research

from Hurford Salvi Carr

MIDTOWN, CITY AND EAST LONDON

RESIDENTIAL 1ST HALF 2021

“

Transaction numbers increase.

”

HURFORD SALVI CARR

Market Overview

BOUNCE BACK BEGINS

We are pleased to report an improving sales and rental market in the first half of 2021 across central London with each month seeing an increase in demand and transaction numbers, in line with the relaxation of the national lockdown from March. The reopening of the hospitality sector in May reinvigorated the city streets and with it revived interest from prospective buyers and renters.

In the pandemic, Londoners learned how to manage a more open-air lifestyle with the notoriously unreliable British climate, and it looks as though pavement café culture will be here to stay. London will be the richer for it. Sadiq Khan, newly re-elected in May, for a second term as Mayor of London, committed to the city's recovery as a 'greener, fairer, safer and more prosperous city'.

LIMEHOUSE E14 - 3 BEDROOM FREEHOLD HOUSE, SOLD APRIL 2021, £1,295,000

While London's housing market was hard hit by lockdowns, particularly in the central areas, many other parts of the country experienced record levels of activity and price rises to match. Our markets remain firmly pegged back to 2014 prices, making a central London apartment look like good value compared to suburban, home counties or even coastal towns and cities.

The combination of low supply and a pick-up in demand, has resulted in modest price rises this year in Midtown, City and East London, for the first time since 2015. The market is due a recovery and the ingredients are in place: low interest rates; restricted supply; relatively attractive prices and a city poised to be cleaner and greener with the energy of a rebirth.

Buyers showed up to seize the opportunity, but not enough owners felt motivated to sell at current prices, especially when interest rates are so low and many willing vendors were prevented from selling by the requirement to undertake essential fire safety works to their building.

The extension of the stamp duty incentive to 30th June produced a high volume of successful sales completing at the same time across our offices but with the final relaxing of lockdown measures delayed until 19th July it may take until September before demand from new buyers picks up.

REGENTS CANAL N1 - 1 BEDROOM LOFT, LET FEBRUARY 2021, £480 PER WEEK

The fire safety debacle, which escalated in 2021 despite government pledges, has compounded the low levels of stock on the market as owners find themselves unable to sell as long as they are saddled with unexpected service charges to cover remedial works, inflated insurance premiums and on-site fire wardens. Any block, particularly those built within the last 30 years, can fall foul of the requirements and mortgage lenders will not take the risk.

When sales volumes are low, it is often mirrored by rising supply of rental stock as owners put up homes for rent. Rental values fell across Central London in 2020 and there was another wave of reductions in Q1 2021. Our markets suffered as many of our market stalwarts - overseas students, corporate lets, the annual graduate intake and other well-paid office workers - stayed away from central London. It resulted in unexpected opportunities. People who normally rent in outer London were able to taste the joys of living in the centre of the city at rents normally outside their price range. By Q2, rents were beginning to recover and by the end of the quarter, the gap had narrowed.

Many privileged people have been able to build up capital during the pandemic as their opportunities to spend were severely curtailed. That capital will fund deposits for home buyers and offset the phased reinstatement of stamp duty in Q3 2021. Already we are seeing younger people, in their 20s, coming forward as buyers.

We are optimistic that changes in lifestyle and workstyle wrought by the pandemic, will translate into renewed interest in owning, or renting, a pied a terre amongst people who have relocated their main home base to the countryside. A small apartment within walking distance of office and clients, is often an attractive alternative to staying in a hotel.

Economic Overview

UK SET FOR RECORD GROWTH

The gradual lifting of covid restrictions and increasingly good news on the vaccines (both the speed of delivery and efficacy in the face of variants), are fuelling more positivity in the economic outlook too.

Looking back at forecasts for 2021 from the end of 2020, the economy is clearly in better shape than anticipated. The GDP forecast for this year has risen to a current 6.8%, up from the previously forecast 5.8% in December. On these forecasts GDP will be back to its pre-pandemic level in early 2022.

One of the key drivers of the economic recovery is accrued household savings. The Bank of England believes that UK households have accumulated £150bn of 'Covid-savings' that will now be injected back into the economy. It has been a very variable picture with savings not distributed evenly across the economy or geographically, these savings are concentrated within affluent neighbourhoods in the south.

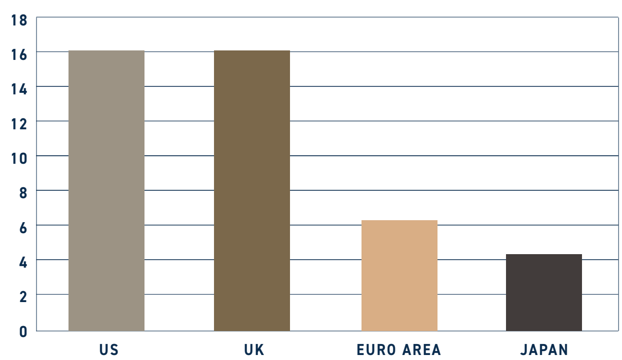
The areas that have accrued savings are also most likely to economically bounce back more quickly as these savings translate into spending. On the other hand, there are also areas which are struggling financially as a direct consequence of the pandemic (lost earnings and job redundancies). It is a very mixed picture.

Consensus Forecasts	2021 Forecast (Prior Dec 2020 Forecast)	2022 Forecast
GDP	+6.8% (5.8%)	+5.5%
Private Consumption	+4.5% (5.6%)	+6.8%
CPI	+2.3% (1.9%)	1.9%
Unemployment Rate (Q4)	6.0% (6.5%)	5.0%
Interest Rates (End Q4 Rate)	0.1% (0.1%)	0.1%

Source: HM Treasury

The UK and the US have put more money to work to support their economies through the pandemic and there is a strong view amongst economists that it will help their economies recover more quickly than where fiscal support was less generous, like the EU or Japan.

