The Investor View

Battersea Park
Summer 2014

Douglas
&Gordon
Good to know.

Introduction

Anyone who owns a property in London is a property investor and it's often useful to take an investor's view of the market before making big decisions. To produce this report we've worked closely with the experts at D&G Asset Management, a company we co-founded in 2005. They invest in London residential property all the time – so are constantly analysing different areas, and assets within those areas, seeking to maximise returns.

As well as publicly available sources, we've used proprietary data that we've been capturing since 1996, to help us make decisions and advise our clients. D&GAM has helped us focus on the data that counts, and we think the results make fascinating reading.

How an investor looks at the market

Residential property investors use two key measures to assess property – the capital value and the net

Property Values

In Q1, capital values of flats grew faster than houses.

Q1 performance and outlook

Over the course of a full cycle, real annualised capital values normally rise in line with the real long term (10 year) trend. When, at a specific point in the cycle, real annualised growth is below the long term trend, rapid nominal growth is probable. Once the real annualised growth is aligned with the real long term trend, a pause is likely. Therefore, it's possible to forecast which assets might have further to run and those that are likely to stall.

The growth in value of houses since the start of this latest market cycle in 2007 has been in line with the long term trend.

However, the growth in value of flats still has some way to go in catching the long term trend.

We believe that this explains the difference in growth rates of flats and houses in the first quarter of 2014.

As we predicted in our report at the beginning of the year, flats in the Battersea Park area have started to outperform houses.

We expect this trend to continue to the end of the year, with smaller (less expensive) units outperforming larger (more expensive) ones.

Implications

Owners of Battersea Park houses, who are not looking to hold long-term, might find this a good moment to sell.

Buy-to-let investors who own houses, but don't want to invest the capital to maintain them in line with tenant expectations (see Rental Growth & Yield section), might also consider this the moment to sell.

Battersea Park Property Values

	Real Annualised Growth		Nominal Growth
	10 year	This cycle	Q1 2014
1 Bed Flat	5.35%	3.43%	↑ 10.00%
2 Bed Flat	6.83%	5.23%	↑ 3.23%
3 Bed House	10.50%	10.79%	→ 0%
4 Bed House	7.62%	7.15%	→ 0%

Source: D&G proprietary data, ONS

Many people do not have the luxury of picking their timing according to the cycle. These individuals can feel comforted that currently, Battersea Park is benefiting from infrastructure and other demographic changes that should ensure continued capital growth rates of 7%-8%.

rental yield (the annual rent, less expenses, divided by the property's capital value).

Both of these measures are important, and are influenced by a number of factors including: supply of new properties, infrastructure projects, demographics of the area, the economy (in particular, interest and tax rates) and the wider geopolitical picture. It's the interplay of these factors that determines investment returns and makes property investment decisions so interesting.

The importance of market cycles

Successful investors will always maintain a keen awareness of market cycles and long term trends. It is therefore important to look at the recent growth trends of capital and rental values in Battersea Park when managing your property assets.

We are recommending investors look at the year when property values last peaked (2007) and treat this as the start of the most recent cycle.

In Q1, rental values slowed, however indicators suggest a more positive end to the year.

Rental Growth & Yield

Q1 performance and outlook

Over the course of this lettings cycle, rents in Battersea Park have risen across all unit sizes. For example, between 2008 and the end of 2013, nominal rents rose between 30% for one bedroom flats and 80% for four bedroom houses.

Rental values increased during the period of tight credit (2008-2012) as frustrated buyers were forced to rent. As credit has eased and confidence has returned so tenants have become owner/occupiers, leading to capital values rising and rents stabilising or even falling. This slowing down of rental growth has been evident during Q1 in Battersea Park (see table below).

Over the same period, employees/tenants experienced salaries stagnating in real terms meaning affordability was stretched. With earnings in the City now picking up and a general improvement in outlook, we believe that rents in Battersea Park will start to rise. Data from our offices in Prime Central London suggest this is already underway.

