GOLDEN VENN

MARKET REPORT
JANUARY 2017

SALES MARKET

The end of 2016 proved busier than many expected for the prime London housing market. The UK House Price Index indicates that annual price growth (November 2015 to November 2016) across Greater London continues to outperform the rest of England and Wales (8.1% compared to 7.1%). Yet across prime central areas, Knight Frank report a 6.3% decrease and Savills a 6.9% decrease in average prices at the end of December 2016 compared to a year ago.

With vendors accepting the need to lower asking prices in response to the taxation changes and underlying economic uncertainty suppressing the prime London market, pent-up demand is slowly being released. November proved the second busiest month for sales in 2016 after the spike in transactional activity in March, with more activity than in November of either 2015 or 2014. In the run-up to and immediate aftermath of the referendum, sales volumes faltered. Sales in June were 38% lower than in 2015, by November the difference had halved to just 19%. In December, the Royal Institute of Chartered Surveyors noted that the number of new buyers had risen for the fourth consecutive month.

After a year in which the sub £1 million market proved the most resilient, the mid-market is now picking up. Knight Frank report a 9% rise in new buyer enquires for properties over £2 million in 2016 compared to 2015, while LonRes have recorded a number of high value ultra-prime sales over the final quarter of the year.

Predictions for 2017 are difficult. Consensus forecasts are for no growth across prime areas. The triggering of Article 50 and the impact of a new era for American politics are undoubtedly the two most significant events for the first quarter of 2017. However, long term, an average of forecasts suggests that prime central areas will witness compound growth of 10% by 2021 and London remains a destination of choice for those looking to live, work and invest.

FISCAL POLICY

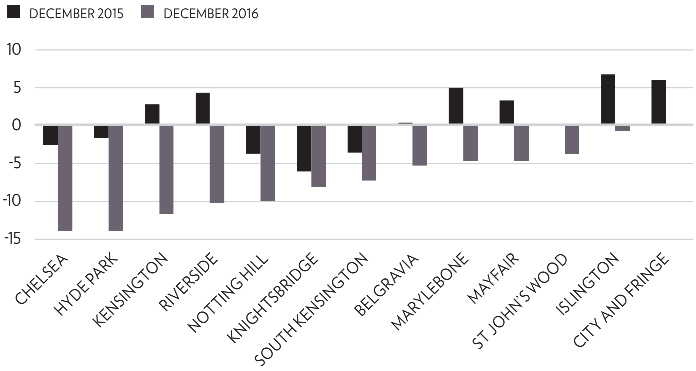
Draft legislation for Inheritance Tax and residential property has been published. From April 2017, holding UK residential property in non-UK companies, known as 'enveloping', will no longer have tax advantages and will become transparent. Such properties will be liable for Inheritance Tax. Non-doms who hold property in this way might be advised to 'de-envelope' the company which holds the property and arrange instead for family members to own the property directly. The concern is that this 'de-enveloping' process may result in large capital gains and stamp duty land taxes.

The government has decided to scrap a previous proposal to restrict the deductibility of loans for IHT purposes when they come from a connected person. It is still unclear however, how any of these tax charges will be enforced.

ECONOMIC BACKDROP

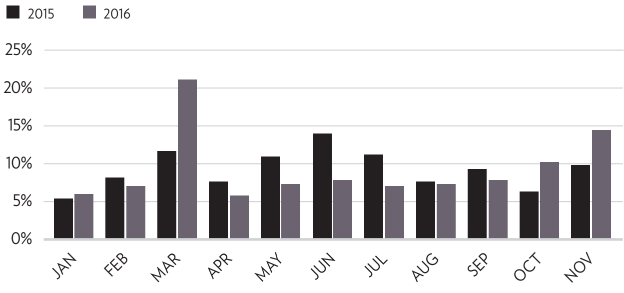
At over 7,300, the FTSE 100 reached an all-time high at the start of 2017 before falling back slightly following the Prime Minister's announcement that the UK will leave the single market. The FTSE 100 is currently over 20% higher than in the immediate post-Brexit period. Across the UK Labour Market, employment remains high with average weekly wages currently rising faster than inflation which increased to 1.6% in December, its highest level in over two years. While the government has launched a major new industry strategy aimed to support businesses in the post-Brexit economy, financial institutions are warning of job losses from the city.

