SALES MARKET

Brexit uncertainty overshadowed the London housing market in 2018. The 29th March deadline is just two months away and the stakes economically and politically remain high.

While annual price growth across the UK remains positive, 2.8% in the year to November, prices across the capital fell by 0.7% over the same period (UKHPI). Across prime central London Knight Frank report that the annual price change in the year to December was -4.4%, data from LonRes indicating average achieved prices per square foot are 5.5% lower in 2018 compared to 2017. Price reductions remain commonplace, close to nine in every ten properties sold across prime central London in 2018 was reduced prior to sale, on average properties selling for a 12% discount on their initial asking price (LonRes).

Markets demand certainty, and clarity about the UK's future relationship with Europe will reassure both potential buyers and vendors. At present needs-based decisions are dominating the prime London market, although there are signs of pent-up demand building. Knight Frank report that the number of prospective buyers per new listing has risen during the second half of 2018, with the number of new prospective buyers 8% higher in November 2018 than at the start of 2017. The level of new instructions has, however, fallen. LonRes data indicates there have been 31% fewer instructions across prime central London between July and the end of November compared to a year ago. This compares to a 15% increase in the first half of 2018.

Although the housing market is watching and waiting there is little sign that London's prestige on the global stage has been muted. The UK topped the league for the second year running as Forbes best country for business in 2018, thanks to the strength of its workforce, innovation and lack of red tape. London ranks number one across the globe for its business environment and lies, just two points behind New York (out of 1000) as the world's leading financial centre (ZYen), its influence expected to rise over the next 15 years. It is also ranked in the top two in the world for students[1], its global influence[2] and as the second most visited city in the world[3]. The prestige, cultural diversity and educational attractiveness of London remain undiminished.

[1] QS Best Student Cities (2018), [2] AT Kearney (2018), [3] Mastercard (2018)

FISCAL POLICY

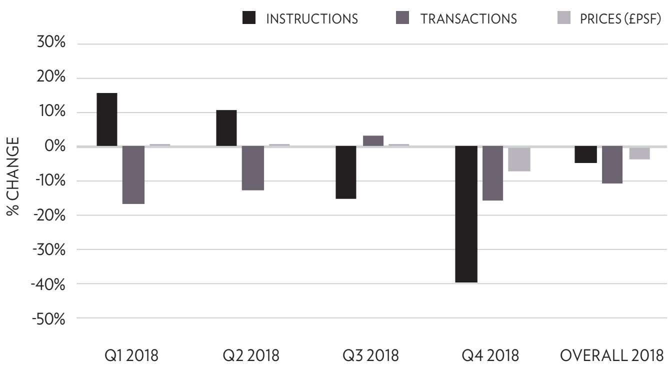
The Tenant Fees bill is set to become law in England on 1st June. It will become a civil offence for agents to charge fees to tenants in the private rented sector, with punishment of £5,000 up to £30,000 for those found flouting the law. Tenant deposits will be limited to a maximum of five weeks' rent on properties let for under £50,000, with a cap of one week's rent on holding deposits.

The production of a public register of beneficial company ownership due in 2020 will now be delayed until 2023. Over two-fifths (45%) of property title registrations held by HM Land Registry where the legal owner is an overseas company are located across London, a significant proportion in prime central London. Over two-fifths (42%) of titles are held by companies incorporated in the British Virgin Islands.

ECONOMIC BACKDROP

UK employment levels are at a record high while average wages across the UK rose by 3.3% in the three months to November, according to the Office for National Statistics (ONS). At present wage growth far outpaces inflation, which fell back to 2.1% in December, its lowest level since January 2016 (ONS). This figure is close to the Bank of England's 2% target and may well mean the Bank is less likely to consider any rise in interest rates over the coming months. Despite the positive news, predictions for growth across the economy in the final quarter of 2018 remain at just 0.4%, placing annual growth at just 1.3% with the value of the FTSE 100 lower at the start of 2019 than the start of 2018.

