

## MARKET REPORT

According to the Land Registry's latest House Price Index (HPI), which captures actual changes in the value of residential properties, the price of property in England and Wales has increased by 5.3% in the last year. The region which experienced the greatest increase by far in its average property value over the last 12 months is London, with a movement of 13.8% (see figure 1). London property prices increased 5.1% in the three months to February 2014 alone.



### CITY IN FOCUS: New York City

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## Budget 2014: Key Announcements

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## KEY POINTS

London property prices increased 5.1% in the three months to February 2014 alone and 13.8% over the last 12 months.

Rental rates have risen for the second time in the last three months.

From April 2015, non-residents will have to pay a UK Capital Gains Tax (CGT) when selling any residential properties in the UK.

Bank of England has announced interest rates are unlikely to ever reach the pre-2007 levels of 5%.

Prices are forecast to rise into 2019.

The two London boroughs with the highest average house prices by far remain Kensington and Chelsea, and City of Westminster. The annual increases in these boroughs were 14.8% and 15.8% respectively.

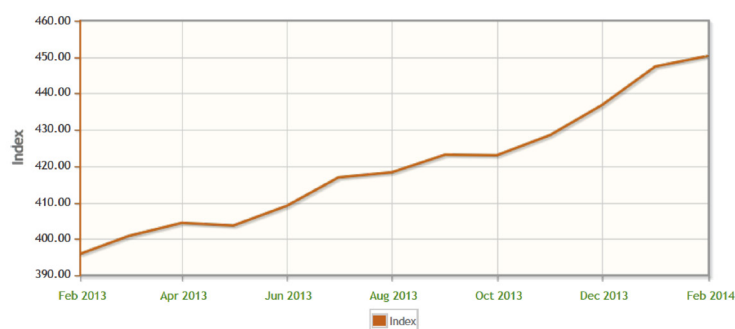
The number of £1m+ properties sold in London in December 2013, increased by 40% on December 2012 figures. Comparing the number of sales in the same months in the £2m+ bracket, the increase was again almost 40%, which shows the introduction of the new taxes on the £2m+ purchases have not affected the market.

According to Knight Frank, while annual growth rates in the wider London market remain in the double digits, price rises in prime central London (PCL) have seen their annual rate of growth decline to single digits compared to March 2012.

Nevertheless, PCL prices increased 1.9% during the first quarter of 2014 and have now risen an impressive 68% since March 2009, when PCL property prices hit their lowest point during the financial crisis.

The growth rates at the highest end of the prime property scale, notably in the £10m+ bracket, also remain positive, but are now in the low single digits. The annual growth for these super high-end properties was 3.4% in February 2014, down from 6.1% the year before. The good news is that the stock

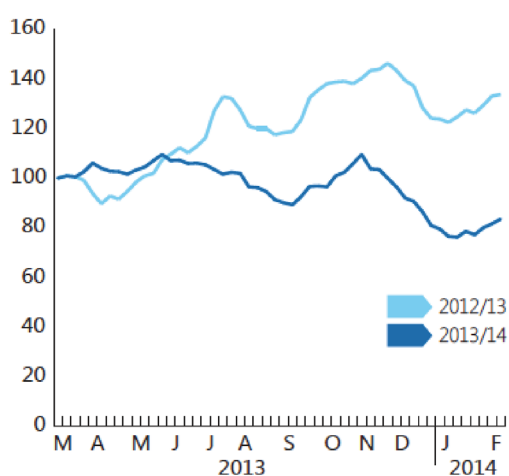
Land Registry House Price Index for London, 12 months to February 2014  
House price index



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Figure 1

**Stock levels are 21% down on February 2013 (rebased)**



Source: Knight Frank Residential Research

Figure 2

levels of these same properties is 21% lower than it was last year, so this lack of supply should keep prices buoyant (see figure 2).

Knight Frank's future House Price Sentiment Index (HPSI), which measures households' future expectations of their property values over the next 12 months, saw a record high in March 2014, exceeding the previous high of the preceding month (see figure 3). For the 12th consecutive month the sentiment was that property values had continued to rise. Households across all 11 regions surveyed expressed an expectation that their property values would rise further in 2014. These expectations rose to a record high in London



and this coming year, it is expected the market will see the highest price rises since early 2009.

