THE PRIME PROPERTY MARKET

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HAMPTONS INTERNATIONAL

THE WEALTH PARTNERSHIP

London's prime property market review:

It is easy to be distracted by what has been going on at Westminster, but for astute investors and HNWI's, there are opportunities out there, especially for those taking a long-term view. This report is a brief look at the current prime central London property market, the role of international buyers, insight into the market longer term, and why London remains a global city and attractive to investors.

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A sense of opportunity?

The year so far

Political uncertainty combined with affordability issues have curbed activity across the UK's housing market. However, while London's super prime housing market is no exception, its slowdown started earlier, and there are now signs that it could be coming out the other side.

The housing market in prime central London (PCL) peaked in 2014, following six years of considerable growth during which time the average house price rose by 123%. The raft of tax changes that hit the most expensive homes and company purchases in 2014, combined with adjusting expectations, resulted in PCL transactions and prices beginning to fall. It was London's most exclusive and expensive homes that were quickest to respond to these changing conditions, which subsequently triggered a slowdown across the rest of London and the South.

During the last four years, a lot has happened. Political uncertainty relating to the UK's relationship with the EU has heightened, the global economy is slowing, and the trade war between the US and China remains delicate. However, the drivers for people purchasing London's most exclusive properties are complex, and London remains a desirable city to visit, live in and own property.

Since 2014, at the peak of the market, house prices have fallen by around 13% in PCL. But despite the price falls over the last few years, the average person who sold their home in London last year did so for £237,000 more than they paid for it, having owned the property for an average of 9.3 years. And the gains in Prime Central London were even bigger.

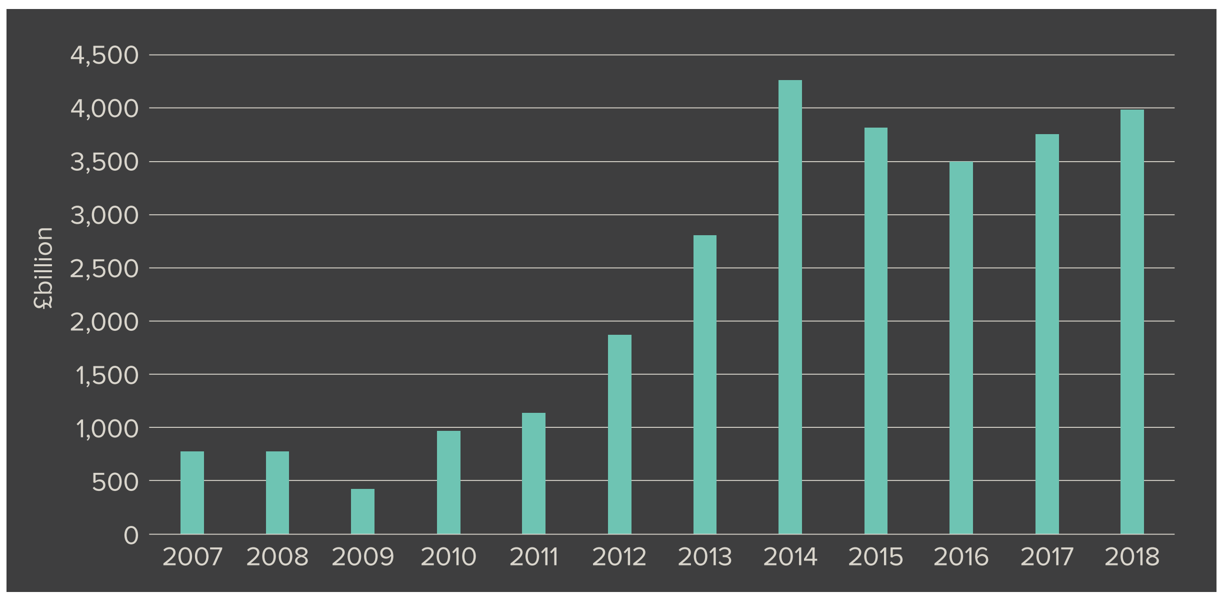
So, while there have been some short-term cyclical price corrections, most households have owned their property for long enough to reap the benefits of strong historical price growth. Also, prime property in London has typically outperformed many other assets in terms of capital appreciation too.

While buyers in the mid-market remain cautious, more households seem to be choosing to get on with their move. In fact, despite lower transaction levels overall, £3.98 billion worth of homes were sold for over £5million in London last year. The highest level since 2014 (£4.26 billion), showing confidence and longevity in the PCL housing market.

