research

from Hurford Salvi Carr

MIDTOWN, CITY AND EAST LONDON

RESIDENTIAL 2021

“

The revival of the rental market in summer 2021 was extraordinary.

”

Market Overview

RENTS RISE 20%

As is so often the case, our report tells the story of contrasting markets for sales and rentals. The rental market lurched towards the year-end in a frenzy, while the sales market remained stable and calm.

Renters returned to the City en masse over the summer of 2021, switching the market from oversupply to undersupply in a few short months. By the autumn, rents had risen above their pre-pandemic highs and prospective renters, many of whom imagined they still held all the cards, found themselves starved of choice and competing to secure the dwindling stock of homes on the market.

The supply of rental homes in City, Midtown and East London lies at an all-time low, against strong demand from the professional and student sectors. It was a very welcome reversal of fortune for landlords who had endured a tough period of lost demand so soon after being hit by tax rises, Local Authority licencing fees and the tenant fee ban.

We have often made the point that rental markets tend to react swiftly to any change in the supply/demand balance because turnover is high and landlords will generally accept a lower rent in the knowledge that they can correct it within 12 months if the market is stronger by then. That is in stark contrast to the sales market where a low sale price cannot be later corrected and owners can wait until prices increase before selling.

When our markets were awash with properties to rent in 2020 and the first half of 2021, it created an opportunity for people to move in to Central London, taking advantage of rents at historic lows. Many of those leases were renewed in the early months of 2021 when landlords were still grateful to maintain income. This is contributing to the current shortage of rental stock and helping to drive up open market rents. The situation has been exacerbated by the return of corporate and holiday lets. Businesses modelled on short term rental premiums will gradually take stock out of the mainstream market as it becomes available. We expect rents to continue to rise through 2022.

Demand for sales remained low throughout the year in the core market for one and two bed apartments. The exception has been for larger homes, especially those with outside space, which are in demand and where prices have risen. Our offices sold a record number of homes at over £1.5 million in 2021.

But the bulk of housing stock in our markets is one and two bedroom apartments where the low demand has been counter-balanced by low supply, meaning prices have remained stable. The fire safety problem continues to dog this part of the market as UK banks refuse to lend on blocks without fire safety certificates – even where they are not required. If remedial works are needed, the uncertainty around cost and liability makes these properties unsaleable until the work has been completed. Blocks that do not require an EWS1 certificate have good levels of demand.

In general though, sale prices are stuck at 2014 levels and the market is approaching an unprecedented decade of zero growth. The main culprit remains the new stamp duty levies introduced in 2014 although Brexit and the exodus during the pandemic have played their part too.

OLD STREET EC1 - 3 BEDROOM PENTHOUSE, SOLD SEPTEMBER 2021, £2,400,000

In our view, the demand for one and two bedroom apartments will recover in 2022 as people return to offices, even for part of the week. Many of those who relocated during the pandemic have given themselves long commutes and the prospect of acquiring a pied-a-terre in central London at 2014 prices must look appealing, especially when prices on the south coast have risen so steeply.

The combination of flat prices and rising rents makes investment yields more attractive too, although taxes on buy to let investors remain a major deterrent. We expect UK buyers to find themselves competing with overseas buyers who sense an opportunity to secure a piece of central London - and if rents continue to rise, investors may return. Exhibitions to promote new homes in London have restarted in Hong Kong, as buyers from China and the Far East look for channels for their capital. The additional 2% surcharge for overseas buyers which came into effect in April, on top of the existing 3% additional homes charge, has hardly registered in the consciousness against the backdrop of Covid.

Some commentators have reported a wave of buy-to-let investors selling up and reinvesting their capital elsewhere because of the successive changes to taxation and costs. We are not seeing many new investor buyers but neither are we seeing a wave of sellers.

There is a natural lifecycle to owning a second home in London especially when it was a pension investment and there is no doubt that the pandemic accelerated decisions for some owners to realise capital and retreat from the City, often with early retirement prompting people to combine value from two or more properties. That is a trend we recognise - not motivated by the question of return on investment, but rather lifestyle or 'stage of life' decisions.

Economic Overview

INFLATION HITS 5.1%

Overall, the London economy has survived remarkably well given where it was a year ago. As demonstrated at the end of 2021 with the Omicron variant, Covid remains a serious threat to stability, as do Labour shortages and supply chain challenges. The consequences of Brexit have to some extent been masked by the overwhelming impact of the pandemic but remain to be addressed.

In November inflation hit 5.1%, the highest it has been since September 2011. A wide range of price rises contributed to the steep rise including fuel, fashion, food and second hand cars. While there had been much talk of higher than anticipated inflation this takes the rate significant higher from the mid-year forecasts of an inflation rate in 2021 of 2.3%. The Bank of England was expecting inflation to peak at 5% by April 2022 but clearly given its current level it could rise further before subsiding.

The Bank of England has a difficult path to tread in trying to distinguish inflationary forces that are transitionary from those that represent a more persistent inflationary pressure. The Monetary Policy Committee has acknowledged that some modest tightening of monetary policy over the forecast period will be necessary to meet its 2% inflation target sustainably over the medium term and the case for an interest rate rise had certainly been building. The Bank of England decided to raise rates from 0.1% to 0.25% in December, surprising many given the resurgence of Covid with the Omicron variant, and its likely impact on consumer spending in that important pre-Christmas period, particularly in the hospitality sector. The current consensus forecast is that by the end of 2022, interest rates will be 0.5%.

The UK economy grew by a further 1.1% in the third quarter meaning that GDP is only 1.5% shy of returning to pre-pandemic levels. At the end of Q3 GDP growth was at 5.2% for 2021 and if the economy achieves a similarly moderate quarterly growth rate in Q4, this will take the annual growth rate close to 7% at year end. As such, the UK's economic growth rate hasn't varied (upside or downside) from the consensus forecasts made mid-year.

Looking across the consensus economic forecasts compiled by HM Treasury the main changes from mid-year are around the higher than anticipated inflation rate (H1 2021 forecasts was 2.3% for the year end) and lower than anticipated unemployment rate (H1 forecast was 6% for the year end).

Consensus Forecasts	Year End 2021	Year End 2022
GDP	6.9%	5.0%
Private Consumption	4.2%	6.4%
CPI	4.0%	2.5%
Unemployment Rate (Q4)	4.9%	4.5%
Interest Rates (End Q4 Rate)	0.25%	0.5%

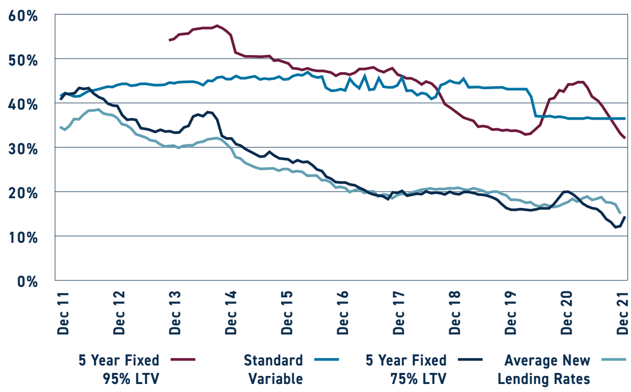
Source: HM Treasury, Forecasts: Dec November 2021 (H2 2021)

Unemployment for the UK fell to 4.2% in the 3 months to the end of October 2021. The furlough scheme ended in September 2021 with around 1 million employees still furloughed. It will be a little while before the impact can be seen in official employment data, especially with some employees working out notice periods however early indications are that the unemployment rate is likely to nudge up only slightly. With a record number of job vacancies there should be scope to absorb many furloughed workers that are made redundant, back into the workforce.

