOR TYPICAL ONE-BEDROOM FLATS

Sub-Market	Peak to Trough Sept 2007 - Feb 2009	Trough to Current Mar 2009 - Jun 2009	Peak to Current Sept 2007 - Jun 2009
Bloomsbury, WC1	-13%	+2%	-11%
City, EC	-15%	+5%	-10%
Docklands, E14	-20%	0%	-20%

Source: Hurford Salvi Carr

In Docklands, prices have fallen further due to the imbalance in supply and demand created by a development pipeline of very large schemes which had been marketed off-plan to investors. Its central business district at Canary Wharf is overwhelmingly dominated by financial services occupiers, including some of the big names that went under in the banking crisis. As a result, demand for flats for owner-occupation and renting (which ultimately underpins the investment market) was significantly reduced. Even in Docklands, however, the market improved in the first half of 2009. In March 2009, for example, we were instructed to sell a two bedroom flat overlooking Limehouse Basin, E14, at £475,000. Within a week there were five buyers and the property sold at above the asking price.

LIMEHOUSE BASIN, E14 - 8 FLATS SOLD - £243,000 - £478,000

In Midtown and the City, there was no overhang of new stock directed at the investment market, but rather a collection of niche or boutique developments aimed at owner-occupiers. Even in the recession, proportionally fewer office jobs were lost in the greater diversity of sectors present in Midtown and the City fringes compared to the City Core and Canary Wharf. As a result the demand side saw less of a downturn in these two sub-markets and the evidence indicates that demand from owner-occupiers has recovered most rapidly here. In Bloomsbury, the sale of three bedroom mansion block flats has been particularly strong between £650,000 and £1 million.

Another factor, related to the availability of cash or equity, is the age-profile of typical buyers in the three sub-markets. In our experience, buyers in Docklands have tended to be younger. As a result, they

GORDON MANSIONS, WC1 - 2 FLATS SOLD - £710,000 - £900,000

have had less time to build up cash savings, inheritances or to generate equity through past price increases in the property market. Docklands was a mortgage-driven market, whether for owner-occupiers or investors, and mortgages in the first half of 2009 were like gold dust. Docklands is not likely to significantly recover until the banks begin to offer mass-market mortgage products at attractive rates.

On the other hand, the profile of Midtown and City buyers has tended to be older. Often these buyers have substantial cash savings that can be combined with equity from other property and other sources to purchase property outright, or with very limited borrowings. They are not risk-laden first-time or investor buyers, but rather established individuals, couples and families undertaking their third or fourth purchase of a principal private residence. This demand profile helped to sustain transaction levels in the first half of 2009.

The fact that the City's residential market has been less affected than other areas by the downturn in the current cycle, demonstrates the growing maturity of the residential market. It is worth remembering that when Hurford Salvi Carr first opened in Clerkenwell in 1996, there was only a limited number of homes in the City, predominantly in the Barbican. 13 years later, over 10,000 people live within a short walk of St Paul's Cathedral and demand for homes outstrips supply.

KINGSWAY PLACE, CLERKENWELL, EC1 - 2 FLATS SOLD - £535,000 - £650,000

new homes market

NICHE DEVELOPMENTS SELL OUT

Small developments have been amongst the beneficiaries of the rebound in the market in 2009. These niche or boutique developments have tended to be of 8-14 units, in response to affordable housing policy, located in Midtown and the City. These sub-markets in turn are those that have seen a significant increase in sales activity and transactions in the first half of 2009. In part this is due to the availability of completed units in developments aimed at the owner-occupier market, where the second-hand market had to some extent been starved of units while vendors held property off the market.

Schemes on which Hurford Salvi Carr were involved are indicative of trends in the wider New Homes market. **44 Hatton Garden, EC1**, is a scheme of ten units converted from a Portland stone faced office building. At the launch in October 2008 units were priced £740-£880 per sq ft and 2 apartments were reserved. The scheme was completed in April 2009 to a specification aimed at owner-occupiers including intelligent lighting systems and Gaggenau kitchens. The completion date was propitious in the light of market circumstances and by the end of June 2009 nine of the ten units had been sold, with one penthouse at £1,050,000 remaining.

