FYNDERS

PRIME LONDON MARKET SUMMARY

Autumn 2011

- Against a backdrop of price falls in Greater London and the wider UK, Prime Central London property has continued to surge.
- The strong growth of international renters and UK buyers unable to gain a foothold on the property ladder is pushing rents ever higher.
- The continued weakness of the pound against major global currencies means the UK is still an excellent investment choice and a strong hedge against global uncertainty, particularly in the US and Europe.
- Against major market shifts in the last two months, we have seen property continue to hold its own, attracting wealth as a tangible asset class alongside gold.
- There has been a return of UK City money into the Prime Central London market, much more discrete than pre-2008, but becoming more prevalent.
- We are predicting continued growth through 2012 at similar levels to this year. This may be foreshortened by further uncertainty out of the Eurozone, but in the medium term, we expect average growth of 7.5–8% for the next four years.

Prime London Market

And so it continues. Prime Central London (PCL) has had an incredible summer. August, normally one of the quieter months, has seen no sign of flagging. Even with Ramadan falling across the month, curtailing the usual Middle Eastern activity, we have experienced a busy season.

All this has occurred against a backdrop of huge news and uncertainty. We have witnessed US downgrades and Eurozone default threats alongside continued instability and insurrection in the Middle East and North Africa.

Despite continued falls throughout Greater London and the wider UK, PCL has continued to grow, outperforming the market at large by in excess of 10%. By July, 2007's previous record prices had been consigned to the history books, and there has been little subsequent let up. Prices are currently up 35% on the trough of 2008, and new records are being set almost weekly.

This is beginning to be reflected in the other global centres around the world. Even Manhattan has dragged itself into positive growth, albeit by its fingernails at a mere 1.0%. Paris has achieved 7.0% and London 10.5%. These figures pale in comparison to the Far East, with Hong Kong showing 20% and Shanghai over 100%. However, there is real concern about the sustainability of these Asian juggernauts' fantastic rates of growth. By contrast, PCL's relatively sedate recovery is somewhat reassuring.

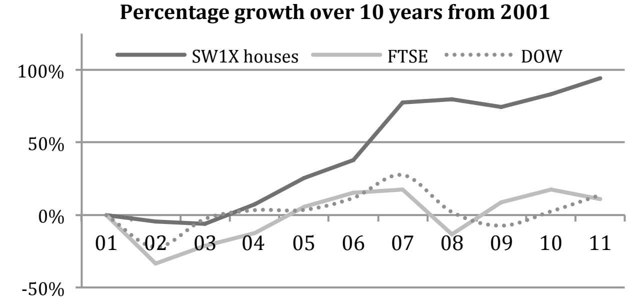
Exchange rate advantage

Part of PCL's attraction lies with the GB£ still maintaining its weakness against other major currencies. We are still attracting large investments from around the globe, with the GB£ stable at around US$1.6 since February and at €1.14 since April. Despite recent bad news, both exchange rates have remained constant. Though we discussed price growth above, to those investing with Euros, there is actually still a 10% discount on 2007 prices, and to those buying with the US$, then it is nearer to 18%.

Asset Store

When considering the above with recent events, such as the US downgrade and the continuing Euro Zone concerns, we have more and more clients approaching us to help them move assets from their home countries to what they see as a safer investment environment. If one considers growth over the last ten years, the FTSE has returned 6% and the DOW 20%. Meanwhile, PCL has provided an impressive return of more than 81%.

Percentage growth over 10 years from 2001



On a one-year basis, the FTSE is currently down 7% and savings rates hover around 3.5% per annum, whereas PCL has achieved 10.5% growth. This is purely capital growth, and when rental incomes are included, this figure exceeds 14% per annum.

Alongside gold, PCL property benefits from the psychological advantage of being a solid, tangible asset.

Rental Investment

The rental market has also had a record-breaking year, with rents finally surpassing the 2007 peaks and showing over 30% uplift since 2008. A multitude of factors have led to this;

- Increasing property prices have been pushing buyers out of the market, trapping them in rented accommodation.
- Owners have been tempted to cash in on the all time highs in the sales market, and have chosen to rent while they decide what to do next.
- Many historically rented properties have been bought by overseas buyers, often permanently removing them from the rental pool.
- Finally, overseas renters have been moving to London in force, now accounting for 60% of the market, either looking for a toehold in a safe European economy or employed here on shorter-term contracts.

