Golden Venn

YOUR PROPERTY PROFESSIONAL

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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 6.4% in the last year. The region which experienced the greatest movement by far in its average property value over the last 12 months is London, with an increase of 16.4% (see figure 1).

City in Focus:

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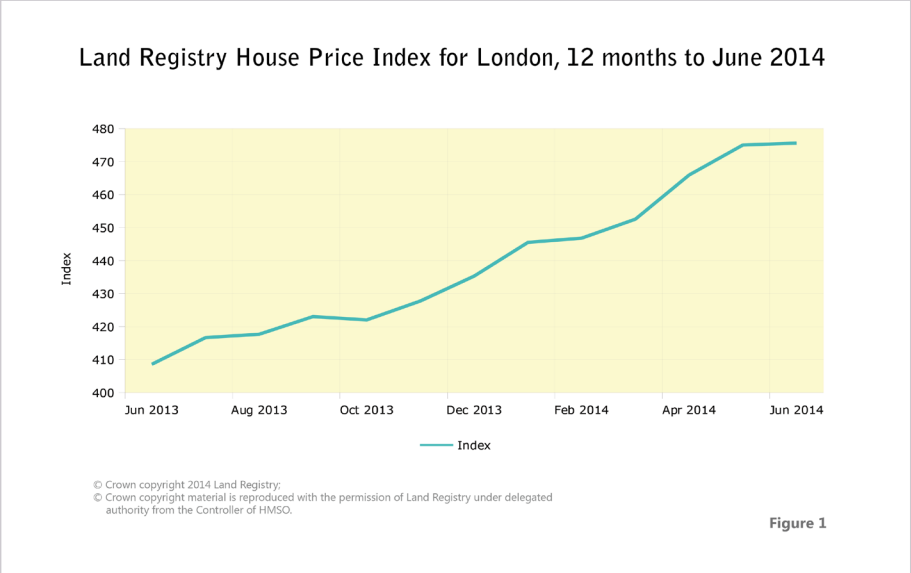
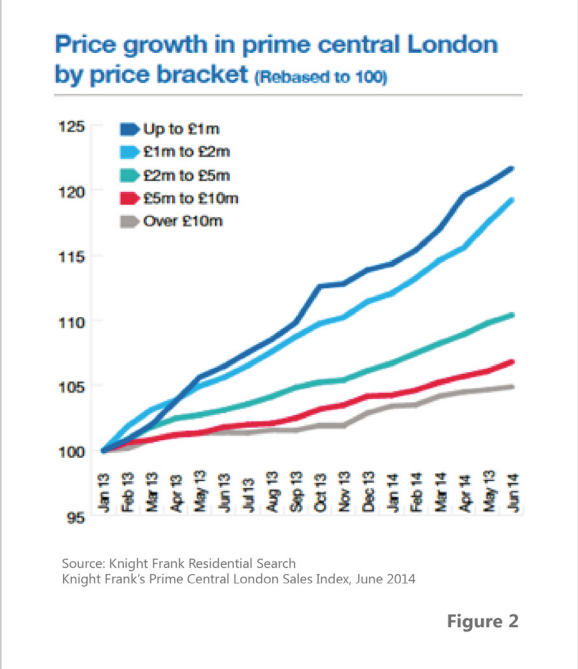
Key Points

- Prime central London prices rose 8.1% in June - highest annual growth rate since February 2013.
- Prime central London rental rates rose 0.9% in June - largest monthly increase in over three years.
- Interest rates will have to rise soon, as UK economy gets back to pre-recession levels.
- Owners of properties valued over £5m contribute over £2.3b a year to London and wider economy.
- Rental yields may increase in medium term, which might suggest it is time to invest in buy-to-let properties.

London property prices also saw the third largest monthly increase, at 0.1% between May and June 2014.



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 15.1% and 17.8% respectively. However, some of the London boroughs with the highest annual increases in average prices were Lambeth (Nine Elms), Hackney, Southwark, Wandsworth, and Hammersmith and Fulham, which shows a tendency of investors to move to more up and coming areas. The annual increases in these boroughs were 26.8%, 25.5%, 23.0%, 21.8%, and 21.6% respectively.



