

SALES MARKET

In the run-up to the UK General Election the prime London housing market was showing signs of stabilising with demand levels rising, prices stabilising and transaction levels showing tentative signs of improvement.

Knight Frank report that the number of exchanges recorded between January and May 2017 was 14.2% higher than in January to May 2016, while the number of prospective buyers was 15% higher than 2016, and up 6% on 2015. In terms of prices they assert that annual price falls across prime central London in June were -6.3% compared to -6.6% in May. Data from LonRes indicates that the average £psf value for properties across prime central London were -5.5% lower in June 2017 compared to the same period a year ago, down from -9.8% in April. With sales volumes also stabilising, such data suggests the price falls witnessed in 2016 are unlikely to be repeated this year.

In terms of sales volumes, LonRes indicate that there were 25 deals across prime London for

properties over $\text{£}10$ million during the first six months of 2017, compared to 29 over the same period last year. Deals of $\text{£}5$ - $\text{£}10$ million properties remained on par with the same six months last year. Activity in the $\text{£}2$ - $\text{£}5$ million and $\text{£}1$ - $\text{£}2$ million market has proved more buoyant, with increases of 6.8% and 13.8% in transaction volumes respectively.

The reduced parliamentary majority will be unwelcome across London, although arguably its housing market since 2014 has been accustomed to uncertainty, thanks to the 2015 election, various changes to stamp duty land tax and Brexit. Evidence from previous elections indicates that the post-election pick-up in activity has traditionally begun almost immediately; while a weakened government may also mean that negotiations move towards a softer Brexit. This could prove encouraging for some investors, with any further falls in sterling making central London more attractive to overseas buyers.

FISCAL POLICY

A new Tenants' Fees Bill was announced in the Queen's Speech which will stop tenants in England having to pay money to letting agents. First announced in the 2016 Autumn Statement, the ban was supported by all three main political parties in their election manifestos and a draft bill is expected to be published in the autumn.

The repercussions of the Grenfell Tower tragedy are likely to touch all sectors of the tower block market, with new requirements for testing expected to be introduced in the coming months. At present, according to Estates Gazette, there are 300 new tall (over 20 storey) tower block developments in the planning pipeline across the capital.

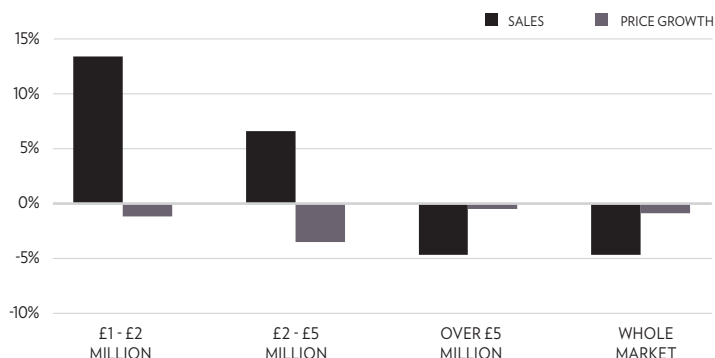
ECONOMIC BACKDROP

The UK economy grew by 0.2% in the first quarter of 2017, with annual growth of 1.9%. This is remarkably resilient given the economic and political instability. However, the service sector, which represents close to 80% of the UK economy, posted its slowest quarterly growth in two years for the three months up to the end of June, with optimism at its weakest level since

December 2011. Interest rates were kept on hold in June at 0.25% but there are indications these may rise in coming months as inflation (2.6%), continues to overshoot the Government's 2% target and the Office for National Statistics reports that household disposable incomes fell by 2% in the first quarter of 2017.

MARKET ACTIVITY ACROSS PRIME LONDON

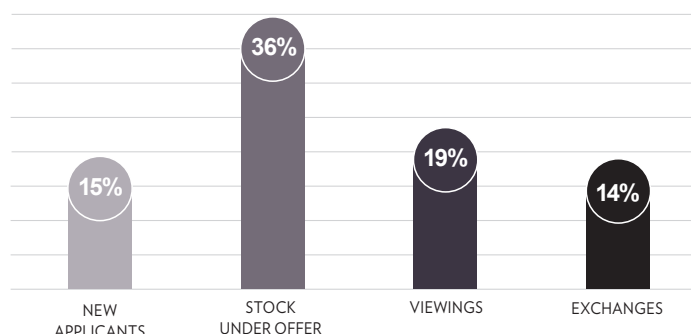
JANUARY - JUNE 2017 VERSUS JANUARY - JUNE 2016



Source: Dataloft, LonRes

DEMAND INDICATORS ARE ON THE RISE

JANUARY - MAY 2017 VERSUS JANUARY - MAY 2016



Source: Knight Frank Research

RENTAL MARKET

Rental prices across the UK are moderating. The average annual rent rose by just 1.8% in the year to May, according to the Office for National Statistics, compared to a rise of 2.3% six months previously. HomeLet report that in the twelve months to June, average prices for tenancies in the UK fell by -0.2%, with average prices across London falling by -2.6%, and stretched affordability across many parts of the capital.

