



LONDON HOUSING MARKET STUDY **2017**

Executive Summary

Declining housing prices due to additional stamp duty tax, rising unaffordability, Brexit uncertainty and general election results, while other English cities still going strong

London has historically seen price growth in the range of 8 – 10% till mid-2016. The last year has seen this reduce to 5% y-o-y till May'17 followed by declining price of -1 to -1.5% in the last quarter. Annual price rise now stands at 2.6% y-o-y till August'17.

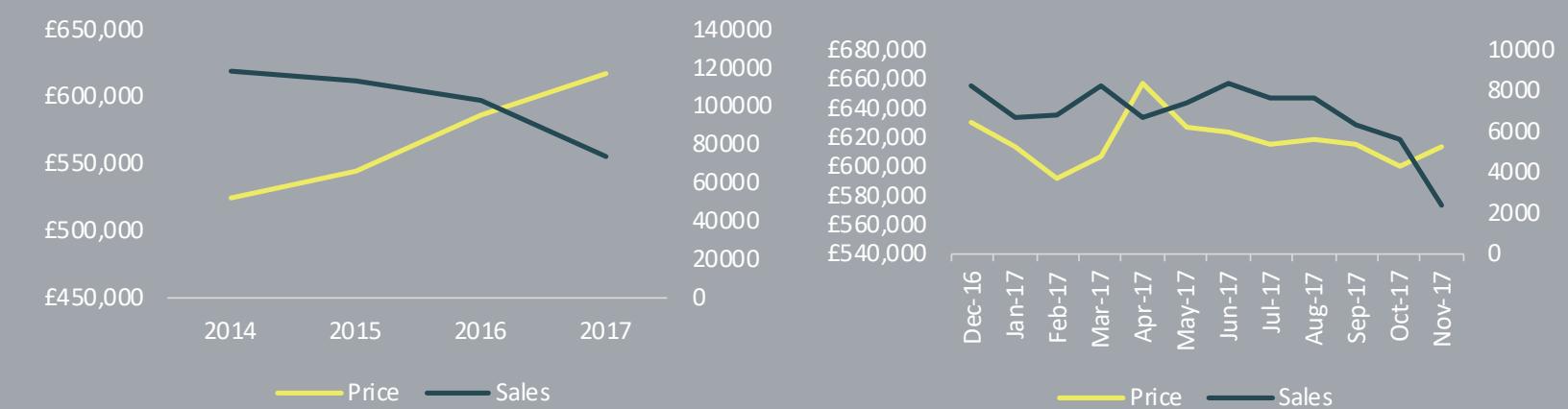
In April 2016, stamp duty on second homes were increased by 3%. This was done to cool off the rising prices at that point of time. This has however backfired as housing sales have dropped considerably post that resulting in declining prices.

The hung parliament in this year's general election created a sense of panic in the mind of the housing investor. A market already witnessing uncertainty required a strong positive measures. Though Theresa May officially became the prime minister on July 13th, the negative sentiment remains. It needs to be seen what measures are taken by the new government to fix the housing crisis.

Britain's exit from the EU triggered fear among the population of losing their jobs and the economy crashing. This resulted in prices declining in consecutive months in the wake of consumers sensing greater risk in real estate transactions.

Solid price growth is seen in Northern Ireland, the North West and South West of England & Scotland. Manchester, Edinburgh and Birmingham posted highest price rise for the last 12 months at 6.4%, 6.5% & 7.8% respectively. As prices continue to drop in London, many housing investors are turning away from London to the aforementioned cities.

Price and Transactions Timeline (Annual & Monthly)



Annual Capital Appreciation

↑ **2.6%**

Quarterly Capital Appreciation

↓ **-1.50%**

Median Property Price

\$2059 per sq.ft.

Housing Demand & Supply

Both demand and supply have remained slow and not been able to keep up with the market requirements

The average London house price is now 12 times greater than that of the average London wage, and in some boroughs up to 17 times higher. This affordability concern has had a dampening effect on housing demand.