The number of £1m+ properties sold in London in April 2014, increased by 35% on April 2013 figures. Comparing the number of sales for the same months in the £2m+ bracket, the increase was also significant at 28%.

Although there is talk amongst central London agents about a slow down in price growth, according to Knight Frank, prime central London (PCL) prices saw their highest annual growth rate since February 2013, with an increase of 8.1% in June 2014. Prices increased 2.3% over the second quarter of 2014, compared to 1.9% during the first quarter. The monthly price increase for June was 0.8%, which has been the consistent rate for the last four months and puts growth back to December 2013 levels, after a dip in January and February 2014.

As shown in figure 2, the growth rates for the super high-end properties in the £10m+ bracket still remain positive, with annual growth at 3.5% in June 2014, up slightly from 3.4% in February. In the £5m to £10m property bracket annual growth was higher at 4.9% and at the lower end of the bracket, annual growth rates for properties under £2m were 13.6% in June 2014, compared to 12.8% in February.

Knight Frank's House Price Sentiment Index (HPSI), which measures households' perceptions of current and future property values, saw the current HPSI value decline after its record high in May 2014, while the future HPSI fell to its lowest value in six months (see figure 3). However, for the 15th 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 June, but at a slower rate than they had in May. Perceptions of price rises were strongest in London. Future expectations for London fell for a second time this June, after a new high in April. However, overall expectations are property prices will continue to rise further in 2014, but growth will be more moderate. We consider this a positive sign as it will help stabilise the market.

Change in current and future value of property (HPSI)

Source: Knight Frank/Market
NB: A score of 50 equates to no change, above or below representing growth or decline respectively.
Knight Frank's House Price Sentiment Index (HSPI), June 2014

Figure 3

A significant percentage of PCL property buyers remain foreign. Investment is being driven both by international investors looking to escape rising economic and political instability in their own countries and by high-net-worth-individuals (HNWIs) simply looking to diversify their excess wealth. The former are mostly from South America, the Far East, and Russia, while the latter predominately hail from the Middle East, Italy, and China. They are spending more time in London for its world-class shopping, culture, and top restaurants, as well for the benefit of their children's education at private schools.

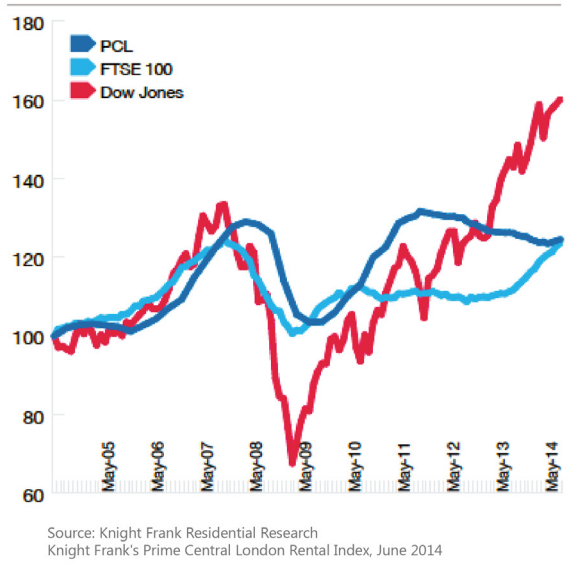
The Chinese are increasingly purchasing properties for their own use and are currently testing the water with the majority of their investments below the £1m mark, but we anticipate they will be a future driving force in the market. However, due to the restrictions in capital outflows from China their investment will be paced, which is very good for the London market. Chinese developers are also on the increase in London.

- *Land Registry House Price Index, June 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 June 2014;*
- *Knight Frank's House Price Sentiment Index (HPSI), June 2014.*

The Rental Market

According to LSL Property Services' Buy-to-Let Index, rental rates in England and Wales have risen by 1.4% in the last 12 months to June 2014, up from an annual rise of just 0.9% in March, with 80% of regions seeing higher rents than the previous year. In London, the picture was also positive with an annual increase in rents of 1.6% and a monthly increase of 0.7%. On a monthly basis, this is a significant turnaround from the 0.4% fall 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 fourth consecutive month, increasing 0.9% in June 2014 - the largest monthly increase in over three years. The annual decline is now down to only 0.4%, so if growth in rates continues at this pace it will be back in the black by July and the longest period of decline since the inception of the Knight Frank index will be over. Quarterly PCL figures show an increase of 1.5% since March 2014, which is the second quarterly rise in over two years and confirms the market appears to be at the end of its decline.