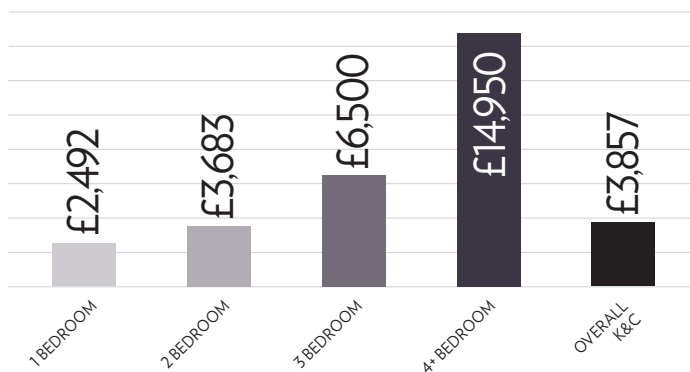
While the overall market slows, there are indications that the prime central market may well have turned a corner. Knight Frank note that rents fell just 0.7% on a quarterly basis in June, the lowest three-month decline since November

2015, with rents falling by 4.4% on an annual basis, the smallest decrease since August 2016. This is primarily due to lower levels of stock underpinning rental values. As demand in the sales market strengthens, the number of properties placed onto the lettings market has fallen but the suite of taxation changes is still impacting buy-to-let investment. The Council of Mortgage Lenders has revised downwards its expectation for buy-to-let lending to £35 billion in 2017 and £33 billion in 2018, rather than the £38 billion they anticipated in December 2016.

Between January and May 2017, Knight Frank report that the number of new lettings

properties on the market fell by 7% compared to the same period in 2016, while registrations by new prospective tenants rose by 13%. These figures bode well for the future, as do signs that there appears to be a more conciliatory approach to the future of the financial services industry and in particular, the location of euro clearing operations. These will be welcomed by the lettings market. The firm estimate that close to 50% of tenants in prime central London come from the financial services industry so any significant movement of these workers would have a huge impact on supply and demand across all levels of the market. Across Kensington and Chelsea, the average monthly rent for the top quartile of properties is £3857 per month.

AVERAGE RENTAL PRICES PER MONTH FOR PRIME PROPERTY *

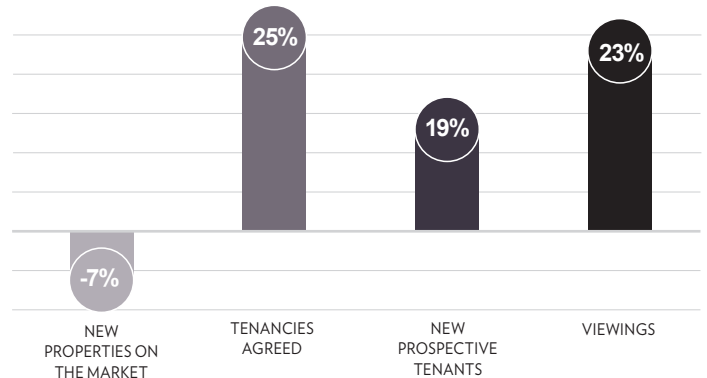


Source: Valuation Office Agency, Kensington and Chelsea (June 2017)

* Prices for upper quartile of properties

DEMAND RISES AS SUPPLY FALLS

JANUARY - MAY 2017 VERSUS JANUARY - MAY 2016



Source: Knight Frank Research

GOLDEN VENN PERSPECTIVE

London is home to thousands of financial sector employees who will be breathing a collective sigh of nervous relief over the conciliatory noises coming from the direction of both the European Union and the UK in relation to euro clearing operations. While landlords are concerned with speed of letting and tenant retention, the impact of tentative confidence in the financial sector on the London sales market cannot be overstated.

There has been a second consecutive month of stability in the prime central London market, which is showing encouraging signs. Sales in the £1-2 million bracket were up 13.8% in the first six months of this year compared with the same period last year and £2-5 million sales were up 6.8%. These increases, combined with the weakened pound, are evidence of the opportunities which remain available to foreign investors.



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.

Eirini Nousia
42 Brook Street
Mayfair
London W1K 5DB

+44 (0) 20 7117 6324
+44 (0) 77 8662 4376
eirini@golden-venn.com
www.golden-venn.com