The effect may be more notable for London where the unemployment rate was already higher (5.8% in the 3 months to end August 2021), and while the numbers on furlough across the rest of the country fell rapidly, London saw its regional share of furloughed workers rise from 15% at the start of the year to 20%. Just ahead of the scheme close there were around 263,000 London residents on furlough. Whilst this suggests there are a high number of workers whose employment future is unclear, employment surveys for London (such as the PMI Employment Index) remain positive. The PMI Index is at its highest rate on record (since 1997) and the balance of private sector firms are looking to increase employment.

Even ahead of the December interest rate rise, mortgage providers had started to price in a rate rise, which will become more apparent in reported mortgage data over the next few months. Likewise, the 10-year government bond yield has started to rise, tipping above 1% for the first time since April 2019.

FIGURE 1
MORTGAGE RATES

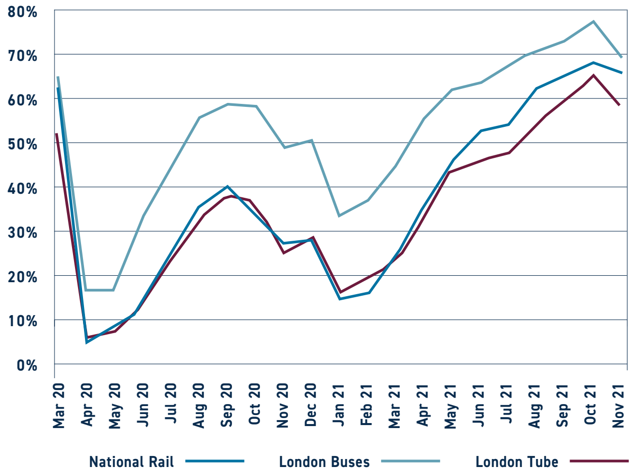


Source: Dataloft, Bank of England

September 2021 and beyond was always likely to be a useful litmus test for the number of employees physically returning to the office. And indeed, public transport data shows that TfL tube usage by the end of October was back to 63% of its pre-pandemic level, TfL buses to 76% and National Rail to 67% (although these rates dipped again slightly in November). Transport usage might well plateau at these rates long term; given that hybrid working (with workers continuing to work a few days a week from home) could be the new norm for a large share of the London workforce.

In December the Prime Minister increased restrictions in response to the Omicron variant including a call to return to work from home where possible. London quickly emptied out in the 10 days prior to the Christmas holidays as infections increased. It is impossible to know for how long these renewed restrictions will run, but transport numbers will reverse in the meantime.

FIGURE 2
LONDON TRANSPORT USAGE
COMPARED TO EQUIVALENT PERIOD OF TYPICAL USAGE



Source: Dataloft, Gov.UK

The Pret Index gives additional insight into how busy London has become. Their index, in a similar fashion to the transport statistics, tracks how busy their branch sales levels are versus a pre-pandemic benchmark. This suggests that activity in the West End is back above pre-pandemic levels, presumably boosted by early Christmas shoppers, and almost back to pre-pandemic levels at London stations. The City remains quieter, whilst London suburbs continue to benefit from the work from home phenomenon. Like the transport numbers the Pret index is likely to suffer some reversal in activity levels during December.

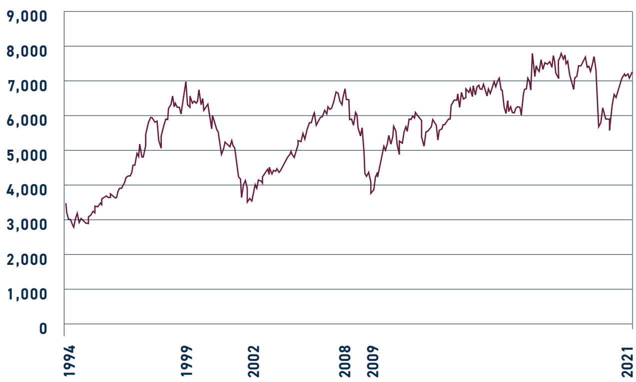
Pret Index	Store Activity Pre-Pandemic Benchmark = 1
London Suburbs	1.35
London West End	1.13
London Stations	0.97
London City	0.87
London Airports	0.78

Source: Pret Index via Bloomberg Nov 2021

As we emerged from pandemic lockdowns it was always likely that retail and consumer confidence would have an uneven recovery. While in Q2 consumer confidence was running high, it began to dip slightly in Q3 as a number factors started to squeeze household budgets, fuel and food shortages in particular resulting in higher prices.

Faltering confidence was apparent in the latest retail sales data; with 5 consecutive months of declines or no growth to end September. October data was better, improving 0.9% on the month and many retailers are optimistic that Christmas spending this year will be larger than typical after last year's cancelled Christmas.

FIGURE 3
FTSE 100
ADJUSTED CLOSE PRICES, MONTHLY TO DEC 2021



Source: London Stock Exchange Indices, FTSE 100

Sales Market

SUPPLY SHORTAGES

The price of a one bed apartment is broadly the same at the end of 2021 as it was in 2013 and that is true in City, Midtown and East London. While investors might not find that a very appetising statistic at first glance, gross yields during that period have run at between 4% and 5%, well above any return available from capital held in a savings account. For anyone minded to buy, price is less of a barrier than it has been for many years.

The biggest hurdle for prospective buyers in the current market, is the lack of stock. There are very few options available and the continuing problems with cladding and more general fire safety works, is a major contributory factor. As long as mortgage lenders and surveyors insist that the bulk of purpose built apartments require an EWS1, whether they are genuinely at risk or not, then the flow of new properties for sale will be stemmed.

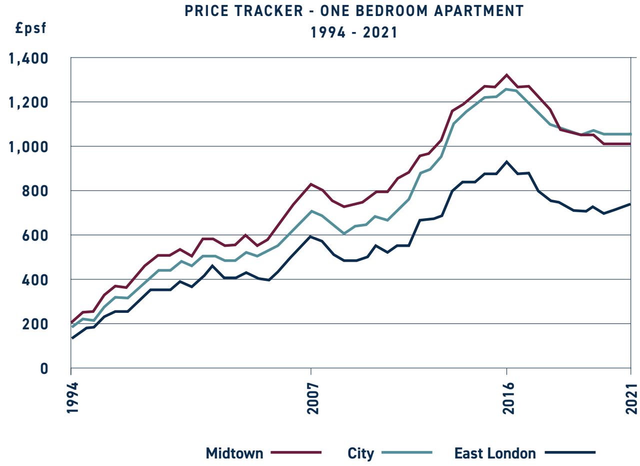
ST JOHN STREET EC1 - 2 BEDROOM FLAT, SOLD OCTOBER 2021, £1,300,000

In this market, even when the overseas buyers had retreated and domestic investors all but disappeared altogether, prices did not drop because buyers had so little choice and the small volume of stock on the market still attracted competition. At the same time house prices in the suburbs and across the UK boomed in 2021, with some regions experiencing price increases of as much as 20%. Central London now offers an affordable option when compared to many popular locations in the home counties and along the south coast.

