MARKET REPORT

Q4 2017

SALES MARKET

2017 was a year of price readjustment in the prime London housing market. The continued impact of heightened property taxation and uncertainty over the implications of Brexit resulted in significant readjustments in property prices. Knight Frank report that across prime central London 40% of sub £2 million properties underwent a price reduction in the year to November, versus 29% above £5 million. Data from LonRes indicates that properties sold on average for a 10% reduction on initial asking price.

The UK House Price Index shows that annual price growth across Greater London was 2.1% in the year to November, lower than that of England and Wales every month since December 2016. According to Knight Frank, in prime central areas, average prices fell by 0.7% in the year to December, the most modest rate of annual decline recorded since June 2016, a suggestion prices are bottoming out. Meanwhile the Royal Institute of Chartered Surveyors (RICS) reported in December the proportion of agents expecting prices to fall over the next three months was at its lowest level since April 2017.

Transaction volumes have remained steady throughout 2017. LonRes data indicates that December was the second busiest month of 2017 for sales across prime London, with sales volumes 9.4% higher year-on-year in the six months since June. A net balance of agents in the December RICS survey predicted activity levels will improve across London over the next twelve months.

As for 2018, while London retained its title as the 'World's Best City', beating New York and Paris in the Resonance ranking of Global Place Equity, buyer sentiment is still liable to be affected by the ongoing Brexit negotiations. An average of independent forecasts predicts house price inflation across the capital will be 0.6% during 2018, while a consensus of forecasts produced by HM Treasury predicts a rise of 1.9% across the UK as a whole.

FISCAL POLICY

Non-UK resident companies that carry on a UK property business, or who receive income or gains associated with UK property, will face the same tax rules and rates as UK resident companies from April 2020. This means non-UK resident companies will be liable to UK corporation tax as opposed to income tax and capital gains tax. Following consultation in spring 2017, the government published its decision in December. Draft legislation will be published in summer 2018.

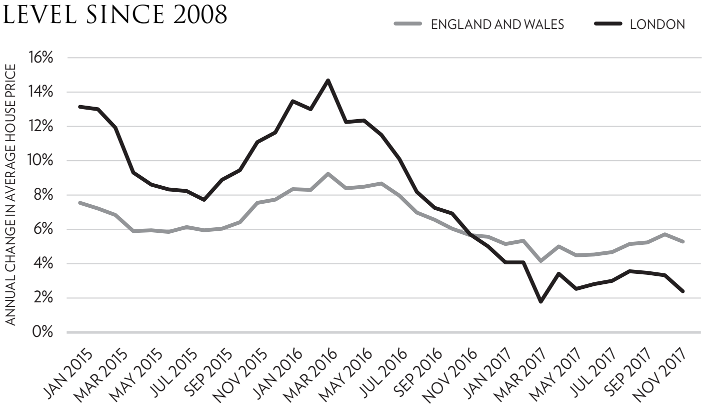
Family Investment Companies (FICs) are increasingly being used as an alternative to trusts for long term succession planning. The UK's low corporate tax rates (20%) and the level of control family members can retain over assets owned by a company mean that FICs can be more tax efficient than trusts, which are liable for inheritance tax charges.

ECONOMIC BACKDROP

The FTSE 100 reached an all-time high on the 12th January 2018, 26.7% higher than in the immediate post-Brexit period. The value of the pound has also reached $1.38 for the first time since the referendum vote, bolstered by a falling dollar and talks of a relatively "soft" Brexit.

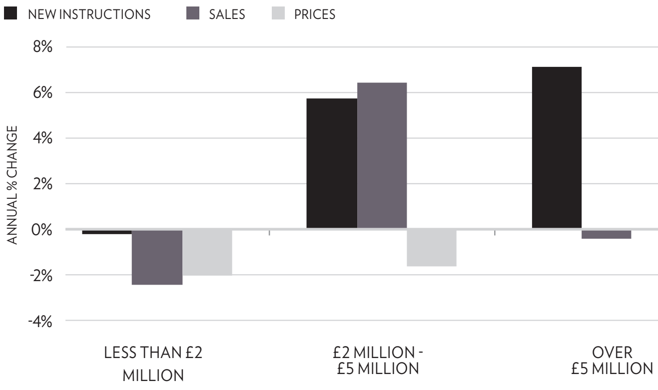
In December, the UK rate of inflation fell back slightly to 3.0%, from its 3.1% peak in November, with the Bank of England predicting inflation to fall to 2.4% by the end of 2018. Interest rates remain at 0.5%, anticipated to rise to 0.7% during 2018 and to just 1% by 2020.