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

Figure 4

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 has been slow, but global economies, including the US and the UK, are beginning to rebound. It is early days and the picture varies across PCL, but financial indicators are positive (see figure 4).

With regards to annual gross yields on rentals, according to LSL Property Services, although they have declined slightly to 5.1% since June 2013, landlords in England and Wales are currently averaging total annual returns of 11.8%; the best total returns since June 2010. LSL estimate if rental rates continue to rise at current levels, total annual returns could reach 13.4% over the next year. London is now averaging an annual gross yield of 4.3%, having declined slightly over the last couple of months.

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

Fiscal & Regulatory Outlook

The UK budget for 2014, which was announced last March, has brought about a few changes for the property market, some welcome, some not. The extension of the Help to Buy Equity Loan until 2020 is helping 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, with this latest budget the government has continued to discourage the ownership of residential property by companies. The £2m+ threshold was lowered to include any properties valued over £500k. Since 20 March 2014, companies seeking to purchase property in this new bracket have had to pay the 15% STDL, unless they are property investors or developers.

It is clear from the consultation paper that the proposed CGT changes would also affect UK residents. The government is proposing to remove the right to choose a principal residence in order to benefit from the CGT exemption.

The second item to have affected the property market was the extension of the Annual Tax on Enveloped Dwellings (ATED), also introduced in 2012, to properties over £500k owned by a company. The budget introduced two new bands: one for properties valued between £500k and £1m, and a second for properties 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, the budget also stipulated 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 will bring the UK in line with many other countries in this regard. The tax will only apply 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 on the affects of the CGT on non-residents was published on 28 March 2014.

It is clear from this consultation paper that the proposed CGT changes would also affect UK residents. The government is proposing to remove the right to choose a principal residence in order to benefit from the CGT exemption. According to Mishcon de Reya, an international law firm with offices in London and New York, this change would affect anyone 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 which were not the principal residence. Now 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. This means those property owners with more than one home, whether additional homes are owned or rented, may need to plan ahead.

With regards to interest rates, after much speculation, the Bank of England announced after a unanimous vote during its Monetary Policy Committee meeting in early July, interest rates would remain unchanged at 0.5%. However, according to This Is Money.co.uk, during a recent speech in Glasgow, governor Mark Carney again said, as has been expected, interest rates will have to rise in the near future as the UK economy gets back to pre-recession levels. The UK's GDP is now higher than its peak levels pre-crisis.

The governor's aim is no doubt to keep the cost of credit low in the midst of global political uncertainty, whilst also trying to avoid a housing bubble in the UK. An interest rate rise would negatively impact UK households, many of whom are highly indebted, particularly as wages have been slow to catch up with increasing house prices and real incomes have declined due to inflation. Rising interest rates could cause households to cut spending and risk plunging the country back into recession. According to This Is Money.co.uk, Carney's warnings on future interest rate rises and the levels of household debt may simply be his way of encouraging households to act more carefully. If this is the case, the rate rise may not actually happen until quarter two 2015, though some analysts believe it will happen by the end of 2014, or quarter one 2015 at the latest. The Bank's Inflation Report due in August will be the next key indicator of changes to come.

- *Mishcon de Reya Law Firm, Implementing a capital gains tax charge on non-residents, 19 June 2014;*
- *Mishcon de Reya Law Firm, Tax Aware, 20 June 2014;*
- *This is Money.co.uk, Is Mark Carney trying to nudge nation into behaving more cautiously?, by Alex Brummer, 23 July 2014;*
- *This is Money.co.uk, No shock rise in interest rates on the cards as Carney shifts 'forward guidance' focus on to weak wage growth, by Adrian Lowery, 23 July 2014.*

Area in Focus

Chelsea - The Six Chelseas

Chelsea is a beautiful residential area with lovely garden squares and lively shops, bars, and restaurants, as well as galleries such as the Saatchi Art gallery. Chelsea is iconic and globally renowned.

