GOLDEN VENN

MARKET REPORT
AUGUST 2016

SALES MARKET

Average London prices rose to £472,204 in June, 12.6% higher than a year earlier according to data released in the new UK House Price Index. House prices across the capital are expected to soften as a result of the vote to leave the EU, but the rate of growth achieved across the whole of London remained considerably higher than England as a whole (9.3%).

In prime central London, prices have already begun to soften. Knight Frank report that while viewings across prime central areas were 40.8% higher in the first half of 2016 than the same period in 2015, transactions and new buyer numbers fell. Annual house price growth in the sub-£1 million market remains positive at 1.1% although across prime central areas as a whole annual growth fell to -1.5% in July, with properties priced £5-£10 million witnessing the greatest decline. This reflects a continuation of the slowdown since the last peak in annual growth of 8.1% back in June 2014 which followed significant rises during 2009-2013. It is also an indication that vendors who adapt to the changing landscape in the capital, can sell appropriately priced properties without a reduction. Vendors who have not taken into consideration two stamp duty hikes or the Brexit uncertainty need to be more realistic to achieve a sale.

It is also likely that the recent downward re-pricing, along with the fall in sterling witnessed since the Referendum may stimulate market activity. Across Belgravia and Knightsbridge in the weeks immediately following Brexit, activity has been relatively brisk according to Knight Frank. The pound has fallen 12% against the dollar since the vote (as at 11th August), offering US dollar-denominated buyers an effective 12% discount. For purchasers from Japan, properties are effectively 16% cheaper. RICS report that confidence amongst surveyors in the demand across the London market is at a seven-month high and with political stability having been restored, financial markets re-balanced and the lure of London from a cultural and academic perspective apparently untarnished from the result, savvy investors may well seek opportunities to purchase.

FISCAL POLICY

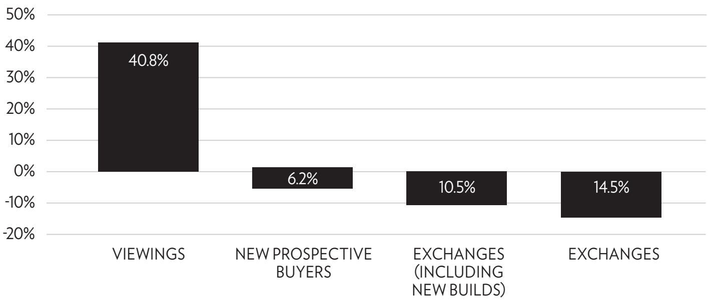
While fiscal policy remained intact post EU vote, on 4th August the Bank of England announced that interest rates would be cut to a new historic low of 0.25%. This was the first change in seven years following a unanimous vote by the Monetary Policy Committee. A suite of other measures to help mitigate the impact of Brexit was revealed, including an extension of the quantitative easing programme, with a further £10 billion created to buy corporate bonds and a new scheme to provide up to £100 billion to banks to help them pass on the base rate cut. As expected, from 6 April 2017 offshore companies holding UK residential property will no longer be 'excluded property' where the shares are owned by a non-UK domiciled individual or an offshore trust.

Source : Mishcon de Reya

ECONOMIC BACKDROP

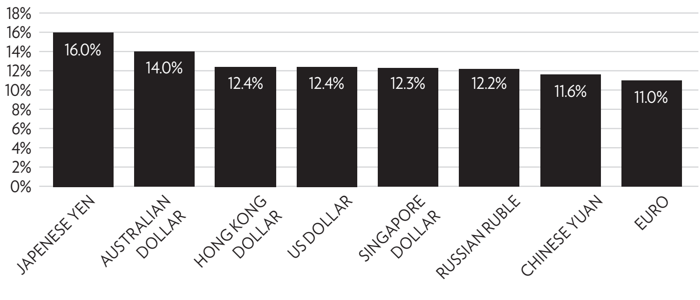
The Consumer Price Index rose by 0.6% in the year to July, up from 0.3% in May and 0.5% in June, although still substantially below the government's target of 2%, while the UK's GDP grew by 0.6% in Quarter 2, exceeding the Bank of England's forecast. This outstripped the 0.4% witnessed in the first three months of the year. Since the vote to leave the EU, the Bank has warned that additional growth in the second half of the year is unlikely, while the IMF have reduced their forecast for UK GDP during 2016 by 0.2% to 1.7%, and by 0.9% in 2017 to 1.3%. After initial falls immediately following the Referendum, the financial markets have stabilised. Indeed, by August 11th the FTSE 100 had rebounded to a 14-month high, a rise of 13.5% this year, while the FTSE 250 was 2.7% higher than on June 23rd.

