GOLDEN VENN
YOUR PROPERTY PROFESSIONAL

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IN THIS ISSUE

Market Report

London House Prices – According to the Land Registry's House Price Index (HPI) for September 2014, which captures actual changes in the value of residential properties, the average price of property in England and Wales has increased by 7.2% in the last 12 months. The region which experienced the most significant movement in its average property value over the same

Area in Focus:
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Key Points

Prime central London prices rose 7.4% in September – lowest annual rise since January.

Prime central London rental rates rose 0.2% in September – seventh consecutive rise in as many months.

Prime central London rental yields rose to 2.84% in September – highest increase in over three years.

Three-quarters of London's £2m+ properties affected by 'Mansion Tax' would be flats and terraced houses.

Lower than expected increases in inflation will encourage Bank of England to delay a rise in interest rates till 2015.

period is London, with an increase of 18.4% (see figure 1). However, on a monthly basis, London property prices saw a 0.7% decline between August and September 2014.

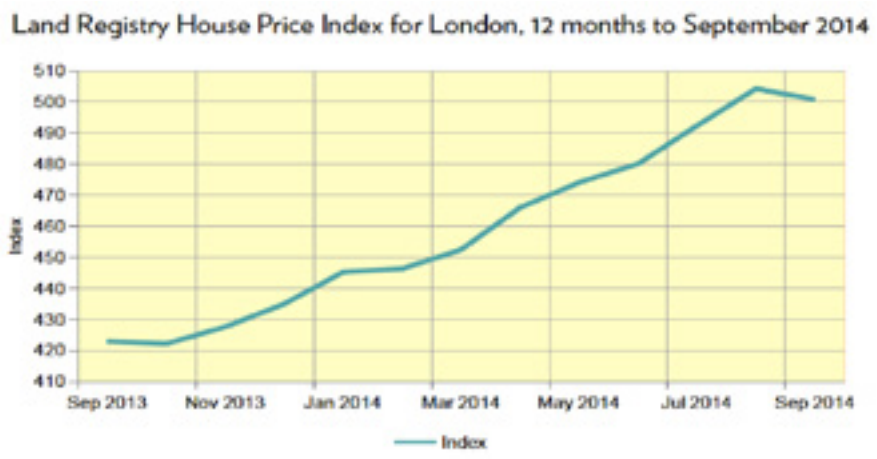
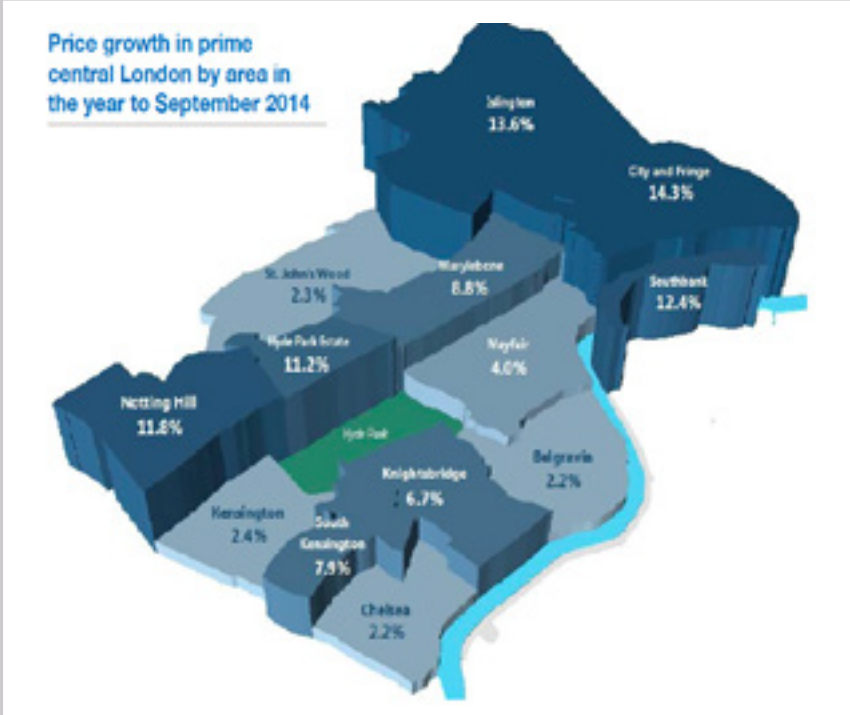


