London Residential Quarterly
Autumn 2014

STRUTT & PARKER

Research

Market View

Economy: UK economy continues to improve despite global jitters

The improvement in sentiment regarding the global economy through the first half of 2014 has now been succeeded by an increase in political uncertainty. The IMF recently revised its 2015 global growth forecast downward as some risk has returned to advanced economies in the form of geopolitical issues and weakness in the Eurozone. The IMF now expects the UK to be the fastest growing large developed economy in 2014, overtaken only by the US in 2015. The FED has continued to hold off on any tightening of monetary policy. It has been argued that this is partly down to remaining uncertainty over the country's economic performance. However, the recent resurgence in strength of the dollar is becoming a threat to the US export market and growth outlook. Uncertainty is also creeping back into the Eurozone as GDP growth figures for Q2 show the Eurozone's recovery has begun to stutter. Inflation in the world's second largest economic bloc is also at its lowest point in four years, and is a stark reminder of the pressures of deflation. Slower expansion also continues to be an issue in emerging economies, and is indicative of the downside risks that still remain in a post global economic crisis.

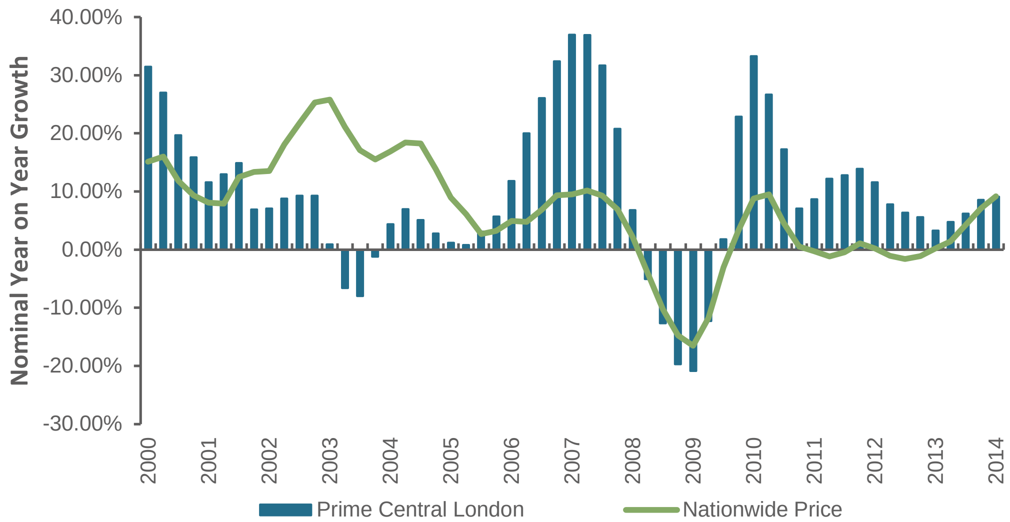
In September, the HM Treasury consensus GDP forecast maintained their June forecast for the fourth consecutive month at 2.6% growth for 2015. The most recent projection for this year, 2014, now stands at 3.0%.

National property market

The recent strong performance of the housing market is beginning to steady and level out. The Nationwide House Price Index saw considerably weaker growth in Q3 compared to the previous quarter. The Index now stands 10.5% up from the same quarter in the previous year, although it should be noted that this still represents significant annual growth in prices.

CPI eased further to 1.2% in the year (to September) and will be an interesting twist in the discussion on raising interest rates.

