



Prime Central London Residential Update

 **King Sturge**

Summer 2007

Executive summary

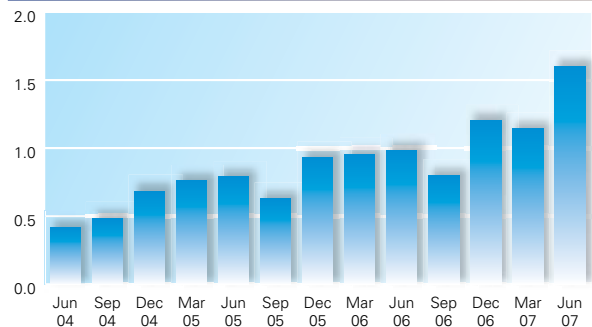
- **Prices continue to rise strongly in the prime central London (PCL) market, up 34% in the 12 months to June.**
- **Stock currently priced at over £4 million rose by 40% in the 12 months to June.**
- **Prospective purchasers have become more circumspect in the summer when bidding for property.**
- **We believe that the market has now peaked in terms of price growth.**
- **Our year-end PCL price growth forecast of 20% remains unchanged.**



Economic background

International mergers and acquisition activity is an important source of income for City firms and hence, an important determinant of year-end bonus levels. The value of mergers and acquisition activity was 37% higher in H1 2007 than in H2 2006. Subsequently, expectations of current year-end bonus payouts have risen, despite recent stock market volatility. In such circumstances, we can expect the banks to lend against year-end bonus payments in the autumn, as they did last year.

Chart 1: Quarterly global mergers & acquisition deal value



Source: Dealogic

More widely, London's business service employment growth is forecast to be higher in 2007 (3.8%) than it was in 2006 (2.7%). Into 2008, however, a slowdown in global economic growth is expected to produce a less favourable environment for price growth, though business service employment growth is forecast to match the 2006 rate. Overall we are anticipating a steady slowdown in the market from a period of strong price growth.

Supply/demand

Many prospective purchasers are becoming more circumspect when bidding, which is unsurprising, given the recent strength of price growth. Others have postponed serious attempts to buy until the early autumn when the relative paucity of stock on the market is expected to be less evident.

There has, unsurprisingly, been a growing perception that the market has peaked in terms of price growth which has prompted an increase



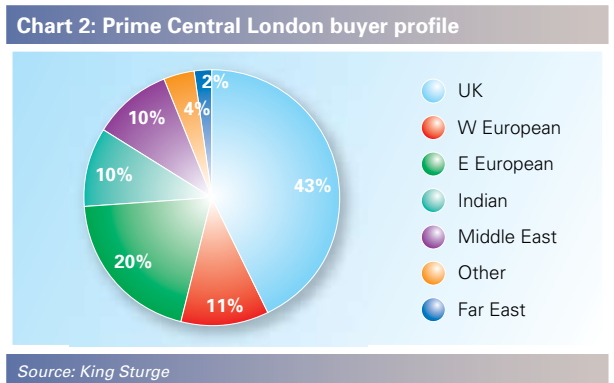
in instructions to sell. Consequently, prospective vendors will probably find it harder to achieve the asking price throughout the summer than in the spring. Agents' comments regarding prospective vendors' unrealistic sale price expectations are becoming more common, following a lull throughout the recent period of strength.

There has been recent evidence that some landlords have sold to crystallise profits from capital growth. Owner-occupiers have been ready to acquire such stock thus constraining the supply of rental stock. Nevertheless, yields have been pressured down to circa 4.25% and void periods have fallen consistently in the 12 months to June.

Investors are looking to reinvest funds from recent PCL disposals in areas with more sustainable yield profiles. When combined with others priced out of traditional PCL locations, demand for stock is rising in nearby areas. Consequently, South West London around Barnes, Putney, Richmond and Wandsworth has benefited from a ripple-out effect in recent months.

Buyer profile

The small majority, 57%, of PCL acquisitions were accounted for by purchasers from overseas in the first half of 2007. Such a level is similar to that seen in the second half of 2006.



Price growth

The PCL market continues to comfortably exceed price growth nationally. The King Sturge Prime Central London price index rose by 34% in the 12 months to June 2007. 6-month growth was 21%. It appears that our year-end 2007 price growth forecast of 20% has a degree of upside risk.



Our year-end forecast for the Nationwide's UK price index is 7%. July's 12-month rate of 9.9% was the weakest since March, indicating that recent base rate rises may be feeding into pricing. This is likely to most directly constrain the lower value end of the PCL market (under £1m) in the months ahead.

Stock priced over £4million, continues to out-perform the general market, with 12-month price growth of 40% in June. Accommodation offering modern lateral space is acutely under-supplied when compared to traditional, multi-level townhouse stock. The strength of demand for lateral space was exemplified by a recent sale at Lowndes Square, SW1 which equated to circa £4,250 per ft².

In the new-build market, London Development Research project circa 950 unit starts in 2007 in Westminster and Kensington & Chelsea, which is double the amount in 2006. It is also 33% higher than the average level in the five years to 2006.

Area definition

King Sturge survey of Prime Central London - Belgravia, Knightsbridge, Chelsea, South Kensington and Mayfair.



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