Figure 1

London Boroughs – The two London boroughs with the highest average house prices remain Kensington and Chelsea, and City of Westminster. The 12 month increases to September 2014 in these boroughs were 15.2% and 17.1% respectively. However, some of the London boroughs with the highest annual increases in average prices, for the same period, were Lambeth (Nine Elms), Southwark, Hammersmith and Fulham, Wandsworth, and Islington, which also had the second highest monthly increase in September at 2.3%. This shows a tendency of investors to move to more up and coming areas. The annual increases to September 2014 in the above boroughs were 28.6%, 26.0%, 24.6%, 23.9%, and 23.4% respectively.



Source: Knight Frank Residential Research

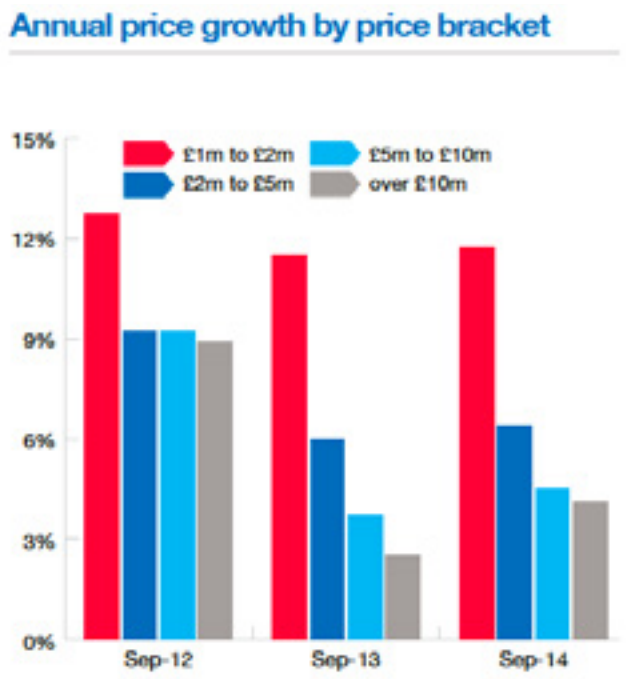
Knight Frank's Prime Central London Sales Index, September 2014

Figure 2

Prime Central London Prices – While we are finally seeing a slowdown in price growth, according to Knight Frank, the annual growth rate in prime central London (PCL) prices is still higher than it was a year ago, with an increase of 7.4% in the 12 months to September 2014, compared to 7.2% in the 12 months to September 2013. City and fringe, and Islington were the areas with the highest growth in value (see figure 2). PCL prices increased 1.0% over the third

quarter of 2014, compared to 2.3% during the second quarter. The rate of monthly price increases finally fell to 0.3% in both July and August, after rising to 0.8% in March and continuing at that rate of growth consistently until June. In September the monthly increase in prices was heading back up at 0.4%, putting growth back to January 2014 levels.

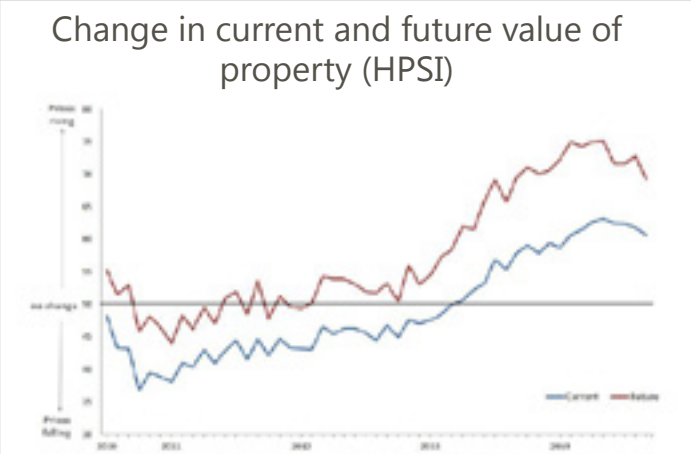
Property Price Brackets – According to the Land Registry data, the number of £1m+ properties sold in London in July 2014, increased by 17% on last year's figures and £2m+ property sales increased by 23%. Knight Frank's data shows the annual growth in average prices for these PCL properties remains positive (see figure 3). The most significant increase on the previous year's figures was seen in the super-prime bracket, where the £10m+ properties experienced annual growth rates in value of around 4% in September 2014, a marked jump up from the previous year when growth was under 3%. In the £5m to £10m property bracket annual price growth in this period was slightly higher at around 4.5%, while for properties between £2m and £5m it was about 6.5%. The lower end of the prime market, properties valued at £1m to £2m, grew at the highest rate – around 12% in the year to September 2014.