Figure 1. UK House Price Growth



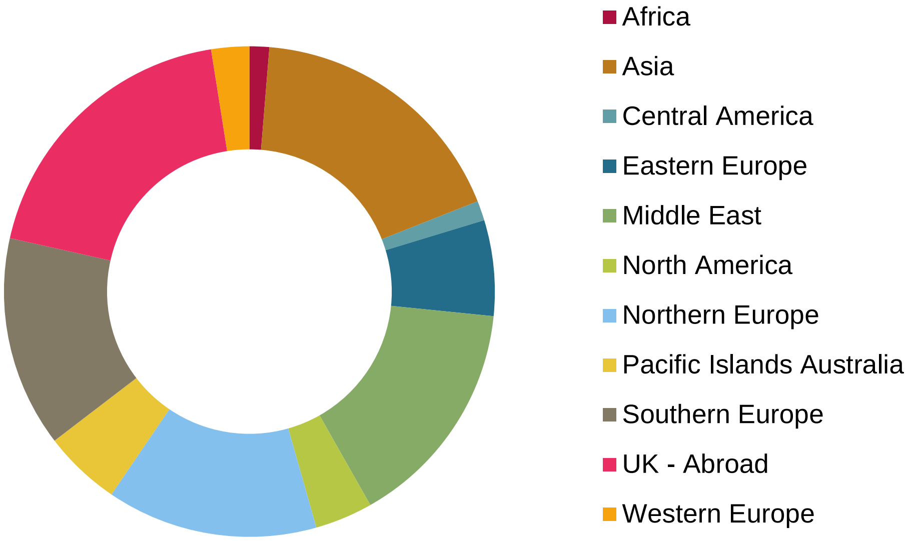
Source: Nationwide House Price Index, Volterra

Productivity and wage growth continued to fail to match the increase in output and fall in unemployment in the UK during Q3 of 2014. This has now become a consistent theme of the economy.

Prime Central London property market

Strutt & Parker's data for the third quarter of 2014 showed that nearly 49% of all buyers in Prime Central London are originally from overseas.

Figure 2. PCL Buyer Nationalities for Q3 2014 (Removing UK – Domestic market)



Source: Strutt & Parker

Comparing this quarter to the same period last year there was an increase in buyers from Asia, Middle East, Northern and Western Europe and Pacific Islands/Australia. There was a continuing decline in buyers from Eastern Europe.

By the numbers

Table 1. PCL Transactions
Number of Properties Sold

	Sub £2m	£2-5m	£5m plus
Q3 2013	761	194	67
Q3 2014	548	148	52
Y-O-Y Change	- 28.0%	- 23.7%	- 22.4%
5 Year Quarterly Average[1]	559	122	43

Total Value of Properties Sold (£ millions)

	Sub £2m	£2-5m	£5m plus
Q3 2013	697	609	582
Q3 2014	552	444	494
Y-O-Y Change	- 20.8%	- 27.1%	- 15.2%
5 Year Quarterly Average[1]	509	366	314

Source: Lonres.com, Strutt & Parker

[1] Quarterly Average considers the referenced quarter for the previous four years and includes the current quarter data to achieve a 5 year average for the referenced quarter.

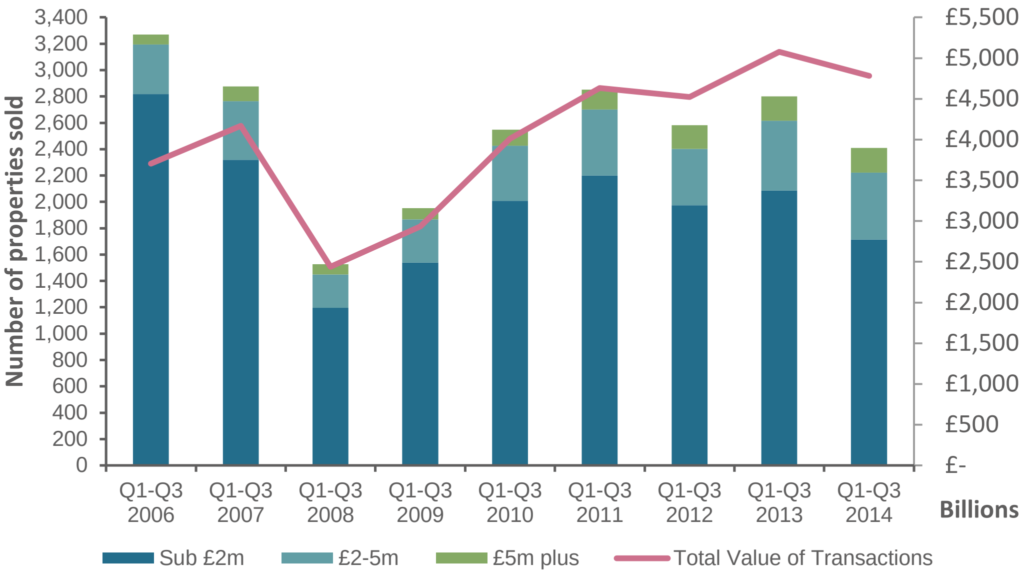
"Whilst core PCL has slowed, markets around the core are still holding up. All in all the London markets are likely to be volatile over the coming months with uncertainty making prices jumpy. Interest rate changes and the MMR are less impactful...it is about geopolitics, the General Election and taxation."

