

A SOUND CASE FOR INVESTING IN LONDON

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HANOVER
— *private office* —

Summary

- Prime central London's property market has shifted in favour of buyers, as the focus has moved from 'property bubbles' to 'cooling conditions'. It would appear that the phenomenal increase in average values seen in recent years has started to slow, bringing with it more sustainable levels of growth.
- With the market slowing, more vendors are being forced to reduce asking prices in order to achieve a sale. With the help of an experienced local agent, savvy investors are finding new opportunities for good deals within the second hand residential market of central London.
- London's status as a global city is in little doubt, with research consistently placing it above other international centres. It currently heads "The World's Most Influential Cities" by Forbes (2014), "Cities of Opportunity 2014" by PWC and is second in the Z-Yen report on Global Financial Centres, having only recently been ousted by New York.
- A long term approach to infrastructure spending, with £1.3 trillion proposed by 2050, along with London's plentiful and diverse leisure and cultural options will continue to ensure this status will be maintained.
- A British education has long been aspired to across the globe and remains a key reason why buyers from Asia and other continents begin their quest for property. London is home to some of the country's leading schools and has the greatest concentration of top universities of any city in the world.
- With this strong investment case for buying property in London, it is well documented that demand is strong from Asian buyers. However, it is also interesting to see that Asian developers are also playing an increasing role in the new build market. Over 20% of the units in large London schemes in the development pipeline are now under the control of Asian developers, in contrast to the last 15 years when none were undertaken.

Introduction

While the luxury residential markets in both Singapore and Hong Kong have recently seen a raft of cooling measures introduced to curb rapid price growth, it is a combination of factors in London that have weakened buyer appetite and seen prices stabilise in 2014. As Singapore records a fourth consecutive quarter of negative house price growth and Hong Kong continues to see prices in the luxury segment soften from their 2012 peak, the prime London market is also seeing the pressure come off price growth.

With negotiations more restricted for new build properties, the second hand market of central London is attracting the attention of investors as a strong buying opportunity. More properties are being reduced in price in order to sell, and with the help of an experienced local agent, there are an increasing number of good deals available.



Price reductions in central London offering buying opportunities in the second hand market

As the central London housing market cools and demand levels become more subdued, vendors of second hand properties are being forced to be more realistic on the level of pricing that they expect. This has meant that some properties have seen price reductions since first being marketed. Across central London, 35.1% of properties currently available to buy have been reduced in price since they were initially launched for sale. Of all properties which have been reduced from their marketing price, the average reduction in price was 8.1%.

Variations across the market

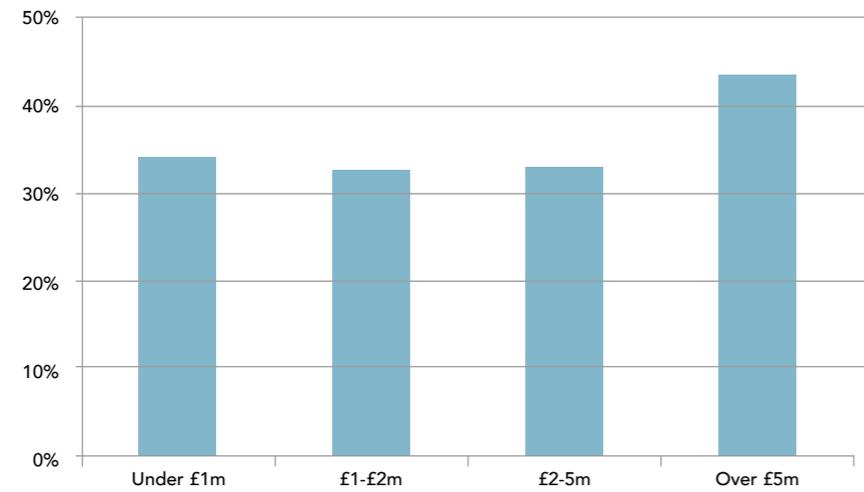
There are variations in the level of price reductions throughout the central London housing market. At a local level, properties in Marylebone have seen the greatest number of price reductions, with 43.6% of properties currently available to buy having been marketed at a lower price than they originally launched at. Meanwhile, just 28% of properties in Pimlico have been reduced in price.