Source: Knight Frank Residential Research

Knight Frank's Prime Central London Sales Index, September 2014

Figure 3



Source: Knight Frank / Markit

Knight Frank's House Price Sentiment Index (HPSI), September 2014

Figure 4

Current Price Sentiment – Knight Frank's House Price Sentiment Index (HPSI), which measures UK households' perceptions of current and future property values, saw the current HPSI value decline for the fourth consecutive month since its record high in May 2014 (see figure 4). However, for the 18th consecutive month the sentiment was that property values have continued to rise. Households across all 11 regions surveyed expressed a perception that their property values had risen in September, but at the slowest rate since January 2014. As always, perceptions of current price rises were strongest in London, although these were lower than they had been at their peak in May.

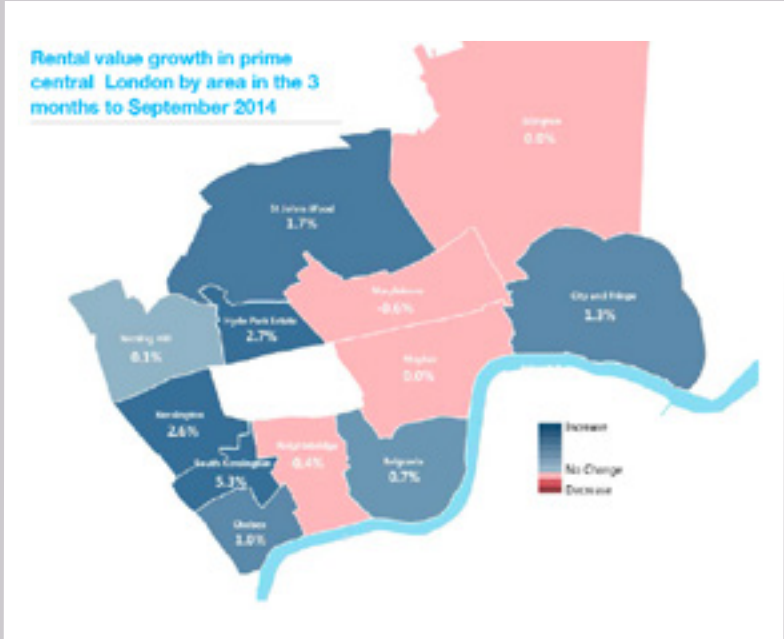
Future Price Sentiment – The future HPSI for the UK fell to its lowest value in just over 12 months, after peaking in May 2014 (see figure 4). Future expectations for London also fell again this September, after peaking in April. In the last three months the South East has outranked London in terms of the strength of these future expectations. However, expectations for price rises in London still remain well above the index base rate and have more often than not topped the charts over the last 12 months. Overall expectations are property prices will continue to rise further in 2014, but the rate of growth will continue to diminish to more moderate levels. This remains a positive sign as the market continues to stabilise.

International Buyers – A significant percentage of PCL property buyers remain foreign. Albeit to a lesser extent, investment is still being driven both by international investors looking to escape economic and political instability in their own countries and by high-net-worth-individuals (HNWIs) simply looking to diversify their excess wealth. In the first half of the year we began to see a greater influx of Europeans from countries whose economies have been struggling to recover and who see London as a safe place to weather the economic storm. According to Knight Frank, Italians made up 6% of the foreign buyers in London, the French were the second largest group at 4.1%, and the Russians, in third place at 3.8%, still maintain a significant presence in the prime central London property market.