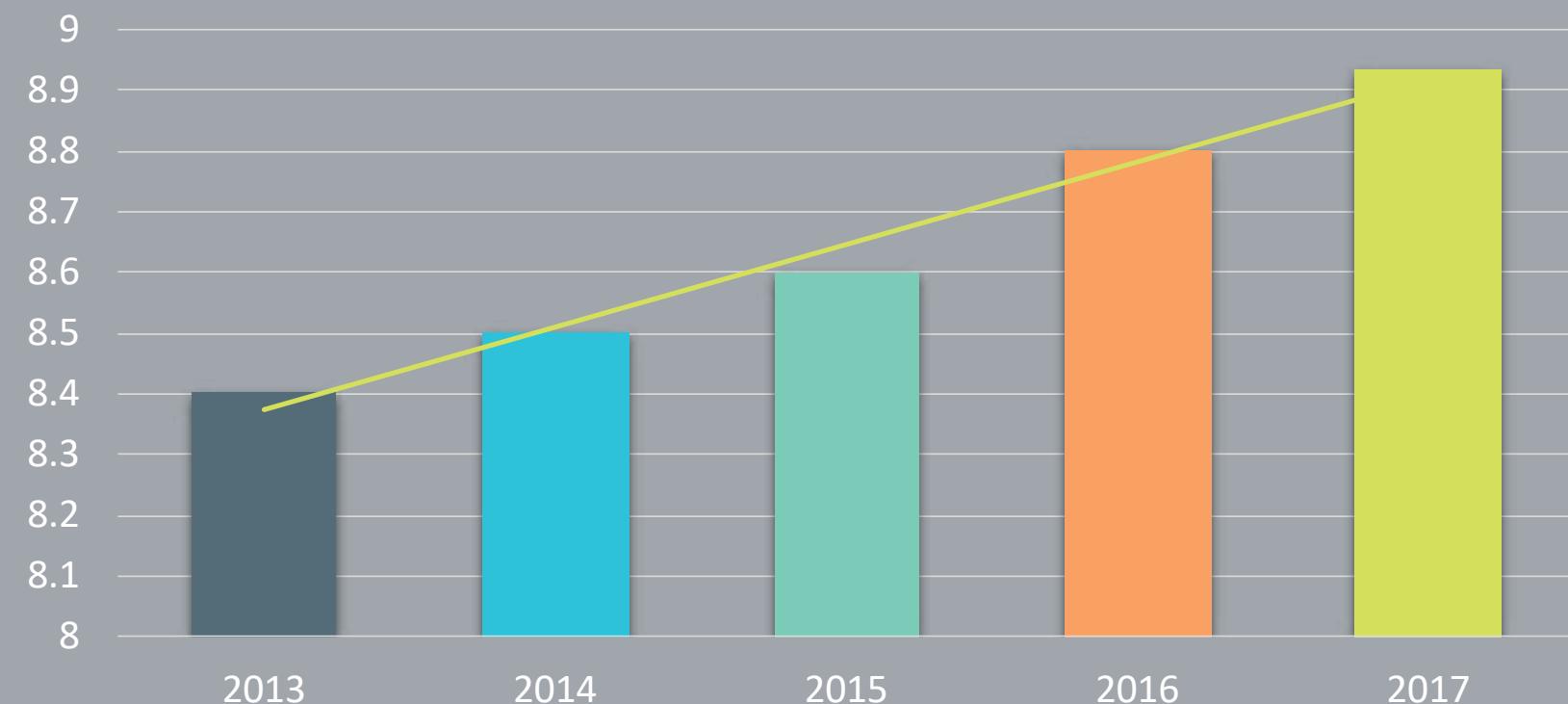
Number of new home sales and new buyers have been falling consistently over the last year. Number of sales transactions in Greater London was 102939 in FY 2016 dropping to 82423 in 2017 (till Oct'17).

The Brexit uncertainty has especially led to investors leaving the London housing market and investing in other cheaper and positive markets like Liverpool and Manchester.

From a supply perspective, primary market in Outer London is growing strongly with close to 25k new homes being constructed in 2017 followed by 5000 completed homes.

Overall, supply pipeline of affordable home have been slow and supply levels have remained short in 2017. London is over-supplied with homes that are too expensive.