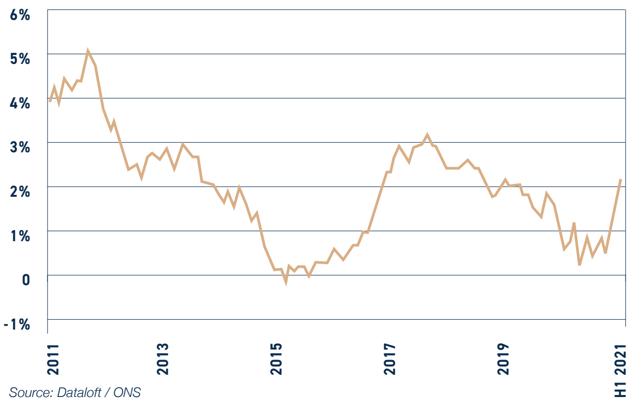
FIGURE 1
FISCAL SUPPORT THROUGH THE PANDEMIC



Source: OECD / FT

As the economic rebound gains momentum, attention turns to the inflation rate and the Bank of England's efforts to keep it within bounds. Monthly CPI figures show the annual inflation rate increased from 0.5% in February to 2.1% in May. While some noise and volatility is to be expected, concern is mounting. The departing Chief Economist from the Bank of England commented that this was the most dangerous time for inflation in almost 30 years. As yet, the 50 or so UK economists polled each month by HM Treasury don't expect an interest rate rise imminently. Indeed interest rates are forecast to still be at 0.1% at the end of Q4 2022 but expectations could clearly change over the next few months.

FIGURE 2
INFLATION HAS BOUNCED BACK MORE STRONGLY THAN ANTICIPATED
CPI (ANNUAL % CHANGE)



Source: Dataloft / ONS

Even before the economy started to emerge from lockdown restrictions there were positive signals in the labour market. In London over the first quarter of 2021 there was a rebound in employment (up by 59,000 over the quarter) following on from three quarters of decline.

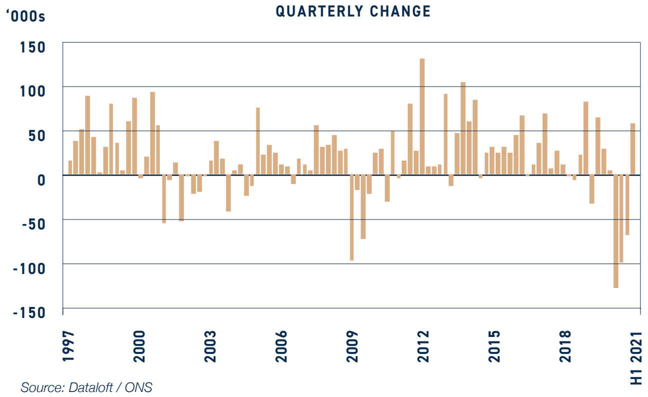
ALDGATE E1 - 3 BEDROOM APARTMENT, SOLD APRIL 2021, £875,000

It is no surprise that the sectors of the London economy which experienced some further job losses in Q1 were: 'Accommodation, food and services' alongside 'Arts, entertainment and recreation.' But with the reopening of hospitality in May (and the final restrictions hopefully lifted in July) the more positive trends from other sectors should start to be replicated in these sectors too.

London does have one of the highest rates of employees on furlough with 13.6% of its employees still on the scheme putting it in the top 10 cities for furlough. The furlough scheme will support employment until September which gives the economy more time to bounce back as people return to the city. London's economy was hard hit due to its reliance on international travel and tourism, along with the temporary loss of so much of its daily commuting workforce.

Given the jobs lost through the pandemic, it is ironic that the next problem for London is a labour shortage. As the economy rebounds, labour shortages are expected because workers have moved to a different sector or because so many European workers returned home.

FIGURE 3
LONDON UNEMPLOYMENT
QUARTERLY CHANGE



Source: Dataloft / ONS

Data gathered from London's transport network show that usage levels have climbed back to their highest monthly rate since the pandemic impact took hold in March 2020. These figures, which are based on an equivalent typical time period, show that the tube in June 2021 was running at 45% of normal usage and the buses at 63%. Staff returning to their offices will have a significant impact on the London economy, bringing business back to all the restaurants, cafés, gyms and other services that support office-based workers.

With continuing success of the vaccine roll out, and more data supporting its efficacy against variants, then there is a strong case for the number of workers returning to the office to build significant momentum particularly from September.

FIGURE 4
LONDON TRANSPORT USAGE
COMPARED TO EQUIVALENT PERIOD OF TYPICAL USAGE

Source: Department for Transport
Gap in data reporting during pandemic

A number of the large banks have already become more vocal about wanting their staff back in the office. In New York, the CEO of Morgan Stanley announced that if his staff felt confident dining in restaurants, they should also feel confident enough about returning to the office. He highlighted the importance of the office environment for teaching, learning and developing its staff and expressed a dim view of remote working from 'out of state'.

Alongside the increasing call to get employees back into the office in some form and for at least some of the working week, business confidence in the financial service sector has been rising. The headline summary from the PWC/CBI quarterly released in March 2021 suggested:

'Financial services organisations are emerging from lockdown in a strong position to support economic recovery and take digital transformation to the next level. As optimism continues to grow, 2021 offers further opportunities to move forward and drive sustainable change.'

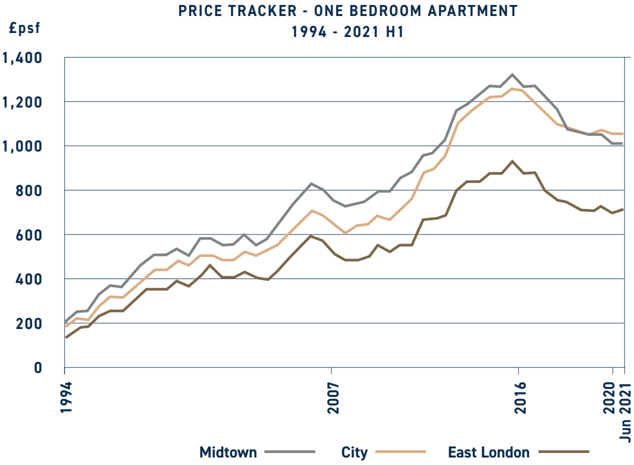
Certainly, the forward-looking optimism levels recorded in their quarterly survey have been consistently moving upwards. At the end of Q1 the survey was +52 compared with -3 back in mid-2020.