In East London there was a modest uptick in the average price of a one bedroom apartment in 2021. In general however, interest focussed on larger properties as people sought more space to work from home. That has narrowed the price differential slightly between East London and our more central markets of City and Midtown.

The successive price falls triggered by the last round of stamp duty rises in 2016 have been steadied and vendors are able to stand by their asking prices - although many still baulk at the prospect of selling at a price they could have secured in 2013.

FIGURE 4
PRICE TRACKER - ONE BEDROOM APARTMENT
1994 - 2021



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

The analysis in Table 2, which looks separately by size of property in each of our three markets, highlights some key differences. While there has been very little price movement overall, larger properties have experienced significant price growth of between 6% and 8% over the past 12 months. Buyers have been competing to secure an extra bedroom or living space. In the past, three bedroom properties have been the least in demand but that position shifted during the pandemic. The same drive for space accounts for the small uplift in prices for all properties in East London, where buyers will get more space for their money. Pre-pandemic, a typical buyer would sacrifice space in order to live in the heart of the City, those rules changed when the City, its workplaces and leisure attractions all emptied out.

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	1.1%	465,000	5,000

Source: Hurford Salvi Carr

Our offices completed a record number of sales of homes at above £1.5 million in 2021. This is also the first time since the new SDLT banding was introduced in 2014 (which hit homes over £937,000), that we have recorded price increases for higher value homes. Terraces, gardens and home offices were all highly sought-after and were key to driving up values.

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

		2019 £	2020 £	2021 £	£ per sq ft	Change % 2020-2021 YE
Midtown	1 Bed	550,000	525,000	525,000	1,050	0%
	2 Bed	850,000	850,000	850,000	1,133	0%
	3 Bed	1,650,000	1,700,000	1,800,000	1,200	6%
City	1 Bed	560,000	530,000	530,000	1,060	0%
	2 Bed	765,000	765,000	765,000	1,020	0%
	3 Bed	1,400,000	1,450,000	1,550,000	1,033	7%
East London	1 Bed	390,000	375,000	385,000	770	3%
	2 Bed	525,000	525,000	535,000	713	2%
	3 Bed	900,000	900,000	975,000	650	8%

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*

It's also worth noting that stamp duty has not deterred second home buyers outside of London either. We understand that the number of second homes purchased outside the capital rose by 80% in 2021 and a quarter of Stamp Duty receipts were generated from homes that attracted the 3% second home levy.

ALDGATE E1 - 3 BEDROOM FLAT, SOLD JULY 2021, £875,000

The old adage that property investment is all about timing, is starkly evident in the Table 3 showing long run capital growth. A home purchased in Midtown in 2007, has risen in value by 23% but the same home purchased a year later, after the Global Financial crisis, would be worth 35% more today. In the same way, a comparison between the period 2015-2021 and 2013-2021, reflects the rise and fall of values over that time. City and East London prices are now higher than the 2013 base because there has been some narrowing of the price differential as these areas have gained popularity as places to live.

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

Submarket	1994-2021	2000-2021	2007-2021	2008-2021	2015-2021	2013-2021
Midtown	437%	104%	23%	35%	-20%	-1%
City	506%	144%	50%	66%	-14%	11%
East London	465%	116%	25%	44%	-19%	8%

Source: Hurford Salvi Carr

We have been operating in these markets for over a quarter of a century and we have watched them evolve and mature as lively, mixed-use urban neighbourhoods where people work, live and socialise. When the Mayor of Paris talks about creating a '15 minute City', where people can meet all their needs within 15 minutes, we see that our markets developed that way organically. The differences in the long run growth rates reflect the pace and maturity of that evolution, which occurred more recently in City and East London.

ROSEBERY AVENUE EC1 - 3 BEDROOM HOUSE, SOLD JULY 2021, £1,595,000

In November 2021, the UK hosted COP 26 in Glasgow, bringing together world leaders to discuss how to tackle the impact of climate change. It raised awareness of energy consumption and sustainability and the role of our homes in generating carbon. By the end of 2021, our sales teams were reporting that younger buyers had started to request sight of EPCs. We see this becoming an established trend in the housing market as the quest for zero carbon goes mainstream.

HOUSING POLICY AND RELATED INITIATIVES

The UK's housing market is widely considered to be cumbersome and inefficient and policymakers, advisers and lobbyists are for ever suggesting revisions and tweaks to streamline elements of the process. We have rounded up some of the issues currently being debated.

Transacting leaseholds

The process of selling leasehold properties has become unreasonably protracted. Solicitors, or more often conveyancers, are taking longer and longer to raise and respond to pre-contract enquiries. Long after mortgage offers have been secured and searches returned, conveyancers continue to raise new enquiries, causing avoidable delays.

The Law Society, working with the Home Buying and Selling Group, have suggested that agents should take on the responsibility for collecting key information before marketing a home. While we support the objectives of this initiative, we strongly believe that the solicitors' role should not be further diminished in the collection, verification, and provision of key property information in the home buying process.

Commonhold

Members of ALEP, the Association of Leasehold Enfranchisement Practitioners, have shown no appetite for commonhold and, as a body, they remain sceptical that reform will be delivered within the next two years.

The reforms proposed to leasehold arrangements would mean converting annual ground rent charges. If an owner or purchaser requires a lease extension with a change to the ground rent to peppercorn, then the well-established route is by making an application under leasehold enfranchisement for a lease extension.

However, many lenders mistakenly believe it is possible to change ground rent structures in existing leases simply by private negotiation with the freeholder, using a Deed of Variation.

In our experience, many solicitors are not even willing to report to the mortgage lenders and/or their clients on properties with a standard ground rent structure of £300 - £500 pa, fixed for 20 years or more. Given their reluctance, it makes no sense for these solicitors to offer conveyancing services since the chance of finding a lease with zero ground rent in an apartment block, is like finding a needle in a haystack.

There will be a major hurdle for any new legislation that can force a freeholder to sell what they legitimately own because it goes to the heart of a free society.