- *Land Registry House Price Index, September 2014 - © Crown copyright 2014 Land Registry. © Crown copyright material is reproduced with the permission of Land Registry under delegated authority from the Controller of HMSO;*
- *Knight Frank's Prime Central London Sales Index, August 2014 and September 2014;*
- *Knight Frank's House Price Sentiment Index (HPSI), September 2014.*

The Rental Market

According to LSL Property Services' Buy-to-Let Index, although the annual growth in rental rates in England and Wales declined to 1.5% in September, compared to its peak of 2.4% last month, it is significantly higher than the annual rise of just 0.6% seen last April. In fact, average rental rates are now at record levels, with 50% of regions seeing higher rents than the previous year. In London, the picture was also positive with an annual increase in rents of 2.2% and a monthly increase of 0.5%. On a monthly basis, although this is the lowest increase in the last five months, it is still a significant turnaround

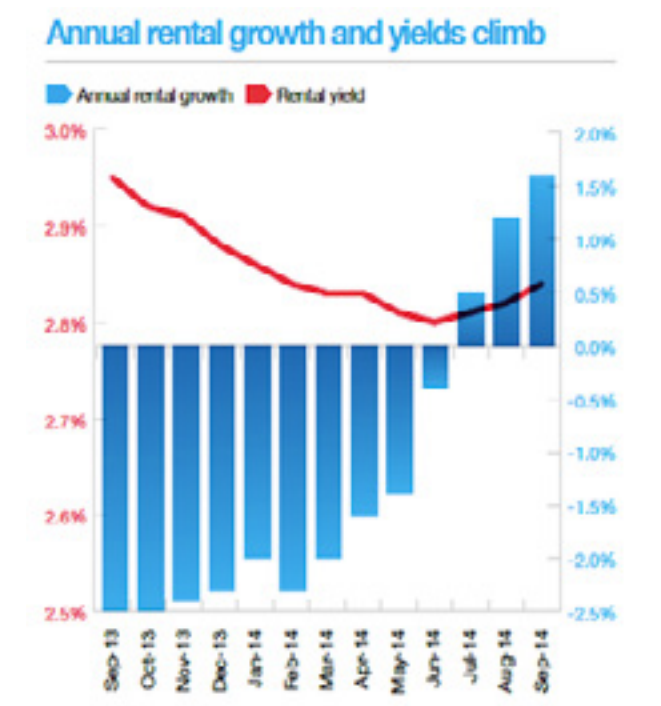


Source: Knight Frank Residential Research
Knight Frank's Prime Central London Rental Index, September 2014

Figure 5

from the 0.4% fall in rates we had seen in March and again in April.

In prime central London (PCL), according to Knight Frank's Rental Index, rental rates have now risen for the seventh consecutive month, increasing 0.2% in September 2014. Although this rate of growth is lower than it has been in previous months, it is now the third consecutive month in which annual growth in rental rates has been positive. In fact, at 1.6% for the 12 months to September 2014, it is the highest it has been for the past 30 months. The prediction that growth rates would be back in the black by July were clearly correct and the longest period of decline since the inception of the Knight Frank index is officially over. Quarterly PCL figures show an increase of 1.2% since June 2014, which is the third quarterly rise in three years. South Kensington, Hyde Park Estate, and Kensington were the areas with the highest quarterly growth in rental values (see figure 5).



Source: Knight Frank Residential Research
Knight Frank's Prime Central London Rental Index, September 2014

Figure 6

The downward shift in the rental market began in mid-2012, when many jobs were lost in the financial sector. According to Knight Frank's data, the recovery, which finally got underway at the beginning of the year, has been slow, but is now in full swing. In the second quarter of this year the size of the economy had actually grown 2.7% above its peak before the downturn. As rental values also begin to make a marked recovery, further buoyed by the lack of confidence surrounding next year's general election, so to are rental yields improving (see figure 6). In September yields on PCL properties were up to 2.84% from 2.82% the previous month, which is the highest increase in over three years.

According to LSL Property Services, the same picture is being seen across England and Wales. Although gross yields on rentals declined to 5.0% in September 2014, compared to 5.4% in September 2013, average total annual returns were 13.4%, compared to 7.9% in the same month a year ago and up slightly on August's annual figures too. This is a new record, beating the peak seen in April 2010, when annual returns were 12.9% and out-performing LSL's prediction that it could take another year to reach these levels again. LSL are now predicting annual returns in England and Wales could reach 22.1% over the next year, if rates continue to rise as they have in recent months. London is now averaging a monthly gross yield of 4.2%, having declined slightly over the last couple of months.

