RESEARCH & FORECASTING UK

CENTRAL LONDON RESIDENTIAL

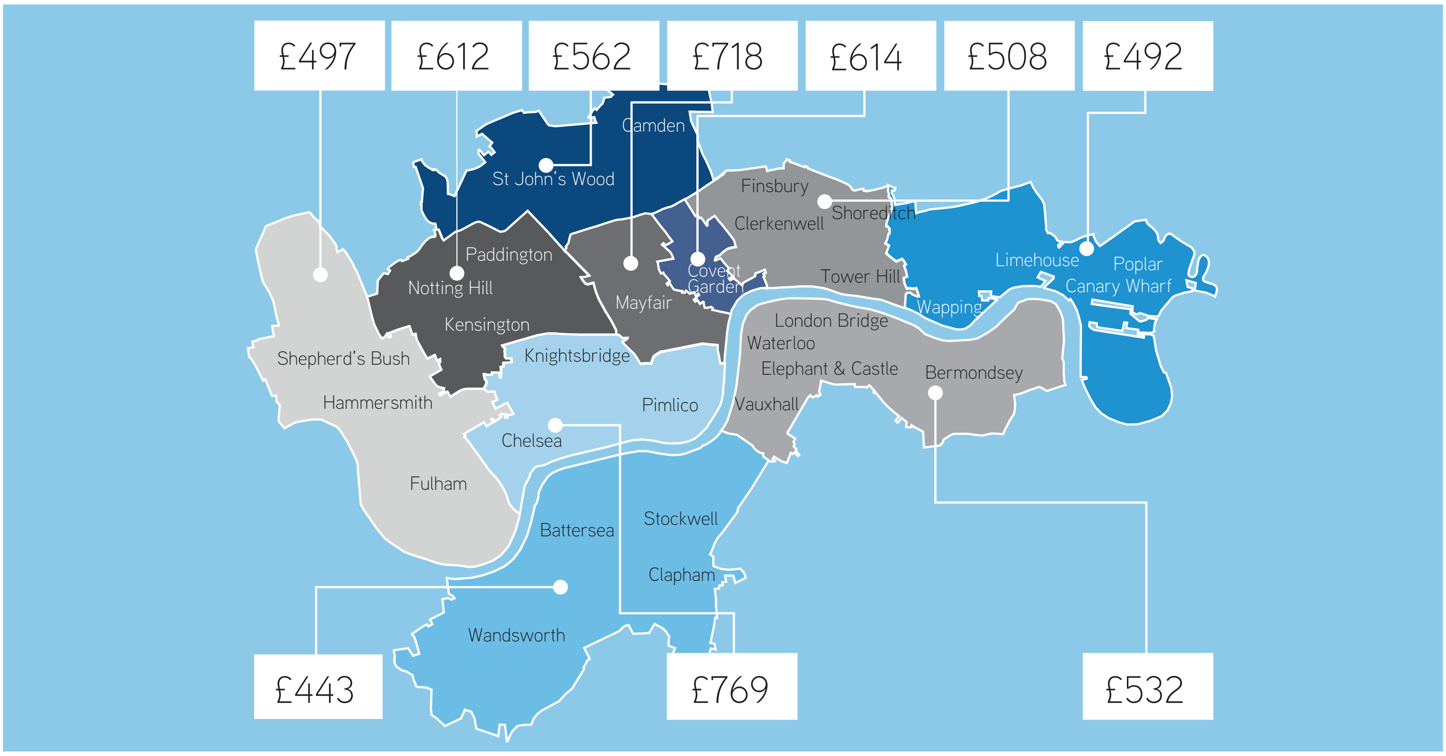
Central London Residential Market

The Central London residential market remains resilient. House prices in London have increased to pre-financial crisis levels, there has also been rapid growth in rental values across the capital. Rents in London regularly exceed £1,000 plus per week in central prime areas of the City (see **Figure 1**). Since 2000, property values in London and, in particular, prime London boroughs have consistently outperformed the FTSE 100 over the long term (see **Figure 2**).

RAISING EXPECTATIONS

Foreign buyers, institutional investors, commercial property companies, developers and private buyers are all seeking to cash in on the high level of demand in the market. London has a stable and liquid housing market, making it especially attractive to foreign buyers who are caught up in sovereign debt issues and concerned with wealth preservation. London's super prime residential market is particularly attractive to many high net worth individuals – none more so than the iconic One Hyde Park. The high specification apartments have attracted more discerning buyers from the Middle East, Russia and Asia and the sales figures continue to break records. Sales to date have topped £1.4bn. Sales rates have continued to rise throughout the development period,

FIGURE 1: CENTRAL LONDON 1 & 2 BEDROOM RESIDENTIAL FLATS AVERAGE RENTS ACHIEVED PER WEEK



Source: LonRes

averaging at £4,560 per sq ft but astonishingly reaching as high as £6,750 per sq ft and even breaking £7,000 per sq ft should the buyer opt for the Candy and Candy fit-out. The development also contains Britain's most expensive flat – a £136m, triplex apartment acquired by the Ukrainian oligarch Rinat Akhmetov, who reportedly intends to invest a further £60m on fitting it out.