NARROW STREET E14 - 1 BEDROOM FLAT, SOLD NOVEMBER 2021, £460,000

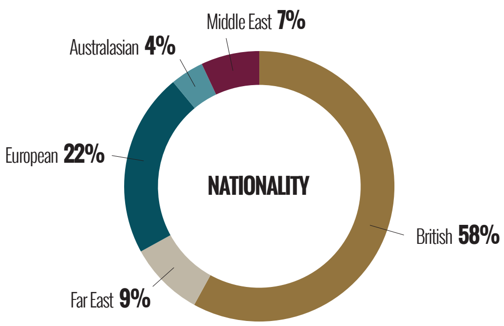
BARNSBURY N1 - 2 BEDROOM HOUSE, SOLD NOVEMBER 2021, £1,150,000

BUYER PROFILES H2 2021

Nationality

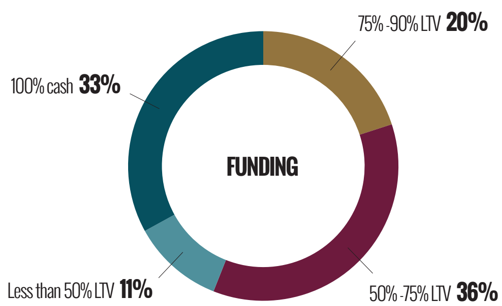
British buyers accounted for 58% of sales in our markets in 2021, which is a significantly lower proportion than in previous years. On average, in the period 2015-2021, they have made up almost 70% of all sales. Buyers from EU nations were more active than in recent years, they were responsible for 22% of transactions compared to an average of 15% between 2015 and 2021. French buyers figured strongly and there was a larger than usual presence of Middle Eastern buyers than in any year since we began recording buyer nationality in 2015.

This market is operating against a backdrop of the pandemic and the final departure of the UK from Europe. It was never going to be typical but the continuing activity of EU buyers is an indication that London has not lost its appeal and the imposition of the additional stamp duty on overseas investors in April of this year, does not seem to have had any discernible impact. Prices in our markets are broadly at the levels they were in 2014 making the additional stamp duty less of a deterrent.



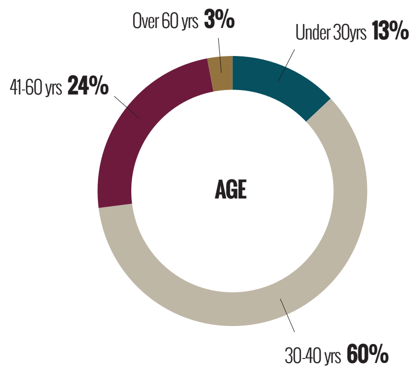
Funding

Cash buyers are always a significant force in our markets and that was true of 2021 as it has been over the longer term. Cash buyers accounted for around one third of all purchases in the last year, in line with the long term average. Only a fifth of buyers needed a loan to cover more than 25% of the purchase price. Increasingly we are selling apartments to cash buyers where no fire safety works are required.



Age

The dominant age band for buyers in our markets was 30-40 years old in 2021. They made up 60% of buyers, compared to an average of 36% in the period 2015-2021. All other age bands declined in 2021. The thirty-somethings evidently spotted an opportunity to buy while competition was lower and other demands on their income were vastly reduced.

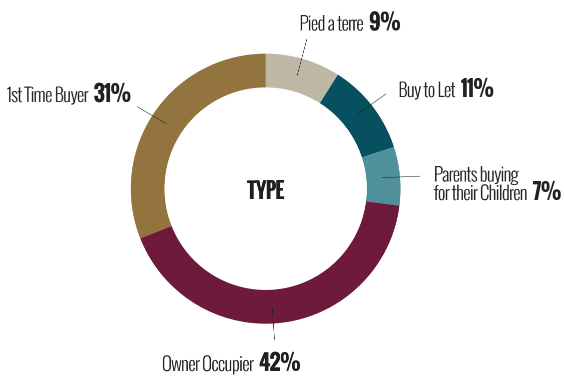


Buyer Type

First time buyers and buyers of pied-a-terre properties both featured more prominently in 2021 than they have in previous years. On average between 2015 and 2021, first time buyers accounted for 20% of all transactions in our markets but over the last year their share of transactions rose to 31%. Saving volumes have risen substantially over the past two years with reduced spending on holidays or social/cultural activities and that has helped young people to accumulate capital for deposits.

The pied-a-terre buyer had all but disappeared from the market in 2020 at the height of the pandemic restrictions but, as we anticipated, interest in this market returned in 2021 as people who had relocated to more rural or coastal places experienced the inconvenience of a long commute, even if only for a few days a week.

The other significant shift has been in buy to let investors whose presence fell from an average of 18% in 2015-21 to just 11% in 2021. We have written elsewhere about the retreat of investors from our markets.



New Homes

OVERSEAS BUYERS RETURN

New Homes sales returned in Q3 as overseas investors came back into the central London market. Domestic buyers showed little to no interest in paying premium prices for premium apartments but the international investor has stepped in once again to secure a stake in London's prime housing market. Sales rates remain slow however and we expect a revival of overseas exhibitions in the Middle and Far East in 2022, to promote London's unsold new homes – always assuming that Covid is kept at bay and travel restrictions are not reintroduced.

The developer's tax announced in the October budget is intended to raise £2 billion towards the cost of the cladding crisis. Large housebuilders with profits of more than £25 million will be taxed at 4% on profits above that level over the next 10 years. The tax is designed to claw back taxpayers' money committed to the cladding crisis. However, housebuilders have warned that it will hit investment in new developments and jobs. The government is also introducing a levy on new high-rise developments that will be applied on submission of a planning application.

The number of land transactions in London remained low despite a growing demand for small and medium size sites. Site owners are not under pressure to sell and are frustrated that prices in London remain at 2014 levels. As with the general sales market, owners would rather wait for prices to rise than sell at this point in the cycle.

BATTERSEA SW11 - 2,768 SQ FT FREEHOLD HOUSES, SOLD 2021, £2,925,000

It is perhaps surprising that office development continues to attract interest given the trend towards remote-working but employment space is often strictly protected by planning policy and developers are discouraged by the cost of applying for change. For instance, Permitted Development Rights which, in theory, give an automatic consent to change from commercial to residential use, have very limited impact in central London because so many boroughs have successfully applied for an Article 4 direction which overrules the permitted development rights. The London Boroughs of Camden, Islington, Southwark, Tower Hamlets and The Corporation of London have all implemented an Article 4 direction.

BLOOMSBURY WC1 - DEVELOPMENT SITE, SOLD AUGUST 2021

Across the UK the Private Rental Sector (PRS) / Build To Rent (BTR) sector grows from strength to strength with institutional investors now including Lloyds Bank who launched a new brand – Citra Living – with the aim to become the UK's largest private landlord and John Lewis who announced their intention earlier in the year to deliver rental homes Legal and General are already building their portfolio on rental homes across the UK. There remain very few examples of institutional investment in zone 1 and not many in zone 2 with a major exception at Wood Wharf E14 where The Canary Wharf Group is looking to add 1,342 waterside homes and a further 624 apartments at Park Place to add their growing rental portfolio. Telford Homes is building units for rental in Nine Elms, opposite the US Embassy.

FIRE SAFETY UPDATE

At the Grenfell fire public enquiry in December the government said it was 'deeply sorry' for past failures, as lawyers for the Grenfell families revealed 'evidence of a state cover-up dating back to the 1990s'. It was claimed that 20 years of deregulation to boost a housebuilding agenda had led to flawed building control systems in the housing sector.