Sales Market

LARGER HOMES IN DEMAND

In the early months of 2021, lockdown and social distancing were deterrents for owners considering a sale while weak pricing dampened any enthusiasm for selling - but the real culprit has been the question of fire safety regulation. Despite government attempts to offer some relief to homeowners, fire safety requirements continue to blight the sale of many apartments especially those built in the last 3 decades. At the same time demand across central London had been affected by the global shutdown of international business and leisure travel due to the pandemic.

FIGURE 5
PRICE TRACKER - ONE BEDROOM APARTMENT
1994 - 2021 H1



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

As we repeatedly point out in this report, our markets rarely have forced sellers. Most owners are not reliant on high levels of mortgage debt and in any event, borrowing rates remain historically low.

Even for landlord investors, many of whom finally ran out of patience with low returns in 2021, the prospect of selling at 2014 prices is deeply unappealing and, in our experience, most decide to hold on. In any event, all properties waiting for resolution on fire safety remedial works will fail to satisfy lending criteria. On the other hand, the new rules of capital gains tax will have limited impact after such a prolonged period of weak price growth.

ISLINGTON EC1 - 3 BEDROOM FLAT MAISONETTE, SOLD FEBRUARY 2021, £1,250,000

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
2020	-3.2%	460,000	-15,000
2021 H1	1.1%	465,000	5,000

Source: Hurford Salvi Carr

The price of a one bed apartment taken as an average across all our markets, rose very slightly to £465,000 by mid 2021, an uplift of £5,000 since the beginning of the year. While that is only growth of just over 1%, it is significant because it is the first time prices have risen since 2016. The average price remains at 2013 levels.

One bed apartments have lost popularity since the mass shift to working from home during the pandemic. There have been more significant price rises for larger properties where demand has been focused.

For several years, three bed homes had been losing value in our markets but that situation reversed so that, in the first half of 2021, the price of a 3 bed increased by 3% in the City and 6% in East London. Midtown experienced rises in the later months of last year and here, prices stabilised this year. Still the cost of an apartment of any size in our markets remains significantly down over 5 years.

Affordability remains a major issue for the vast majority of Londoners and the stamp duty burden is heavy for high priced homes. However, with house prices rising sharply in so many other parts of the county, Central London is an interesting proposition for investors focused on long term capital growth and a more realistic proposition for a larger pool of owner occupiers, even first time buyers, especially if they consider one bed properties. One of the key economic outcomes of the pandemic is that high paid workers have accumulated capital while their opportunities to spend have been so severely curtailed.

There is a view that the pied a terre will have a resurgence in popularity once London's office workers return to their desks, at least for those who relocated their home base further afield over the past year.

The Bank of England reported that private savings were up by £150 billion in 2020 underlining the fact that there have been winners and losers from this pandemic and the winners will emerge with cash to spend. We expect the more affluent members of Generation Rent to become the next generation of home owners and many have been racing to beat the stamp duty deadline on June 30th.

TABLE 2
PRICES & PRICE CHANGES FOR 1,2 & 3 BEDROOM APARTMENTS IN THE RESALE MARKET AT 2021 H1

		2020 £	2021 H1 £	£ per sq ft	Change % 2020-2021 H1	Change % 2015-2021 H1
Midtown	1 Bed	525,000	525,000	1,050	-0%	-19%
	2 Bed	850,000	850,000	1,133	0%	-15%
	3 Bed	1,700,000	1,700,000	1,133	0%	-35%
City	1 Bed	530,000	530,000	1,060	0%	-16%
	2 Bed	765,000	765,000	1,020	0%	-9%
	3 Bed	1,450,000	1,500,000	1,000	3%	-21%
East London	1 Bed	375,000	385,000	770	3%	-14%
	2 Bed	525,000	535,000	713	2%	-14%
	3 Bed	900,000	950,000	633	6%	-24%

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*

Timing is always critical in housing markets if the priority is capital growth. Over the long term, total returns still looks attractive, with revenue from rents as well as capital growth and prices across all our markets have more than doubled in two decades. There are many global citizens who want to own a stake in one of the world's leading cities.

That said, overseas investors have been notably absent from London during the pandemic as travel restrictions prevented potential buyers from visiting developments in person. The exception has been Hong Kong buyers who have continued to be active, albeit from remote video tours.

Since April 1st, overseas investors have also faced a 2% stamp duty surcharge on top of the 3% existing surcharge for second home owners and buy to let investors. For an overseas investor buyer, there is a rate of stamp duty tax of 17% for the top tier. Progressive and punitive increases in stamp duty since December 2014 have been the primary cause of stagnation or decline in central London prices.

TABLE 3
LONG RUN PRICE CHANGES FOR A 1 BEDROOM APARTMENT IN THE RESALE MARKET

Submarket	1994-2021 H1	2000-2021 H1	2007-2021 H1	2008-2021 H1	2015-2021 H1
Midtown	437%	104%	23%	35%	-22%
City	506%	144%	50%	66%	-15%
East London	450%	110%	21%	40%	-20%

Source: Hurford Salvi Carr

London's new homes market typically has a high proportion of pre-sales, agreeing deals long before completion and often before construction has even begun. Over the past year, access to overseas buyers was hit hard by enforced restrictions on global movement and this inevitably resulted in cancelled or deferred sales launches and exhibitions. In Q1 2021, there were fewer new homes sales than in any quarter since 2012, according to research from Molior with construction starts also at historically low numbers.

The pandemic has focused buyer attention on properties with more space, indoors and out. Over 99% of new build sales in central London would normally be apartments, but in 2020, the proportion of houses as opposed to apartments sold in prime central and prime London was at its highest since the turn of the century. Apartment sales in prime central London were 22% lower than the five-year average according to data from Land Registry.

Developers at new homes sites across central London from Covent Garden, Kings Cross, Shoreditch, Whitechapel and Canary Wharf remain confident that they will secure their prices with demand increasing as more people return to the capital in the second half of 2021. It is our view, stated elsewhere in this report, that one of the legacies of the pandemic will be a resurgence of interest in owning or renting a pied-a-terre, to complement the family home remote from London.