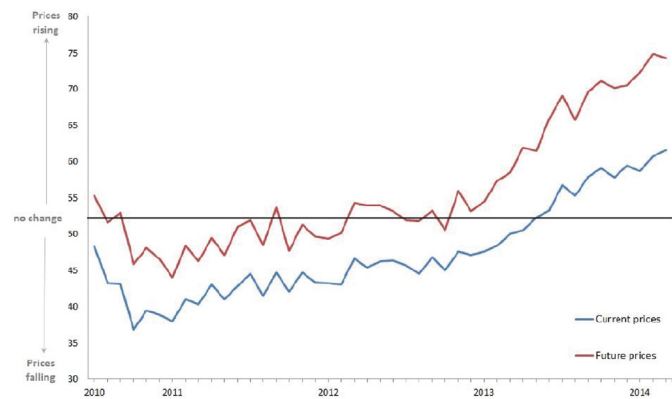
Last year we estimate around 50% of all buyers of prime property, which we define as those exceeding £1m, in central London were foreign. These predominately hailed from Europe, Russia, and the Middle East.

When we talk about new-build properties in this same bracket, the influence of non-UK investors on the market over the past three years is even more

evident, with closer to 75% of investors being non-UK nationals. Increasingly, these foreign nationals are originating from South East Asia and India. Apart from cultural reasons, this is most likely due to the fact that new-builds are favoured for investments, as they are easier to maintain for letting purposes.

- Land Registry House Price Index, February 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, February 2014 and March 2014;
- Knight Frank's House Price Sentiment Index (HPSI), March 2014.

Change in current and future value of property (HPSI)



Source: Knight Frank/Markit

NB: A score of 50 equates to no change, above or below representing growth or decline respectively.

Figure 3

## THE RENTAL MARKET

According to LSL Property Services' Buy-to-Let Index, rental rates in England and Wales have only risen 0.9% in the last 12 months, which is the lowest annual increase in over four years. In London, the picture is a little more positive with an annual increase in rents of 1.3%, although on a monthly basis rents did fall 0.4% between February and March. However, according to Knight Frank's Rental Index, the opposite is true in prime central London (PCL), where rental rates have now risen for the second time in the last three months, increasing 0.2% in March, but declining 2% compared to the same period last year. This is the longest period of decline since the inception of the Knight Frank index. Quarterly PCL figures show an increase of 0.1% since December 2013, which is the first quarterly rise in over two years and may be a sign that the market is nearing the end of its decline.

The downward shift in the rental market began in mid-2012, when many jobs were lost in the financial sector. Although, according to Knight Frank's data, the total decline in PCL rent rates during this period

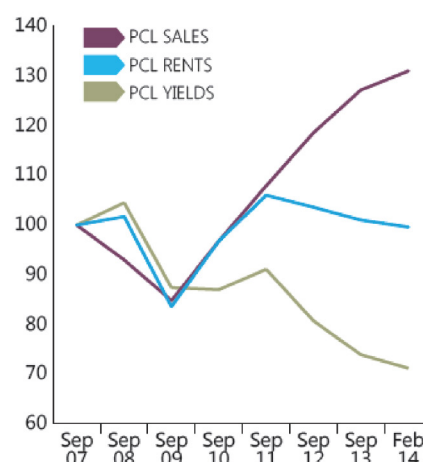


was actually only in the region of 5%, the recovery has been slow. However, there is a growing sense of confidence in the UK economy and its financial sector, so the rental market is expected to turnaround soon (see figure 4).

With regards to annual gross yields on rentals, according to LSL Property Services, London is averaging a 4.5% return, while PCL properties are only yielding an average 2.83% return, according to Knight Frank.

- LSL Property Services Plc's Buy-to-let Index, March 2014;
- Knight Frank's Prime Central London Rental Index, March 2014;
- Knight Frank's UK Residential Market Update, March 2014.