Over one thousand residential buildings in London have been identified as fire safety risks according to the London Fire Brigade with the true number likely to be significantly higher given the under reporting of minor remedial works identified at residential blocks across the capital.

No new public money has been forthcoming and the government's £5 billion contribution has been reduced to £3 billion by the introduction of a Developers' Tax over the next 10 years. By November there was a total of 708 successful cladding removal applications to the Building Safety Fund out of 2,821 registrations (source: DLUHC).

However, Michael Gove, Secretary of State for Levelling Up Housing and Communities, has confirmed that the government will pause plans to make leaseholders pay to make cladding safe and has hinted that they should not pay at all. He also acknowledges that leaseholders will require support for dealing with other fire safety issues which can often be more expensive than replacing unsafe cladding. This is a welcome shift in the government's position, but further details are awaited.

How the cost of remedial works will be covered is the subject of endless debate ranging from the practical issue of finding the capital to pay, to the ethical questions of who should bear the responsibility. In the end, it is hard to see how it can rest anywhere but with central government. Unfortunately, it has coincided with the enormous cost of supporting businesses and jobs through the Covid pandemic – which is not yet over.

There has been rumour that a Grenfell tax could be imposed on construction material businesses. Other suggestions include one from managing agents: that there is a surcharge on annual buildings insurance premiums which would be allocated to a fund dedicated to fixing cladding problems.

This would be analogous to the funds available for flooding and recognises that it is not possible to apportion blame since the buildings complied with standards at the time they were built.

In our view, estimates that remedial works will be completed within 3 and a half years are greatly misjudged.

In July the government decreed that EWS1 forms were no longer required for smaller buildings of under 18m as there is no systemic risk to blocks of flats of that height or lower.

Sadly the Royal Institute of Chartered Surveyors and UK banks continue to ignore this government advice and refuse to accept that any flat is compliant without it first having had an intrusive survey and a compliant EWS1 certificate issued. As a result, an estimated 3 million people are trapped with flats that they cannot sell. The government say that excess caution is leaving many leaseholders in lower risk buildings unable to sell, or facing bills for work which is often unnecessary.

The Labour Party came up with the idea of a Building Works Agency which would access, fix, fund and then certify all tall buildings and which would pursue those responsible for costs and give leaseholders protection in law from the cost of remedial works. Unfortunately, it received little coverage in the press.

With hundreds of thousands of people waiting for government payments to cover or fire safety repairs in their blocks, it is surprising that the opposition parties have not made more of the failure of government to support leaseholders. In many cases, the long list of fire safety repairs should have been identified by local authority building control departments during construction, or alternatively by the block building insurance which is designed to protect leaseholders, but has fallen short of being fit for purpose.

Lettings Market

RECORD RECOVERY COMPLETED

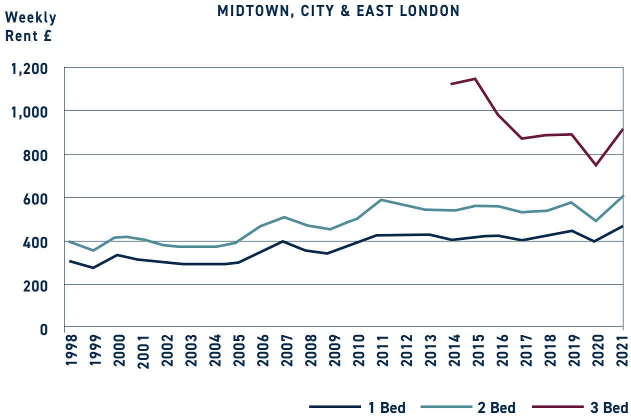
The revival of the rental market in summer 2021 was extraordinary. After almost 18 months in which supply proliferated and demand waned, the tables were turned, and it happened very fast. In fact, such was the pace and scale of demand in July and August that rents were quickly restored to their pre-pandemic levels and the stock of properties available to let was cleared. By late summer rents had risen above their 2019 levels.

This remarkable turnaround was driven by the mass return of the City's office workers and overseas students. International students flocked back in September with what felt like two years of university intake in a single month. As a consequence the number of new tenancies from mid-July through to October reached record levels pushing rents to 25% above their mid-year levels.

CLERKENWELL EC1 - 2 BEDROOM FLAT, LET SEPTEMBER 2021, £1,384 PER WEEK

Pressure on supply was exacerbated by the fact that a new demographic had moved into our markets during their absence. People who would normally rent homes in zones 2 and 3 had found they were able to afford to rent in central markets and had seized the opportunity to relocate while values were depressed in the second half of 2020.

FIGURE 5
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*

Those leases have some months to run and the new residents are in no hurry to leave, so it will take some time for passing rents to catch up with market values and for the balance of supply and demand to be restored.

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

Submarket		£ 2017	£ 2018	£ 2019	£ 2020	£ 2021	% Change 2020-2021	% Change 2019-2021
Midtown	1 Bed	450	475	500	450	550	22	10
	2 Bed	600	640	680	575	700	22	3
	3 Bed	1,100	1,100	1,100	875	1100	26	0
City	1 Bed	450	450	490	390	510	31	4
	2 Bed	560	560	600	500	650	30	8
	3 Bed	925	950	975	800	1000	25	3
East London	1 Bed	320	340	350	325	350	8	0
	2 Bed	425	425	440	400	450	13	2
	3 Bed	575	575	575	540	600	11	4

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*

Another dramatic reversal over the summer months occurred in the demand for short term rentals. Corporate travel resumed, albeit slowly and tourists began to visit the City again, creating demand for short lets. The market for short term rentals, had collapsed during Covid, and it will take time to rebuild because so much of the stock was pumped into the mainstream letting market, offered on 12 months ASTs during the pandemic. Those leases, often agreed at substantially discounted rents, will need to play out before the properties can be returned to the short term market.

CLERKENWELL EC1 - 3 BEDROOM LOFT, LET DECEMBER 2021, £1,150 PER WEEK

Rents on short let apartments in London are now well above pre-pandemic rates as the number of overseas visitors rises and UK consumers have learned to value flexible lease commitments while so much uncertainty remains. Airbnb has called for the Government to introduce a landlords' register to help stave off criticism that landlords abuse the maximum 90 day rule in London.

So, the City experienced a surge of demand in the summer and early autumn. That is the normal seasonal peak in the rental market coinciding with the new academic year and graduates entry recruitment. What made 2021 different was that the incomers who became renters in our markets during the pandemic are not leaving, so the natural balance between supply and demand was affected. That explains why we have seen rents restored to their pre-pandemic levels and even pushed beyond that.

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

Submarket		Weekly Rent £	Sq ft	Rent p.a.	Rent psf
Midtown	1 Bed	£550	500	£28,600	£57
	2 Bed	£700	750	£36,400	£49
	3 Bed	£1100	1,500	£57,200	£38
City	1 Bed	£510	500	£26,520	£53
	2 Bed	£650	750	£33,800	£45
	3 Bed	£1000	1,500	£52,000	£35
East London	1 Bed	£350	500	£18,200	£36
	2 Bed	£450	750	£23,400	£31
	3 Bed	£600	1,500	£31,200	£21

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 the City and Midtown, rents are 20% or 30% above the levels achieved a year ago, although most of this growth is simply restoring pre-pandemic norms and if we compare to rents at the end of 2019, the increases look less dramatic (Table 6). Growth in the City and Midtown has been stronger than East London but these areas also suffered the steeper falls during the pandemic.