THE PRIME CENTRAL LONDON MARKET INDICATORS



Source: Knight Frank (Jan-June 2016 compared to 2015)

SINCE BREXIT VOTE FALLING POUND PROVIDES DISCOUNT FOR OVERSEAS INVESTORS



Source: Bank of England, variation in exchange rate versus Sterling from June 23rd to August 11th 2016

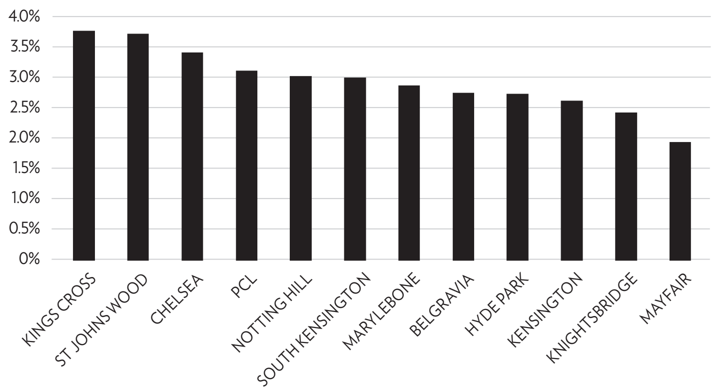
RENTAL MARKET

The Homelet Rental Index showed annual rents across the UK and Greater London continuing to rise in July, albeit at a slower rate than a year ago. Across Greater London average rents rose by 4% in the year to July, higher than the UK as a whole (2.3%), but far slower than the rise of 9.5% recorded in the year to July 2015.

Across prime central London, Knight Frank report a 3.6% reduction in average rents in the year to July, as stock increased while demand remained fairly static, primarily as a result of uncertainty in the global economy. In the three months to June, 49% more properties came to the market compared to a year ago – boosted by investments made before the April SDLT deadline and disappointed vendors switching to the rental market as the prime London sales market weakened. With more choice for tenants, landlords are increasingly pragmatic on rents to minimise void periods. Despite the number of prospective tenants falling by 7% in the three months to June compared to last year, viewings and tenancies agreed have been more positive and with the Royal Institute of Chartered Surveyors reporting a modest rise in demand into July there are hopes that the summer, usually the busiest time, will be strong. Yields are 3.1% across PCL but have dropped below 2% in Mayfair. Investors in King's Cross can achieve income returns of 3.7%.

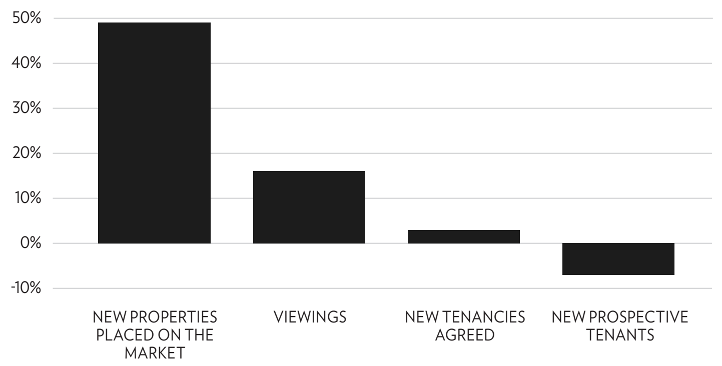
While there remain concerns following Brexit over the long term commitment of some companies to London, as yet these are unfounded. In fact, with the currency benefit due to the fall in Sterling, Knight Frank assert that relocation budgets for many, have risen. They report 11% more tenants with a budget of £1,500 per week in the three months to 24 July compared to the same period in 2015, bringing more locations within their reach.

GROSS RETURNS ACROSS PRIME CENTRAL LONDON



Source: Knight Frank, year to July 2016

INCREASED SUPPLY ACROSS PRIME CENTRAL LONDON



Source: Knight Frank, three months to June 2016 versus 2015

GOLDEN VENN PERSPECTIVE

Up to now this has been an interesting year for the economy and housing market alike. Prime London residential had been slower due to stamp duty increases, plus the additional stamp duty levy for second home owners and buy-to-let investors introduced earlier this year. Now we wait to see how the impact of Brexit plays out, there is likely to be some uncertainty and hesitancy in the meantime. The summer is typically a quieter season for the residential markets in any case. The fall in the value of sterling has piqued interest from overseas investors who look to effectively secure a 10% discount or greater on current residential prices. In a similar vein whilst sentiment for commercial property funds was hit hard immediately following Brexit more recent anecdotal reports highlight private equity investors looking at the UK's current market conditions favorably. Other opportunities set to emerge include possible discounting by residential developers on new homes and increased rental demand as potential purchasers adopt a temporary wait and see strategy. Price brackets will be affected in different ways; the sub £1million market has been less affected by stamp duty increases and shows resilience. It is still early to draw firm conclusions about the London property market but at Golden Venn we remain positive for the market and the opportunities emerging.

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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