Sales Market

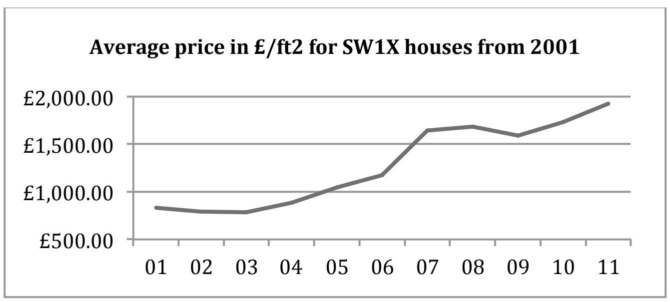
The volume of properties on the market has increased, but demand has more than kept pace. Whilst exchanges are up 15% year-on-year, quality stock remains difficult to find.

Notably, over the last three months, we have seen a marked increase in the number of UK buyers. Up over 20% on the same period last year, this appears to be a reaction to the increased confidence in the City. Bonuses have been paid again, and though they are more discrete in their spending than in previous years, the finance industry's thirst for property is still paramount.

Interestingly, over the same period, the number of European buyers has fallen by 50%. This may be a reflection of those seeking non-Euro based investments having satisfied their requirements, allowing numbers to return to historical levels.

Concerns raised by two major house price indices were nothing if not expected by the market itself. 'Primelocation' and 'Findaproperty' both base their figures on asking prices and not achieved sales prices. So talk of falling asking prices did not elicit the panic the headlines were intending.

Firstly, these indices used generalist 'London' figures that have little bearing on PCL, as they include many fringe areas. For a realistic assessment of what is occurring, one should rely on achieved prices and equate the price per square foot, as this allows one to more accurately compare apples with oranges.



Some vendors have been carried away by the market sentiment and insisted on asking inflated figures, which obviously have not been achieved. As such, these prices have had to be corrected. However, actual transaction prices have remained stable and are often increasing.

> *"The very best properties in Knightsbridge garden squares are now starting to look reasonable at £3000 per square foot. This has spawned unrealistic expectations in many vendors. However, the market has become far more discerning and it is only the best that continue to achieve these stellar prices."*
>
> *Nadia Soutzos*

The feeding frenzy is slowing; fewer buyers are being caught up now that stock levels are increasing again. However, there are still a few lemons out there for the unsuspecting buyer.

International Demand

We cannot deny that now, more than ever, international buyers underpin the PCL market. They have invested over £3.7billion in Prime Central London property this year alone. Their influence is changing the face of PCL from every end of the spectrum.

At present, there are thirty-seven resident billionaires in London – the third highest concentration in the world – of whom more than half are from overseas. This is a significantly higher proportion than any other global city, a testament to London's international attraction.

These global elite are renowned for being trendsetters for their more 'moderately' wealthy countrymen, who are following closely in their footsteps. As we have stated before, the key drivers for international buyers are stability, safety, location, education and international business links, though not necessarily in that order.

A lot of ink was used over the riots in August. The facts remain that they were contained well away from PCL, were very short lived and ended swiftly without escalation. The general consensus has been that the official response was firm and fair, and the subsequent trouble-free Notting Hill Carnival restored a large portion of the city's credibility.

Growth Markets

Historic trade talks in China are clearing the way for a Remenbi-based trading hub to launch in London, the second only such offering outside Mainland China. With huge and continued wealth generation taking place in the Far East, any new opportunities to manage and move finances offshore will be hugely appealing, making London *the* destination for Oriental investment.

New developments are going to be a cornerstone for this ever-increasing number of Far Eastern buyers. There has been a chronic shortage of development over the last four years, primarily due to the lack of finance made available to developers since 2007.

In Kensington and Chelsea, there are only three prime schemes under construction, though there are nineteen further sites where planning has been granted, but not yet started.

It appears that there will be a trickle not a flood, to satisfy this demand. This, in turn, is likely to strengthen the market if the predicted influx of Far Eastern wealth continues to head in our direction.

The Future

Continued instability in the financial markets is essential for hedge funds and banks to prosper, as they rely on market movements to make money. This will create some losers, but equally, there will be winners. The once-bitten twice-shy statement holds true, and the banks are being cautious but active. They are expecting strong results, even whilst their share prices take a hammering on market sentiment.

All the major research reports are predicting continued growth in PCL, somewhat reduced in the next twelve months, but returning 35% over the period to 2015. This fits with our view of the market. Though the short term is harder to predict, we are confident of continued growth in the short-medium term.

Barring any major catastrophes or a prolonged double dip recession, London property will continue to provide a strong hedge against Euro and US dollar instability. PCL remains a sound liquid asset for those in more fractious parts of the world and, unlike Switzerland, there are no signs of our government trying to artificially restrict the inflows of foreign investment.