44 HATTON GARDEN, EC1 - 9 FLATS SOLD - £415,000 - £975,000

8-10 Bowling Green Lane, EC1, was a very similar story in terms of marketing and sales rates. A scheme of 13 units by Marldon above 2 levels of office space in a quiet street overlooking Spa Fields with a modernist design, it was launched in September 2008 and like Hatton Garden attracted a very large number of viewings. Four units were sold at the launch at prices in the range £740-£825 per sq ft and unit prices of £435,000-£895,000. The scheme was completed in March 2009 and had sold out at close to the asking prices by the end of May 2009.

June 2009 saw the completion of 7 new apartments and live-work units at **91-92 Turnmill Street, EC1**, backing on to St John's Gardens, a pocket-sized urban park. By the end of June the three live-work units had been reserved, while only two of the four residential units were still available. The one-bedroom units were priced at £435,000-£445,000 and the two large two-bedroom units (each over 1,000 sq ft on two levels) at £795,000-£835,000.

At **The Wenlock Building, Wharf Road, N1**, there has been good sales progress at this larger 55 unit canal-side scheme developed by United House and London & Newcastle. Following completion at the end of March 2009, floors 1-5 were sold out, leaving 15 units available on the penthouse floors 6-9, but seven of these had been reserved by the end of June 2009.

Looking ahead, July 2009 will see the launch of 8 apartments at **1 Baker's Row, EC1**, developed by Great Marlborough Estates and designed by Piercy Conner. This is a brand new modernist building occupying an infill site just off the west side of Farringdon Road – immediately behind well-known gastro-pub The Eagle. The apartments, two studios, four one-bedrooms and two two-bedrooms, have a high specification including Pepper kitchens and Porcelanosa bathrooms, as well as a fully-integrated digital connectivity network to each apartment.

July 2009 will also see the completion of **The Printworks, 84 Clerkenwell Road, EC1**, a refurbishment of 5 new flats above three floors of commercial space in a distinctive "flat-iron" building separating Clerkenwell Road from Albemarle Way. Pricing for the four two-bedroom flats on the 2nd and 3rd floors ranges from £540,000-£575,000 (£742-£816 per sq ft), while the three-bedroom penthouse on the 4th floor is priced at £895,000.

Further west, in Bloomsbury, at **2 Northington Street, WC1**, a small scheme of four apartments is set to complete in July 2009 with a studio, two one-bedroom apartments and a two-bedroom penthouse at prices from £310,000-£650,000 (£672-£917 per sq ft). Two units had been reserved by June 2009.

On a bigger scale, in September 2009 Hurford Salvi Carr will be launching a major brand new development of 59 apartments for Nicholas King Homes at Number One EC1, **1 Lamb's Passage, EC1**, an infill site north of the Barbican and east of Whitecross Street shopping centre. The collection of studios, one-bedroom and two-bedroom apartments is due to be completed in November 2009 and includes comfort-cooling and a porter service. As a larger scheme in the immediate fringes of the City of London financial district, its performance will be a further indicator of the extent to which the market has revived.

As indicated in our previous Residential Reviews, the situation for larger blocks which were sold off-plan and during construction to investors remains problematic. In our area these developments are concentrated in Docklands. As we have highlighted in the past, falling prices and the withdrawal, alteration or non-availability of mortgage finance by banks to buyers who have paid deposits is preventing sales from being completed. The banks themselves are contributing to falling prices in these developments by "down-valuing" schemes to "forced-sale" levels and ignoring comparable evidence of other sales in the same block, a policy which we note is supported by recent RICS valuation guidelines.

The construction pipeline of new private residential development in Midtown, City and Docklands has been well and truly switched off. According to EGi's London Residential Research database, the number of private homes commenced in this market in the first half of 2009 was just 101 units. 57% of starts were in E1, but there were no starts in E14. To put this into context, in the same area there were 1,482 private sector starts in the first half of 2008 and 2,186 units in the first half of 2007.