- *LSL Property Services Plc's Buy-to-Let Index, August and September 2014;*
- *Knight Frank's Prime Central London Rental Index, September 2014.*

Fiscal & Regulatory Outlook

There have been a number of changes to the UK tax regime over the past couple of years, with some more taking effect over the next 18 months. The changes will in all probability affect both UK and non-UK residents when buying or selling a residential property. The property taxes that should be taken into consideration are the Annual Tax on Enveloped Dwellings (ATED), the Stamp Duty Land Tax (STDL), the Capital Gains Tax (CGT), and the Mansion Tax, which may come into play next year, depending on the outcome of the UK general election in May 2015.

Following the budget announcement earlier this year, the original £2m+ threshold for the ATED and the STDL was lowered to include any properties valued over £500k, which were owned or purchased by companies that were not property investors or developers. The ATED extension will come into effect in April 2015, for £500k and £1m properties, and April 2016, for £1m and £2m properties, while the STDL extension came into effect in March 2014. Both taxes work on a sliding scale basis (see figures 7 and 8).

Annual tax on enveloped dwellings

Property Value (based on 1 April 2012 value or value at date of acquisition if later)	ATED
£500,000 to £1,000,000	£3,500 (from 1 April 2016)
£1,000,001 to £2,000,000	£7,000 (from 1 April 2015)
£2,000,001 to £5,000,000	£15,400
£5,000,001 to £10,000,000	£35,900
£10,000,001 to £20,000,000	£71,850
£20,000,001 +	£143,750

Source: Mischon de Reya's Residential Property in the UK: A Guide to UK Tax on UK Residential Property, April 2014

Figure 7

In addition to these changes, the budget also stipulated from April 2015, non-UK residents will have to pay a UK CGT when selling any residential properties in the UK, whether buy-to-lets or owner-occupied properties. Previously, if a UK property was personally owned, there would not have been any CGT to pay on the profits from a sale of the property, or on the market value of the property were it to be given as a gift. However, with the extension of the CGT to non-UK residents, from April 2013 onwards profits made by non-UK companies will be taxed at a rate of 28% on residential property valued at £2m+, where the property was occupied by a non-UK resident or their family. According to Mishcon de Reya, an international law firm with offices in London and New York, profits on properties with a value of £1m+ or £500k+ will also incur CGT from April 2015 and April 2016 respectively, when the ATED is applied to these properties.

Stamp duty land tax

Purchase price	SDLT (% of purchase price)
Not more than £125,000	0%
£125,001to £250,000	1%
£250,001to £500,000	3%
£500,001 to £1,000,000	4%
£1,000,001 to £2,000,000	5%
£2,000,001 +	7%
OR	
£500,000 + (purchase by a non-natural entity such as a company, whether UK or non-UK, except where the property is to be bought for development purposes or is to be rented to third parties on a commercial basis)	15%

Source: Mischon de Reya's Residential Property in the UK: A Guide to UK Tax on UK Residential Property, April 2014

Figure 8

Mischon de Reya are also still expressing some concern over the government's proposition to remove property owners' right to choose a principal residence in order to benefit from the CGT exemption called Principal Residence Relief (PRR). This proposed change would affect anyone, including UK residents, who has more than one home, whether additional homes are in the UK or outside of it. Previously, CGT was paid only on profits from sales of properties that were not the principal residence. While UK, and now non-UK residents, will still be able to benefit from the PRR exemption, the proposition is to have the HM Revenue & Customs (HMRC) decide on which property would qualify as the principal residence, based on 'demonstrable' evidence. Also, the period in which property owners can sell their main home after moving out, without paying CGT, has been reduced from three years to 18 months.

However, what is causing more concern and uncertainty in the marketplace is the possible introduction of the so called 'Mansion Tax', following the UK general election in May, which would apply to all properties valued over £2m. First of all, according to Knight Frank, 'Mansion Tax' is a misnomer, as the vast majority of the £2m+ properties in Greater London this tax would affect are flats (38%) and terraced houses (36%), not 'mansions'. Only 14% of £2m+ properties are detached and could therefore, be loosely called 'mansions', and a further 12% are semi-detached. The introduction of such a tax would also hit the prime central London (PCL) boroughs of Kensington and Chelsea, and Westminster the hardest, since 46% of all £2m+ residential properties across England and Wales are located there. Seeing as London's £2m+ properties contributed over 80% of stamp duty revenues to the taxman's coffers in 2013/14, HMRC cannot afford to drive PCL investors away, be they local or foreign.