Queensland Population Growth



Housing Market Size	Annual Growth	Transactions FY' 2017
↑ \$69.8 Bn	↓ -18%	↓ 82423

Micro-Markets Price Performance and Industry Outlook

Residential prices are expected to follow the declining trend in the short term but might increase by mid – 2018 and 2019. Rental market could outperform the sales market

Over the next few months, prices are expected to follow the declining trend till the Brexit uncertainty is not settled. However, in the long run prices might rise by 2-3% in mid-2018 and 2019 due to a loose monetary policy, severe shortage of housing supply and the expectation that the UK economy would recover & wage growth would pick up in response to global growth.

However, these predictions are subject to certain factors.

- Firstly, the handling of interest rates by the UK government needs to be on the watchlist. Currently they are low and it seems highly unlikely that rates will rise sharply.
- Secondly, though the expectation is of an improvement in the macro economic conditions, it will largely depend on the final leg of the Brexit negotiations.

The rental scenario is slightly different. In the short term, with prices reducing and stagnating in the background, many landlords might exit the market, resulting in further reduction of supply. This would mean rents would increase and could outpace the annual price rise over the next couple of years.



Y-O-Y 'Aug 17 Data
3 Year Returns

Top Locations for Investment

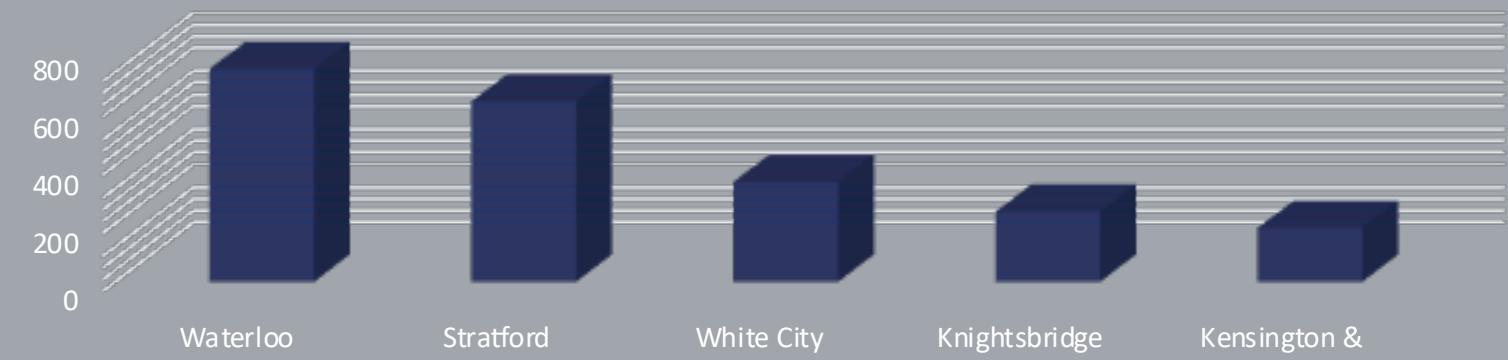
The areas of South Kensington, Chelsea and Knightsbridge in Central London offers good investment options along with some key locations in East & West London

Prime Central London is affordable and is a profitable investment option but only in few areas, viz. South Kensington, Chelsea and Knightsbridge. However, there is a recent shift in activity to the Outer Suburbs as investors look for safer investment options. East & West London, per se, will benefit from the opening of the 'Crossrail', due next year and locations along the train route offer good investment options.

To summarize, the best locations in the London Housing Market to invest in would be the following:-

- South Kensington – Chelsea – Knightsbridge – White City (West Central London)
- Stratford (East London) – Nine Elms (South West London) – Waterloo (Central London)
- Canary Wharf – New District (East London) – Canada Water (East London)

Top 5 locations for residential transactions (Q1 – Q3' 2017)



The numbers are indicative of the transactions for the overall postcode of respective locations

Key Developments

"East & West London, per se, will benefit from the opening of the 'Crossrail', due in 2018 and locations along the train route offer good investment options."

"Clarion Housing Group is to develop 135 homes for first-time buyers in north west London."