**PCL sales, rents and yields since September 2007 (rebased)**



Source: Knight Frank Residential Research

Figure 4

## FISCAL & REGULATORY OUTLOOK

The recently announced UK budget for 2014 will bring about a few changes for the property market, some welcome, some not. The extension of the Help to Buy Equity Loan until 2020 will help developers plan more extensive, sizeable projects and should continue to bolster development in the capital and an increased trust in the market globally.

Following the introduction, in 2012, of a 15% Stamp Duty Land Tax (STDL) on purchases of £2m+ properties by a company, the government is continuing to discourage the ownership of residential property by companies. The £2m+ threshold has now been lowered to include any properties valued over £500k. Companies seeking to purchase property in this new bracket from 20 March 2014 onwards, will have to pay the 15% STDL, unless they are property investors or developers.

The second item to affect the property market is the extension of the Annual Tax on Enveloped Dwellings (ATED), also introduced in 2012, to properties over £500k owned by a company. There are now two new bands: one for properties valued between £500k and £1m, and a second for properties

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valued between £1m and £2m. The ATED rates for these bands are £3,500 (commencing April 2016) and £7,000 (commencing April 2015) respectively.

In addition to these changes, it was also announced that as from April 2015, non-residents will have to pay a UK Capital Gains Tax (CGT) when selling any residential properties in the UK. This brings the UK in line with many other countries in this regard. The tax only applies to future gains, but will apply to all residential properties, whether buy-to-lets or owner-occupied properties. The CGT does not affect commercial properties. A [consultation paper](#) providing more detailed information was published on 28 March 2014.

With regards to interest rates, the Bank of England announced in its latest inflation report in February, that interest rates are unlikely to ever reach the pre-2007 levels of 5%, even after full economic recovery is achieved. Interest rates have now been at 0.5% for the past five years and although house prices are rising at a much faster rate in central London, the Bank does not believe this is indicative of a nationwide housing bubble. It is believed that the economy has enough spare capacity to keep inflation low and interest rates need to remain low in order to keep the economic recovery on track. The extension of the Help to Buy scheme to 2020, should also bolster supply and ease the pressure on prices. However, even when interest rates do rise, the 'new normal' is more likely to be around 2% to 3%; substantially lower than pre-recession levels. It is expected interest rates will begin a gradual rise to this 'new' level by mid-2015, once capacity levels have returned to normal and inflation is close to the Bank's target of 2%.

- *Mishcon de Reya Law Firm, The Budget Briefing, 2014;*
- *This is Money.co.uk, Interest rates will 'probably never' get near to 5% again, says Bank of England as it predicts economy to boom 3.4% this year, by Matt West, 12 February 2014;*
- *This is Money.co.uk, When will interest rates rise? Inflation takes a tumble down to 1.7% and could keep base rate on the floor for another year, by Simon Lambert, 25 March 2014.*

## AREA IN FOCUS

### Marylebone - The Central London Favourite

The new taxes introduced in 2012 targeting £2m+ properties purchased by companies have led a lot of international investors to divert their property portfolios from Mayfair to Marylebone. The location appeals to purchasers, as they are still able to buy a two bedroom flat within the £2m bracket, while its proximity to Mayfair makes it very desirable.

Marylebone is a very centrally located area just off Oxford Street, one of the main shopping streets in London. Hyde Park and Regent's Park sit on either side of Marylebone, making the location even more appealing with increasing numbers of people seeking easy access to open green areas as the weather improves. The parks offer endless possibilities for a great life outdoors, with swimming,





boating, riding, jogging, cycling, music events, organised sports, fairs, festivals, and picnics, to name but a few of the potential recreational activities. Marylebone also has a very picturesque high street with charming boutique stores, salons, exclusive furniture stores, galleries, bookstores, small cafes, bars, and top restaurants, as well as all the major supermarket chains and high-end department stores such as Selfridges.