The annual rate of price falls is slowing as well. The average home in PCL cost 6% less in Q2 2019 than it did in Q2 2018. With the market having slowed for four years now, there is a feeling that it might be reaching the bottom. It certainly looks better value, particularly for international buyers who have been reaping the benefits of sterling's depreciation.

"The average home in PCL cost 6% less in Q2 2019 than it did in Q2 2018"

Total value of homes sold for +£5million in London



Source: Hamptons International and Land Registry

123%
Average house price growth in PCL from 2009 to 2014

£3.98 billion
Worth of property sold last year above £5million

£273k
Average seller gain in London last year

International Buyers

International buyers have long played a pivotal role in the UK's housing market, especially in prime London.

Immediately after the UK voted to leave the EU in H1 2016, the proportion of homes bought by international buyers fell in prime central London (PCL), which was mainly driven by a fall in confidence. However, since then, sterling's depreciation and falling house prices have meant that a home in PCL became better value, particularly on a global scale. Given these discounts, the proportion of homes bought by international buyers started to rise again and reached a record high of 58% in H2 2018.

During the first half of this year, however, the global economic slowdown combined with heightened political uncertainty in the UK has meant that the proportion of homes bought by international buyers fell for the first time since the Referendum. International buyers purchased 44% of homes in PCL in H1 2019, down from its previous peak.

This drop-off was mainly caused by a fall in Asian buyers, particularly those from China who have been impacted by capital restrictions on moving money out of the country. Meanwhile, the proportion of homes bought by other

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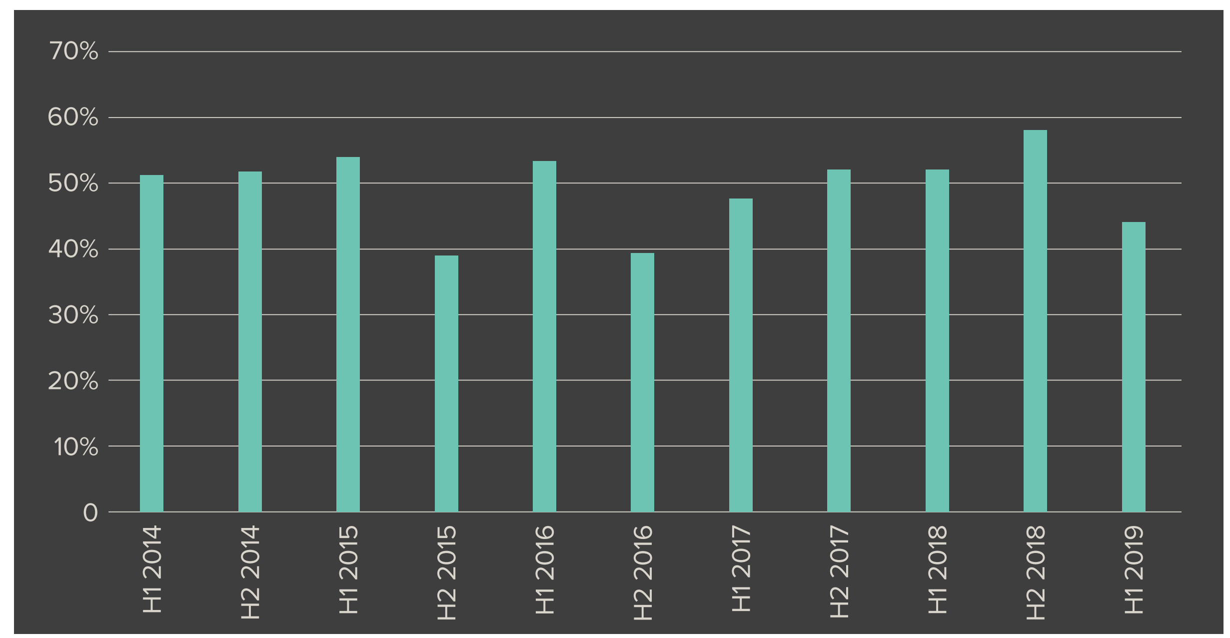
Proportion of homes bought by international buyers in Prime Central London



Source: Hamptons International

International Buyers (continued)

"International buyers purchased 44% of homes in PCL in H1 2019"