Source: Lonres

It is the higher end of the market, which has seen the most properties reduced in price. 44% of all properties which were initially marketed over £5 million have since seen their asking price lowered.

Proportion of available properties with a price reduction by value band



Source: Lonres

Furthermore, larger houses (those with four or more bedrooms) are more likely to have been reduced in price across central London. The least likely to have been reduced are studio apartments, with just 27% of studios currently being marketed having seen their asking price lowered.



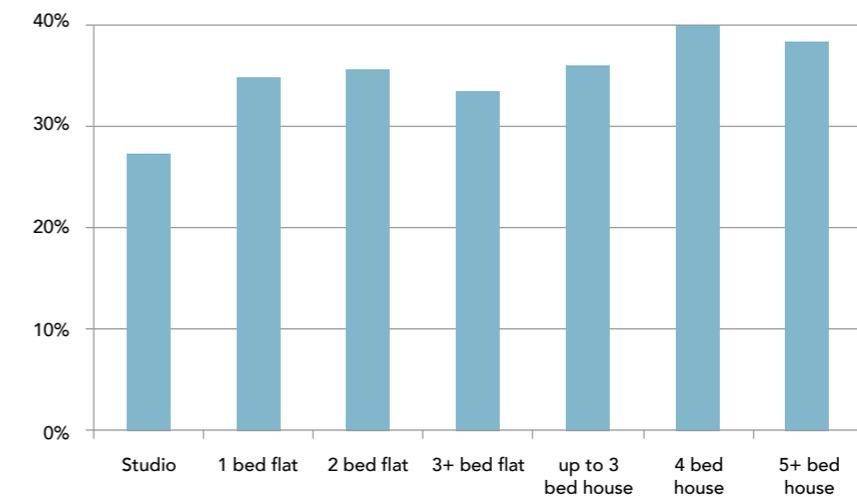
Harrods

While over a third of properties have been reduced in price since first being marketed, the bigger question is whether bargains are to be found or whether properties were overpriced in the first place. This is where an experienced agent with detailed knowledge of the market at a local level is vital in assisting buyers to distinguish between overpriced properties and true deals.



Belgrave Square

Proportion of available properties with a price reduction by property type



Source: Lonres



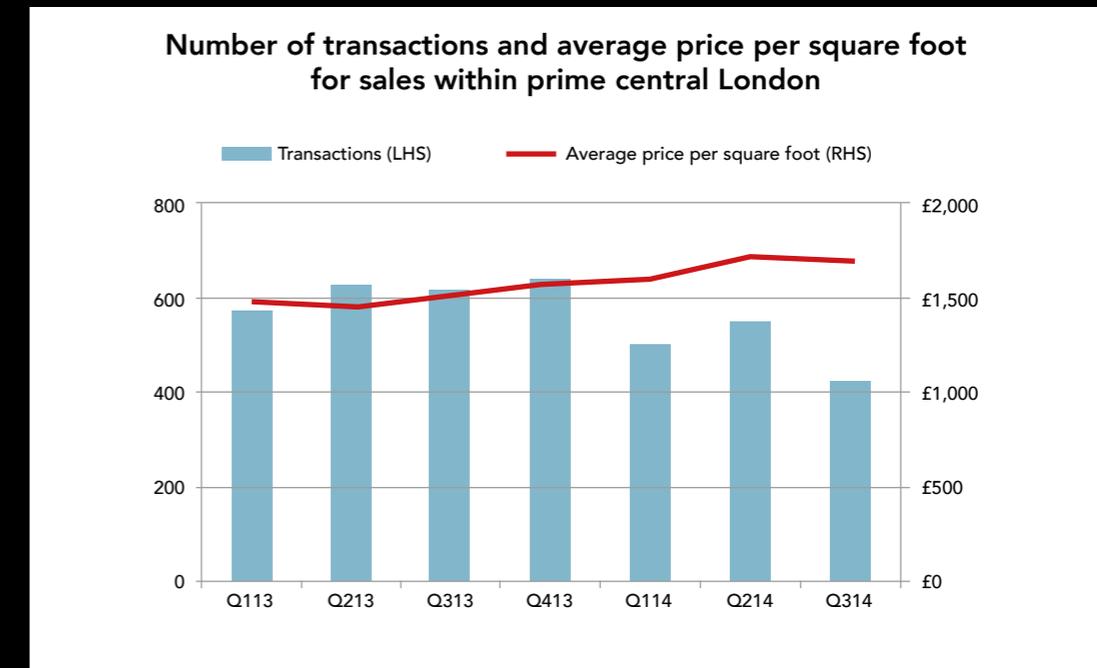
Overview of London's cooling housing market