It is for these reasons that Marylebone has recently seen the highest growth in sales prices in central London. 2013

saw a surge in interest in the location,

with activity continuing into 2014. According to Knight Frank, in the last 12 months average prices have increased 13.1%, while yielding total returns of 16.2% for the same period. The gross rental yield remains decent at 2.68%.

- *Manors mlife, Spring/Summer 2014;*
- *Knight Frank Prime Central London Rental Index, February 2014;*
- *Knight Frank London Residential Review, Spring 2014.*

Portman Square, Marylebone



## DEVELOPMENT IN FOCUS

### Manhattan Loft Gardens, Stratford

Manhattan Loft Gardens is a new development by Manhattan Loft Corporation in Stratford. “A previously rundown part of east London is taking on the banking heartlands of the City and Canary Wharf in a move that could see the emergence of London’s third financial business centre,” according to the Financial Times.

Almost £9 billion worth of private investment is being spent to regenerate the area along with the billions of public sector, foundation, charity, and partnership funding invested in transport infrastructure, public realm, retail offering, as well as sports, educational, and cultural facilities. The area is also surrounded by parkland and open spaces.



Westfield Stratford City is Europe's largest urban shopping centre, while the Financial Conduct Authority (FCA) has just signed a 20 year lease for a building adjacent to Manhattan Loft Gardens, relocating their 430,000 sq ft offices from the Canary Wharf financial district to Stratford City in 2018. Finally, the formerly Olympic Media Centre, newly named 'Here East', has already let 50,000 sq ft to BT Sport and 40,000 sq ft to the University of Loughborough.

Manhattan Loft Gardens has an extraordinary architecture conceived for a new way of living. It comprises a double-cantilevered tower with expansive living space, three sky gardens, and a design hotel.

The architects Skidmore, Owings & Merrill (SOM) have created some of the most important architecture of the 20th and 21st centuries. SOM's history, spanning 75 years and over 10,000 commissions in 50 countries, makes it one of the pre-eminent architecture and engineering practices in the world. In particular, SOM is a leader in conceiving and deploying new technologies that deliver improvements in quality of living and the built environment. Hence Manhattan Loft Gardens has been designed to have a responsible impact on the environment and its surroundings.

The building is comprised of 248 apartments, ranging from studios to three bedroom loft apartments. Prices start at £400,000, with completion estimated for late 2017.

The area is very well connected to public transport with the jubilee line going to Stratford Station. Stratford International Station is connected to the DLR and high speed trains to King's Cross St Pancras, with a journey time of only six minutes. Crossrail will arrive in 2018, providing connectivity across London (including a direct line from Heathrow airport, with an estimated journey time of 42 minutes to Manhattan Loft Gardens).

Manhattan Loft Gardens will be launched to the general public in September 2014.

- *Financial Times*, FCA confirms it will move HQ to Olympic Park, by Kate Allen and Daniel Schäfer, 2 April 2014;
- [Manhattan Loft Gardens.co.uk](http://ManhattanLoftGardens.co.uk).

Manhattan Loft Gardens



# CITY IN FOCUS

## New York Highlights

New York is a highly desirable city for the ultra-high-net-worth-individual (UHNWI) set. Although London's significance as a financial centre, its business credentials, and its high standard of living currently put it ahead of the game in terms of its appeal to UHNWIs, the US economy is showing signs of recovery and it seems New York is gaining ground in its political standing and influence on the world economy.

Property sales in New York were the strongest they had been for six years during the 2nd quarter of last year, having beaten the prediction of a major decline in growth for 2013, say Knight Frank. In the first quarter of 2014, average sales prices in Manhattan, one of the most sought after boroughs in New York, have increased by almost

17% on the previous year, the highest annual increase seen since 2008. There was also a 6.5% rise on the previous quarter, bringing the average sales price in Manhattan to \$900,000, according to New York City real estate website StreetEasy. Most of the increase in average sales prices during this period can be attributed to new developments. The prime housing market, which we define as those properties priced over \$3m, represents

around 13% of the total Manhattan market in terms of numbers of contracts signed, according to StreetEasy. The average price for a new development in Manhattan now stands at around \$2m.

