The Investor View

Hammersmith & Shepherd's Bush

Q3 2015

Douglas &Gordon

Good to know.

Introduction

Anyone who owns a property in London is a property investor. Our lives and plans often depend on the performance of what is likely to be the largest asset we own. So perhaps it will be helpful to take more of an investor's view of the market.

To produce this report we worked closely with D&G Asset Management, a company we co-founded in 2005. They deploy money into London residential property all the time, so they are constantly analysing different areas and the assets within those areas, seeking to maximise returns.

As well as publicly available sources, we have used the proprietary data that we have been capturing since 1996 to help us make decisions and provide advice and guidance to our clients.

D&GAM has helped us focus on the data that counts and we think the results make fascinating reading.

If you would like to learn more about the Hammersmith & Shepherd's Bush area, please do get in touch with our office on Glenthorne Road. Contact details can be found on the back page.

Property Values

In Q2 2015 capital values in Hammersmith & Shepherd's Bush remained subdued for the second consecutive quarter.

Q2 2015 performance

Capital values of flats and houses in Hammersmith & Shepherd's Bush did not move in Q2 2015. This is the second quarter in a row where prices have been subdued. The trend in Hammersmith & Shepherd's Bush was different to many other Douglas & Gordon Emerging Prime offices where price rises, at an average of 1.81%, were fuelled by flats and smaller houses.

Hammersmith & Shepherd's Bush Nominal Property Values

	Q2 2015	Q1 2015	Since Q2 2014
1 Bed Flats	0.00% →	0.00% →	1.01% ↗
2 Bed Flats	0.00% →	0.00% →	3.23% ↗
3 Bed Houses	0.00% →	0.00% →	6.00% ↗
4 Bed Houses	0.00% →	0.00% →	-1.35% ↘

Source: D&G proprietary data

In the context of the last 12 months

- After five years of uninterrupted growth, the Hammersmith & Shepherd's Bush market slowed down in the second half of 2014. Against this backdrop, prices of flats have also changed very little during the last 12 months.
- Over a 12 month period, one market that has performed better is the market for smaller houses. This is driven by "downsizers" where owners (usually retirees) of more expensive houses in Prime are selling and redeploying capital into Emerging Prime.
- Larger houses have performed less strongly. Our data shows that since last summer values have fallen by 1.35% in Hammersmith & Shepherd's Bush. However, in some areas of Emerging Prime we have seen decreases of over 10%.
- Last April's Mortgage Market Review put the brakes on the property market and new Stamp Duty rates (announced in December) have made vendors deliberate for longer before moving. Buying a £1.8m property now incurs SDLT fees of £129,750 (against £90,000 last year and £18,000 25 years ago).

The election result has provided all of the ingredients for a strong and stable London housing market.

The Election Effect

Immediately after the surprise election result on 7th May we forecast that the outcome would produce all of the ingredients necessary to create a strong and stable London housing market.

Whilst post-election prices in some parts of the Emerging Prime market are rising, data from the last 6 weeks indicates that in other segments, particularly for higher valued stock, it is too soon to detect any market movement.

Looking to the future, however, investors should consider the following:

- One of the new government priorities is to return its stake in Lloyds and RBS to the private sector. This will create a political landscape that will see an increase in lending, with potentially helpful consequences for the housing market.
- The early signs of change are evident in the mortgage market. Data from the Bank of England has shown that 5 year fixed rate mortgages (for 75% LTV) fell below 3% in Q2 2015. The recent upward trend in mortgage approvals, although way below historic levels, is also a positive sign.
- We have consistently argued that any fiscal tightening from the new government will keep base rates low.
- We are hearing that following the election, vendors have hardened their stance towards price reduction. In some instances this is understandable. In general, however, as the market strengthens, vendors looking to move up the property ladder should consider the risk of holding out for an aspirational sale price, whilst the purchase price of their new property increases at an incrementally higher rate.

How an investor looks at the market

Residential property investors use two key measures: the capital value of the property and its net rental yield.

You can make money from an increase in capital value and earn additional income by renting out a property you own. The net yield is the annual rent, less expenses, divided by the property's capital value.

Both are important and are influenced by many 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.

The interplay of these factors is what determines investment returns and what makes property investment decisions so interesting. We hope this report provides some help as you assess your options.

In Q2 2015 rental values in Hammersmith & Shepherd's Bush continued to be firm.

Rental Growth & Yield

Q2 2015 performance

In Q2 2015 average rents across D&G Land rose by 1.6%. In Emerging Prime rental growth averaged +1.7%. This was higher than in Prime, which saw average growth of 1.5%.

Against this rather buoyant background, our data shows that average rental rates were up 1.5% in Hammersmith & Shepherd's Bush, replicating their Q1 performance. As you can see from the chart, the last 12 months have also produced a strong rental performance – particularly in the smaller flats and house market.