- *Mishcon de Reya Law Firm, The Budget Briefing, 2014;*
- *Mischon de Reya Law Firm, Residential Property in the UK: A Guide to UK Tax on UK Residential Property, April 2014;*
- *Mischon de Reya Law Firm, Government Hides Significant CGT Changes Affecting UK Residents in Plans to Tax Non Residents, May 2014;*
- *Knight Frank's Prime Central London Sales Index, September 2014.*

Area in Focus

Nine Elms - Central London's Newest Location

For a 100 years, the South Bank was the capital's central industrial district, dominated by river trade and more recently by Bankside and Battersea Power Stations. Although County Hall and the Royal Festival Hall were rare interventions into this industrial landscape, the closures of the power stations at Bankside in 1981 and Battersea in 1983 were the catalytic events which changed the landscape.

The district of Nine Elms, stretching from Vauxhall to Battersea, is the final chapter of an extraordinary regeneration story for the South Bank – London's 'Third City'. Bordered to the north by the river and to the south by a 19th century rail viaduct, and extending some eight miles from Tower Bridge to Battersea Park, this most central of locations has come alive in the last 30 years with a series of new hubs of urban development, social activity, and world-class culture.

Industrial activity has given way to a stunning array of districts, both new and reinvented, in the heart of the capital. City Hall and More London, Borough Market, the Tate Modern and the Globe Theatre, the South Bank Centre, the London County Hall and the London Eye, St Thomas's Hospital, Lambeth Palace and the Archbishop's Park – all have created a tidal wave of successful residential, commercial, retail, cultural, and leisure development over the last 30 years.

Nine Elms

Nine Elms is currently going through a magnificent and profound metamorphosis creating a new landmark riverside district for central London. Nine Elms, in its planning and architecture, benefits from the visionary thinking of one of the foremost practitioners in the industry, Sir Terry Farrell. Sir Terry was given the task of master-planning the regeneration of the area in 2009.

A key element of the overall master-plan for Nine Elms is the Linear Park, running from Vauxhall Bridge to the Battersea Power Station site, providing a sustainable, green backbone to the new quarter. The inspiration for the Linear Park comes from New York's High Line, a mile long park built on an elevated section of the former New York Central Railroad, running down Manhattan's Lower West Side. It has now been reclaimed and planted as an aerial greenway, which has in turn had a phenomenally positive regenerative impact upon the entire district.

At the core of Nine Elms sits the US Embassy. The decision to move

NINE ELMS FACTS & FIGURES

- Total investment in regeneration: £15 billion.
- Total investment in infrastructure alone: over £1 billion.
- Two new tube stations proposed at Nine Elms and Battersea by 2020.
- Up to nine new hotels.

- Regeneration area: 482 acres – 3 times the size of Hyde Park.
- 18,000 new homes being built: 3,000 will be affordable homes.
- 22,000 new construction jobs being created.
- 25,000 new post-construction jobs to be created.

- 6.5m sq ft of commercial space.
- 2.8m sq ft of retail space – 50% more than Westfield in Stratford.
- 54,000 sq ft of community / leisure space.
- Over 3m sq ft of office space.

the embassy to Nine Elms was made in 2008. Architectural competition winner Kieran Timberlake's iconic design for the new building and its landscaped surroundings gives imaginative form to the need to create a holistic, highly functional, environmentally sound, secure space, which is at the same time welcoming to the community. The presence of the embassy could possibly attract other diplomatic missions to relocate to this area.

Finally, the new Union Square is a rich mix of restaurants, bars and cafés, hotels, shops, and enterprising businesses that promises the neighbourhood a lively, busy street life with the cosmopolitan feel London has become famous for.

- *The Communication Group Plc;*
- *KieranTimberlake.com;*
- *TransportForLondon.gov.uk.*

Development in Focus

Embassy Gardens, Nine Elms

Embassy Gardens is a new riverside development adjacent to the new US embassy and the centrepiece of the new quarter of Nine Elms on the South Bank. Embassy Gardens consists of both residential and commercial buildings and has been thoughtfully designed and landscaped with public squares, parks, and gardens radiating off the Linear Park – the soft backbone running through the whole of Nine Elms, from Battersea Power Station all the way to Vauxhall Cross.

