THE BUYER'S EYE
LONDON - WINTER 2013

- FROM STRENGTH TO STRENGTH (MARKET OVERVIEW) -

The UK housing market continues to experience signs of recovery. As well as reports of rising prices, the number of properties sold nationally has risen significantly in recent months. The latest figures from the Land Registry show that between April and July an average of 62,000 properties sold per month, a 16% increase on the 53,700 properties sold per month in the same period last year.

Government initiatives, such as Help to Buy continue to cultivate new buyers, both those using the scheme and others encouraged by the increase in activity within the market.

The second phase of the scheme, now applicable to existing properties, has seen further interest from purchasers. The Royal Bank of Scotland and Halifax reported that they had received a total of 2,384 applications, potentially worth £365m. According to the Halifax, 80% of applications were from first time buyers.

According to the Council of Mortgage Lenders (CML) gross mortgage lending reached £49.3 billion in the third quarter of 2013, a rise of 17.6% on the previous three months and 32% higher than levels recorded in Q3 2012.

The Help to Buy initiative has supported strong growth in first-time buyer lending, with 74,800 loans, worth £10.4 billion approved in Q3 2013, a 34% increase compared to the same three months last year.

Investor buyers have also been active in recent months, 43,900 loans were approved in Q3 2013, up 16% on Q2 2013 and 36% higher than Q3 2012.

The increase in lending activity is one of the factors driving price growth across the country, with only Wales seeing prices fall over the last 12 months. Average house prices nationally have increased 3.4% in the last twelve months, with London seeing the highest value rises, increasing 9.3% in the 12 months to September 2013.

So where do we go from here? As we touched on in the Autumn Edition of The Buyer's Eye, forecasts are often revised and November has seen a flurry of new forecasts across the industry, many of which dismiss the idea of unsustainable growth.

The Centre for Economic and Business Research (CEBR) has forecast that by 2018, London house prices will have increased by 43.5%, with the agent Chesterton Humberts, also forecasting growth of 38.8% across London and 48.5% across Prime London. Savills seem to take a more conservative view predicting capital growth of 24.4% across the London property market and Knight Frank predicting 20% growth across Prime Central London.

We still see a strong business case for London residential investment, however investors are less likely to make significant short term capital gains as the growth rate slows across London. Growth across the capital will continue driven by going supply constraints and the weight of capital and demand in the market, however likely interest rate rises in the next 1-3 years will mean leveraged buyers will be forced into taking a less bullish approach based on capital growth alone.

- WORKING LONDON -

According to recently released census data, London's working population increased by 14% between 2001 and 2011 to total 8.68 million people.

As well as workers commuting within London, high prices in the most accessible areas of the Capital have meant many City workers now commute in from outside of the London area to work. The net commuter inflow* for London increased from 487,000 in 2001 to 503,000 thousand in 2011.
(*net commuter inflow is the number in employment who live outside an area but work within it
less those who live in the area but work outside).

Over the same ten-year period the net inflow of workers into Westminster and the City of London increased by 95,000.

With take up of office accommodation in central London rising we are seeing an increase in new build office development. Three areas where commercial development is rife are Victoria, the City and King's Cross. New commercial developments within these areas will mean many new and existing employees relocating to different areas of the Capital.

King's Cross -The King's Cross Central area is set to provide, once completed, space for 35,000 workers. One of the most high profile occupiers in the King's Cross Central development will be Google. The company have now gained permission for a new 920,000 square foot office building at King's Cross, due for completion in 2016. Acting as their new UK head office it is set to accommodate 5,000 staff.

Victoria – Land Securities have recently completed two large developments in Victoria. 62 Buckingham Gate provides 260,000 square foot of office space, with nearby 123 Victoria Street now refurbished to provide 199,000 square foot of office accommodation.

The City of London – According to Capita Symonds growth in the insurance sector has helped to increase take up across the City of London office market, with both 122 Leadenhall St and 20 Fenchurch Street to achieving 50% pre let ahead of their expected completion in 2014.