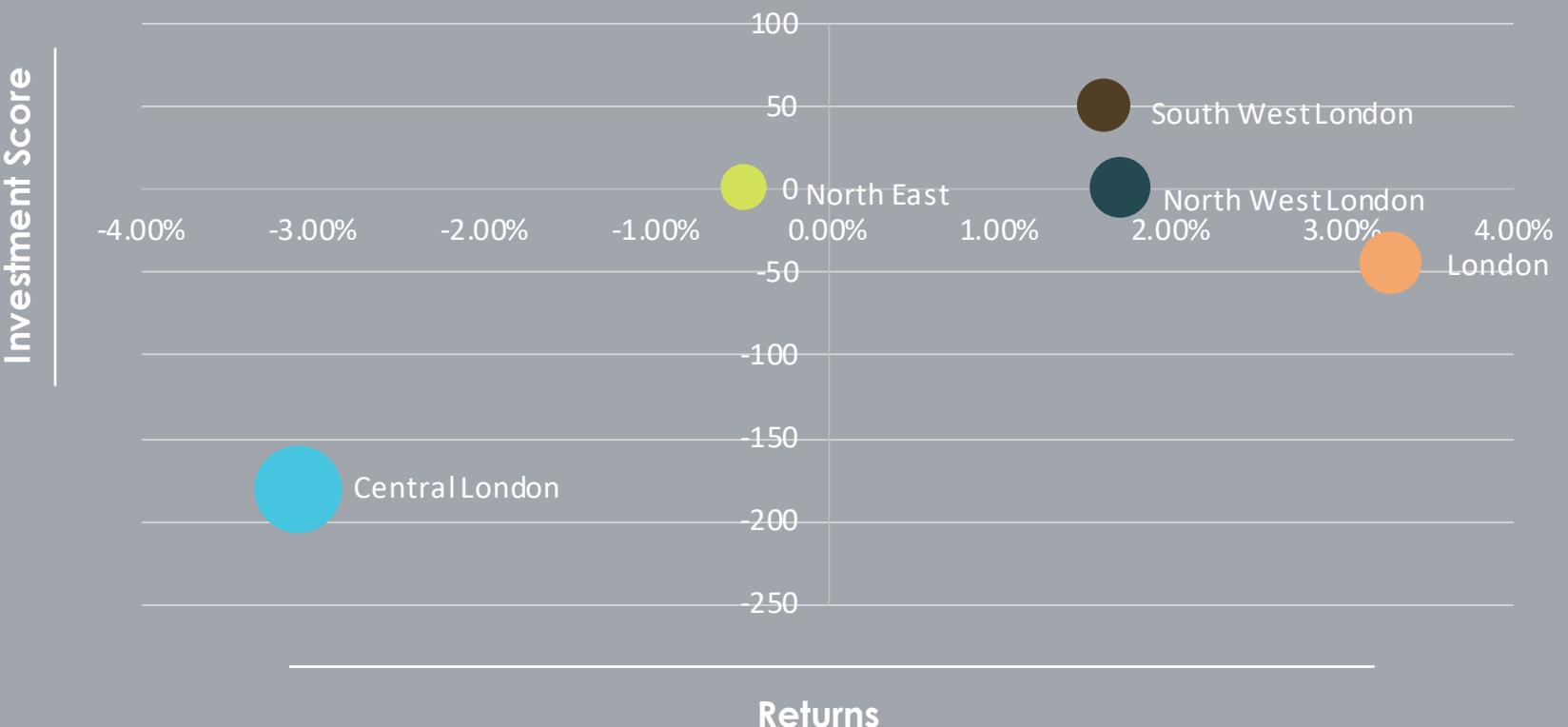
"Chelsea Waterfront is a collection of luxury apartments situated on the north bank of the Thames with breathtaking river views. It is located in the heart of one of London's most historic and sought after areas with good transport links across London to some of the best schools and universities in the country."

Investment Scores and Returns

Prime Central London is most affordable now with prices at an all-time low. However, safe investment options can be found in the Outer Suburbs.

From an investor point of view, assuming the pricing, rental yield and vacancy rate fluctuations remain at their last 3 years average value, rate of returns from investing in London's key micro-markets would be 1.57% for North-West London, 1.52% for South-West London, -3.21% for Central London, -0.45% for North-East London and 3.18% for London as a city over the next 3 years.