Where demand has been weaker and construction activity high, institutional Build-to-Rent investors have stepped in to bulk buy apartments, particularly along the South Bank, from Nine Elms and Battersea to Southwark where large scale development has been encouraged.

After a gruelling four-year process, the new London Plan was formally adopted in March, setting the tone for the direction of the capital through the years ahead. The City is now reviewing its exemption from Permitted Development Rights – a status it fought for a few years ago. Today, the City is open-minded about loss of some of its office space to residential and is keen to continue its strategy of developing a mixed use environment. If its vision is realised, it would allow 1500 new homes to replace vacant office space by 2030.

Despite the challenges, the opportunities to build new homes are extremely limited across much of our market area and developers are generally confident of achieving their target prices once people return to the capital in the autumn.

The demand for living and working in close proximity can manifest in working from home in leafy suburbs, or living in the heart of the city with all the amenity that represents. Canary Wharf Group have recently announced an intention to switch their plans for a one million sq ft office building to a 60 storey apartment block. With Wood Wharf already completed, Canary Wharf is evolving into a mixed-use community.

It is hard to judge the impact of the additional 2% stamp duty tax on overseas buyers, which came into effect in April 2021. We suspect that the pent up demand from prospective buyers who have been unable to travel, will override the additional tax once the market is released. In any event, overseas buyers take into account a large number of variables including currency risk and relative transaction costs in the UK. Most commentators are of the view that London will remain a safe and attractive investment to the overseas market once travel resumes.

FIRE SAFETY UPDATE

Four years on since the dreadful fire at Grenfell Tower, the issue of fire safety remediation works continues to weigh heavily on owners and on the sales market. Much is still unclear about what works are necessary and who should bear the costs.

The problem identified at Grenfell was a type of cladding system using ACM (aluminium composite material) but large numbers of residential apartment blocks across our area now face expensive costs to replace flammable insulation, timber balconies and install missing fire stops, all of which will have been identified during intrusive surveyor reports, originally intended to identify whether buildings had ACM.

These issues are a wide ranging and no longer just about cladding.

The horror of the fire at Grenfell undermined confidence in the building regulations system and kick-started a wide-ranging review of fire-safety in any building with an external cladding system. Originally there were hundreds of buildings under scrutiny, when the guidance was widened it affected tens of thousands of blocks.

The problem now, is that no-one seems prepared to take responsibility for how far it needs to go, or what constitutes a safe building. The potential costs are huge and ill-defined. Lenders are not prepared to carry the risk and it has become impossible to raise a mortgage on any high rise apartment until it has been issued with a compliant fire safety certificate, (EWS1). Lenders are also routinely insisting on EWS1 forms for buildings that are below 18m and according to the Royal Institute of Chartered Surveyors (RICS) do not require EWS1 certificates.

In May 2020 the Government launched a Building Safety Fund to help with costs of replacement cladding only for qualifying buildings taller than 18m. It is no help to most of the people now affected. The housing select committee estimates the cost of full remediation could be up to £15bn, the fund covers £5.1bn. The debate over who will carry the responsibility for costs – leasehold owner, developer, freehold owner, or government - remains unresolved. It has been reported that 700,000 people are trapped in homes that they cannot sell.

On the 3rd February the Law Society called on the government to protect leaseholders from the costs of making their home safe following fire safety reports identifying a range of remedial works required to upgrade their blocks. They correctly reported that where dangerous defects exist due to inadequate building regulations and/or inadequate enforcement, and costs of remediation are not covered by guarantees insurance, the costs should not be allowed to fall on long leaseholders.

The government package of grants for remedial works on blocks above 18m will at least give comfort to home owners in some blocks affected. However the package clearly falls short of what the Law Society and society at large was seeking with only loans being offered to owners of low rise apartment blocks.

At the end of June the fund had only allocated £2.5 billion to help around 600 blocks out of the 2,820 blocks that applied for funding last year. New applications to the fund had to submit their applications by 30th June 2021 and demonstrate that works would start on site by September 2021. Without access to the fund it is difficult to understand how the majority of buildings will be in a position to undertake works.

The Fire Safety Bill limits the government's exposure and on 27th April parliament voted against amendments which would have banned building owners from passing on the costs of remediation works to homeowners. Inspectors carrying out the checks are understandably cautious, given the enormity of this issue, and thousands of flat owners are currently facing costs running into many thousands of pounds each, for works they cannot be sure are truly necessary, on apartments they cannot sell.

The Government announced a tax on housebuilders' profits that could raise £2bn over 10 years to assist with cost of funding works. To date, the industry has voluntarily spent around £500 million on remediation. The prospect of a tax could stall further discretionary spending until the impact of the tax is clarified. Housebuilders who are 'doing the right thing' will not want to pay twice.

The skills and supply chain shortages in the construction industry will only prolong the agony for owners of these apartments. It has been reported that constructions costs have risen by 10% this year in part due to increase demand to cover remedial works at apartment blocks. The absence of an adequate support for flat owners and reluctance to lend on the thousands of flats affected will continue to disrupt the sales market in central London which is dominated by apartment blocks and will have a knock on effect on the wider economy.

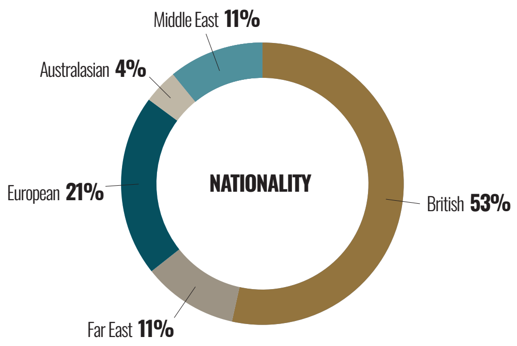
While leaseholders wait for communication from their managing agents to hear if they have been successful with their application for funding, they continue to have to pay inflated insurance premiums approaching 300%, fund waking watch patrols in their blocks and stay trapped in homes that they are unable to sell. Once funds are allocated leaseholders face a further wait for the works to be completed and for a new EWS1 form to be issued following completion of the works before the banks will resume lending.