Nine Elms is undergoing a spectacular and radical transformation from inner city twilight zone to shining example of world class urban redevelopment, creating a new landmark riverside district for central London. This is undoubtedly a very exciting new chapter in the story of riverside London and quite possibly the last time the capital will see the creation of such a completely new district, where none existed before. Vauxhall Tube Station (zone 1), on the Victoria Line, and Vauxhall Rail Station are just nine minutes walk from Embassy Gardens. A footbridge over the Thames is also

Embassy Gardens

planned, which would make Pimlico a mere five minutes walk away.

Embassy Gardens consists of three buildings: the Ambassador Building, the Capital Building, and the Chancery Building, creating a total of 2,000 new homes. It has stunning landscaped gardens, a boutique hotel, vibrant new bars and restaurants providing 'al fresco' spaces, and 130,000 sq ft of retail space. The flats rise over 19 floors and range from studio suites to one and two bedroom apartments, and three bedroom penthouses. The Ambassador Building takes in spectacular, traditional views of London, such as the River Thames, Westminster and the Houses of Parliament, as well as newly formed icons such as the London Eye and the Shard.

The aesthetic is inspired by classic 1950s American design, which manifests itself through the creative use of space, materials, and detailing. Generous spaces and floor-to-ceiling windows, together with materials such as marble and walnut parquet flooring, quietly impart quality and class, reinforcing the sense of solidity and enduring good taste. Balconies are a great feature of the typical Manhattan apartment, providing private outdoor spaces, many of which are winter gardens or a suntrap for south-facing apartments.

Embassy Gardens also has a Private Residents Club centred in the grand lobby of the Ambassador Building, providing round-the-clock concierge services together with a private lounge and library, café / bar / restaurant, a fully equipped business centre, and a private cinema. The Private Residents Club also features a fully equipped fitness gym, health spa, yoga and dance studio, and a 16 metre indoor / outdoor swimming pool. For private functions there is also the unique apartment lounge.

The design of Embassy Gardens is the result of an exemplary collaboration between four world-class architectural practices: Terry Farrell & Partners, Feilden Clegg Bradley Studios (winners of the Stirling Prize, 2008), Allford Hall Monaghan Morris, and FLACQ / Arup. Ballymore, who in the course of the last 20 years has been involved in some of the most iconic and successful urban regeneration projects in London, is the developer and has designed the interiors.

The designs are strongly influenced by the commercial buildings of the 1930s in Manhattan's Meatpacking District, which give Embassy Gardens a highly distinctive look. The most striking feature of the proposed apartment buildings in Embassy Gardens is their variety of style, size, and character.

Phase I was launched in 2012 and is now sold out, with the first residents due to move in during Spring 2015. Phase II will launch early in 2015 and construction is already underway.

- *EmbassyGardens.com;*
- *BallymoreGroup.com.*

The GV Perspective

The current climate in the UK and London is one of uncertainty, driven by a number of factors. A rise in interest rates has been cause for speculation for some months and although there is little doubt interest rates will indeed rise next year, the expectation of an immediate rise has diminished slightly, given the further economic deterioration in Europe. Lower than expected increases in inflation, keeping it well below the 2% target, will also encourage the Bank of England to delay a rise in interest rates in the very near future. Notwithstanding the fact that growth in the UK economy is likely to top most other European nations this year, with recent news that even Germany may now be on the verge of its third recession since the crisis, European-wide economic decline will undoubtedly continue to have repercussions in the UK – some negative, some positive.

The scheduled introduction, in April 2015, of the Annual Tax on Enveloped Dwellings (ATED) on properties over £500k owned by companies that are not property investors or developers, combined with the lowering, in March 2014, of the 15% Stamp Duty Land Tax (SDLT) threshold to include properties over £500k owned by companies that are not property investors or developers, has added some additional uncertainty to the market, albeit not substantial as it effectively excludes buy-to-let properties. However, what has caused more uncertainty is the upcoming UK general election in May and the possible introduction of the so called 'Mansion Tax', which would apply to all properties valued over £2m.