One Hyde Park has not only set a new benchmark by redefining the term 'super prime' but its record sales prices have served also to raise expectations of vendors in some of London's more exclusive addresses. Before the arrival of One Hyde Park, The Knightsbridge development set the bar in terms of purpose-built high specification apartments. The earliest sales within the development from 2004 rarely exceeded £2,000 per sq ft, however, in the early part of 2011 a 7,000 sq ft 10th floor apartment sold for in excess of £4,000 per sq ft. A second floor four bedroom apartment without the same far reaching views of Hyde Park is currently on the market with an asking price of £4,220 per sq ft. Aspirations have continued to rise in the wake of what is being achieved next door to the Mandarin Oriental. For example, a 12th floor penthouse in Fountain House on Park Lane with expansive park views has just come to the market with a price tag of £19.5m (£5,000 per sq ft). Similarly, an apartment in the new Bulgari Hotel and Residences development, which sits directly opposite One Hyde Park has reportedly sold for £7,000 per sq ft. The price paid was for the unfurnished penthouse which sits atop of the new 85 room boutique hotel. The point to be made, however, is that One Hyde Park is so far ahead of the competition and the values are reflective of this, the remainder of the super prime market is working hard to catch up and asking prices are being set relative to the new benchmark.

INVESTMENT ACTIVITY

London has seen a resilient level of investment in commercial and residential real estate due to the financial insecurity in the eurozone. According to Real Capital Analytics, London saw £11.3bn of commercial cross-border real estate transactions in 2011, compared to only £5.1bn in Paris. Anecdotally, the Greeks, Russians and Chinese seem to be the most active in the London prime residential market, finding a safe haven in the UK to invest their money. According to a recent report by Hawker Beechcraft Corporation, more than half of London's most expensive residential property sales last year went to overseas buyers.

The Chinese government crackdown on real estate lending and tighter ownership restrictions in China is putting pressure on the country's real estate market, which is beginning to slow. As a result, property prices have dropped by 30% in various areas of China. The safety of investment and assets has become a top priority for wealthy individuals and is driving them to diversify their portfolios by acquiring international assets in capital cities across the world; London will be one of these. Developments located in both Canary Wharf and the City are hot spots for Chinese buyers, as well as high-end luxury properties in the West End.

The Singaporean government has introduced further measures to release pressure in the Singapore real estate market. All non-Singaporean residents buying residential property in Singapore are now subject to an additional 10% stamp duty payable, based on the purchase price or market value of the residential property. Foreign buyers made up 19% of all purchasers of residential property in Singapore in the second half of 2011, up from 7% in the first half of 2009. We anticipate this to have an immediate impact on Asian investors and will increase demand for residential investment to markets such as London.

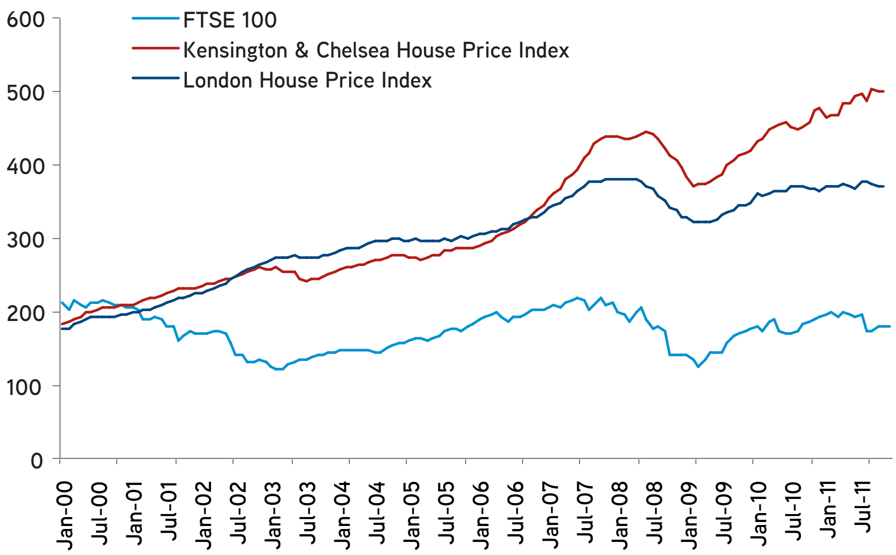
DEVELOPMENT ACTIVITY

Housebuilders and contractors are also increasingly attracted to the buoyant London residential market. Some have even changed course to focus on the more profitable London market. In addition to the London-focused developers, such as Barratt and Berkeley Group, housebuilders and contractors, who have traditionally focused on areas of the UK outside of the South East, are now pursuing a London development plan – for example, Taylor Wimpey, Redrow, Crest, Galliard and Ardmore.