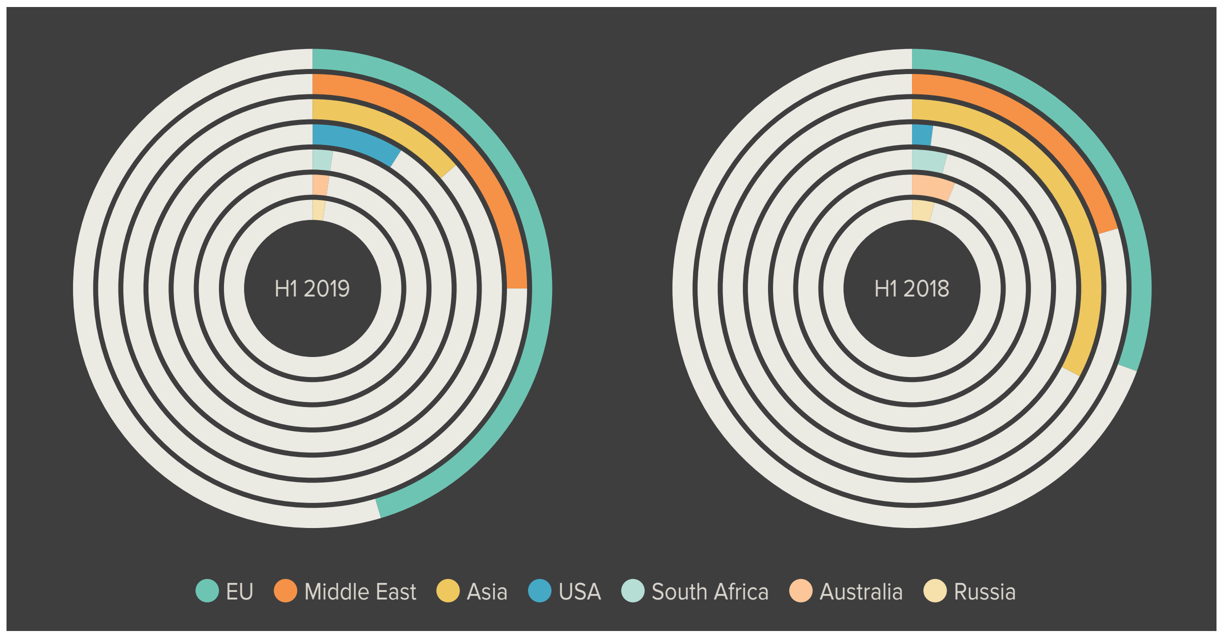
international buyers: EU (+5%), Middle Eastern (+1%) and American (+3%) buyers in PCL increased in the first half of 2019. However, such is the pace at which political and economic events across the world are moving; anecdotal evidence suggests that over the last few months international buyers, particularly from America and the Far East, have returned to PCL where they have been taking advantage of falling prices and a weak pound.

The savings for overseas buyers are significant. Falling house prices mean that a home that would have cost £2m at the peak of the market, could be bought for just over £1.7m in H1 2019 – a 13% saving, and when currency changes are factored in, the savings are even greater. A home worth £2m at the peak of the London market bought with dollars could, with price falls and exchange rates combined, provide a 33% saving for the buyer. This takes the purchase price down to £1.3m equating to nearly a £700,000 discount.

The same is true for those buying in Euros or Yuan where the combined price falls, and currency movements equate to a 19% and 27% discount respectively. For a European or Chinese buyer, this means that the same £2m home could now be bought for £1.6m or £1.4m respectively.