BUYER PROFILES H1 2021

Nationality

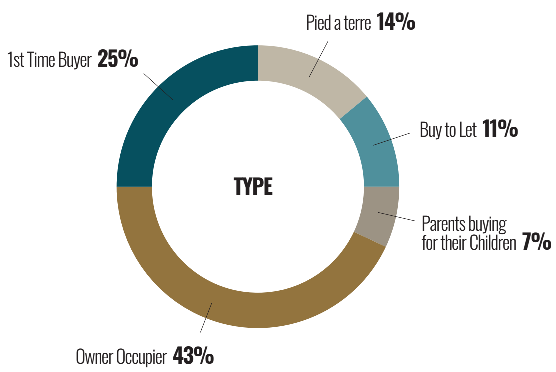
Almost half of sales in H1 2021 were to non-British buyers – a significant departure from the norm. In most years, they make up closer to 70%. European buyers were more prominent than they had been since 2018, with the French, once again, figuring strongly and there was a larger presence of Middle Eastern buyers than in any year since we began recording buyer nationality in 2015.

This was the first half year period since the UK finally left the EU and, while the pandemic ensured that it was far from a being a typical year, the continuing presence of European buyers is reassuring, particularly when it is possible to work remotely and given the imposition of the additional stamp duty on overseas investors in April of this year.



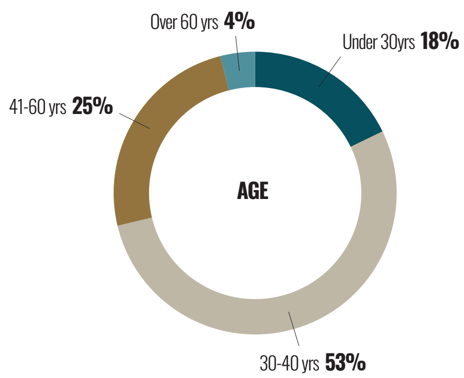
Buyer Type

The pied a terre buyer returned in H1 2021, after disappearing from the market in 2020. We predicted a resurgence of this buyer type because so many people relocated their homes to more rural or coastal locations during the pandemic. First time buyers continued to be a strong presence, making up a quarter of all purchases this year. The prolonged period without holidays or social/cultural activities has enabled people to accumulate capital for deposits. We note elsewhere in this report that first time buyers were presenting at younger ages too.



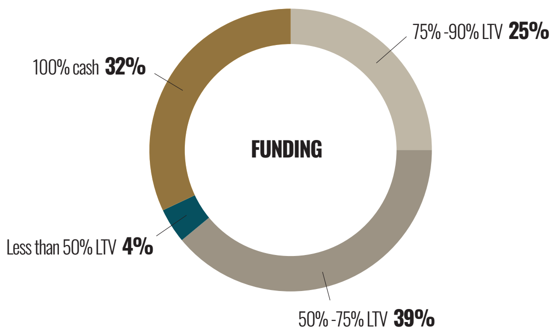
Age

The dominant buyer group in our markets was people aged 30-40 years old. They made up 53% of buyers, compared to an average of 38% over the period 2015-2021. The under 30s remained consistent at just under 20% of buyers, while the older age group 41-60, declined from an average of 37% to just 25% in H1 2021. This is consistent with a reduction in the age of the first time buyer who is now closer to 30 than 40. It also reflects the shift of families from city to rural and coastal locations. This is the age group we expect to return to invest in a pied a terre.



Funding

Cash buyers accounted for around one third of all purchases in H1 2021, in line with the long term average. This is a consistent level in our markets.



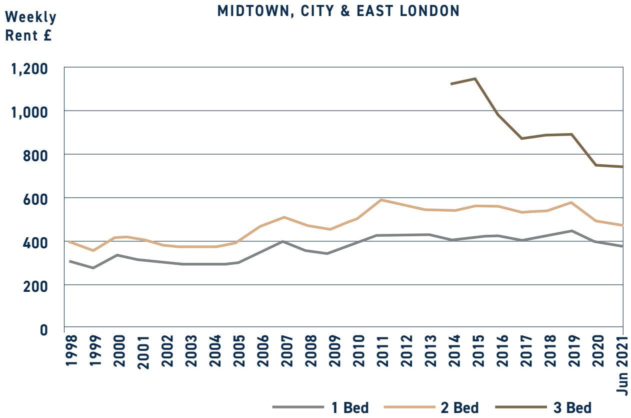
Lettings Market

RENTS STABILISE

When offices closed, teaching switched online and international travel ceased, London's rental market suffered, especially in the centre of the city. Rents fell dramatically in 2020 and levelled out in early 2021, leaving them at their most affordable level for a decade. We expect a slow and steady return to pre-pandemic rent levels by the Autumn of 2022.

It has taken the whole of the last year for our markets to absorb the stock from the corporate rental sector which became surplus when business travel was stopped. It has been the biggest single cause of price falls in our rental markets and we fully expect a recovery as business travel and overseas students return.

FIGURE 6
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*

Rents dipped in Q1 2021 and stabilised in Q2, so that overall there were gentle falls of between 3% and 6% in Midtown and City and no change in East London. East London fared best but we expect all our markets to stabilise as office workers and overseas students return to central London.

Rents are still below their pre-pandemic levels with the steepest falls in Midtown and City where the influx of supply from corporate lets was most acutely felt. In East London, the total falls ranged between 6% and 9% over the 15 month period to mid 2021. It means that the gap has narrowed between the cost of renting in East London and our other markets and it demonstrates why we have seen renters move to more central locations.

TABLE 4
WEEKLY RENTS FOR 1, 2 & 3 BEDROOM APARTMENTS
IN MIDTOWN, CITY & EAST LONDON AT 2021 H1

Submarket		£ 2017	£ 2018	£ 2019	£ 2020	£ 2021 H1	% Change 2019-2021 H1
Midtown	1 Bed	450	475	500	450	425	-6
	2 Bed	600	640	680	575	550	-4
	3 Bed	1,100	1,100	1,100	875	850	-3
City	1 Bed	450	450	490	390	380	-3
	2 Bed	560	560	600	525	500	-5
	3 Bed	925	950	975	850	800	-6
East London	1 Bed	320	340	350	325	325	0
	2 Bed	425	425	440	400	400	0
	3 Bed	575	575	575	540	540	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*

Rental values tend to adjust quickly to changes in market conditions. Landlords are generally keen to secure income and avoid long letting voids so when demand is weak, most will accept a lower rent rather than hold out for a higher figure. A low rent agreed on a standard AST can be renegotiated in 12 months' time if the market has strengthened. This makes the negotiation quite unlike the sales market where accepting a low price is irreversible once the transaction has been signed.