Given that starts are unlikely to rise significantly over the next 12-18 months, the future scenario is of a market starved of new available units from 2011 onwards. In niche markets such as Midtown and City shortages will be apparent as early as 2010. In Docklands, of course, this hiatus will provide an opportunity for developers and banks to clear their inflated inventories over the next 18 months, albeit at discounted prices. Even in Docklands, however, there are likely to be shortages in 2011 and 2012 – just when the area is being "hyped" for the Olympics.

rental market

RENTS CONTINUE TO FALL ON OVERSUPPLY AND JOBS FEARS

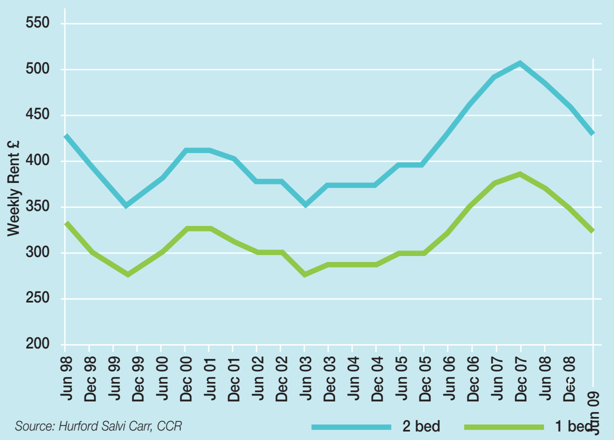
Residential rents in Midtown, City and Docklands began to fall at the end of 2007, initially in response to the increased supply of rental units and more recently, in addition to supply side factors, as a reaction to the fragility of the London labour market. While the sales market may have turned a corner in the first half of 2009, there was no such respite for the rental market – not at least in terms of rental levels.

The rental market has become highly competitive across central London in response to the supply and demand balance increasingly favouring the tenant. In effect, there has been a contraction in the demand side London-wide and that has put pressure on prices in all markets. Tenants have been the winners, with some in the position to trade up, in terms of location and/or quality of unit. Midtown, City and Docklands has actually benefited from this process, drawing in tenants from other less favoured locations in its penumbra.

Landlords are accepting rents below their initial asking rents in order to reduce voids. In some cases landlords' own financing costs have been reduced along with the Official Bank Rate, softening the impact of reduced rents and encouraging landlords to accept lower offers. When renewing their leases, some tenants have asked for break clauses to be included in new tenancies, to allow greater flexibility to move quickly if they are able to secure a purchase.

As a result, rents fell by 7% on average across Midtown, City and Docklands in the first half of 2009. This was in addition to a reduction of 9% in 2008 (Figure 3). Hence, rent levels at the end of the first half of 2009 were at 84% of the December 2007 peak. In terms of rental income landlords might expect to achieve, the typical weekly rent for a two-bedroom flat has fallen from £505 per week to £430 per week over 18 months to the end of June 2009, while for a one-bedroom flat weekly rents have fallen from £385 to £325 per week.

FIGURE 3 : WEEKLY OPEN MARKET RENTS IN MIDTOWN, CITY AND DOCKLANDS 1998 - 2009



Source: Hurford Salvi Carr, CCR

As in the sales market, there continue to be marked variations between the three sub-markets. In Midtown, rents fell by 10% in the first half of 2009, making a total reduction since the end of 2007 of 15%. In the City, rents fell by just 5% in the first half of 2009, with a total reduction of 13% since 2007 and the best performing of the three sub-markets. As in the sales market, Docklands exhibited the weakest trends, with rents falling by 10% in the first half of 2009, making an overall reduction of 25% since the end of 2007.

One of the factors in Docklands has been the increase in the number of "distressed tenants". Distressed tenants have been a feature here due to job losses at Canary Wharf and the subsequent need to apply for housing benefit which is against the terms of most AST agreements. It is notable, however, that this process has not occurred in Midtown and the City, implying a higher level of job security or opportunities amongst residents in these markets.

CLERKENWELL ROAD, EC1 - ONE BED FLAT LET, AUG 08- £425 PW. RELET JUNE 09 £375 PW

The serviced sector of the rental market has experienced some contraction due to recessionary conditions and the reduced level of movement of senior staff by global occupiers. The serviced sector has strong links to corporate tenants which have reviewed and pruned their accommodation spend. Smaller serviced operators continue to seek out opportunities, however, where they can take a conventional lease on an entire building. In the first half of 2009, for example, the ten-unit Gazzano Building, 167-169 Farringdon Road, EC1, was let to a student university accommodation provider.