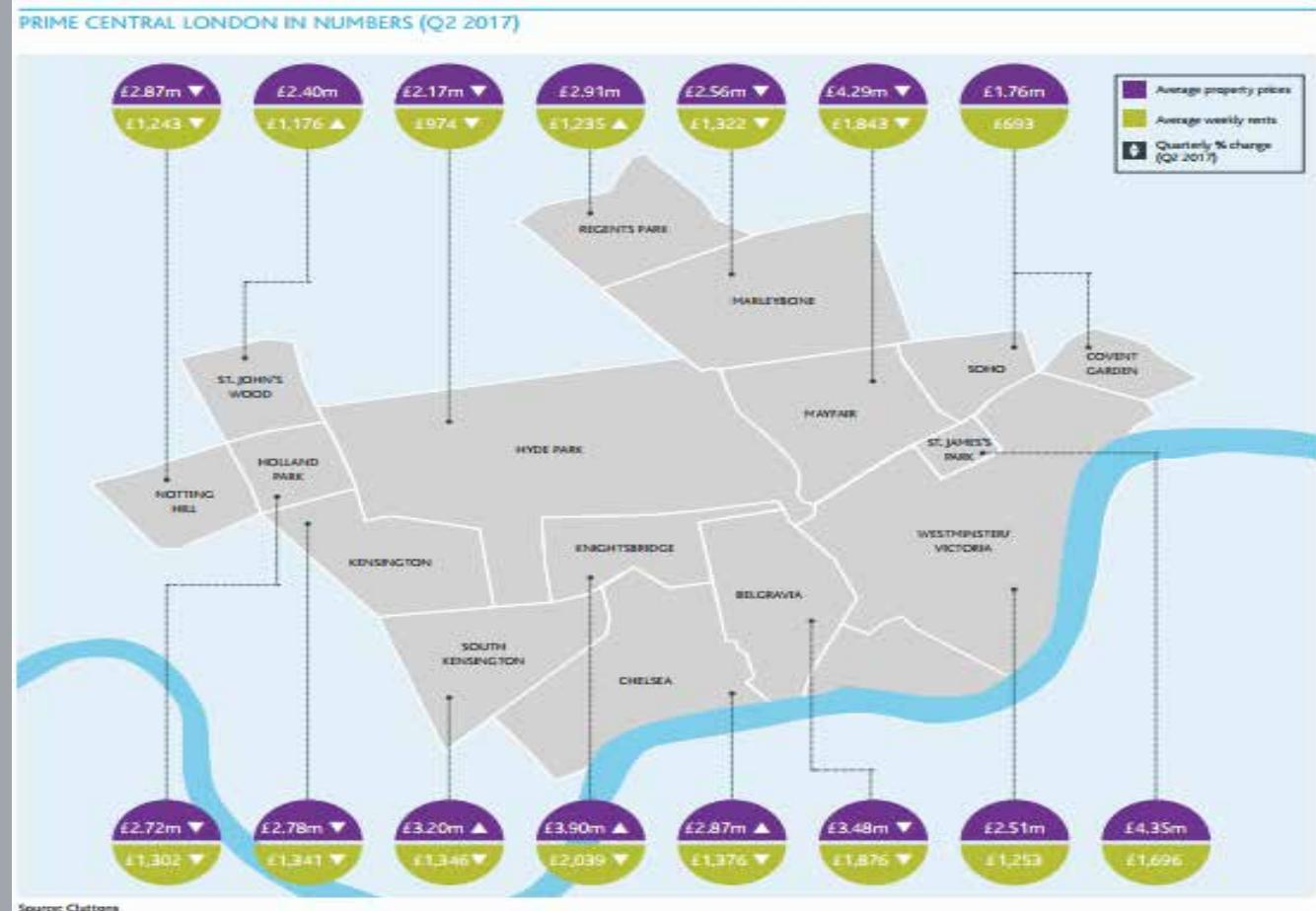
Micro Market Positioning in Terms of Returns