Understanding the dynamic of these areas is important for employees and property investors looking to invest in areas of growth.

For employees working in these areas, the choice of where to live will rely upon budget, lifestyle and space requirements. To assess some options, we have looked at locations with direct access into these key employment centres (accessible using one rail, tube or DLR journey – no changes) to see what the trade off between commuting time and buying/ renting power would be in different areas of London and the commuter belt.

VICTORIA			TO BUY			TO RENT
COMMUTE	LOCATION	ANNUAL SEASON TICKET	1 BEDROOM	2 BEDROOMS	3 BEDROOMS	2 BEDROOMS
15MINS	BALHAM	£1,424	£342,276	£510,416	£657,387	£1,873
30MINS	WIMBLEDON	£1,424	£277,652	£435,577	£643,767	£1,753
45MINS	EPSOM	£2,356	£172,821	£279,579	£413,345	£1,231

SOURCE: DATALOFT/ TFL/ ZOOPLA

CITY OF LONDON			TO BUY			TO RENT
COMMUTE	LOCATION	ANNUAL SEASON TICKET	1 BEDROOM	2 BEDROOMS	3 BEDROOMS	2 BEDROOMS
15MINS	SHOREDITCH	£1,216	£489,108	£749,740	£815,947	£2,487
30MINS	GREENWICH	£1,216	£268,791	£466,082	£619,865	£1,646
45MINS	CHELMSFORD	£3,540	£136,184	£201,298	£291,214	£1,231

SOURCE: DATALOFT/ TFL/ ZOOPLA

KING'S CROSS			TO BUY			TO RENT
COMMUTE	LOCATION	ANNUAL SEASON TICKET	1 BEDROOM	2 BEDROOMS	3 BEDROOMS	2 BEDROOMS
15MINS	ISLINGTON	£1,216	£404,924	£591,573	£882,749	£2,526
30MINS	HAMMERSMITH	£1,216	£360,227	£589,170	£1,046,817	£2,105
45MINS	HARPENDEN	£3,400	£195,274	£289,831	£600,995	£1,083

SOURCE: DATALOFT/ TFL/ ZOOPLA

- LONDON'S 'WELL HEELED' A DRIVING FORCE -

Press headlines in the London property market often concern international buyers driving prices across prime central London. However, we are seeing a different dynamic emerge, with a peripheral market around the traditional 'prime central' burgeoning and driven by well earning domestic buyers.

This interesting demographic are increasingly driving the markets around Prime Central London in areas such as Islington, Wandsworth and Fulham, as they look to move up the ladder in areas they have called home for a number of years.

In many 'inner commuter belt' locations across the capital, demand has significantly outstripped supply over the last year or so, meaning these boroughs on the fringes of prime London have reported the highest price growth of any local authority/ borough across the UK.

In the 12 months to September prices in these areas increased by between 8.8% and 12.8% in Lambeth, Islington, Wandworth and Hammersmith & Fulham, higher than growth in the prime boroughs of Westminster and Kensington & Chelsea.

Living habits are changing and more people are opting to remain in central areas as their young families grow, whereas traditionally generations before would have moved to outer commuter belt suburbs. Improving inner city education and a desire for a better work life balance by reducing commuting times has led to an increasing demand for family homes in these Zone 2 areas.

Assisted by increasing equity in their current homes and a thawing of the lending markets, many higher earning young families are finding that they have the purchasing power to resist the move to the suburbs. Those property owners who, as young professionals or similar several years ago, bought an apartment in popular Zone 2 locations may well find themselves in this position in today's market.

Those looking to sell their first homes are now benefitting from increased interest from first time buyers for their current properties, as well as government assistance from Help to Buy meaning they are more able to move up the ladder than they have been in recent years.