In 2014, the New York property market continues to grow and is now stronger than it was in 2007, before the crash. It has proved itself to be resilient and strong, being the last to feel the effect of the crash and the first to bounce back from it. This year the activity in the market has gone way beyond the escalation that usually accompanies the spring warm up. There are a colossal 44 new developments being launched over this period, including both condos and rentals, in neighbourhoods from Inwood to Williamsburg, such as the Woolworth Building, Stella Tower, 30 Park Place's Four Seasons Private Residences, and Park Avenue South's Fortress of Glassitude.

Last month GV secured a Williamsburg Avenue pied-a-terre for its client.





However, notwithstanding these new developments, sources seem to agree that supply overall remains low as those with negative equity mortgages bide their time. According to StreetEasy, supply is actually decreasing, with total housing stocks in Manhattan for the first quarter in 2014 falling by 13% on the previous year and by 1% on the previous quarter. These are the lowest stock levels since the end of 2007, so this lack of supply should ensure prices continue to rise, at least for now.

London's strength in professional services have helped keep it in the top spot. However, it is clear from conversations we have had with leading New York property brokers that as New York becomes ever more important to Europeans, Russians, and South East Asians, it might well steal this much coveted spot from London over the next decade.

- Knight Frank US Insight Report, 2013;
- StreetEasy Market Report, Manhattan Q1 2014;
- NY.curbed.com, The 44 New Developments Hitting The Market This Spring, 18 March 2014.

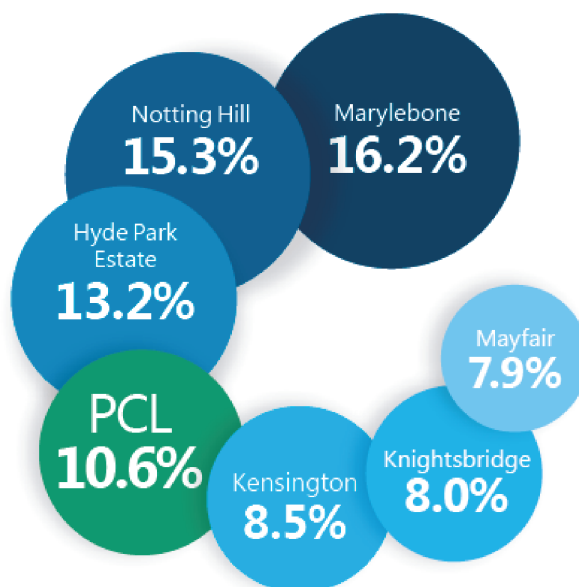
## THE GV PERSPECTIVE

As the BRIC countries, particularly Russia, India, and China, continue to generate substantial wealth, they are spurring growth in prime property markets across the world. London remains one of the most important cities to these ultra-high-net-worth individuals (UHNWI), as it is still considered a safe haven for international wealth, for both political and economic purposes.

For example, according to a BBC News article on 24 March 2014, "Russians are amongst the top five biggest-spending tourists in the UK," and in the short-term the recent situation in the Crimean peninsula has clearly affected tourism from Russia to London. "Finance company Global Blue said unrest and the effects of a weakening

### PCL total returns

Annual returns by market in year to February 2014



Source: Knight Frank Residential Research

Figure 5



economy left Russians disinclined to travel.” The article also reported UK hotels and shops saw their income from Russians decrease by 17% in February, compared to the previous year, as the number of visitors declined due to the political turbulence in Ukraine. However, although it is too early to establish exactly what impact the current political situation in Russia will have on the London property market, it appears Russians may be considering relocating to London. In the long-term, the Crimean troubles may actually further buoy the prime central London (PCL) property market, as wealthy Russians flock to a politically and economically safer London.

Overall investment returns in PCL residential property remain strong at 10.55% in the 12 months to March 2014. Due to the increasing sales prices the market has been seeing, PCL property returns are currently

outperforming stocks, bonds, and other assets. The PCL areas with the strongest returns in the year to February 2014, were Marylebone with 16.2%, Notting Hill with 15.3%, and Hyde Park Estate with 13.2% (see figure 5).