The exclusivity of Chelsea as a result of its high property prices has historically resulted in the term *Sloane Ranger* to describe its residents. From 2011, Channel 4 has broadcast a reality television show called *Made in Chelsea*, documenting the "glitzy" lives of several young people living in Chelsea.

The latest figures from property data analysts Lonres, also suggest Chelsea outsold neighbouring Kensington in the last 12 months, with 57 properties selling for over £5m.

According to Alan Russell, founder of estate agent Russell Simpson, Chelsea has always had areas with specific identities, but those have changed enormously over the years. According to Russell there are actually six Chelseas you need to know if you are going to buy there. Here is a guide to the real Chelsea in 2014:

The Boltons

The Boltons is a beautiful pocket of Chelsea with big garden terraces and family homes, which is very popular with families and young professionals. The best addresses are The Boltons, Gilston Road, Tregunter Road, and Harley Gardens. Flat prices range between £1m and £10m, while house prices range between £5m and £80m.

Chelsea Embankment

West Chelsea

West Chelsea is close to "Chelsea Beach", an area famous for its bars, restaurants, and galleries, which is very popular with younger people. Prices are still more competitive and therefore, West Chelsea is highly desired by first-time buyers and young families. The best addresses are Chelsea Park Gardens, Netherton Grove, Gertrude Street, and Park Walk. Flat prices range between £500k and £4m, while house prices range between £2m and £10m.

Chelsea Town

Chelsea Town is closer to South Kensington and its fine restaurants and has larger family houses and lateral flats. It is very popular with families, as well as with international buyers and investors. The best addresses are Manresa Road and Chelsea Square. Flat prices range between £750k and £35m, while house prices range between £5m and £25m.

Old Chelsea

Old Chelsea is closer to the river waterfront, which makes it very appealing to international buyers, hailing mainly from Europe, and high-net-worth couples and families. The best addresses are Old Church Street, Cheyne Walk, Upper Cheyne Row, and Lawrence Street. Flat prices range between £2m and £5m, while house prices range between £3m and £50m.

Chelsea Green

Chelsea Green has a village ambience and a good community atmosphere with its independent shops. It is popular with the Chelsea locals and young European continental investors. The best addresses are Markham Street and Jubilee Place. Flat prices range between £1m and £4m, while house prices range between £2m and £12m.

Burton Court

Burton Court is close to sporting facilities, museums, and the famous RHS Chelsea Flower Show. It is popular with an interesting mix of buyers ranging from pied à terre purchasers to socialites, families, and pure investors. The best addresses are Franklins Row, St Leonard's Terrace, and Smith Terrace. Flat prices range between £1m and £6m, while house prices range between £4m and £15m.

• *City AM Hot Property, So you think you know Chelsea?, by Melissa York, 25 July 2014.*

Development in Focus

The Chilterns, Marylebone

The Chilterns is a new luxury development by Galliard Homes in the heart of Marylebone, in the City of Westminster. Marylebone boasts beautiful leafy residential squares, with their classic Edwardian architecture, and the highly fashionable Marylebone High Street, with its independent boutique shops, cafés, bars and Michelin star restaurants, and the neighbouring world-famous Harley Street. The Chilterns is also very well located for the finest shopping destinations of Old Bond Street and South Molton Street, with their exclusive haute couture collections, and the vibrant hustle and bustle of Regent Street and Oxford Street, and chic department stores such as Selfridges.

The Chilterns

The development consists of 44 luxury apartments, with a range of two and three bedroom flats and three penthouses. It consists of two blocks, which are interconnected by

the ground floor lobby. The Chilterns offers a concierge service, which is on call 24 hours a day, secure underground parking, gym, cinema room, spa room, sauna/steam room, and wine storage.

The building itself was designed by the architects Squire & Partners, who took inspiration for the design of the building's façade from the Beatles iconic 'Apple Boutique', which until 1968 was located a few yards from the site.