In spite of the downturn in rents over the past 18 months, traditional landed estates and property trusts have continued to take a long-term view of rental market prospects. In Exmouth Market, EC1, the Debenham Property Trust, which has extensive holdings along this pedestrianised street, is undertaking a programme of refurbishment of the upper parts for the rental market. This follows the gradual improvement of the commercial element of the street over the past ten years and a recent re-branding exercise. Further west, the historic Bedford Estate in Bloomsbury continues to improve its residential rental portfolio through refurbishment activity, including office to residential conversions. The Estate is actively seeking to expand its rental portfolio through the current downturn.

The overall number of enquiries from tenants increased in June 2009 as we approached the busier summer months and there were the first tentative signs of a pick-up in the City employment market. There are now large numbers of tenants in rental accommodation who inform us that they would like to purchase a home in our area, but cannot get finance or are frustrated with the lack of choice of properties coming on to the market for sale. With lower rents and higher sales prices, we expect to see some accidental landlords deciding to test the sales market in the second half of 2009, which will have implications for the overall stock of rental property.

investment market

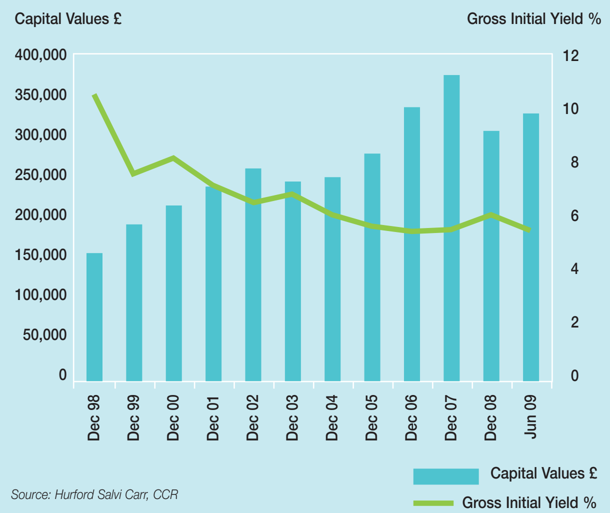
MARKET ACTIVITY AT HISTORIC LOW

The investment market continued to experience a minimum level of activity in the first half of 2009. Although borrowing costs fell as the Bank of England reduced the Official Bank Rate from 2% to 0.5% by March 2009, banks remained unwilling to lend in the sector to all categories of investor including buy-to-let, investment clubs and other private investors. Very few investment deals were completed due to the insurmountable gap in price expectations between buyers and sellers.

There are investors with equity pursuing products from distressed sellers at deep discounts, but there was little evidence of sales at deep discount in the first half of 2009. The unexpected revival of the sales market brought relief to some developers, with new stock selling well from March 2009 onwards. With vendors' expectations rising towards the end of the first half of 2009, buyers and sellers were, if anything, further apart at the end of the period.

The movement of capital values and rents in the first half of 2009 inevitably reinforced the weakness of the residential investment market. Rents, which ultimately underpin the sector, fell for 18 months to the end of June 2009, and the revival of prices in Midtown and the City has inevitably had an impact on initial yields (Table 4 and Figure 4). With capital values nudging upwards and rents continuing to fall, gross initial yields dropped from 5.7% to 5.2% in the first half of 2009: the lowest yield we have reported since we began this Residential Review series in 1998. Investors will therefore find it difficult to achieve an attractive return, unless they achieve a discount when making a purchase.

FIGURE 4 : CAPITAL VALUES AND YIELDS FOR ONE-BEDROOM FLATS IN MIDTOWN, CITY AND DOCKLANDS 1998 - 2009



Source: Hurford Salvi Carr, CCR

Although investment activity was negligible, in April 2009 our investment department sold a freehold building of six apartments and a shop in Gray's Inn Road, WC1, for Grainger plc, who acted as adviser to the owners, an offshore company. With rental returns falling and buy-to-let funding almost impossible to obtain, it is not surprising that in the first half of 2009 the only other investment sale that we transacted was in Wimbledon, where we acquired five flats from a housebuilder at a discount.

Given overall market conditions, we had expected to see greater evidence of forced sales of investment stock, but there have been few examples to date. In June 2009, Wharfside, a scheme on Prestons Road, E14, north of Canary Wharf was heavily marketed by developer Galliard. Trinity Capital which forward-bought the scheme and then sold it on to individual investors was reported to have dropped its deposit after individual investors failed to complete. Barclays Bank, which funded the development, subsequently instructed the developer to market the flats for sale at discounts to the original asking prices of 30%-50%. As a result in May 2009, one-bedroom flats were back on the market at prices from £165,000 and two-bedroom apartments starting at £230,000, and the scheme was sold out by mid-June.