Implications

Battersea Park remains popular with tenants, but landlords must continue to invest in their properties to ensure tenants stay and/or pay more rent. "Accidental landlords" who during 2008-2012 rented properties out rather than sell, and are not keen to invest capital into their properties, might choose to take advantage of a strong sales market and sell.

> ***Landlords must appreciate that those still opting to rent have more property to choose from and will be more demanding than a few years ago.***

Note: When renting out a property, investors will look at current rental yield, (see below) however they also need to take a view on how much rents will grow. It's this "rental growth" that maintains real income and yield over time.

Battersea Park Nominal Rental Growth

	Dec 2008 - Dec 2013	Q1 2014
1 Bed Flat	30.51% ↗	0% →
2 Bed Flat	37.14% ↗	-1.04% ↘
3 Bed House	47.37% ↗	0% →
4 Bed House	84.62% ↗	-4.17% ↘

Source: D&G proprietary data

Current Rental Yields March 2014

One Bed Flats	3.5% – 4.5%
Two Bed Flats	2.9% – 4.0%
Three Bed Houses	2.4% – 3.6%
Four Bed Houses	2.4% – 3.6%
10 Yr UK Gilt Yield	2.7%
FTSE All Sh Yield	3.45%
UK Base Rate	0.5%

Market Context

Never has the difference between London and regional property prices been so great.

Every Spring we co-host the 'Move to the Country Show' with The London Office. The show is held in Battersea and gives our clients and members of the public an opportunity to meet local independent estate agents from across our UK network.

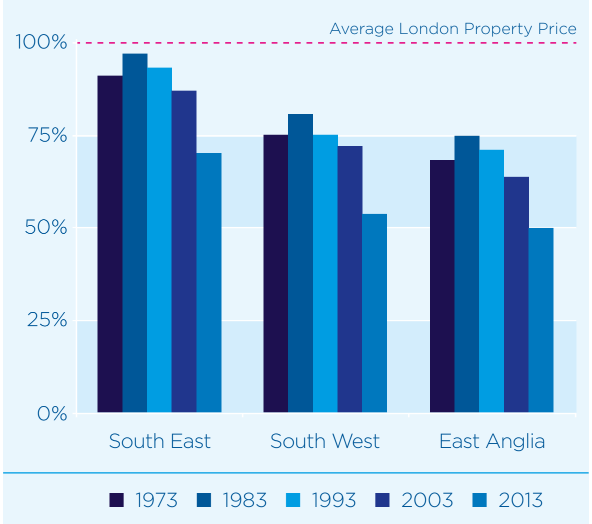
The show is an important date in our calendar as every year a proportion of our vendors sell up and leave London.

For many, the timing of that move involves a number of practical considerations such as schooling and space.

For others, it is an important investment decision where a London property is sold and part of the money deployed into a regional retirement property. The remainder often forms part of a pension pot, so the timing of the move is crucial.

> ***Although we remain positive about London prices over the long term, the current relative gap between London and regional property prices may well provide an opportunity for those looking to move out of London and top up their savings/pension pots.***

Regional property prices relative to London property prices



Source: ONS average property prices.

Battersea Park key facts & figures

Here are the key facts and figures anyone investing in the property market needs at their fingertips.

Nominal Capital Returns to Dec 2013

	2013	5 years	10 years
1 Bed Flats	27%	82%	133%
2 Bed Flats	24%	94%	167%
3 Bed Houses	36%	200%	275%
4 Bed Houses	25%	150%	188%

Nominal Rental Income Growth to Dec 2013

	2013	5 years	10 years
1 Bed Flats	-4%	31%	60%
2 Bed Flats	-4%	37%	60%
3 Bed Houses	-7%	47%	87%
4 Bed Houses	-8%	85%	71%

Other Assets Capital Returns to Dec 2013

	2013	5 years	10 years
Nationwide HPI*	8%	15%	30%
Halifax HPI*	6%	8%	22%
FTSE100	14%	52%	51%
RPI	3%	19%	38%

**House Price Index*

Battersea Park 2014 Our view

- Credit easing
- Area re-rating to continue
- Capital values: Flats to outperform houses
- Rents to pick up

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Good to know.

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