The Chilterns apartment interiors have been designed by Rabih Hage - an award winning interior designer - who embraces a more sophisticated, modern form of luxury. Rabih Hage has applied the highest technical specifications coupled with the finest examples of progressive interiors to provide a seamless blend of comfort and innovation. The interiors of each apartment reflect the unique environment and diversity of London - one of the world's greatest cities - and make these apartments ideal both as a primary home, or pied-à-terre. This has been achieved through six interior design schemes - Timeless, The Collector, The Voyager, The Minimalist, Neo-Heritage, and Connoisseur - created exclusively for The Chilterns.

The prices range from just over £3.6m for a two bedroom flat and up to £27.5m for the luxurious penthouse, which spans over 5,000 sq ft.

The Chilterns is expected to be completed during the last quarter of 2015.

- *Galliard Homes.com/The-Chilterns.*

City in Focus

Dubai Highlights

Dubai, one of the jewels in the crown of the United Arab Emirates, is a popular city with a booming property market. Since the real estate market crashed in 2008-2009, property prices have been on the rise and have rapidly turned Dubai into one of the hottest property markets in the world. However, the UAE government has learnt its lesson well and has taken action to ensure there is no repeat of the previous crash. According to Gulf Business, a recent JLL report says it is as a result of these actions and higher prices beginning to quell demand that we are finally beginning to see a cooling of the market.

Average property prices are still rising, with quarter two figures showing growth of 36% on the previous year; up from 33% in quarter one. However, the change can be seen when comparing one quarter to the next. Average prices rose 10% in the first quarter, but this fell to a 6% rise in the second quarter. The report also says the slowdown is mainly evident in the prices of existing villas, whereas the prices of apartments are still increasing. Although according to The National's coverage of the JLL report

villas are still worth around 23% more than the previous year, apartments have seen far more impressive growth and are now worth about 40% more. The report predicts the overall dip in average price rises will continue, particularly as the supply of new-builds is forecast to increase by around a tenth over the next two years, which should help further stabilise the market.

According to Gulf Business, the JLL report says in the rental market the picture is similar, with year-on-year rental rates increasing 24% in quarter two, compared to 23% in quarter one, but quarterly figures dropping from a 7% rise in the first quarter, to a 4% rise in the second. Again, rental rates for villas seem to be slowing faster than for apartments, with increases at 11% and 27% respectively. The report predicted rental rates would continue to see growth for a minimum of another six months.

Dubai Skyline

According to the coverage of the JLL report by Emirates 24/7, the hotel and retail property markets are still experiencing rapid growth. The hotel occupancy rates in Dubai are much admired world-wide and stood at 85% in the 12 months to May 2014, even with room rates increasing by 3% and a substantial increase in the number of new rooms. The plans for the new Mall of the World also demonstrate faith in the retail and hotel sectors. The increase in retail stocks has so far been minimal and demand remains strong, causing rental rates to grow by 12% in the larger, more sought after malls during the second quarter. Increased retail spending by residents and the ever rising number of tourists appears to continue unabated, which bodes well for the sector.

Emirates 24/7 and Gulf Business say in the office sector of the market the opposite appears to be true, according to the report. Although rental rates have seen moderate increases, vacancy rates remain elevated while supply is also on the rise, which is putting downward pressure on rates. The recovery of the office sector has remained variable, but is really the only thorn in the side of Dubai's property market.

- *Gulf Business.com, Dubai's Property Prices Grow 36% Y-O-Y In Q2 But Market Slowing, Says JLL, by Reuters, 20 July 2014;*
- *The National.ae, Brakes applied on Dubai house price growth, by Lucy Barnard, 21 July 2014;*
- *Emirates 247.com, Dubai property prices, rents rise, by WAM, 20 July 2014.*

The GV Perspective

In prime central London (PCL) demand continues to be driven by international investors. Evidence that suggests prime residential property transactions mimic global indicators, such as the price of gold, also substantiates this view. Prime prices have remained relatively stable, which suggests PCL properties, especially those worth over £2m, are seen as stores of value rather than as speculative investment opportunities.