One of the Government's declared aims in its housing policy is to increase investment in the private rented stock, especially by institutional landlords. Recent and emerging legislation, however, is acting as a deterrent in the residential investment market. From October 2008, Energy Performance Certificates (EPCs) became mandatory for private rented and commercial property, the need for the EPC being triggered by the granting of a new lease or tenancy agreement after that date. In the context of Assured Short-hold Tenancies, many landlords will have had to pay for EPCs during the first half of 2009 as lease agreements expired.

When added to lease agreement fees, inventory costs, the Tenancy Deposit Scheme, Gas Safety Certificates and, of course agents' costs, we do not see the potential for the private rented sector to grow further in the present economic context.

On 14th May 2009, the Department of Communities and Local Government published a Green Paper (for consultation), which amongst other measures recommended a National Register for residential landlords. This proposal has been made in order to improve standards in a sector which has mushroomed in size due to the buy-to-let phenomenon and the advent of "accidental landlords". "The Rugg Review" of the sector, commissioned by the Government from academics Julie Rugg and David Rhodes of the University of York, found standards to be uneven across the sector, with concerns about a minority of "rogue" landlords. If implemented, the National Register will mean landlords paying an annual registration fee (of around £50 according to The Times). As a bi-product, the allocation of a license number to each registered landlord will make it easier for the Inland Revenue to identify tax evaders.

TABLE 4: ILLUSTRATED INITIAL YIELDS FOR ONE BEDROOM FLATS IN MIDTOWN, CITY AND DOCKLANDS 1998 TO 2009

	Dec 1998	Dec 1999	Dec 2000	Dec 2001	Dec 2002	Dec 2003	Dec 2004	Dec 2005	Dec 2006	Dec 2007	Dec 2008	Jun 2009
Gross Annual Income £	15,600	14,300	16,900	16,120	15,600	14,820	14,820	15,340	18,200	20,020	18,220	16,900
Capital Value £	150,000	189,000	210,000	230,000	260,000	245,000	246,000	270,000	340,000	371,000	318,000	328,000
Gross Initial Yield %	10.4	7.6	8.0	7.0	6.0	6.0	6.0	5.7	5.4	5.4	5.7	5.2

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

Source: Hurford Salvi Carr, CCR

market prospects

FORECASTS FOR 2009

The Sales Market

Although in the first half of 2009, prices stabilised in Docklands and increased in Midtown and the City, the future health of the market remains uncertain. Interest rates look set to remain very low for the rest of 2009 before rising in 2010, but banks are likely to be very cautious about re-entering the mass mortgage market. By no means do we automatically expect the modest price rises of the last four months to continue, but we now see a stabilisation in the market at new improved price levels.

Across central London (including Midtown, City and Docklands), the fillip that the market received from March 2009 was noted by lenders who now have first-hand evidence of price stability or increases. This was contrary to their price expectations for the period, based on forecasts made at the end of 2008 for continued falls.

Even the national indices of Nationwide (in April and May 2009) and Halifax (in May 2009) recorded house price growth, while the Council of Mortgage Lenders (CML) reported a 16% increase in new mortgage loans in April 2009. The CML also cautioned, however, that first-time buyers are being asked for 25% deposits and that repayment to income ratios continue to be squeezed. Overall, we do expect to see banks modestly increasing their exposure to the Midtown, City and Docklands market in the second half of 2009, albeit at relatively conservative loan to value ratios.

Confidence has also been increased by the robust performance of the stock market over the four months from the beginning of March, with the FTSE 100 Index rising by almost 30% to just under 4,500 points at the end of June 2009. If the banks do make new mortgage products available in the autumn, then there is the potential for prices to continue to be bolstered by the shift of some renters to buyers.

In the second half of 2009 the impact of the above factors on pricing will be dependent on the amount of stock coming on to the market. If the price rises we have already experienced in the first half of 2009 were borne out of a shortage of stock, then the stimulation to prices might be looked upon as artificial. On balance we do not expect to see a significant alteration in the level of stock on the market in the second half of 2009. As a result, we consider that prices will be maintained at the levels achieved in the first half of 2009. By early 2010 however, when owners recognise the improvement in the sales market, we expect to see an increase in the level of stock for sale.