-Stephanie McMahon

Head of Research

A total of 748 properties were sold during the third quarter of 2014, which was nearly a 27% decrease compared to the same period in 2013, but broadly consistent with the five year quarterly average (seasonally adjusted).

Figure 3. Historic number and values of sales in PCL



Source: Lonres.com, Strutt & Parker

When compared to the 5 year quarterly average[1], there has been a 25.8% increase in the value of homes sold during the third quarter and a 3.1% increase in volume.

The PCL market details by area

Table 2. Q3 2014 Transaction Data
Number of Properties Sold

	Chelsea, South Kensington & Fulham	Kensington & Notting Hill	Knightsbridge & Belgravia
Q3 2014	353	303	92
5 Year Quarterly Average[1]	- 23.1%	- 1.9%	- 31.7%

Total Value of Properties Sold (£ millions)

	Chelsea, South Kensington & Fulham	Kensington & Notting Hill	Knightsbridge & Belgravia
Q3 2014	659	588	242
5 Year Quarterly Average[1]	- 6.7%	24.0%	- 29.7%

Source: Lonres.com, Strutt & Parker

The number of flats and house sold during the quarter were both down compared to the same period last year for all areas.

Table 3. Q3 2014 Year on Year Comparison of Transaction Data by Type

	Chelsea, South Kensington & Fulham	Kensington & Notting Hill	Knightsbridge & Belgravia
Flats	- 22.3%	- 19.8%	- 34.7%
Houses	- 48.0%	- 18.9%	- 53.1%

Source: Lonres.com, Strutt & Parker

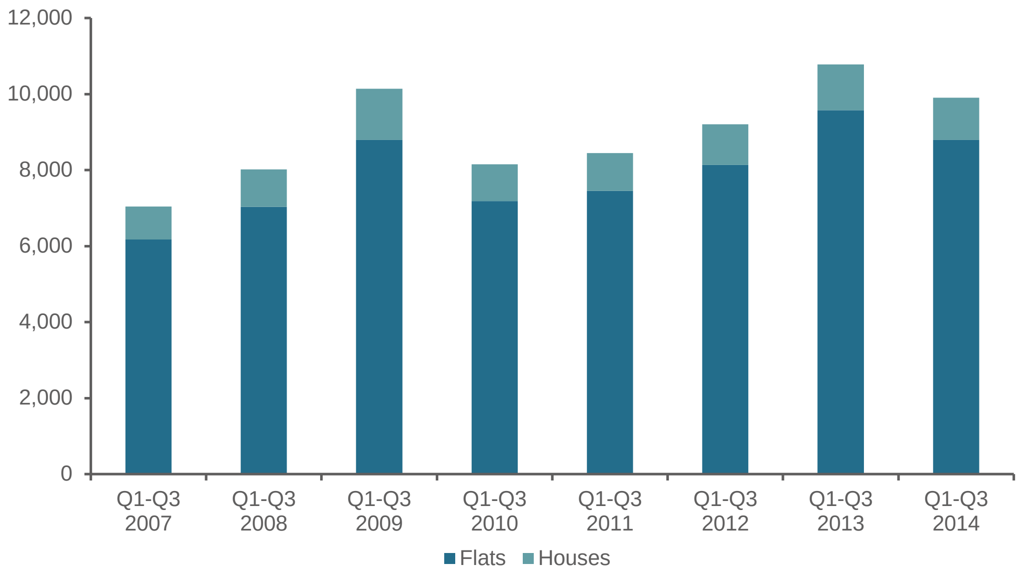
"For the second quarter running the submarket of Kensington & Notting Hill held up well compared to the same period last year.