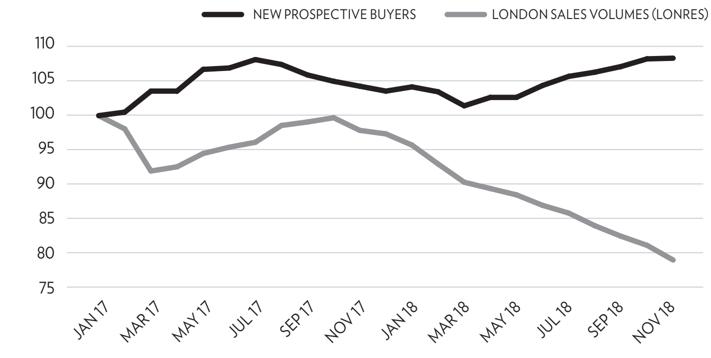
PRIME CENTRAL LONDON MARKET 2018 VERSUS 2017



Source: dataloft, LonRes, Instructions to end of November, transactions and prices to end of December

PENT-UP DEMAND FORMS ACROSS PRIME CENTRAL AND PRIME OUTER LONDON

ROLLING 12-MONTH AVERAGE, REBASED TO 100 AT JAN 2017



Source: Knight Frank Research / LonRes

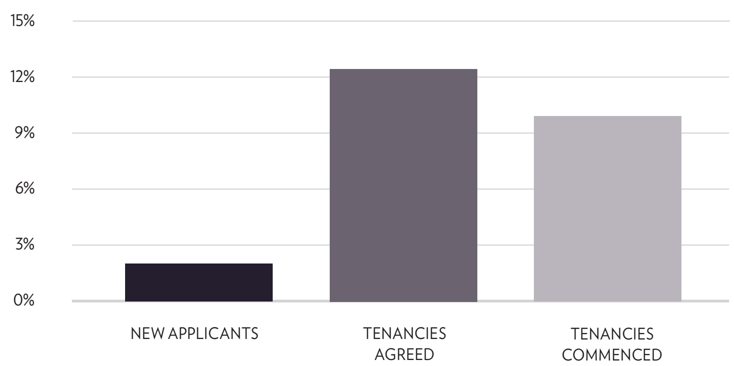
RENTAL MARKET

Growth in rental values across the UK has remained stable throughout 2018, with annual changes consistently between 0.9% and 1.1% according to the IPHRP produced by the Office for National Statistics. In contrast the London market has proved more volatile, rents falling on an annual basis through the middle part of the year, with a 0.2% rise in the year to December, the first positive month for annual rental price growth since March 2018. Across prime central London, Knight Frank report an annual rental rise of 1.1% in December, with respondents to the latest RICS Survey anticipating rents to remain stable over the next quarter.

Lettings activity has remained resilient throughout 2018 and demand continues to remain robust. Knight Frank assert the number of new tenancies agreed in November 2018 was 12.3% higher than in November 2017, while the number of new prospective tenants rose by 2%. Supply levels however have fallen back over the course of the year, with 6% fewer instructions across prime central London between January to November 2018 compared to a year earlier (LonRes). The mid-to upper market has proved most resilient, with an increase in both new instructions and lets agreed of properties priced £2500-£3500 per week and £3500-£5000 per week. The final quarter of 2018 has also seen several prime lets (+£5000 per week) agreed, such lets accounting for 2.5% of all rental activity in the final quarter, up from just 0.9% during Quarter One.

A shortage of supply has maintained pressure on prices. Properties rented on average for 94% of their initial asking price during the final quarter of 2018, up from 90% during the first quarter of 2017 (LonRes). As rents have remained stable while sales prices have fallen, Knight Frank report that average gross yields in prime central London have risen. The average yield of 3.35% in December is the highest since April 2012, which they compare to a yield on a 10-year government bond of less than 1.3% in early December.

TENANT DEMAND REMAINS RESILIENT ACROSS LONDON
% CHANGE NOVEMBER 2018 VS NOVEMBER 2017



Source: Knight Frank Research

PRIME MARKET RENTS FAR EXCEED LONDON

Source: dataloft, Valuation Office Agency (December 2018)

GOLDEN VENN PERSPECTIVE

Resilience is the enduring feature of the UK economy. Strong economic headlines relating to record London employment figures and wage growth and a three-year high in the take-up of central London office space prove that the political uncertainty over Brexit has not affected the employment market.

A shortage in supply of rental property is creating upwards pressure on rents. Together with falling sales prices, average yields in December enjoyed a 6-year high of 3.35%. This compares favourably with alternative investments, including UK Government Bonds. Indications of pent-up demand in the sales market could point to conversion into sales, once clarity on Brexit is obtained.

Throughout this period of uncertainty, one thing stands out. London resolutely shines in global league tables; among others, topping the Forbes 'Best Countries for Business' ranking for the second year running. At Golden Venn we believe that this resilience and "desirability" mark London as a sound long-term investment.

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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