Just a few months ago, press headlines were reporting a housing market bubble in central London, with over-inflated prices pushing residential property beyond the reach of all but the most wealthy of investors. However, in recent weeks there has been something of a turnaround in market conditions across the capital. While headline figures from the Land Registry are still reporting year-on-year growth running at 21.6% across London as a whole and values in some boroughs even rising annually by as much as 28.9%, more local level data and analysis reveals a slowdown.

Along with the traditional summer lull, a number of other factors have caused the market to pause for breath. Average prices per square foot across prime central London have risen by 70% over the past five years and many commentators were suggesting that properties had become overpriced. This has led buyers to become more cautious and negotiate harder on asking prices. In addition, concerns over the possible introduction of a 'mansion tax', political insecurity in light of the upcoming election in May 2015, the increased likelihood of interest rate rises and more restrictions on mortgage lending have all conspired together to weaken buyer appetite for properties.

Values still rising but at a slower pace, while transactions are down

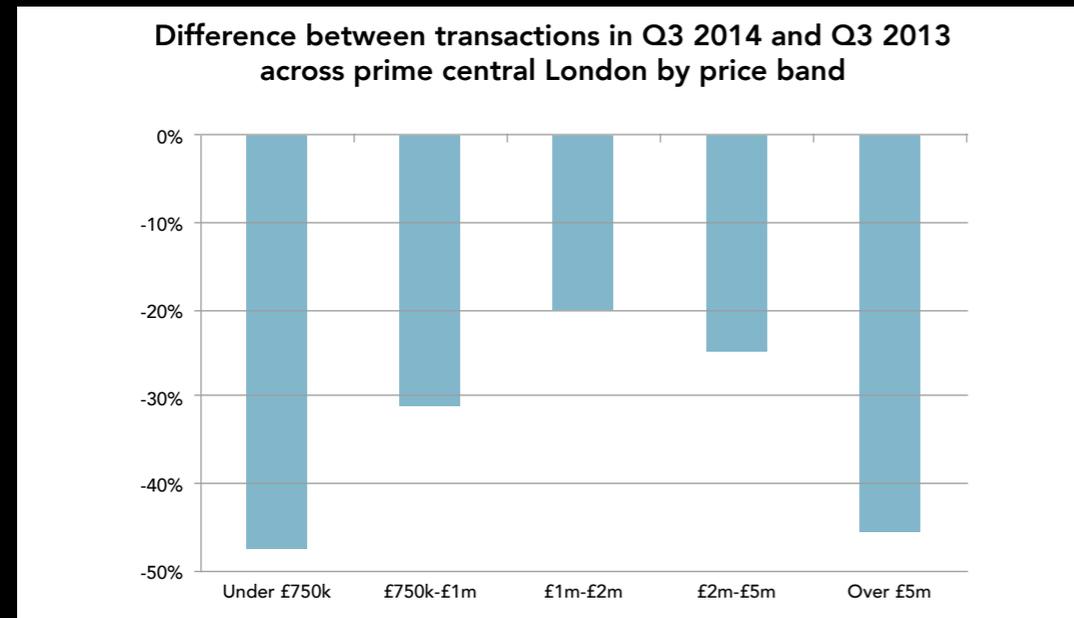
After peaking at an average price of £1,715 per square foot in the second quarter of the year, the average price paid for properties in the most central part of London fell slightly by -1.1% in the third quarter. On an annual basis, prices are 12.1% higher than in the same quarter of 2013, but the rate of growth has slowed from 17.9% just three months ago. Transaction levels have been harder hit. In the third quarter of 2014, the number of sales across prime central London was 32% lower than in the same quarter of 2013. Sales levels have fallen most sharply for properties in the upper and lower price thresholds. The least affected market has been between £1 million and £2 million, where the number of sales in the third quarter was down by a fifth on the same quarter of 2013.