- Smaller flats saw no rental increases in Q1; but this followed strong rental growth in the second half of 2014.
- The house rental market has been firm in the first two quarters of 2015 – bucking a weaker trend seen in some other areas of Emerging Prime. Although corporate budgets are tighter, we expect the summer market to be good.
- Overall the supply / demand balance of rental stock in Hammersmith & Shepherd's Bush continues to be healthy.

A strengthened sales market might dampen rental growth.

Outlook

Over the last 12 months in Hammersmith & Shepherd's Bush, the rental story has been about rental values benefiting from a slow down in the sales market.

As reported in the previous edition of The Investor View, a strengthened sales market will potentially lead to a slow down in rental growth. This may well happen during the Autumn.

Hammersmith & Shepherd's Bush Nominal Rental Growth

	Q2 2015	Q1 2015	Since Q2 2014
1 Bed Flats	0.00% →	1.47% ↗	6.15% ↗
2 Bed Flats	2.06% ↗	0.00% →	2.06% ↗
3 Bed Houses	1.94% ↗	1.97% ↗	5.33% ↗
4 Bed Houses	2.05% ↗	2.63% ↗	4.74% ↗

Source: D&G proprietary data

Current Rental Gross yields December 2014	
1 Bed Flats	3.30% – 4.30%
2 Bed Flats	3.20% – 4.20%
3 Bed Houses	2.90% – 3.90%
4 Bed Houses	2.50% – 3.50%
10 Yr UK Gilt Yield	2.12%
FTSE All Sh Yield	3.36%
UK Base Rate	0.50%

Source: D&G proprietary data

Market context

The rental market: The gap is closing between Prime and Emerging Prime

At the start of 2015 Douglas & Gordon initiated a quarterly index, tracking capital values across Emerging Prime areas of London, particularly in relation to Prime London prices.

In the rental sector, the performance of Emerging Prime in relation to Prime tells an interesting story.

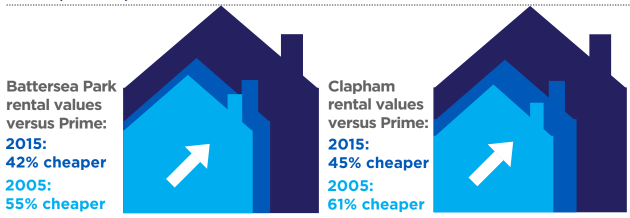
Over the last 10 years, rents in Prime have remained relatively static. By contrast, there has been considerable rental growth in Emerging Prime - consequently, the gap between the two markets is narrowing.

This movement is demonstrated in the charts using data from Battersea Park and Clapham.

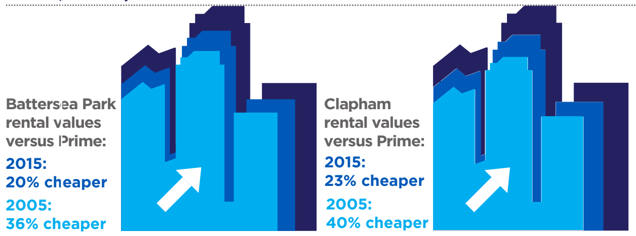
There are several factors behind this convergence:

- Demographics: There are almost 1m more people working in London than a decade ago. This has generated increased demand in the rental market.
- A changing corporate environment: Budgets have tightened since the financial crisis. This has led to corporate tenants seeking places to rent outside Prime London areas.
- Social Trends: Emerging Prime is becoming more fashionable, particularly with overseas renters.

Prime (Chelsea) rental values for 3 bed houses



Prime (Chelsea) rental values for 1 bed flats



Source: D&G proprietary data

Many investors are waking up to the fact that, with changing demographics, the quality of income streams in Emerging Prime are on par with Prime. Additionally, current yields in Emerging Prime are significantly higher than Prime.

It will be intriguing to see how this unfolds.

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 Rental Income Growth to Dec 2014

	2014	3 years	5 years
1 Bed Flats	6%	3%	26%
2 Bed Flats	3%	13%	39%
3 Bed Houses	7%	1%	27%
4 Bed Houses	2%	-1%	12%

Nominal Capital Returns to Dec 2014

	2014	3 years	5 years
1 Bed Flats	1%	43%	72%
2 Bed Flats	7%	60%	100%
3 Bed Houses	6%	39%	66%
4 Bed Houses	-4%	22%	103%

Other Assets Capital Returns to Dec 2014

	2014	3 years	5 years
Nationwide HPI*	7%	15%	16%
Halifax HPI*	8%	16%	12%
FTSE100	-3%	18%	21%
RPI	1.6%	8%	18%

**House Price Index*

Hammersmith & Shepherd's Bush 2015 Our view

- **Capital values: Strong year ahead for sub £1m, above £1m slow start but picking up in H2 2015**
- **Rental values to plateau in real terms.**

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Good to know.

To get an investor's view of other areas in central, west and south-west London, visit douglasandgordon.com

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