As rents fell, the prospect of renting an apartment in Central London came within reach of a much wider segment of the population. While many Londoners opted to relocate to leafy suburbs for the lockdown period, there was also an influx of renters from the suburbs who saw an opportunity to experience living in the heart of the capital during this unique period. The desire to avoid public transport has added to the appeal of central locations.

As agents, we experienced this as a change in the type of renter we encountered and their expectations. Renters expected to bring their own furniture which is highly unusual in our markets where furnished apartments are very much the norm. Others had acquired pets during lockdown and hoped to be able to accommodate their dogs, cats and even rabbits - and an uncharacteristically large number of potential tenants failed referencing due to restricted incomes during furlough. While these were unfamiliar challenges in our markets, these in-movers also shored up demand in central areas.

TABLE 5
ANNUAL RENTS FOR 1, 2 & 3 BEDROOM APARTMENTS
IN MIDTOWN, CITY & EAST LONDON 2021 H1

Submarket		Weekly Rent £	Sq ft	Rent p.a.	Rent psf
Midtown	1 Bed	£425	500	£22,100	£44
	2 Bed	£550	750	£28,600	£38
	3 Bed	£850	1,500	£44,200	£29
City	1 Bed	£380	500	£19,760	£40
	2 Bed	£500	750	£26,000	£35
	3 Bed	£800	1,500	£41,600	£28
East London	1 Bed	£325	500	£16,900	£34
	2 Bed	£400	750	£20,800	£28
	3 Bed	£540	1,500	£28,080	£19

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*

By the end of June availability levels across central London had returned to close to their long term trends resulting from an increase in new letting being agreed. This is likely to continue in Q3 which is traditionally the busiest quarter of the year with the added impetus of more office workers returning to London post 19th July ending of most lockdown restrictions.

The 'new normal' once the pandemic is over, is not yet clear but it seems inevitable that there will be a more permanent shift to work from home for at least part of the week and this has implications for our markets. Major employers, such as Deloittes, have announced a 'Work From Home First' policy and hybrid working is widely expected to endure with the five day commute for a minority while most people balance 2, 3 or 4 days in the office with a set up that allows them to spend part of the working week at home.

That said, there are many commentators speaking out about the benefits of human contact for businesses. Gillian Tett, an anthropologist who writes for the FT, talks of 'incidental information exchange' and 'sense making' which can only occur when people are physically present in the workplace together. These are often characterised as the 'water-cooler moments' when ideas are born from chance meetings and colleagues learn from each other's overheard conversations. Business relationships are built and strengthened in face to face meetings.

The implications for housing markets in our areas is that rents are poised to rise once the working and student population return to the city. The focus on improving the public realm and transport infrastructure will underwrite the appeal of the city as a place to live.

While lower rents have attracted a new type of resident during the pandemic, we expect a return of our traditional renter population and recovery to pre-pandemic rents by the end of 2022. Already, in the summer of 2021 and despite disappointing Covid statistics, the city is reawakening and our offices are receiving enquiries from renters who had moved away for most of the past 12 months. In Q2 the oversupply was eroded and stock levels returned to more normal levels.

We have been monitoring rental markets in our areas for over two decades. It is a period during which London has flourished as a global capital and yet rental growth has been moderate and sustainable. The quality of London's rental stock has improved and opportunities have opened up across the city but, in our areas, rents today are 17% above where they were at the turn of the millennium – not the unsustainable growth that press reports suggest.

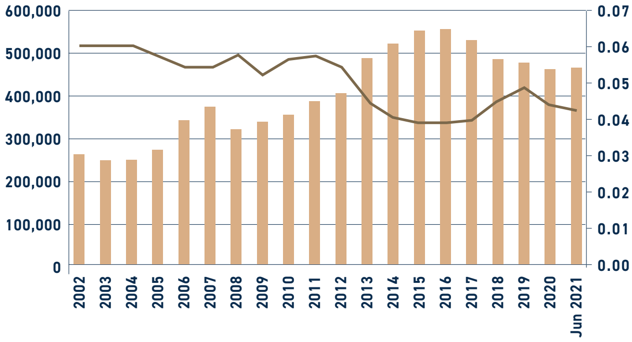
TABLE 6
LONG TERM RENTAL GROWTH

	2000 - 2021 H1	2007 - 2021 H1	2008 - 2021 H1	2014 - 2021 H1
1 Bed	17%	-1%	9%	-6%
2 Bed	17%	-5%	4%	-11%
3 Bed	N/A	N/A	N/A	-34%
Inflation				

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 gross initial yield available from an investment property in our areas averages at 4.25%, an attractive return against most alternatives and with the additional cachet of owning a piece of Central London.

FIGURE 7
CAPITAL VALUES AND YIELDS FOR ONE BEDROOM APARTMENTS
MIDTOWN, CITY & EAST LONDON

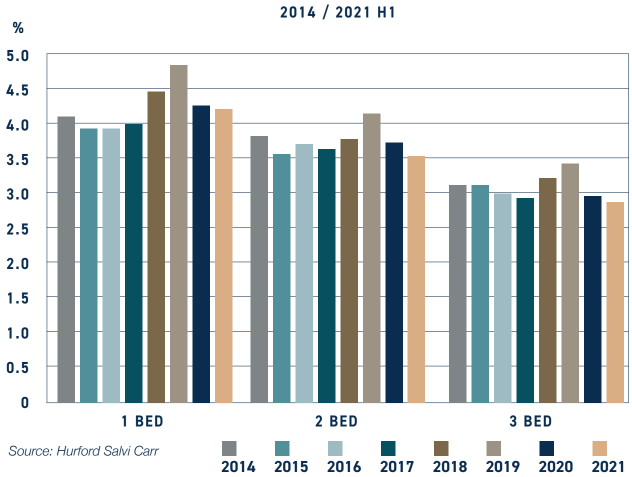


Source: Hurford Salvi Carr

The government which has been determined to suppress buy to let investment for several years and particularly amongst overseas investors, dealt an additional blow with the stamp duty surcharge for overseas buyers with effect from April. The prospect of capital gains tax has less impact except for owners who have owned for a long period experiencing significant capital growth. In our experience, most owners like to retain their piece of central London for the long term.