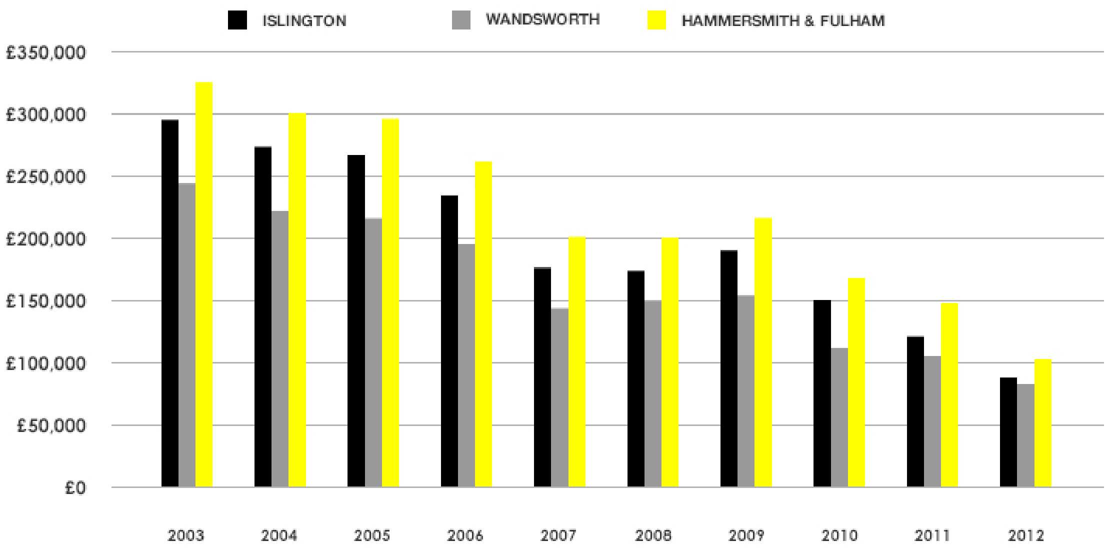
We have compared three areas of London popular with young professionals, the type of locations where they could have purchased their first home over the past decade. We have assumed a purchase with a 10% deposit on an average priced flat (Land Registry Borough figures) on a repayment basis, with interest and 2.5% of the balance paid off each year.

The analysis suggests buyers who bought a decade ago will have seen average prices rise by between 82% and 102%. This means they could have built equity in their existing property totalling in excess of £240,000.

Whilst these households have created significant equity, the costs involved in moving from the average priced flat within the three boroughs up to a terraced house in the same area are still substantial and out of the reach of London's average earners.

However, households with higher salaries, or those combining the equity from two properties, may well find that larger homes are within reach. The table below lists the potential equity of households in each borough by the year they bought their current property, as well as their required earnings to secure a mortgage (a multiple of four times annual salary) to purchase a terraced house in the same location.

- IMPLIED EQUITY BY YEAR OF FIRST PURCHASE -



SOURCE: LAND REGISTRY/ DATALOFT

_ INCOME REQUIRED TO BUY AN AVERAGE TERRACED HOUSE IN THE SAME BOROUGH _

	HOUSEHOLD INCOME NEEDED TO BUY A TERRACED HOUSE IF ALREADY OWN A FLAT IN SAME BOROUGH		
YEAR PURCHASED FIRST FLAT	ISLINGTON	WANDSWORTH	HAMMERSMITH & FULHAM
2003	£135,707	£102,155	£161,133
2004	£140,823	£107,377	£166,297
2005	£142,159	£108,807	£167,872
2006	£149,689	£114,764	£175,258
2007	£164,092	£126,614	£191,804
2008	£164,324	£125,183	£190,899
2009	£160,747	£122,882	£187,536
2010	£170,300	£131,462	£197,900
2011	£176,725	£134,554	£204,884
2012	£186,244	£142,133	£216,003

SOURCE: LAND REGISTRY/ DATALOFT

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LET'S TALK ABOUT YOUR NEXT MOVE, WE'D LOVE TO HEAR FROM YOU.

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