Taylor Wimpey and Redrow have now focused their attention on London, with both developers acquiring further sites in the capital in 2011. Last year, Crest Nicholson began a £100m residential development drive in London targeting mid-range sites and developing 50 to 150 units at a time. Contractor Ardmore, already involved in luxury hotel work, is now involved with high-end luxury residential developments in the capital.

London's stable and liquid housing market makes it especially attractive to foreign buyers. Without the Asian market in particular, the London market would not look so appealing to those developers and contractors who traditionally have not been active in the market.

FIGURE 2: LONDON RESIDENTIAL PROPERTY LONG TERM PERFORMANCE



Source: Haver Analytics and Land Registry

FIGURE 3: TOP 10 COMPLETED CENTRAL LONDON RESIDENTIAL DEVELOPMENTS BY THE NUMBER OF FLATS

Details	Developer	Location	Postcode	Total Homes
Baltimore Wharf (The London Arena)	Ballymore Group	Tower Hamlets	E14	1,111
Maple Quays - Phase 3 (Canada Water Site A)	Barratt (East London)	Southwark	SE16	668
Marine Wharf West	Berkeley Homes (Urban Renaissance)	Lewisham	SE16	532
New Festival Quarter (Blessed John Roche School)	Bellway Homes (Thames Gateway)	Tower Hamlets	E14	490
Grosvenor Waterside P2 - Buildings A+B - Moore House and Caro Point	Qatari Diar	Westminster	SW1W	323
CQ London	A2 Dominion	Tower Hamlets	E14	319
Bermondsey Spa - F/S/U - Parker Building	The Hyde Group	Southwark	SE16	319
259 City Road	Groveworld Ltd	Islington	EC1V	304
The Heron (Milton Court)	Heron Corporation	City of London	EC2Y	284
Central Square EC1	Mount Anvil / One Housing Group	Islington	EC1V	274

Source: Molior

SOUTHBANK: The New London Prime Location

Since 2000, the Southbank has continued to see an improvement in its attractiveness as a residential location thanks to new developments. The Southbank is considered to be a prime stretch along the River Thames benefiting from its proximity to the City and West End, good public transport and high profile cultural events and exhibitions.

New luxury developments in the area have achieved record prices (see **Figure 4**) and Southbank is now considered to be a prime Central London residential area. Typical buyers range from employees in the City's financial district and overseas investors from South East Asia, who have been purchasing units in the £1m-£2m price bracket.

With the residential development pipeline being fairly restricted, developments of the highest quality are now able to command values that would typically be achieved in other prime London locations.

The 'Shard' mixed-use development dominates the Southbank and will contribute to the regeneration of the whole of the London Bridge area. Although this is predominantly an office-led scheme, there will be a number of residential units on the upper floors, which are rumoured to be launched at £4,500 per sq ft. These units will compete with the likes of new build schemes in Knightsbridge and Chelsea.

At present, the Southbank new build residential sales market is dominated by The Grosvenor Estate/Native Land scheme, Neo Bankside. This Rogers Stirk Harbour scheme is adjacent to the Tate Modern and comprises 200 apartments. The scheme is currently being sold off plan and most recent sales suggest average pricing at £1,400 per sq ft. Whilst the scheme is not directly overlooking the River Thames, a number of the higher level apartments will enjoy river views. The tallest block at Neo Bankside is 24 storeys high.

TOWER PREMIUMS

When analysing the pricing of schemes such as Neo Bankside, it is clear that height and aspect premiums exist in new developments and that premiums are being paid for tower schemes. For example, upper floor units with river views at Neo Bankside have achieved £2,000 per sq ft. Another example of this is at Vauxhall riverside; the latest phase of 'The Tower' has just been released and extends to 50 storeys; prices in excess of £1,500 per sq ft are being achieved. 'The Heron' in the City, which is 35 storeys, is achieving on average £1,200 per sq ft and does not have any river views.

FIGURE 4: SOUTHBANK PRICING DETAILS

Details	Developer	Total Homes	Average Sales Price	Average £ psf
NEO Bankside (Bankside Industrial Estate)	Native Land Ltd	217	£2,141,792	£1,326
Strata (Castle House)	Brookfield Multiplex	408	£727,055	£829
America House	Westlin	22	£664,511	£638
The Bear Pit (Union Works)	Andrew Davidson	25	£596,150	£823
Grange Garden (Larnaca Works)	Findon Homes/Union Developments	90	£444,100	£621
Vantage (Metro Central Heights)	St George South London Ltd	68	£437,950	£691
44-46 Borough Road	Jetco Investments	40	£434,611	£623
Bermondsey Square (New Caledonian Market)	Aviva Investors	90	£413,071	£618
Bermondsey Central (Ropewalk)	Hadley Property Group	90	£374,104	£543
170-176 Grange Road	Vision Homes Limited	33	£358,130	£541
20-30 Wilds Rents	Vision Homes Limited	37	£350,870	£595

Source: Molior

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