

# The Investor View

Southfields

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

## Growth across all property types continues to dramatically improve in Q1, especially in larger flats and smaller houses.

### Q1 performance and Outlook

The chart opposite compares the percentage movement in capital values in Q1 2014 with their performance in 2013. The fact that two bedroom flats have achieved last year's growth in the space of one quarter illustrates the strength of the market in Southfields.

In our Q1 Investor View, we said that the impact of the unfolding credit cycle will be that smaller (and less expensive) unit sizes will start to outperform the larger, more expensive ones. The very strong performance of two bedroom flats in Q1 bears this out, and reflects the huge demand that the area is experiencing from new buyers able to obtain mortgage finance. It also reflects the relative value that Southfields flats have to offer versus nearby areas (e.g. Battersea).

Interest in the housing market, however, remained strong in Q1. This is also a continuation of the credit theme as many house buyers in Southfields are upsizing with cash from the recent appreciation of their flats in more expensive areas.

### Implications

*Large houses have seen price rises of over 40% over two and a half years. Although this trend may continue, we expect buyers to be more discerning at current price levels.*

It is also interesting to note that the social infrastructure of Southfields has improved markedly over the last few years. For example, Sheringdale School was recently given an outstanding rating

Southfields Property Values		
	Nominal Growth	
	Dec 2012 - Dec 2013	Q1 2014
1 Bed Flat	15.15%	5.26%
2 Bed Flat	14.46%	15.79%
3 Bed House	18.24%	11.43%
4 Bed House	21.88%	7.69%

Source: D&G proprietary data, ONS

by OFSTED and Marks & Spencer are rumoured to be moving into the area. These, along with other improvements, will underpin the appeal of the area and ensure Southfields continues to prosper.

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 Southfields 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 values have plateaued due to decreased demand.

## Rental Growth & Yield

### Q1 performance and outlook

Following two years of rental growth (with the exception of two bedroom flats), rent in Southfields has plateaued across all unit sizes in Q1 2014 (see table below).

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 Southfields will start to rise. Data from our offices in Prime Central London suggest this is already underway.









### Implications

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.

### Southfields Nominal Rental Growth

	Dec 2011 – Dec 2013	Q1 2014
1 Bed Flat	7.27% 	0% 
2 Bed Flat	-1.45% 	0% 
3 Bed House	7.61% 	0% 
4 Bed House	8.37% 	0% 

Source: D&G proprietary data

### Current Rental Yields March 2014

One Bed Flats	3.9% – 5.0%
Two Bed Flats	3.5% – 4.7%
Three Bed Houses	3.0% – 4.0%
Four Bed Houses	3.0% – 4.0%
10 Yr UK Gilt Yield	2.7%
FTSE All Sh Yield	3.45%
UK Base Rate	0.5%

**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.

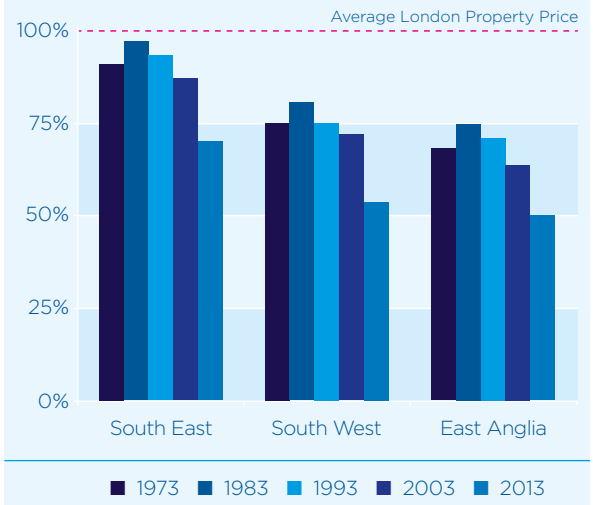
The show is an important date in our calendar as every year a proportion of our vendors sell up and leave London.

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.

**Southfields  
key facts & figures**

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

**Nominal Rental Income Growth to Dec 2013**

	2013	2 years
1 Bed Flats	4%	7%
2 Bed Flats	-3%	-1%
3 Bed Houses	2%	8%
4 Bed Houses	0%	9%

**Nominal Capital Returns to Dec 2013**

	2013	2 years
1 Bed Flats	15%	27%
2 Bed Flats	14%	23%
3 Bed Houses	18%	29%
4 Bed Houses	22%	32%

**Other Assets Capital Returns to Dec 2013**

	2013	2 years
Nationwide HPI*	8%	7%
Halifax HPI*	6%	8%
FTSE 100	14%	21%
RPI	3%	6%

\*House Price Index

**Southfields  
2014  
Our view**

- Credit easing • Area re-rating to continue
- Capital values: Flats to outperform houses
- Rental income to remain static

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