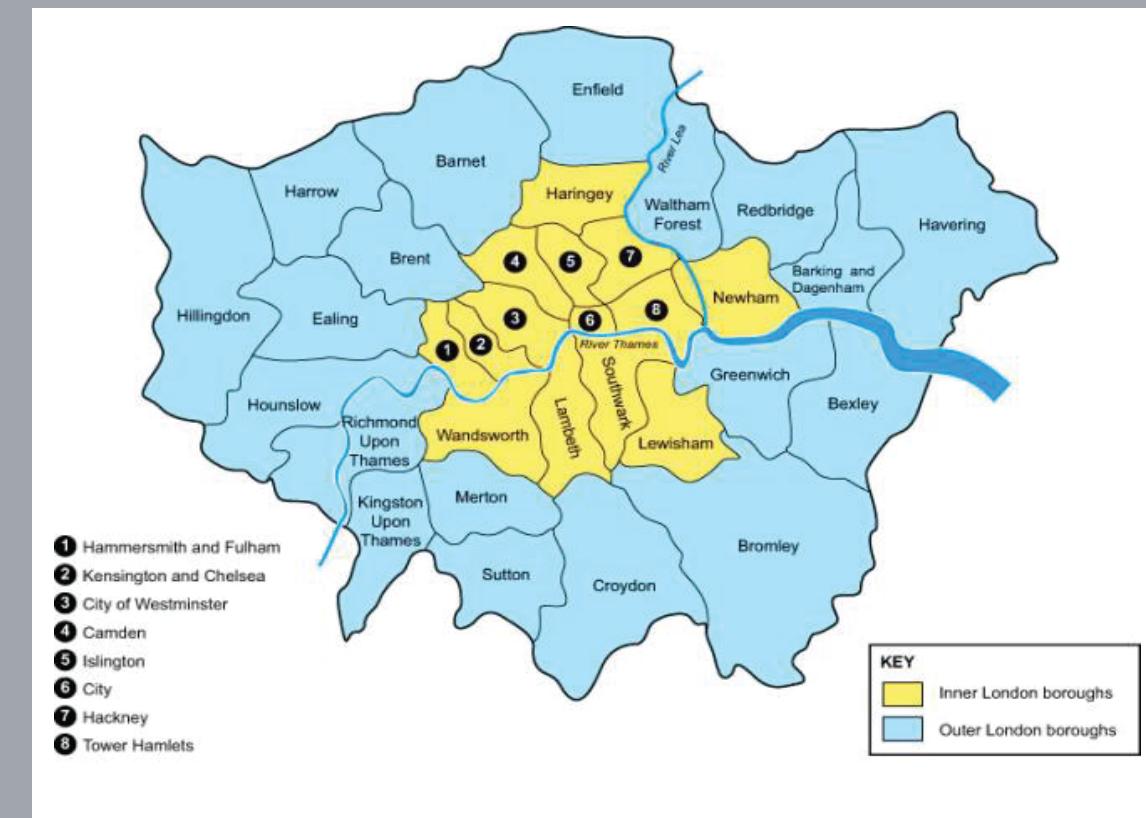
Size of bubble indicates median residential price

Market	Rental Yields	3 Year Capital Appreciation	1 Year Capital Appreciation	Vacancy	GDP (Factored)	Transaction Cost	LTV (Factored)	Cost of Capital	Capital Gain Tax	Capital Gain Tax (Factored)	Rental Income Tax	Rental Income Tax (Factored)	Price PSF (Pound)	PSF (Factored)	Returns	Investment Score
London	4.10%	7.10%	2.60%	2%	4%	10%	8%	4%	28%	2.80%	20%	2%	1500	15%	3.18%	11
North West London	6.40%	3.80%	2.70%	2%	4%	10%	8%	4%	28%	2.80%	20%	2%	1200	12%	1.57%	39
South West London	6.20%	4.00%	6.60%	2%	4%	10%	8%	4%	28%	2.80%	20%	2%	1100	11%	1.52%	87
Central London	5.13%	3.00%	-6.60%	2%	4%	10%	8%	4%	28%	2.80%	20%	2%	1570	16%	-3.21%	-121
North East	6.10%	3.20%	0.10%	2%	4%	10%	8%	4%	28%	2.80%	20%	2%	900	9%	-0.45%	31

London Micro-Markets



West London



South London

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