Last year's budget announcement that, from April 2015, non-residents will have to pay a UK Capital Gains Tax (CGT) when selling any residential properties in the UK, has also created some skepticism in the market. However, we do not expect this to have a major impact on the market, as in effect it simply brings the UK in line with many other countries. In any case, international property buyers would first have to make a profit on the sale of their property in order to pay any CGT, so that should not deter investors unduly.

The new limits being imposed on mortgage lenders by the Financial Policy Committee (FPC) from October 2014, mean the proportion of mortgages that lenders can make on multiples greater than 4.5 times earnings is limited to a maximum of 15%. Data from the Council of Mortgage Lenders (CML) shows the proportion of such loans in London is 19%, while in the UK it is 9%. Although these limits may have a negative impact on the market, we believe for the most part this will be offset by the fact that there are considerably more cash buyers in London than in the rest of the UK. Finally, we do not believe the Mortgage Market Review (MMR), which imposes more rigorous scrutiny of household outgoings, and which took effect in April 2014, has so far had any noticeable repercussions on the new homes market in London and the UK.

With this much uncertainty, it is not surprising the rate of growth in prices for prime central London (PCL) properties has declined in recent months. According to Knight Frank, in the second quarter of the year, the number of new potential buyers fell by 20% compared to the previous year's figures and total viewings fell by 15%. However, the rate of property exchanges declined by only 1% in the same period and annual growth in PCL prices rose for the 47th consecutive month in September 2014, following their peak in June. Over the next couple of years, it is expected growth in sales prices will continue across the UK and PCL, but at declining rates until the market stabilises at growth levels of around 4% and 5% respectively. At the same time, growth in rental rates in the same areas is predicted to continue on its upward trajectory until it too stabilises at slightly lower growth levels of around 2% in the UK and 3% in PCL (see figure 9). Even at an overall annual return of 8%, prime central London property will still remain a very attractive asset class.

Knight Frank Residential Market Forecast Q4 2014

	2014	2015	2016	2017	2018	2019	2015-2019
Mainstream residential sales markets							
UK	8.5%	3.5%	2.5%	3.0%	4.0%	4.0%	18.2%
Prime residential sales markets							
Prime Central London	6.7%	0.0%	4.5%	5.0%	5.0%	6.0%	22.1%
Prime Outer London	10.5%	3.0%	5.5%	5.0%	5.0%	5.0%	25.8%
Residential rental markets							
UK Mainstream	2.0%	2.2%	2.3%	2.3%	2.4%	2.4%	12.1%
Prime Central London	4.0%	3.5%	3.3%	3.3%	3.0%	3.0%	17.1%
Prime Outer London	0.5%	4.0%	3.3%	3.0%	2.8%	2.8%	15.8%

Source: Knight Frank Residential Research

Knight Frank's UK Residential Market Update, October 2014

Figure 9

Source: Knight Frank Residential Research

Knight Frank's London Residential Review, Summer 2014

Figure 10

According to Knight Frank, foreign buyers now make up less than half of super-prime central London property buyers. This is a drop from 64% in 2013 and 73% in 2012. This decline at the £10m+ end of the market could be the result of a combination of factors: the increasing value of sterling, the recent changes to residential property taxes in the UK, the increase in the number of home-grown billionaires, and the perception Europe is over the worst. However, with the recent news that even the stronghold economies of Europe are at risk of falling back into recession, we can assume there will still be plenty of foreign investors looking to purchase £1m+ PCL properties, though their profile may be changing somewhat. The decline in China's economy and continuing unrest in Ukraine are also positives for the UK property market. London's appeal remains well-founded and PCL property is still regarded as a safe haven, especially while overall investment returns, which cover capital value growth and rental income, remain strong. At 11.1% in the 12 months to June 2014, PCL property returns are still outperforming most other asset classes (see figure 10).

- *Knight Frank's UK Residential Market Update, October 2014;*
- *Knight Frank's London Residential Review, Summer 2014;*
- *Knight Frank's Super-Prime London Insight, Q2 2014.*

Quarterly Tip

KYS – Know Your Seller: Knowing the circumstances of the seller is vital in negotiating the price. If, for example, the seller is a developer with a few properties in his portfolio and with the bank on his back, he may be more motivated to sell... this sort of insider information can be invaluable.

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