SHOREDITCH N1 - 2 BEDROOM FLAT, LET SEPTEMBER 2021, £600 PER WEEK

The two categories with strongest growth over two years are: a one bedroom apartment in Midtown and a two bed apartment in City. We had anticipated a renewed interest in the pied-a-terre as workers return to their offices and that probably explains the strength of the Midtown one bed. Data from London Transport, and office investment companies such as Land Securities and Helical have reported a significant upturn in the number of people working in London offices.

LIMEHOUSE E14 - 2 BEDROOM FLAT, LET SEPTEMBER 2021, £465 PER WEEK

Overall, the rent for a London apartment has risen more in the past 12 months than in the whole period since 2014, according to our long-run data. This data series is averaged over all our markets and East London has been less volatile but it is an important reminder that London rents have not spiralled in the past decade or more, as is often suggested in the press.

CLERKENWELL EC1 - 3 BEDROOM FLAT, LET JULY 2021, £1,050 PER WEEK

TABLE 6
LONG TERM RENTAL GROWTH

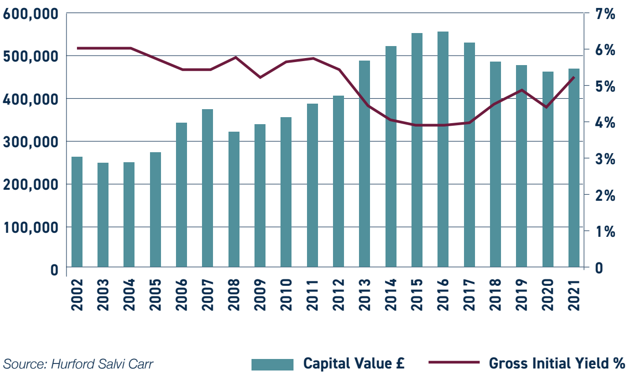
	2000 - 2021	2007 - 2021	2008 - 2021	2014 - 2021
1 Bed	44%	22%	34%	16%
2 Bed	46%	19%	30%	11%
3 Bed	N/A	N/A	N/A	-19%

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*

CLERKENWELL EC1 - 3 BEDROOM FLAT, LET DECEMBER 2021, £1,150 PER WEEK

Domestic buy to let investors have, to a large extent, retreated from our markets . However, overseas investors, who had been absent during the pandemic travel restrictions, returned in the autumn. Yields on central London properties are very attractive because capital values have remained low while rents have exceeded their pre-pandemic levels.

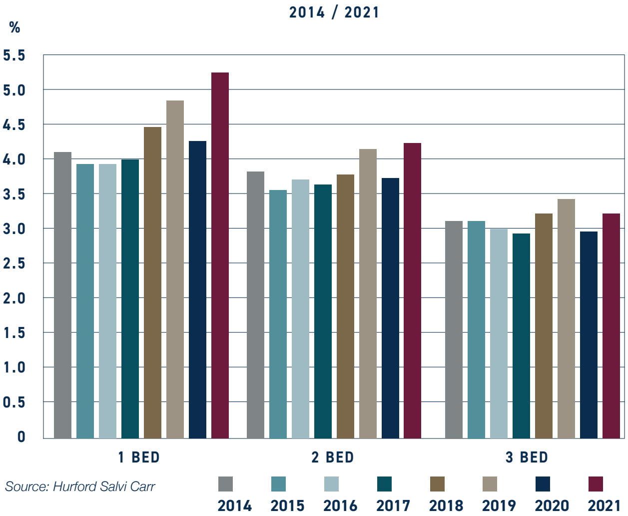
FIGURE 6
CAPITAL VALUES AND YIELDS FOR ONE BEDROOM APARTMENTS
MIDTOWN, CITY & EAST LONDON



Source: Hurford Salvi Carr

The gross initial yield on a residential investment in our markets is now over 5% for the first time in a decade. The increase has been more marked for one bedroom properties than larger ones but even three bed apartments can produce a yield of 3.25% today.

FIGURE 7
CHANGE IN YIELDS FOR CITY, MIDTOWN & EAST LONDON
2014 / 2021



Source: Hurford Salvi Carr

ISLINGTON N1 - 2 BEDROOM FLAT, LET OCTOBER 2021, £692 PER WEEK

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

	2013	2014	2015	2016	2017	2018	2019	2020	2021
Gross Annual Income £	21,840	21,060	21,580	21,840	21,060	21,840	23,140	20,280	24,336
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%	5.23%

Source: Hurford Salvi Carr

Gross Yields - Gross to Net is typically depleted by 2.5%

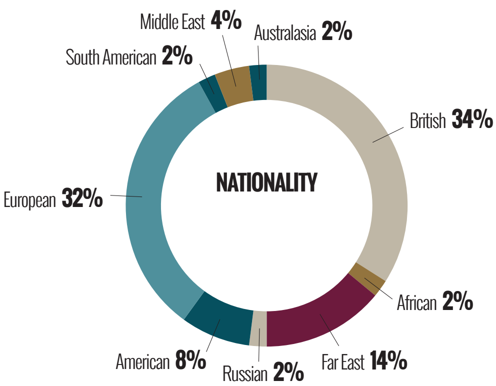
TENANT PROFILES H2 2021

Nationality

Unlike the sales market, the rental market is far more diverse in terms of nationality. Britons make up 35% and are equalled by EU renters who account for another 32%.

The balance was skewed towards British renters in the first half of the year but the normal distribution was restored in Half 2 as renters returned to the City. The increased share of British renters was unsurprising during the pandemic when travel was restricted, the restoration of overseas renters was a welcome turnaround in Q3.

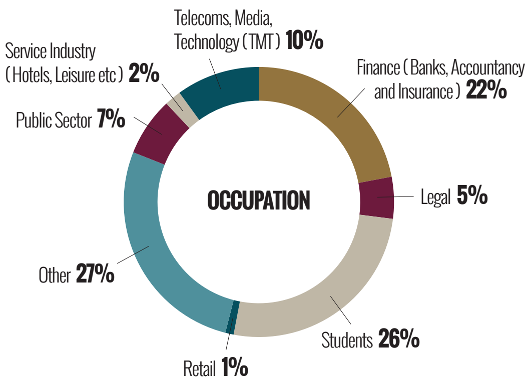
Renters from the Far East account for a relatively high proportion too at 14%. Again, the majority of that total was recorded in the second half of the year. A British education remains a core export post Brexit.