Chelsea, South Kensington & Fulham achieved the highest volumes overall."

Prime Central London Lettings

There were 4,134 property lets agreed in PCL during the third quarter of 2014, which was 6% above the five year quarterly average[1].

Figure 4. Historic agreed lets in PCL by housing type



Source: Lonres.com, Strutt & Parker

Five Year Quarterly Average[1] Comparison of Volume of Transactions by Area

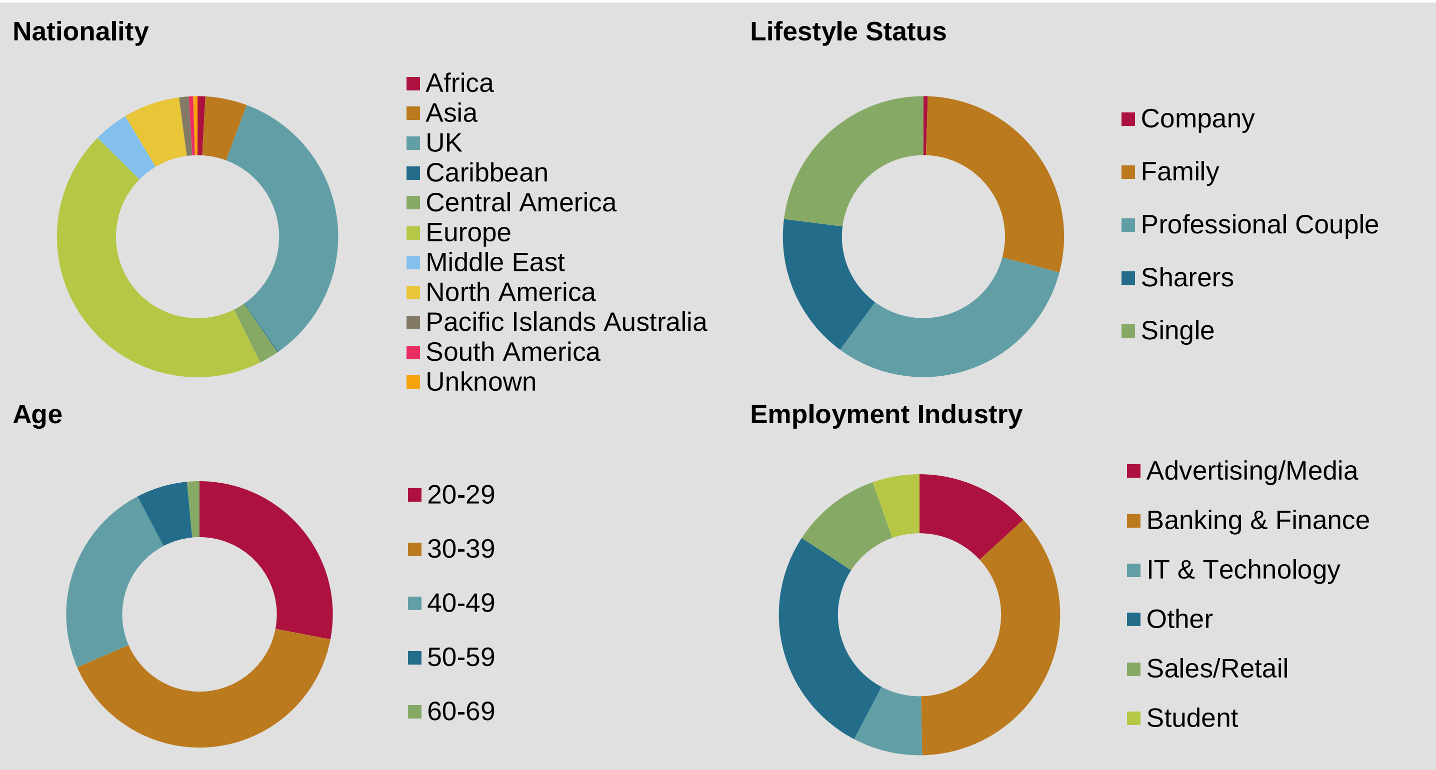
Chelsea, South Kensington and Fulham: 3.6%

Kensington and Notting Hill: 12.4%

Knightsbridge and Belgravia: - 0.8%

Compared to the quarterly average for the past five years, achieved rents by price band have remained positive above the £2,000pw threshold.