Source: Lonres

More stable conditions are positive for buyers

The slowdown in the market has avoided the potential bursting of the bubble that commentators had been expecting. Slower price growth, caution among buyers and more realistic pricing from vendors are all encouraging for a more sustainable market and will offer reassurance to those who felt the market was inflating too rapidly. In addition, some slowdown in price growth should once again open up opportunities to savvy purchasers and investors.



Source: Lonres

The attraction of London to buyers from around the world

London's status as a global city is in little doubt, with research consistently placing it above other international centres. It currently heads "The World's Most Influential Cities" by Forbes (2014), "Cities of Opportunity 2014" by PWC and is second in the Z-Yen report on Global Financial Centres, having recently been narrowly ousted by New York.

London's cultural appeal is also well documented. The recently published World Cities Culture Report revealed it has more museums than any other major financial city (173), the most World Heritage sites (4, equal with Paris), 857 art galleries (second only to Paris) and yet 38.4% of its land is still green space, more than any other European or US city studied. It is second only to New York in terms of theatre admissions.

The allure of LONDON

	London	Hong Kong	Singapore
Forbes Influential city rank	1	6	4
Forbes Global 2000 HQs	68	48	N/A
Air connectivity	89%	57%	46%
Museums	173	32	53
Art galleries	857	95	252
World Heritage sites	4	0	0
% green space	38.4%	41.0%	47.0%
Z Yen financial centre	2	3	4
No. of top 40 global universities	4	0	1
FDI Transactions	328	359	234

Sources: Forbes Influential cities report, World Cities Culture Report (Mayor of London), Z-Yen financial centre index rank, Times Higher Education



Greenwich, Canary Wharf

A city with big plans for the future

A recent report by the Mayor has revealed plans for a staggering £1.3 trillion of infrastructure spending, with £750 billion from the private sector and £550 billion private sector investment. Of this total spend, £85 billion is earmarked to help achieve "World City" status, to ensure it retains its international appeal.

The plan allows the city to pursue projects such as the recently proposed Garden Bridge, joining the South Bank with Temple. Part river crossing and part urban park, it is the sort of project only possible in a global city with a long-term commitment to investment.

A world-class education

The UK has long been recognised as a centre of educational excellence for all ages. From preparatory schools through boarding and day independent schools to higher educational establishments, the options available are amongst the best in the world.