Occupation

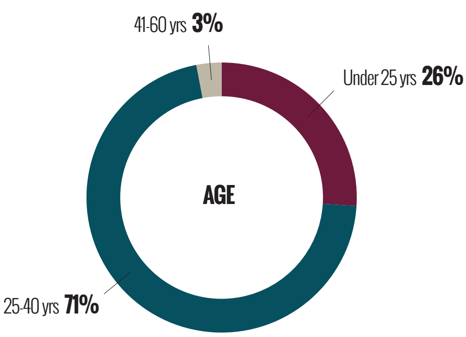
Despite the atypical nature of 2021 and the exceptionally sluggish rental market in Half 1, the occupation profile was surprisingly consistent with the long term average. Students made up around one quarter and banking/financial just under a quarter.

Tech Media and Telecoms (TMT) accounted for 10%, also in line with the long term average from 2015-2021. Tech companies are a large employer in our markets with a highly mobile and well-paid workforce which is an important driver of the local economy. While tech companies are well placed to implement agile working and often provide the means to businesses in other sectors to introduce remote working practices, it is clear that they still value the benefits associated with physical office spaces and agglomeration economies. It is widely acknowledged that recruitment in competitive sectors is easier in London because of its attraction for a global workforce.



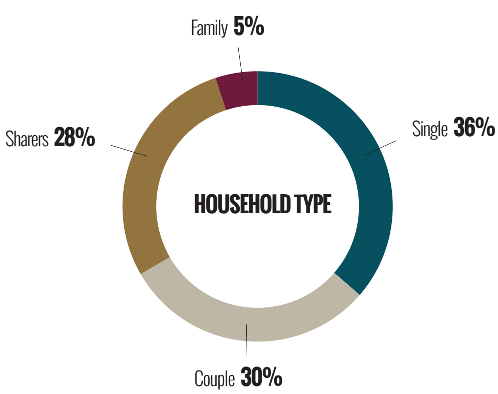
Age

The vast majority of tenants who took new leases in 2021 were aged between 25 and 40 years old. This is the most common phase of life to rent in central London when earnings can be high in relation to other spending commitments. This is above the 5 year average of 66% and probably reflects the mass return of office workers and young professional renters in Q3 2021.



Household Type

Singles make up a disproportionate share of renters over the past year – perhaps reflecting the return of office workers who have relocated families to non-urban locations and need a base in London for a few nights a week.



Future Prospects

PRICES SET TO RISE

We expect the revival in the demand for apartments for use as a 'pied-a-terre', to increase in 2022 with a focus on one bedroom properties for sale and for rental. We see this as a long term trend because people who relocated from the City during the pandemic will continue to need a base in the City for as long as the office economy thrives on human interaction.

Unfortunately, the impasse over fire safety regulations will persist into 2022 and well beyond. There is very little understanding of how long works will take or their impact on liveability. This will not be a quick fix and in the meantime, material costs will rise and contractors on the approved list will be able to name their prices.

Residential property prices across central London remain fixed at 2014 levels. This is a buying opportunity and we expect to see overseas buyers in particular seizing the moment in 2022. Improved yields and relative pricing support their buying decisions. On the UK's south coast, multiple bids have become the norm and prices have escalated which shifts the relative pricing in our markets.

We expect price increases in 2022 of around 3% over the year. People will continue to return to the City. Despite the set-back in December, the mass return to London offices in the autumn showed that there is a willingness and a need for many businesses to have staff return to the office. The strength of the desire to work physically alongside co-workers took some businesses by surprise and reinforces the importance of cities and agglomeration economies.

The Monday to Friday 5-day office week has probably been forever broken. The new pattern looks likely to be 3 or 4 days in the office with one or two days working from home which will help underpin demand for homes in our markets.

The stock of homes to rent has been depleted and remains extraordinarily low. Rents will rise further in 2022, by around 5%, as demand outstrips supply further improving the return for landlords.

The cause of this imbalance will take time to play out. Apartments leased at substantially discounted rates during the pandemic will not come back to the market until landlords are able to restore market rents but we expect supply to remain low in the first six months of 2022. Stock will return to the short term market.

Tenants who moved into zone 1 during the pandemic at discounted rents have a shock in store on renewal which will eventually encourage more movement.

Rising rents will also reinforce the case for buying and there is now a significant cohort of prospective buyers who saved deposits during the pandemic.

Awareness of climate change has risen and we expect this issue to grow in significance in the minds of buyers and renters making housing decisions. Initially the debate will focus on energy costs but increasingly that will extend to materials and other costs in use. Forthcoming legislation is expected to confirm that Buy to Let investors will be required to comply to a minimum standard on energy performance requiring an Energy Performance Certificate grade C. Existing landlords will be given until 2028 to fall in line.

The new Housing Secretary, Michael Gove, is expected to introduce new measures in 2023 which end the landlord's right to evict tenants under the rules known as 'Section 21'. Labour, Generation Rent and Shelter have called again for the ending of Section 21 eviction powers, as pledged by the Conservatives in the 2019 General Election. However, the Department of Levelling Up, Housing and Communities is not expected to publish the long-awaited Rental Reform White Paper until late 2022.

We see very little prospect of new development activity in our markets increasing. Sites are scarce, planning is complex and expensive, meaning that the small scale development, which was once typical in our markets, is very challenging and rarely viable - particularly as costs are escalating and supply chain issues persist.

This will help to keep new home prices at a premium and while some UK buyers will be unable to justify the high level of service charges attached to the latest developments, for investors and tenants, these costs are built into the rent.

With few options for prospective buyers, renters or developers in our markets, prices are likely to rise in 2022. The property market across Central London has been given a boost by the most unexpected cocktail of circumstances.

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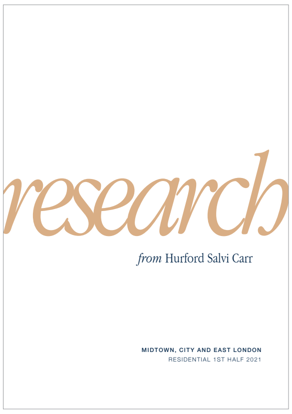

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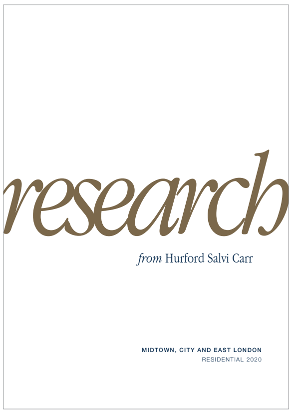

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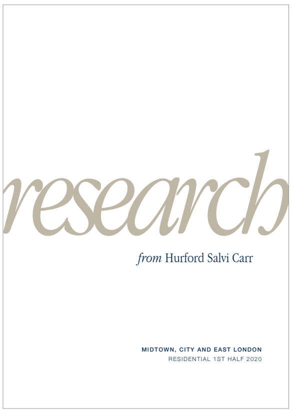

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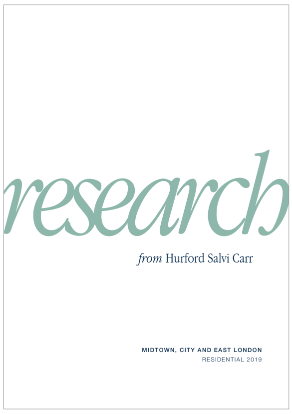