Tenant Profile in PCL (Q4 2013 through Q3 2014)



Source: Strutt & Parker

Looking forward, we maintain that lettings prices for the remainder of 2014 will remain static with slight upticks anticipated in 2015 and 2016.

Table 4. Residential Lettings Forecast Q3 2014

	2014	2015	2016
Prime Central London	2.0%	2.5%	3.5%

Source: Strutt & Parker, Volterra

Forecast: Headwinds continue into 2015
Recent interventions aimed at curbing the housing market appear to have had little impact so far as initial statistics on lending rates, transaction levels and prices do not suggest a significant slowdown. Most commentators are now expecting interest rates to ride the year out at 0.5%, but are anticipating rises to start during 2015. Once they begin to rise this may have a dampening effect, most specifically in the mainstream markets where the majority of purchases are dependent upon mortgages. However, it is important to point out that, regardless of the performance of the rest of the UK's housing market, PCL continues to be very different to the rest of the country. Prices in the rest of the UK are mainly driven by the economic performance and the cost (and availability) of mortgages. To a certain extent, this is less true in central London. Instead, parts of the PCL market are largely driven by international investors looking for a safe haven asset, with London's properties ranking highly on their investment list.

The PCL market is particularly difficult to forecast because it is made up of a wide range of locations and price ranges. Agents' views tend to be based upon the most prime properties within PCL, at the highest price points in the most prime locations. There has been reported a reduction in demand for these prime properties such that there is now excess supply. This caution amongst buyers for the most prime properties has arguably led to the slight slowdown in activity. However, as is often the case in uncertain times, it may be that transaction levels decrease but values hold better than expected.

The economic foundations would certainly suggest that prices may continue to rise at the same rates over the next few years, but the biggest perceived uncertainty surrounding the PCL market over 2014-2015 will continue to be the looming election. This will be most significant around the £2m price bracket due to the potential change of government and associated possibility of a 'mansion tax'. Therefore expected price growth during the final part of 2014, and even more so in the first half of 2015, will be sensitive to the prevailing political press and expectations. After this, we expect sustainable growth to return throughout 2016 and 2017.

Table 5. Residential Price Forecast Q3 2014

	2014	2015	2016	2017
Prime Central London	3.0%	2.0%	6.5%	6.5%
UK	9.0%	5.0%	7.5%	7.5%

