The Investor View

Hammersmith & Shepherd's Bush

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

A quiet Q1 after a strong 2013 performance.

Q1 performance and outlook

The chart compares the capital performance of all unit sizes in Hammersmith & Shepherd's Bush in Q1 2014 with their performance in 2013. Last year's spectacular absolute and relative performance of flats (outperforming houses by a wide margin) was due to a turn in the credit cycle.

A similar theme of flats outperforming houses was seen across many non-prime areas and is explained by the fact that in this current cycle, which started in December 2007, the performance of flats has trailed behind their real long term (10 year) trend; whereas for houses, the performance in this cycle has caught up with their real long term trend.

After the sharp rises of 2013, it is no surprise to see that capital values in Q1 are on a more modest track; although these better credit conditions will underpin the market for flats and smaller houses.

Implications

Owners of properties in Hammersmith & Shepherd's Bush, who are not looking to hold long term and are considering a move to a different part of the UK, might find this a good moment to sell.

In Q1, the supply/demand situation in Hammersmith & Shepherd's Bush was still in favour of the seller; reasonably priced properties have attracted a lot of buyer interest, with properties in some instances going to sealed bids. House buyers, many of whom have a longer investment horizon, are buying with the clear understanding that the returns of the immediate past (large houses have appreciated almost 150% over the last five years) will not be replicated going forward. This theme of larger houses slowing is

Hammersmith & Shepherd's Bush Property Values

	Nominal Growth	
	Jan - Dec 2013	Q1 2014
1 Bed Flat	25.32%	0%
2 Bed Flat	28.21%	3.33%
3 Bed House	13.64%	3.60%
4 Bed House	15.15%	1.32%

Source: D&G proprietary data, ONS

replicated across other areas of London that are geographically close to prime such as Fulham and Battersea Park.

Buy-to-let investors should take note of our comments about ongoing investment in the Rental Growth & Yield section.

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 Hammersmith & Shepherd's Bush 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.

Rental Growth & Yield

Rents at a steady growth rate.

Q1 performance and outlook

Over the course of this lettings cycle, rents in Hammersmith & Shepherd's Bush have risen across all unit sizes. For example, between 2008 and the end of 2013, nominal rents increased by just under 10% for large houses and 30% for two bedroom flats.

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.

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 Hammersmith & Shepherd's Bush will continue to rise.

Hammersmith & Shepherd's Bush Nominal Rental Growth

	Dec 2009 - Dec 2013	Q1 2014
1 Bed Flat	18.52% ↗	1.56% ↗
2 Bed Flat	34.29% ↗	2.13% ↗
3 Bed House	18.33% ↗	2.11% ↗
4 Bed House	9.41% ↗	1.61% ↗

Source: D&G proprietary data

Implications

The current low levels of stock in Hammersmith & Shepherd's Bush may mean that rents will continue to remain firm in Q2 and Q3. In order to benefit from stronger rental market conditions, 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.

Current Rental Yields March 2014	
One Bed Flats	3.3% – 4.3%
Two Bed Flats	3.2% – 4.2%
Three Bed Houses	2.9% – 3.9%
Four Bed Houses	2.5% – 3.5%
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.

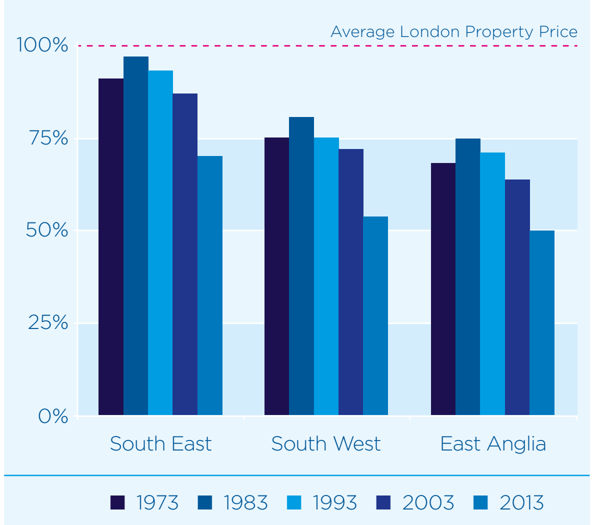
The show is an important date in our calendar as every year a proportion of our vendors sell up and leave London.

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.

Hammersmith & Shepherd's Bush 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	2 years	4 years
1 Bed Flats	25%	41%	71%
2 Bed Flats	28%	50%	88%
3 Bed Houses	14%	32%	56%
4 Bed Houses	15%	27%	111%

Nominal Rental Income Growth to Dec 2013

	2013	2 years	4 years
1 Bed Flats	-6%	-3%	19%
2 Bed Flats	2%	9%	34%
3 Bed Houses	-5%	-5%	18%
4 Bed Houses	-2%	-3%	9%

Other Assets Capital Returns to Dec 2013

	2013	2 years	4 years
Nationwide HPI*	8%	7%	8%
Halifax HPI*	6%	8%	2%
FTSE100	14%	21%	25%
RPI	3%	6%	16%

*House Price Index

Hammersmith & Shepherd's Bush 2014 Our view

- **Credit easing**
- **Capital values: Flats to outperform houses**
- **Rents to remain subdued**

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Good to know.

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