The Prime London Residential Property Market

A presentation to the International Wealth Planners’ Meeting
8th December 2011
Contents

• Introduction
• Prime London Residential Market Overview:
  • Economic prospects
  • Occupier market
  • Investment market
  • Outlook
• Commercial and Professional Services
Introduction
In January 2009, Chesterton Humberts was formed by uniting two historic property firms to create one of the most prominent firms of property professionals in the United Kingdom.

Chesterton Humberts was formed by joining Chesterton, established in Kensington in 1805 and Humberts, established in Watford in 1842, to create a firm with a combined heritage of over 350 years.

The merger of the two businesses created a new national and international firm offering a wealth of knowledge in all facets of property, including surveying, land management, commercial, and estate management, along with a highly successful residential and commercial sales and lettings business.
Chesterton Humberts

Specialisms:

• Residential Sales and Lettings (including New Homes)
  • Commercial Investment and Agency
• Professional Services
• International Agency (Commercial and Residential)
• International New Homes and Marketing
• Rural Agency, Valuation and Estate Management
• Building Surveying
Where are we located?

32 Country Offices

26 London Offices
International Coverage

12 International Offices
“You find no man, at all intellectual, who is willing to leave London. No, Sir, when a man is tired of London, he is tired of life; for there is in London all that life can

Samuel Johnson, 1777
Economic prospects
Economic prospects

- Challenging economic environment – at least interest rates & Sterling are low
- Many companies & households bracing for difficult 2012
- Growth to accelerate from 2012 – but substantial downside risk
- Recovery will be slow and not without pain
- London leading the way and outperforming UK average
The “phoney recession”

Source: HM Treasury; GLA Economics, OECD
But wealth generation accelerating

- 2008–2010: UK millionaire nos up 17%
- 2008–2010: UK £5m+aires up 19%
- 2010–2020: UK millionaires up by one third
- 2010 Global HNWI wealth up 9.7%
- 2010 Global HNWI population up 8.3%
- 2010: 19% of global HNWI assets in real estate
Occupier market
Development activity

• New development down on pre–recession levels
• Supply increasingly lagging demand
• Shortage of prime stock – although this has triggered a number of speculative schemes in pcl locations
• Increase in office–to–residential conversions
London private sector starts & completions

2004-07: ave completions p.a. = 15,000; starts = 15,000
2008-10: ave completions p.a. = 12,000; starts = 8,500

Source: DCLG
Annual completions v h/holds growth

Annual shortfall = 21,000

Source: DCLG
Sales activity

• Transaction volumes down since recession:
  – Post–recession London annual average only 54% of pre–recession noughties average
  – Prime London average better at 66%
• Domestic sales affected by low consumer confidence, falling real h/hold income & weak mortgage lending
• But no shortage of wealthy foreign buyers
London residential sales volume: 2000–11

2000-07 ave p.a. = 151,000
2008-11 ave p.a. = 82,000

Source: Land Registry
Note: 2011 figure is annualised
London borough residential sales volume: 2000–11

Source: Land Registry

Note: 2011 data are annualised
The noughties: pre-recession v post-recession sales volumes in

Source: Land Registry

Note: 2011 data are annualised
Investment market
Investment credentials looking good

• PRS h/hold nos increasing:
  – 2000 = 15% of h/holds; 2010 = 20% of h/holds
• Shortage of rented accommodation driving rental growth
• Long term supply/demand imbalance suggests price growth beyond current short term difficulties
• London perceived as safe haven for foreign investors & many benefit from favourable exchange rates
• Better long term performer & less volatile
Total returns, ungeared

Sources: IPD; Standard & Poor's
£ v selected currencies: q1 2007–q3 2011

Source: Oanda
Investment activity increasing

- London dominates:
  - Biggest market with good exit opportunities
  - Best performing market: both capital & rental values & growth

- BTL mortgage lending in q3 2011 highest in number & value since q4 2008

- Well capitalised investors able to take advantage of limited available opportunities

- New resi funds setting up – institutions looking for stock
What are investors looking to buy?

- New build apartments (off-plan & stock units): mid-high end market
- Student accommodation
- HCA opportunities – depending on tenure mix
- Appetite for small & medium sized investments with potential to enhance value through active asset management
- Difficult for larger investors to acquire
Key investment players

- Market dominated by small BTL landlords (average portfolio size <10 units)
- Foreign buyers dominate prime London
- Speculators (mainly foreign) returning in London – including buy-to-flip
- Signs of increased corporate activity:
  - Grainger/Bouygues JV fund to build & manage 1,000 high-end properties in London & surrounds
  - Akelius looking to create portfolio of 10,000 mid-market units in London & surrounds
- Private equity investment funds targeting luxury sector in London and surrounds
Foreign investor origin in London residential: 2008 to mid-2011

Source: Various
Market performance

- Average London house prices only ca. 1% below peak levels – Prime London above peak
- Strong rental growth
- Yields generally flat in London over past year
- Longer term price growth likely as supply/demand imbalance will remain for many years to come
- Market pricing may change if corporate investors enter market in force
12 month, 5 year & 10 year price growth

Source: Land Registry
Prime London Sep 2011 ave prices v pre-recession peak

Source: Land Registry
Prime London rental value growth q1–q3 2011

Source: Chesterton Humberts Research
International prime gross yield comparison

Source: Chesterton Humberts Research
2012 – the end of the world?

- Restricted bank lending
- Eurozone crisis
- Negative media comment
- USA floundering
- High unemployment
- Sovereign & h/hold debt at or near record levels
Outlook – alternative scenario

• Hard assets gain favour with economic uncertainty – property a beneficiary (income stream even if no capital growth)
• HNWI community expanding & still pursues its lifestyle requirements vis–a–vis property
• Supply/demand imbalance to continue
• Prime London to prosper...relatively (fewer deals but more price uplift potential)
• PRS to expand further & trigger more investor interest
• Olympics boost for PRS in 2012
• Institutions to enter market in force – Govt to
## Regional house price forecasts

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Source: Chesterton Humberts Research
Chesterton Humberts
Commercial & Professional Services Division
Commercial Division

• Commercial Agency
• Professional Services
Commercial Division

Commercial Agency

Chesterton Humberts provides advice on sales and acquisitions of commercial property:

• Vacant / Owner Occupier buildings
• Investments
Commercial Division

Professional Services

Includes:
• Valuation
• Landlord & Tenant
• Rating
• Property Management
VALUATION
40 Registered Valuers

Valuers located within 13 offices covering 3 main Property Sectors:

• Residential (Houses, flats, blocks of flats and developments)
• Rural (Farms, Farm houses, woodland, equestrian)
• Commercial (shops, offices, industrial)
40 Registered Valuers
Professional Indemnity – £25million

Property Sectors:
Commercial Valuations – Office, Retail & Industrial
Residential Valuations – Houses, Flats & Blocks of Flats

Property Types:
Investment & owner-occupier / vacant properties
Developments & Sites and Conversions

Plus Mixed use schemes
Residential Super Prime
One Hyde Park, Knightsbridge

Super–Prime property

Prices increased from £4,500 per sq ft to £7,000+ sq ft since the start of marketing
Examples of Properties Valued
Hampstead

Large 6 bed house with views over the Heath

Valued for a Private Bank
Lower Mall, Hammersmith

Large 6 bed Grade II listed house fronting the Thames path and with views over the Thames

Valued for a Private Bank
Ovington Square, Knightsbridge

Large 6 bed house with staff accommodation
Clapham High Street, London

A mixed retail, office and residential investment

Valued for a high street bank
Moorgate, London

A vacant freehold office building

Valued for a high street bank
Thank you for listening