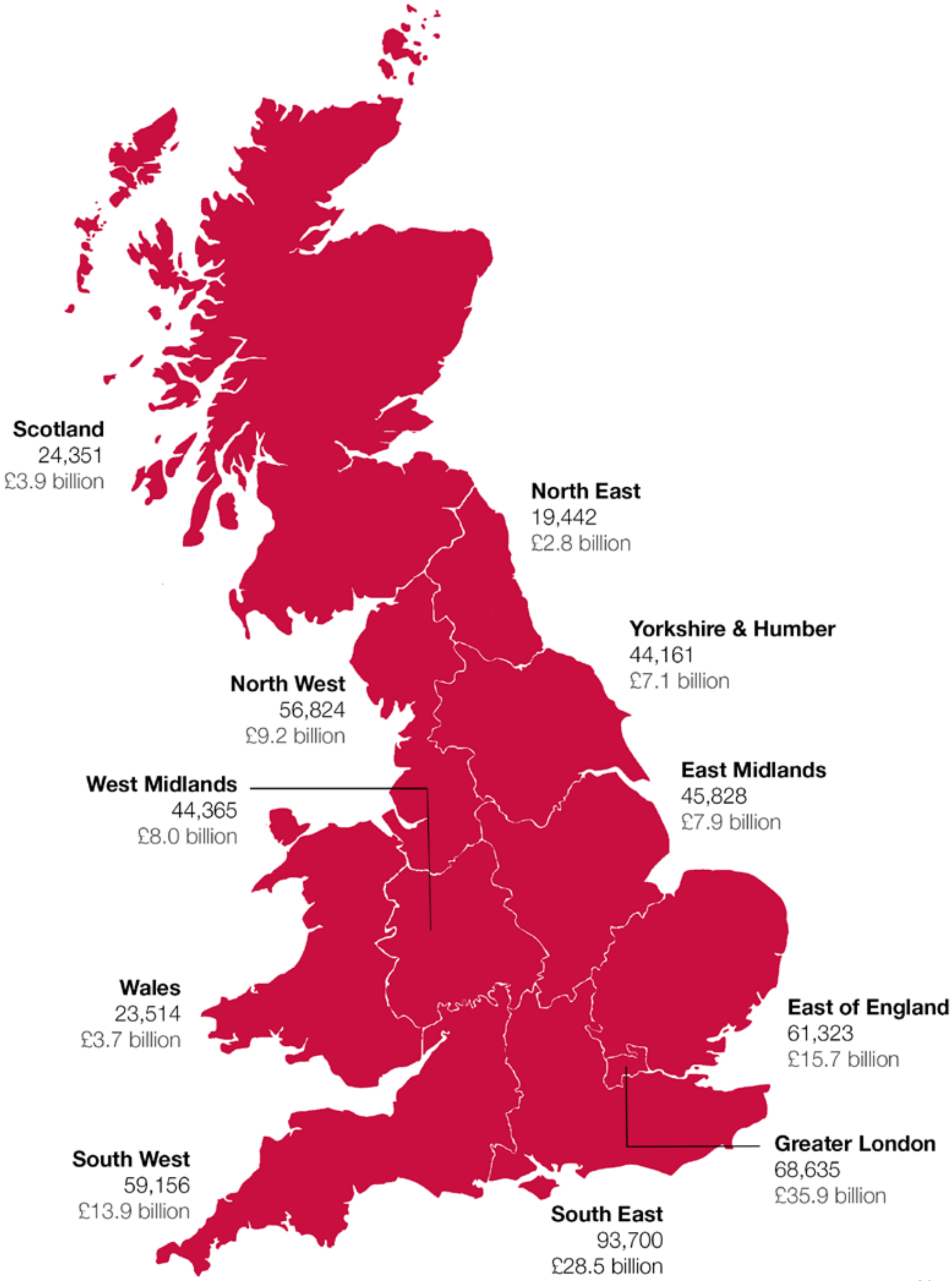
Source: Strutt & Parker, Volterra

Methodology As the housing market is seasonal, for the purposes of this report; data is compared year on year, i.e. looking at Q3 2014 in light of changes since Q3 2013. Data may also be compared on a rolling month on month basis. When referring to the PCL market it includes those markets which Strutt & Parker operate in (Knightsbridge, Belgravia, Kensington, Chelsea, Notting Hill & Fulham) and as such is reflective of London's most prime markets. Economic views are attributed to Strutt & Parker's retained economic advisors, Volterra. Additionally, Lonres.com data is used to assess the London sales and lettings market. The behavioural data is collected from our activity in PCL markets: our proprietary "behavioural data" is not representative of the UK as a whole. The global economy remains volatile and therefore there is risk that any market commentary provided will become out-dated within a very short timescale.

"We anticipate confidence in the rental sector to continue. The market is experiencing very high tenant demand with diminishing supply of properties available to let. This is particularly acute within the £1,500-£2,500 per week price bracket. In spite of low supply we remain cautious in our approach to rent forecasting due to on-going stagnant wage growth."

- Zoë Rose

Head of London Lettings



Number of properties sold year to date
Value of those properties sold year to date

Source: Land Registry (data published September 2014), Registers of Scotland (data published July 2014)

"2014 has shown extraordinary volatility, huge activity in Q2, then one of the most inactive summers I can remember in 35 years, followed by October being one of the busiest.

The coming months are likely to continue that volatility, but in the medium term London will return to the resilience to uncertainty it has shown over previous decades."

- Andrew Scott
Partner,
Head of London Residential

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