GV believes the PCL market remains strong as international demand continues unabated. Political and economic instability worldwide continues to spark demand and property price growth in PCL, with the Office for Budget Responsibility's (OBR) latest

Economic & Fiscal Outlook forecasting property price rises in the UK into 2019, albeit at declining rates (see figure 6). Although the recent changes in the tax regime extended their reach to smaller properties (£500k+) owned by companies, we believe the effect on the property market will be negligible, as the impact of the same changes in the £2m+ band in 2012 left the market unaffected.

- BBC.com, *Russian tourist spending in UK sees sharp fall in February*, 24 March 2014;
- Knight Frank's *Prime Central London Rental Index*, February and March 2014;
- Office for Budgetary Responsibility, *Economic & Fiscal Outlook – Charts and Tables*, March 2014, licensed under the Open Government Licence v2.0.

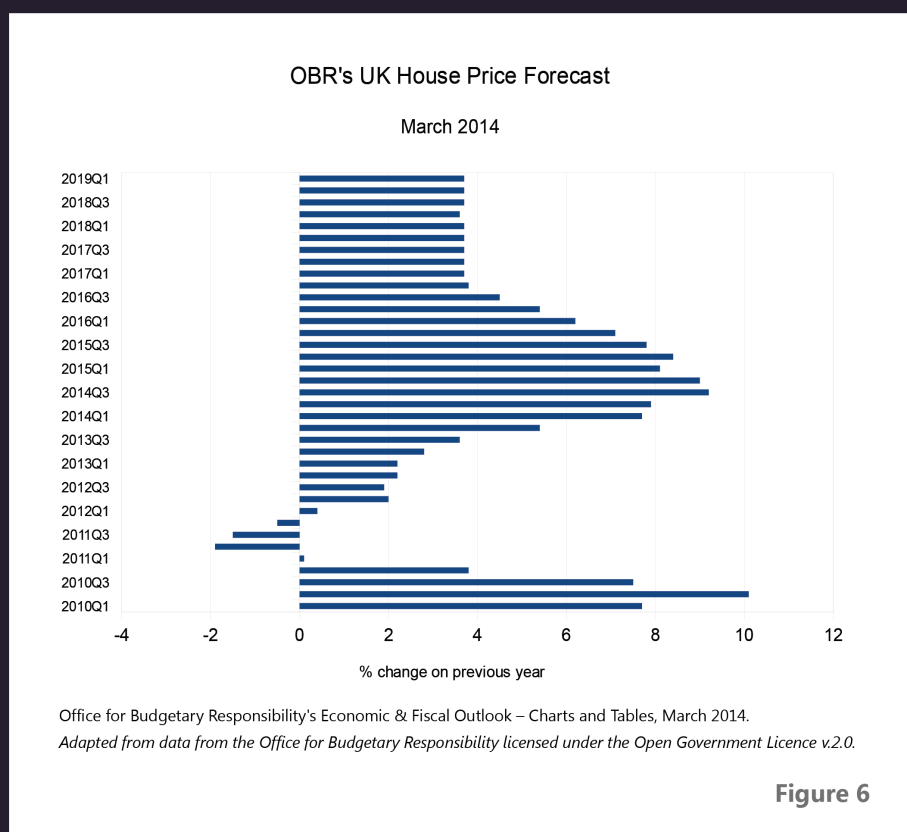
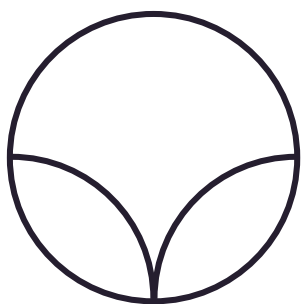


Figure 6



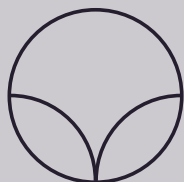


## QUARTERLY TIP

Cash is King, so is speed! Sellers prefer cash buyers and they love quick exchanges. So if you need financing, do all the work with the bank and get your financing pre-approval in place beforehand, so you can be almost as fast as a cash buyer.



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