PRICE GROWTH IN THE CAPITAL SLOWS TO LOWEST LEVEL SINCE 2008



Source: dataloft/UK House Price Index

2017 V 2016 – AN OVERVIEW OF THE MARKET



Source: dataloft/LonRes (prime London)

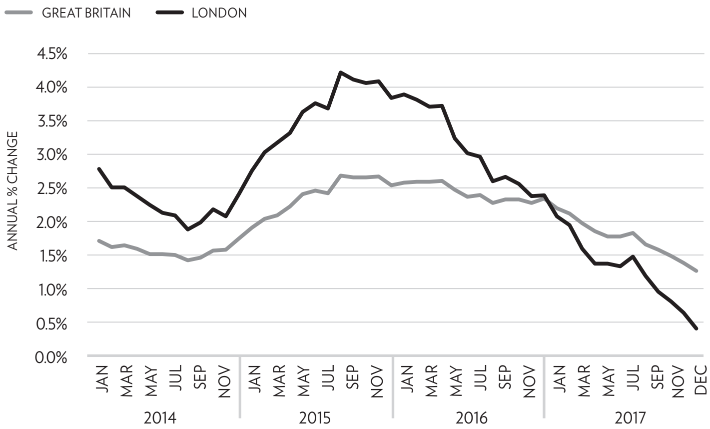
RENTAL MARKET

Average rental prices across Great Britain rose by 2.1% in the year to December according to the Office for National Statistics (ONS), the lowest annual increase since the index was started in January 2012. Rightmove report average asking rents rose by just 0.7% in the UK (excluding London) during 2017, their lowest rise since 2014. Across London, the ONS report rental price growth fell to 0.4% in December, the lowest level of annual growth since autumn 2010, while Knight Frank report average rents across prime central London fell 2.2% year-on-year in December.

Rental value growth has been falling year-on-year for more than two years across the capital, mainly due to rising supply. Contributing factors include the surge in new lettings properties following the introduction of the additional 3% stamp duty levy in April 2016 and the muted sales market which has led to a growth in so-called 'accidental' landlords. However the pattern now looks to be reversing. Knight Frank recorded a like-for-like fall of 1.2% in the number of new lettings properties coming to the market between January and November 2017 versus the same period in 2016, with demand remaining strong. The agency note there was a 19% rise in viewings between January and November 2017 versus the same period in 2016, while the number of tenancies agreed rose by 14% over the same period.

Although the number of new instructions fell across much of the market, data from LonRes reveals a 7% rise in the number of new instructions across prime London for properties with initial asking rental values of over £5000 per week. Demand here looks to be outpacing supply. The number of properties let in 2017 with rental values of £5000+ per week were up 34% on 2016 as many prospective purchasers are choosing to rent while the sales market is muted.

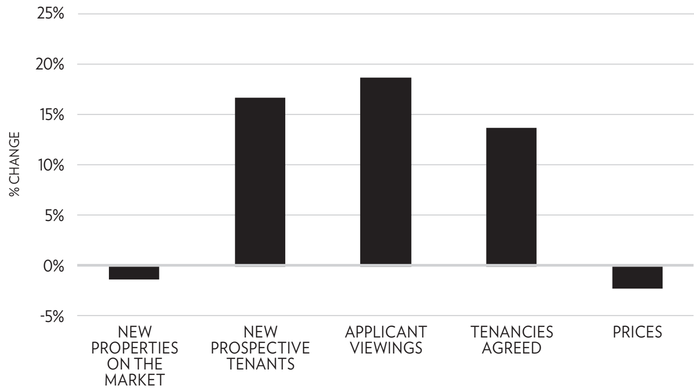
WILL THE TIDE TURN ON RENTAL VALUES IN 2018?



Source: dataloft/ONS, Index of Private Housing Rental Prices (IPHRP), January 2018

PRIME CENTRAL LONDON 2017 VERSUS 2016

NEW DEMAND BEGINS TO OUTSTRIP NEW SUPPLY



Source: Knight Frank Research, comparison January-November 2017 versus January-November 2016

GOLDEN VENN PERSPECTIVE

While 2017 saw a readjustment in prime central London property prices, there are signs of the market bottoming out. Average prices fell by just 0.7% in the year to December, the lowest decline since June 2016. Sales volume remained steady, with Q4 seeing a 3.8% uplift on the previous year. In a similar vein, the rental market saw a double figure pick- up in tenancies agreed January to November last year, compared with the same period in 2016. This, together with more encouraging sounds coming from the Royal Institute of Chartered Surveyors (RICS), indicates a more positive market outlook.

Brexit has not in itself been the main reason for the relative slowdown in the prime central London property market. Nevertheless, the uncertainty has had an influence on sentiment. At Golden Venn, we expect sales volume to remain relatively steady in 2018, with some further readjustment of the prices due to higher transactions costs. We believe this will create pockets of opportunity for the discerning investor.

With the FTSE 100 recently reaching an all-time high, together with a stabilising inflation rate and talk of a 'soft' Brexit, we see a London which is reaffirming itself as a safe place to invest.

Golden Venn is a boutique firm specialising in advising international buyers on the acquisition of investment properties in prime central London and other major cities around the world.

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