Yields have fallen in 2021 for all apartment types but one bed apartments continue to produce the highest yields for investors at 4.25%, compared with 3.5% on a two bed and 2.8% for a three bedroom apartment.

FIGURE 8
CHANGE IN YIELDS FOR CITY, MIDTOWN & EAST LONDON
2014 / 2021 H1



Source: Hurford Salvi Carr

TABLE 7
GROSS INVESTMENT RETURNS FOR ONE BEDROOM APARTMENTS
AVERAGE OF MIDTOWN, CITY AND EAST LONDON 2013 TO 2021 H1

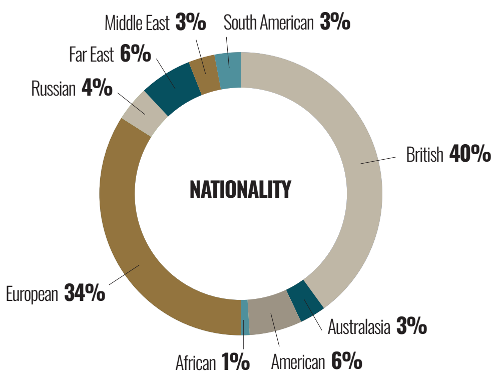
	2013	2014	2015	2016	2017	2018	2019	2020	2021 H1
Gross Annual Income £	21,840	21,060	21,580	21,840	21,060	21,840	23,140	20,280	19,760
Capital Value £	486,000	520,000	550,000	555,000	530,000	485,000	475,000	460,000	465,000
Gross Initial Yield %	4.5	4.1	3.9	3.9	3.97	4.50	4.87	4.41	4.25

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

Nationality

British and EU citizens always make up the bulk of renters in our markets. In this period the balance tipped towards Brits who made up 40% (compared to a long term average of 32%) while Europe maintained its share at just over one third. The increased share of British renters is unsurprising during the pandemic when travel was restricted.

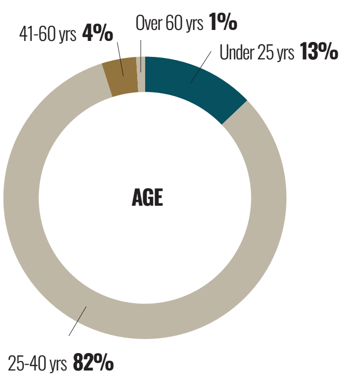
While there is a broad spread of other nationalities, no other group had a significant share . Normally, Far East is a larger group but that tends to be boosted in half 2 by overseas students.



Age

The vast majority of tenants who took new leases in the first half of 2021 were aged between 25 and 40 years old. It is a wide age band and in the first half of the year, does not generally include students who normally come to the market in Q3 and reduce the average age over the whole year. This is out of line with the 5 year average of 66% but is explained by the seasonality of the student market.

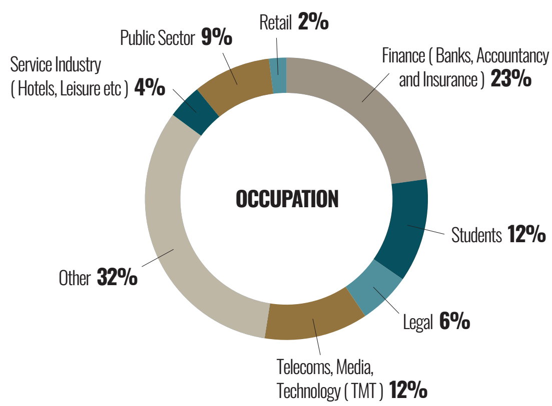
The age structure has been particularly skewed in this period. Older renters, over 40, are often well paid office workers on short term contracts – a category of renter which was all but lost to our markets during Covid. We expect them to return.



Occupation

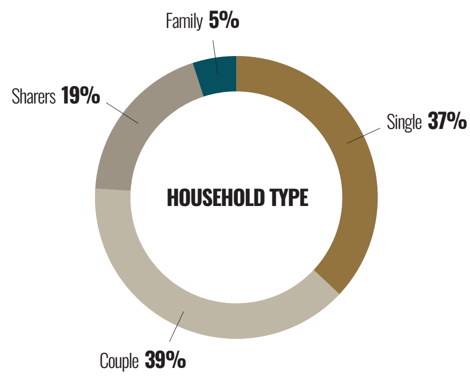
Around a quarter of all the people who rent through our offices are employed in the Banking/Financial sector. That share has been consistent since we began collecting this data. The only significant variation is students and that is seasonal. Over the course of a whole year, they too make up around a quarter of all rentals.

TMT made up a larger proportion than in the past, increasing from an average of 9% to 12% this year. Tech companies are large employer in our markets now and they bring with them a highly mobile and well-paid workforce which will support the rental market as the city re-opens. As a sector, tech was early to adopt agile working but it seems that they still value the benefits associated with physical office spaces.



Household Type

The proportion of new lettings to sharers is below the long term average but that is influenced by the student market which peaks in Q3. Over the whole year, we expect to see a fairly even split between singles, couples and sharers. Families who rent remain a rarity in our markets.



WORKING FROM HOME

During the first lockdown which began back in March 2020, the Prime Minister asked people to work from home where possible. Businesses hastily familiarised themselves with remote communications tools like Zoom and Teams and dealt with the risks of accessing sensitive business information via home broadband lines. They have also grappled with the challenges of maintaining the company culture and nurturing team spirit without face to face contact. That has proved reasonably successful with pre-existing teams but particularly difficult when new recruits join the business.