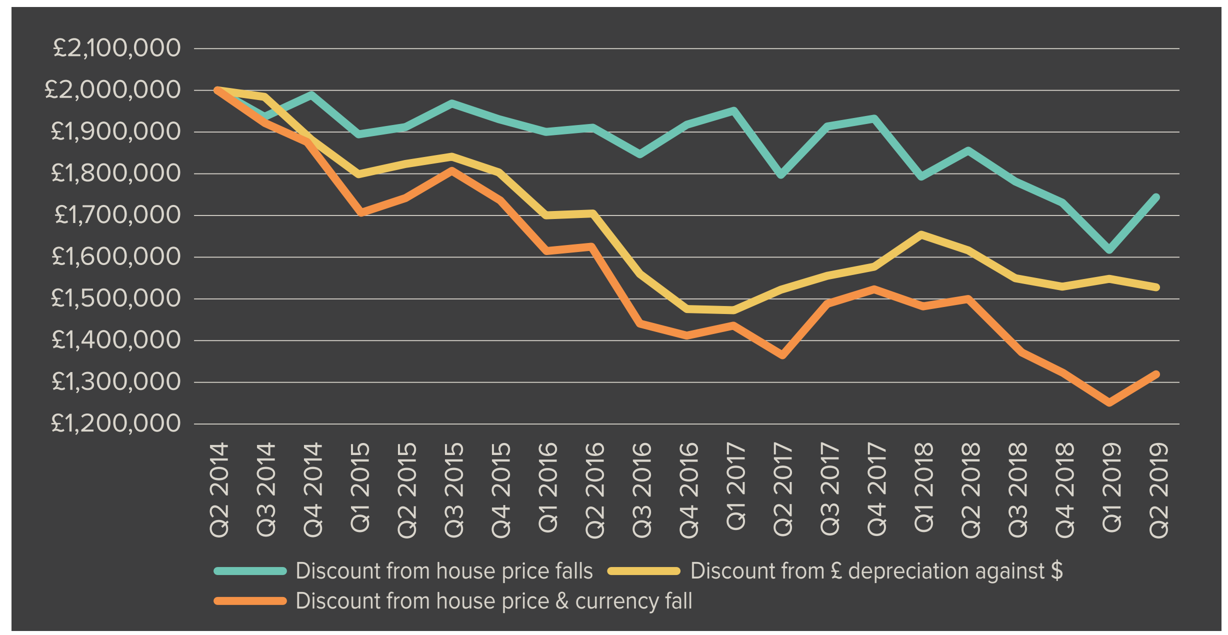
Unfortunately, while uncertainty around Brexit continues to rumble on, sterling will remain volatile, which continues to create plenty of opportunity for those buyers purchasing property in the most exclusive parts of London.

Nationality of buyers in Prime Central London



Source: Hamptons International

Changing cost of a £2million home since the peak of the market in PCL for a $ buyer



Source: Hamptons International and Bank of England

Prime property pulls through in the long-term

The old saying “an Englishman’s home is his castle” shows just how rooted property is in the British psyche.

“Since 2000, house prices in PCL have more than doubled, rising by 252%.”

Bricks and mortar have long been viewed as a wise investment, and unlike other asset classes, housing often carries a strong emotional connection too.

It is worth remembering that the housing market is cyclical – it moves through periods of rapid price growth, followed by stagnation or price falls. Although there seems to be a bit of a lull now, with Brexit uncertainty causing many buyers and sellers to wait and see before they move home, it is unlikely to last forever.

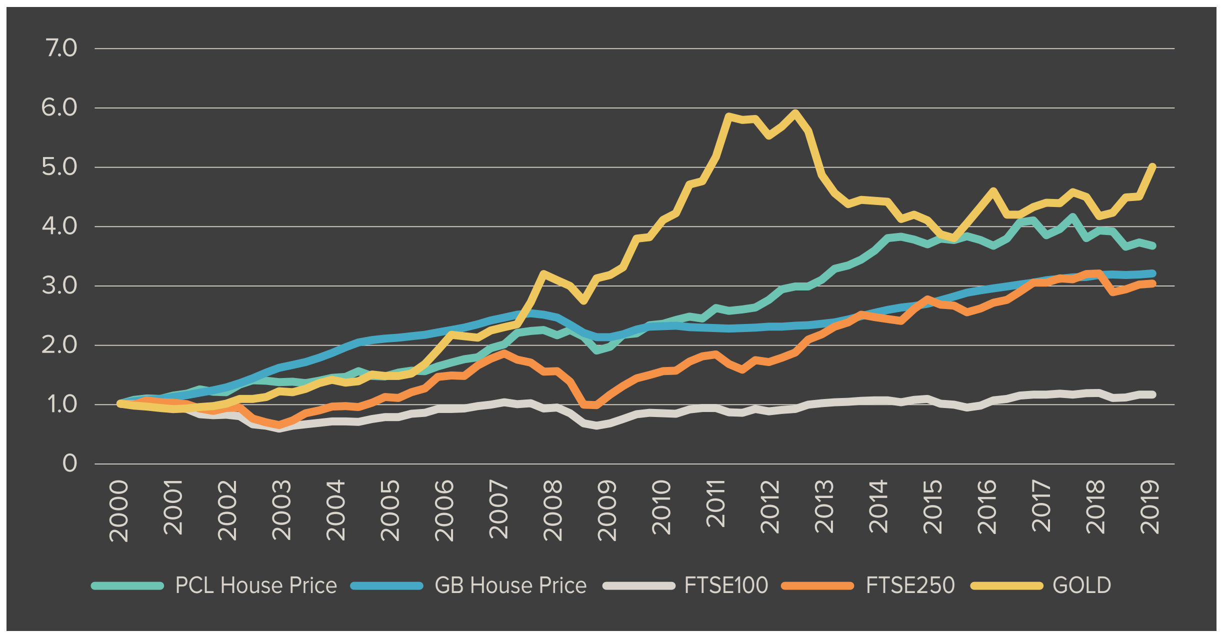
London is one of the world’s most successful economic, financial, legal and cultural cities, and it continues to have global appeal. Historically, the prime central London (PCL) housing market has in the short-term, been more volatile to price movements than other areas of the country, but it has always bounced back quickly and in the long-term, provided more significant growth.