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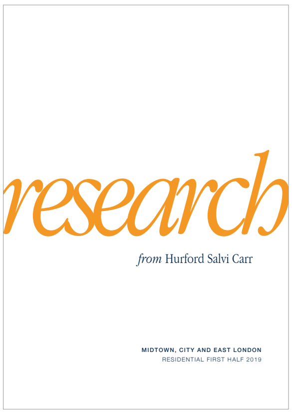

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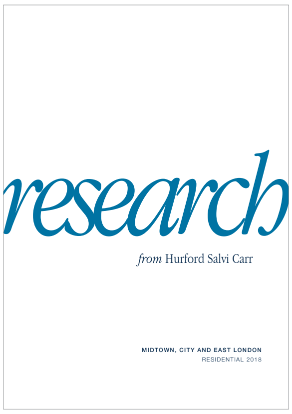

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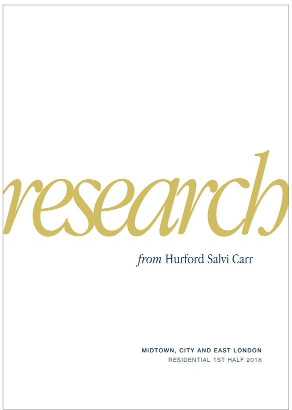

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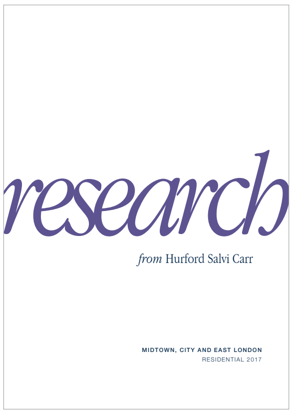

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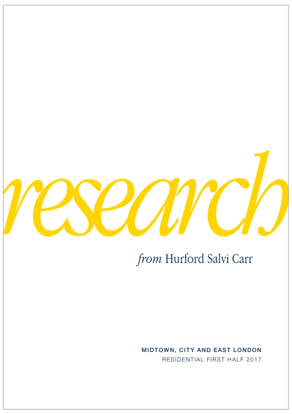

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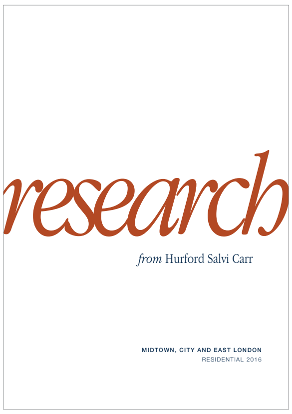

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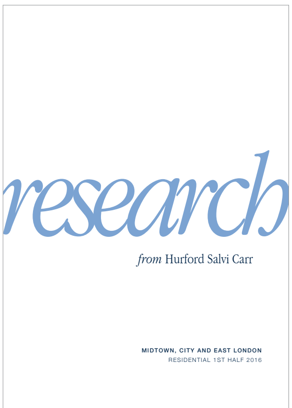

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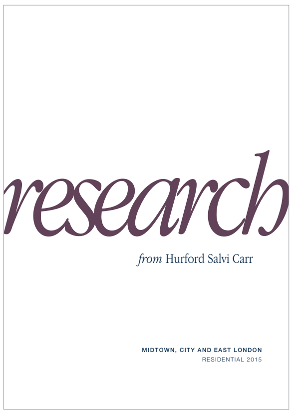

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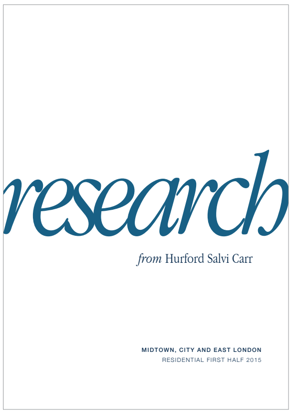

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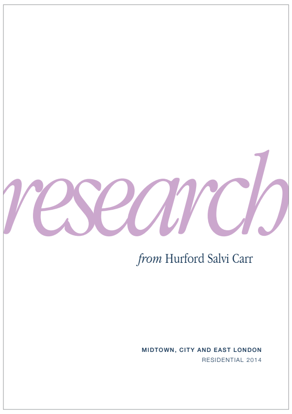

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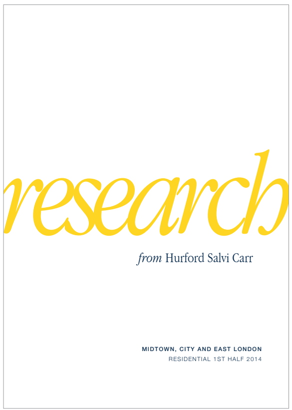

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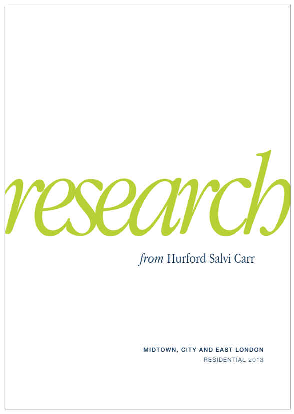

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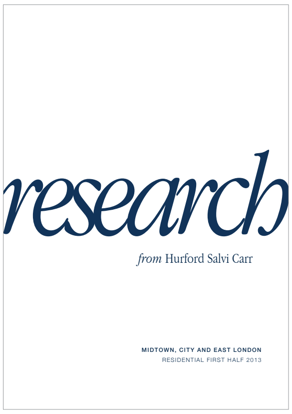

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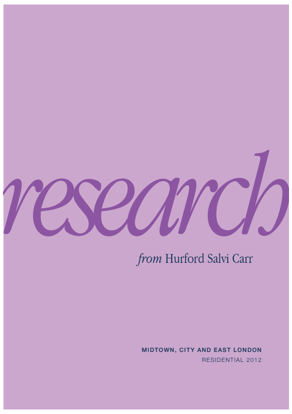

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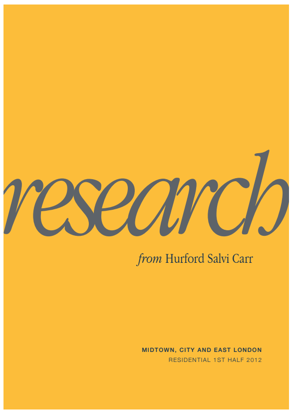

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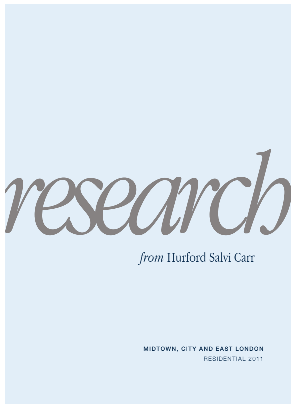

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2010 YEAR END

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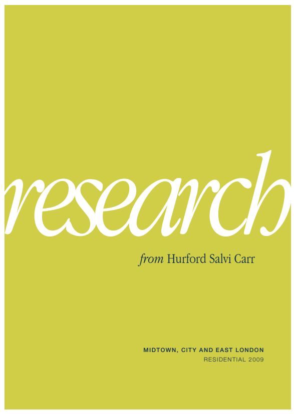

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