For many people, working from home has been an opportunity to spend more time with family, enjoy their garden, walk or cycle and avoid the fatigue associated with commuting on crowded trains or roads. For others, it has meant overcrowded noisy and inappropriate working environments, loneliness and the fatigue associated with continuous screen time and never leaving your place of work – even 'burn-out'. The lack of compartmentalisation between work and home can increase the sense of "Groundhog Day", particularly exacerbated by a lack of travel opportunities.

Now businesses are faced with decisions about when, how and whether to return staff to the office. A slow and gradual return to offices in the spring of 2021 was held up by the arrival of the Delta variant and the delayed re-opening of June 21st .

The highly paid ambitious workers who rent and buy in our markets, expect some autonomy over the way they deliver their work. Several large investment banks have announced that they want their staff back in the office while other large prestigious employers have declared that their people can choose. Tech companies have always projected a more relaxed image although, in reality, they also rely on the camaraderie, accountability and serendipity of the large corporate environment – even if the bean bag can be accessed via a slide.

Prestigious working environments have long been part of a company's unique offering to recruit and retain the best possible staff and this investment will be under review for many. Although the social benefits of working will always be a positive factor, there is no doubt that a reduced demand for permanent desk space will impact the office market in a substantial way, which will have repercussions for many years to come.

An editorial from the FT written in June 2021 expressed the view that: 'The longer working remotely continues, the harder it is to transmit office culture.' It went on to point out that: 'In recent history, calamities such as war or a pandemic have catalysed change in labour practices. It would be rash to pretend the past 15 months did not exist. Most employers will choose a middle ground, cherry-picking the positive parts of remote working while underscoring the importance of frequent office attendance.' Tamzen Isaacson, Chief Executive of UK Management Consultancies Association, said flexible working was here to stay "but it needs to be coupled with meeting client needs or client requirements".

Shares in Zoom spiralled upwards 750% during the pandemic but have fallen by a third from their peak and the company has now switched its focus to installing 'Zoom Rooms' in offices.

The experience has given a boost to the housing market with demand from renters and buyers searching for homes with studies, gardens or simply additional space. Larger homes in City centres appeal to those who want the hybrid workstyle without the travel.

Future Prospects

LONDON TO SHINE

The pandemic interrupted London's economy and its vitality but this city has a long history of reinvention and renewal . There is much cause for optimism.

If the GLA's forecasts are accurate, London will emerge from the pandemic with strong economic growth, cleaner air, more cycle paths, walking routes, street improvements and car free areas. Crossrail will open in December 2021, there will continue to be a livelier pavement café culture, a revived arts and entertainment scene and some spectacular temporary installations to draw people back to the city like Marble Arch Hill.

In the second half of 2021 there will be some return of international travel including the business and students sectors as the vaccine rollout gathers pace globally. We already see overseas students returning and expect this to continue in Q3 2021. We expect transaction numbers and pricing to remain strong in the sales and rental markets in the second half of 2021, as the capital's economy bounces back.

We are confident that rents will return to pre-pandemic levels by the end of 2022 and that the current level of sale prices will attract a new generation of owner occupiers and investors.

CITY E1 - 2 BEDROOM APARTMENT, LET MAY 2021, £525 PER WEEK

Unfortunately, fire safety works will continue to cast a shadow over our markets and restrict the ability to transact for many years to come. This will benefit period conversions, which have lower yearly outgoings. Properties with good outside space will continue to be popular and can be expected to increase in value in the next 12 months.

The new high speed Elizabeth Line (Crossrail) will link Canary Wharf directly to Heathrow airport via new interchanges at Liverpool Street, Farringdon, Tottenham Court Road, Bond Street and Paddington. It will increase capacity and dramatically reduce journey times, so it has already moved house prices around stations along the line.

Flexible working was already gaining in popularity before the pandemic, enabled by technology and promoted by London's vibrant Tech sector. Now it seems inevitable that office-based work will be a hybrid of office and other locations. While that means some people can move far from the city, it also means many will thrive in a city with more places to work and socialise.

Tech companies have flourished in the pandemic, particularly those that helped to maintain communication between businesses, families and friends. Our markets continue to attract big names. In June, Snapchat announced that it would increase its office space in London at a single office of 114,000 sq ft next to Farringdon Station in Clerkenwell and TikTok has committed to 60,000 sq ft above the new Crossrail Station at Smithfield. Big name tech companies are now spread from Kings Cross, via Clerkenwell to Shoreditch. Old Street roundabout is receiving a much needed facelift that promises to give 'Silicon Roundabout' a clearer visual identity.

BARBICAN EC2 - 3 BEDROOM APARTMENT, 34TH FLOOR, SOLD MAY 2021, £1,640,000

London's finance sector has the been the engine that has driven much of its success over the past 30 years and it is now poised to become a major centre for 'green finance' and sustainability as well as a wide range of other tech products and services.

The appeal of a London education will outshine the possibility of remote learning. London Universities have reported high rates of enrolment this autumn, picking up the backlog from students who deferred last September.

There is every chance that the economy will have a strong bounce back in 2022 but that is still largely dependent on the control and outcome of coronavirus cases over the winter months, the effect on businesses and London employment trends at the end of the furlough scheme in September. London remains the UK's economic power house and continues to attract the brightest domestic and international talent to the capital.

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

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

ISLINGTON & SHOREDITCH
227 City Road
London N1 7NA
Sales & Lettings
020 7549 6969
cityroad@h-s-c.co.uk

ALDGATE
61 Alie Street
London E1 8EB
Sales & Lettings
020 7680 1888
aldgate@h-s-c.co.uk

DOCKLANDS
9 Branch Road
London E14 9HS
Sales
020 7791 7000
sales.docklands@h-s-c.co.uk
Lettings
020 7791 7011
lettings.docklands@h-s-c.co.uk
Property Management
020 7791 7033
management@h-s-c.co.uk
Renewals
020 7791 7022
management@h-s-c.co.uk

BLOCK MANAGEMENT
Castle Gate,
Castle Street
Hertford SG14 1HD
Block Management
01992 507185
enquiries@hscpm.co.uk

hurford-salvi-carr.co.uk

hurford-salvi-carr.co.uk