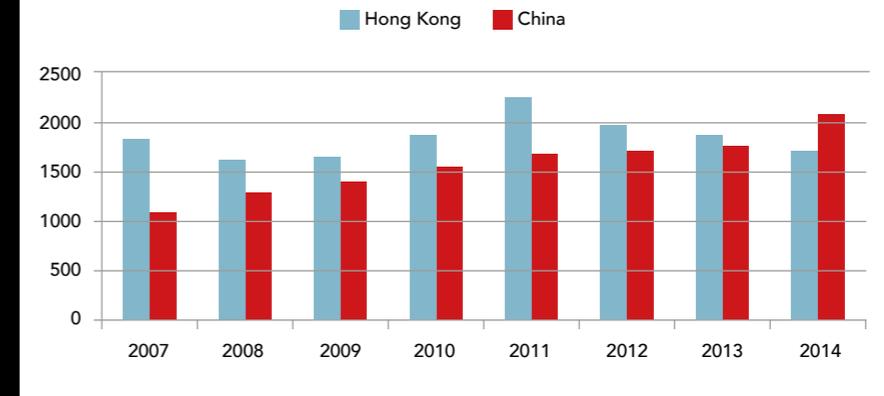
According to the Times Higher Education rankings, London has four higher education establishments in the top 40 global institutions, more than any other global city. Imperial College, University College London, The London School of Economics and Kings College London all have outstanding global reputations as centres of learning.

London is home to 4 of the top 40 of the world's universities, more than any other global city...

A recent Hurun report into High Net Worth Individuals from China revealed education is the main driver behind emigration, and the second most important when considering overseas investment (behind diversification). The UK was regarded as the best place to study at High School level and below. With London being the home of the international language of business, it is no surprise many from abroad are choosing to begin their education in the Capital earlier than ever before.

The number of students at UK private schools with parents living in China has been rising consistently in recent years. In 2014, the number of new Chinese students overtook the number from Hong Kong for the first time, and the total number of those being educated looks likely to exceed the Hong Kong figure shortly. There has been a 91% increase in the number of new Chinese students enrolling between 2007 and 2014.

Asian students starting at Independent schools



Source: Independent Schools Council, New non-British students whose parents live overseas

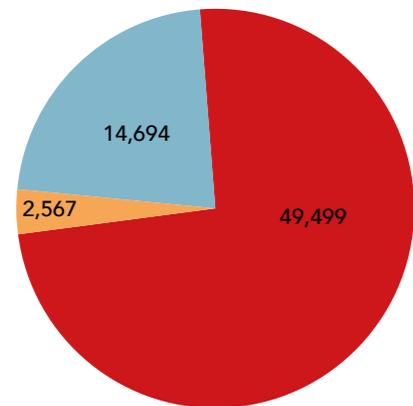
Asian developers are playing an increasing role in London's new build market

With many compelling reasons for living in London or sending your children there to be educated, it is not surprising that an increasing number of major Asian investors are also getting involved in the London development market.

Far Eastern developers have only recently established themselves as major players in the London new build market. In the last 15 years, they have not been involved in any single developments of over 500 units. However, a close examination of the current pipeline of such schemes shows that Asian developers are now behind more than 21% of units at application, permission or under construction stage.

Large scale London development

■ UK ■ Other ■ Asian



- SP Setia, a Malaysian developer, is set to provide 2,944 units at Battersea Power Station. This is an iconic listed building that has been lying vacant for many years, but construction is now underway.
- Knight Dragon, backed by Hong Kong billionaire Dr Henry Cheng Kar-Shun, is to provide 10,000 units on the Greenwich Peninsula. Development of the site started earlier this year.
- Greenland, a Chinese state owned developer, recently acquired two sites in Wandsworth and Docklands, both with consent for just under 600 units each.

Source: EGi - developments of 500 units or more in Inner London boroughs.



Along with involvement in some of central London's largest residential schemes, Asian investors have also extended their interest to prime areas such as Mayfair. The Indian based Lodha Group recently acquired the former Canadian High Commission and has submitted plans for 41 flats behind the existing façade. The property lies on Grosvenor Square, opposite the current US Embassy. There was stiff competition for the site, with the developer behind One Hyde Park also interested. The property was sold for over £300 million.

Such schemes have, unsurprisingly, proved extremely popular with Asian buyers. However, impartial advice on all investment options across the capital ensures that buyers can be assured of the property that best suits their needs, rather than simply the most convenient option.

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