ANNUAL HOUSE PRICE GROWTH - 2016 VERSUS 2015



Source: Knight Frank

SALES VOLUMES ON THE RISE AS 2016 ENDS
PERCENTAGE OF TOTAL SALES JANUARY TO NOVEMBER



Source: Knight Frank

RENTAL MARKET

Annual rental prices across the UK rose by 2.3% in November according to the Office of National Statistics, a similar level of increase to the last five months. Prices across Greater London however, have fallen by 4.4% according to Rightmove (Q4 2016 to Q4 2015) and in prime areas they are down by 5.1% in the year to December according to Knight Frank, as high stock levels here have impacted on prices.

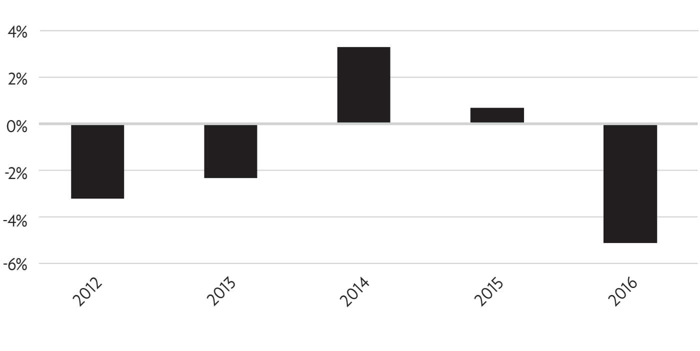
While prices have fallen, demand in the prime London rental market remains robust. Across the market Knight Frank report that both the number of new tenancies agreed and viewings were up in November compared to a year ago.

However, for the first time in 2016, the number of new properties placed on the market fell. This may prove to be the start of rental values bottoming out after rental values last peaked in May 2015.

Landlords have no doubt been affected by falling rental values, along with the increased taxation imposed on a second property purchase. The Council of Mortgage Lenders report that mortgage advances to buy-to-let landlords in the six months since the introduction of the 3% second home levy are almost 50% lower than in the corresponding period in 2015. Add to this the impending tax changes that will fall on investors from April and the level of new supply may well be constrained. This looks likely to stabilise rental prices in what has been, until now, a tenant's market.

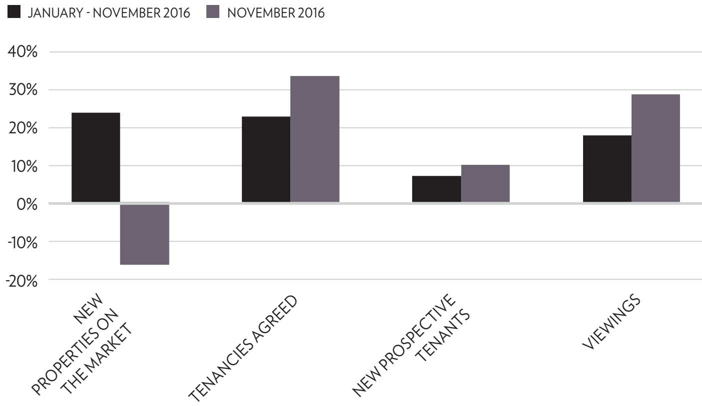
Similarly to the sales market, the impact of global economic activity on the prime London rental market is important. Economic uncertainty has led to a weakening of demand among company executives; however Knight Frank report the number of new prospective tenants rose by 10% in November as many markets witnessed an uptick in activity from those who had delayed decisions until after the US presidential election.

ANNUAL RENTAL GROWTH AT LOWEST LEVEL FOR OVER 5 YEARS



Source: Knight Frank

STOCK LEVELS FALL BUT DEMAND REMAINS HIGH



Source: Knight Frank (comparison with same period in 2015)

GOLDEN VENN PERSPECTIVE

Property sales in central London increased towards the end of 2016, largely due to the weaker pound and more realistic prices being set by vendors. Following the increase in base rate by the Federal Reserve in December, the US dollar strengthened. It is tipped to remain strong throughout 2017 as further interest rate rises are likely and President Trump is expected to implement an economic stimulus package. Correspondingly, in the first few weeks of 2017, agents have reported increased interest in London property from US buyers.

It remains to be seen if this upward trend in sales will continue in 2017. Given that we are entering a period of global uncertainty; the triggering of Article 50 in the UK, elections in several European countries and Trump's potential changes to US trade pacts and policies, this is difficult to predict.

Golden Venn believes that uncertainty in the UK and globally will create opportunities in the London property market for investors who are well-informed and advised. London enjoys an enviable reputation and is currently ranked by Wealth-X as the most desirable city in the world in which to purchase luxury property.

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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