Looking further ahead, residential development starts across London have been severely curtailed since the beginning of 2008 due to market conditions and lack of development finance. As a result, the number of units under construction across London has fallen sharply. Between 2010 and 2012 there will be very little new supply in Midtown, City and Docklands. While in Docklands, this will provide a window for the "mopping up" of units in a currently over-supplied market, Midtown and City will depend increasingly on turnover in the second-hand market. As a result there is the potential for a more systematic increase in prices in 2010, especially if pent-up demand from renters spills over into the sales market as mortgage products become more widely available.

Set against that are uncertainties generated first, by the future direction of the economy as it, hopefully, emerges from recession and, second, by the impending General Election, which must be held on or before 3rd June 2010. On the economy, there is little agreement about the "shape" of the recession, whether "V", "U" or "W" shaped. Press coverage in June 2009 became rather optimistic, with "green shoots" being found under every rock.

On June 10th the National Institute for Social and Economic Research (NIESR) reported growth in April and May, with its director stating that the recession has ended "as far as I can tell." Kate Barker, economist and MPC member, was more guarded stating "I think there's a lot of concern about what's going to happen beyond this pick up." She was not alone in her concern that rising unemployment in the second half of 2009 and into 2010 might engender a "W" shaped recovery. The residential market in Midtown, City and Docklands is not immune to the changing context of financial markets and the national economy.

The Rental Market

In the rental market we expect to see a continuation of market trends that have become established over the past 18 months. Demand will be maintained artificially by the lack of mortgage finance with frustrated or reluctant owner-occupiers continuing to be "trapped" in rental accommodation. On the other hand, fragility in the labour market is likely to continue to feature in the second half of 2009, and this will temper to some extent the overall demand for rental accommodation. Even if demand weakens, however, Midtown, City and Docklands tends to benefit from tenants trading up to a better location.

It is the supply side that is likely to be the most significant structuring effect on the rental market. We do expect some renters with the best "covenant strength" to be able to avail of bank finance as first-time buyers in the second half of 2009 as mortgage terms ease. This will generate some churn in rental units. Potential vendors in the sales market, especially reluctant landlords, are increasingly likely to test the market in the context of gains made in the first half of 2009. If landlords do start selling rental stock and tenants start to buy, rents are likely to stabilise.

Our projection for rents is more strongly influenced by the annual cycle, which sees demand peak in the second half of the year, especially from August to October. In our view, this cyclical enhancement to the demand side in the second half of 2009 will be sufficient to stem the decline in rents that began at the beginning of 2008. Looking further into 2010, we do expect the supply and demand balance to alter once banks begin to lend again, which ought to weaken the rental market and in turn stimulate the sales market, just when development stock is getting thin on the ground.

That is not to imply, however, that we see the rental stock in Midtown, City and Docklands diminishing in the future. It forms a key component of the market. If the housing market had been entirely dependent on owner-occupiers it would have collapsed due to the banking crisis. Demand from tenants has provided and will continue to provide an alternative route for property owners when the sales market stalls. Effectively it creates a "floor" underpinning the residential property market in Midtown, City and Docklands.

WEST END
38 Store Street
London WC1E 7DB
Sales and Lettings
T 020 7299 3322
E westend@h-s-c.co.uk

CITY
37-41 St John Street
London EC1M 4AN
Sales and New Homes
T 020 7250 1012
E sales@h-s-c.co.uk

CLERKENWELL
1 Britton Street
London EC1M 5NW
Lettings
T 020 7490 1122
E lettings@h-s-c.co.uk
Commercial
T 020 7566 9440
E commercial@h-s-c.co.uk
Investment
T 020 7566 9444
E investments@h-s-c.co.uk

DOCKLANDS
9 Branch Road
London E14 7JU
Sales
T 020 7791 7000
E sales.docklands@h-s-c.co.uk
Lettings
T 020 7791 7011
E lettings.docklands@h-s-c.co.uk

www.hurford-salvi-carr.co.uk

HURFORD SALVI CARR

www.hurford-salvi-carr.co.uk