In fact, over the long-term, London’s most exclusive property has outperformed other investments. Since 2000, house prices in PCL have more than doubled, rising by 252%. This price growth has outpaced that of the rest of Great Britain (206%), and far exceeded the FTSE 100 (16%). Meanwhile gold, which like property is classed as a safe asset, has risen 367% since the turn of the century.

For most, purchasing a home is a long-term investment. The average home sold in Kensington and Chelsea last year had been owned for 10.5 years. Moreover, despite price falls over the previous few years, the average seller in London’s most expensive borough sold their home for £992,000 more than they paid for it, far outpacing the average seller gain in Greater London of £237,000.

Therefore, despite the ups and downs, London property has always come through in the long-term. The softer factors that cement London as one of the most desirable cities to live in in the world will continue to provide growth in the longer term, although possibly not quite as much as we have seen in the past.

House prices versus other assets



Source: Hamptons International, Investing.com, ONS

	FTSE100	FTSE250	Gold	GB House Price	PCL House Price
5Y Change	9%	22%	2%	25%	4%
10Y Change	72%	162%	42%	50%	90%
15Y Change	64%	215%	233%	63%	157%

Source: Hamptons International, Investing.com, ONS

Why London?

by Andrew Phillips

"...it is easy to forget that London is one of the world's most successful economies"

A lot has been said about the outcome of the Referendum and it has created areas of uncertainty with price corrections and put some businesses on hold – though, it must be said that for some businesses there are much wider issues, such as developments in technology and the changing retail landscape – however, in and amongst all this, for the astute investor, there are opportunities out there.

Recent history, and especially thinking back to 2008, demonstrates London's resilience. Despite a global recession for businesses and the property market, both came back fighting and stronger than before, which gives me confidence moving forward. And, this confidence is boosted as I look to London's booming technology sector. The King's Cross regeneration project is a good example, now home to Pavegen, Automata, UCL's Bas KX hub, Expedia, Balderton Capital, State Zero, Google, BenevolantAI and Facebook.

With all the press coverage, discussion and predictions since Brexit, it is easy to forget that London is one of the world's most successful economies. The London Chamber of Commerce and Industry (LCCI) recently announced that 24 per cent of companies reported increased cash flow. Unsurprisingly, some global businesses are still investing, and upgrading in London - Goldman Sachs recently revealed plans for a new £1bn HQ in the centre of London.

Ahead, the pipeline of opportunity looks good. London is home to world-renowned universities, drawing in ambitious students and staff. Both Imperial College London and UCL are building new research campuses in Shepherds Bush and Stratford respectively, which has seen King's College and LSE upgrading their facilities to compete. The research coming out of these institutions are feeding the medical and technological advances that are in turn driving talent and finance to the city.

With wealth getting younger, Hamptons Wealth Partnership is starting to work with London's entrepreneurs who are looking to invest and live here to make the most of London's unparalleled lifestyle. We are also seeing international buyers investing in London and I am pleased to say the Americans are back in town with the opening of the new American Embassy at Nine Elms.

In summary, London is a safe bet and continues to remain an attractive option for investors. The factors are mixed and varied: our democratic system of government, our robust tax system and high legal standards protecting assets and interests, outstanding education facilities and healthcare. With clarity imminent when it comes to Brexit, it will be interesting to see what happens to the property market in the year ahead, but I remain quietly confident that London will continue to be an attractive proposition.

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