According to a new report recently published by Westminster City Council, overseas investment produces enormous wealth for the UK economy. Owners of properties valued over £15m each spend about £4.5m a year in London and owners in the £5m to £15m range each spend about £2.75m (see figure 5). Annually, over £2.3b is contributed to London's economy, and the UK economy in general, by the owners of these high-end properties.

Household expenditure for owners' homes valued at >£5 million

Cost element	Expenditure by price band (£)	
	£5-15m	>£15m
Employment & Professional	450,000	750,000
Personal	2,170,500	3,617,500
Health & Education	120,000	200,000
Total per household	2,740,500	4,567,500
All households	1,921,090,500	411,075,000

Source: Ramidus, 2013

Westminster City Council Report by Ramidus Consulting Ltd, February 2014

Figure 5

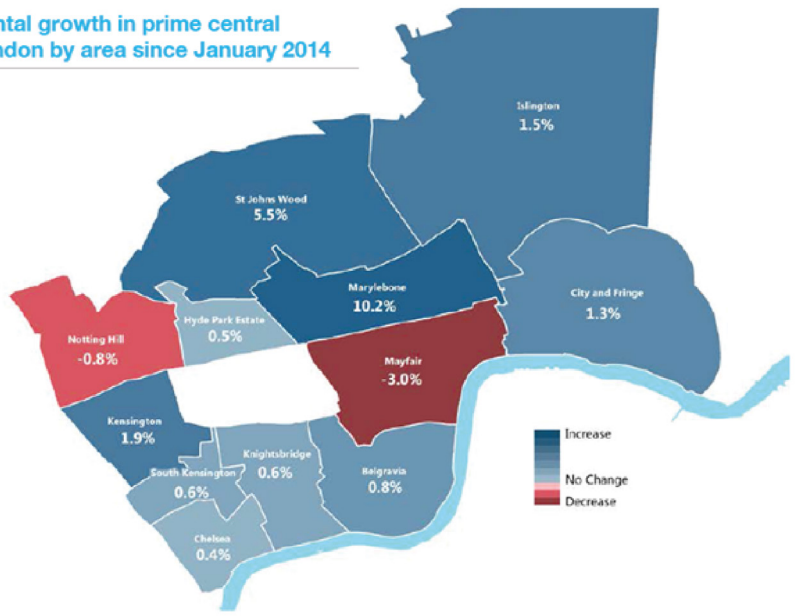
According to Councillor Robert Davis, Deputy Leader of Westminster City Council and Cabinet Member for the Built Environment, "This independent report also strongly counters the perception that overseas investors are buying high value properties in London as an investment and then leaving them empty." In fact, the report found most of the £2m+ properties sold in Westminster in the nine years to 2012 are either occupied by the owners, or rented to London workers. In addition, the sales of these properties only represented 8% of the total number of transactions in Westminster, but accounted for over 40% of the value.

As outlined in our Market Report above, we are beginning to see a shift in the sales market. We now have a higher number of properties available for sale and the number of new buyers is starting to fall. It seems we might be moving towards a buyer's market, with a larger choice of prime properties available. However, sellers do not yet seem ready to accept lower prices.

As already shown in figure 2 and supported by the Westminster City Council report, it is currently those properties valued under £2m, particularly apartments, which are garnering the most interest from buyers and sales at that end of the market are reflecting this.

GV believes with employment figures for London up and rental rates still considered to be reasonable, there will be an increase in the number of London workers interested in renting, particularly with a rise in interest rates looming. As we said earlier, the rental market is just beginning to turnaround in most PCL areas (see figure 6) and we envisage rental yields increasing in the medium term, so this may be the perfect time to get ahead of the market and invest in buy-to-let properties.

- *Westminster City Council, The Prime Residential Market in Westminster, by Ramidus Consulting Ltd, 12 February 2014;*
- *Knight Frank's Prime Central London Sales Index, June 2014;*
- *Knight Frank's Prime Central London Rental Index, June 2014.*



Knight Frank's Prime Central London Rental Index, June 2014

Figure 6

Quarterly Tip

Take some history lessons - The importance of location in the London property market is often as specific as choosing the right street within an area, or choosing the right building within a street. Knowing the history of both helps.

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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.