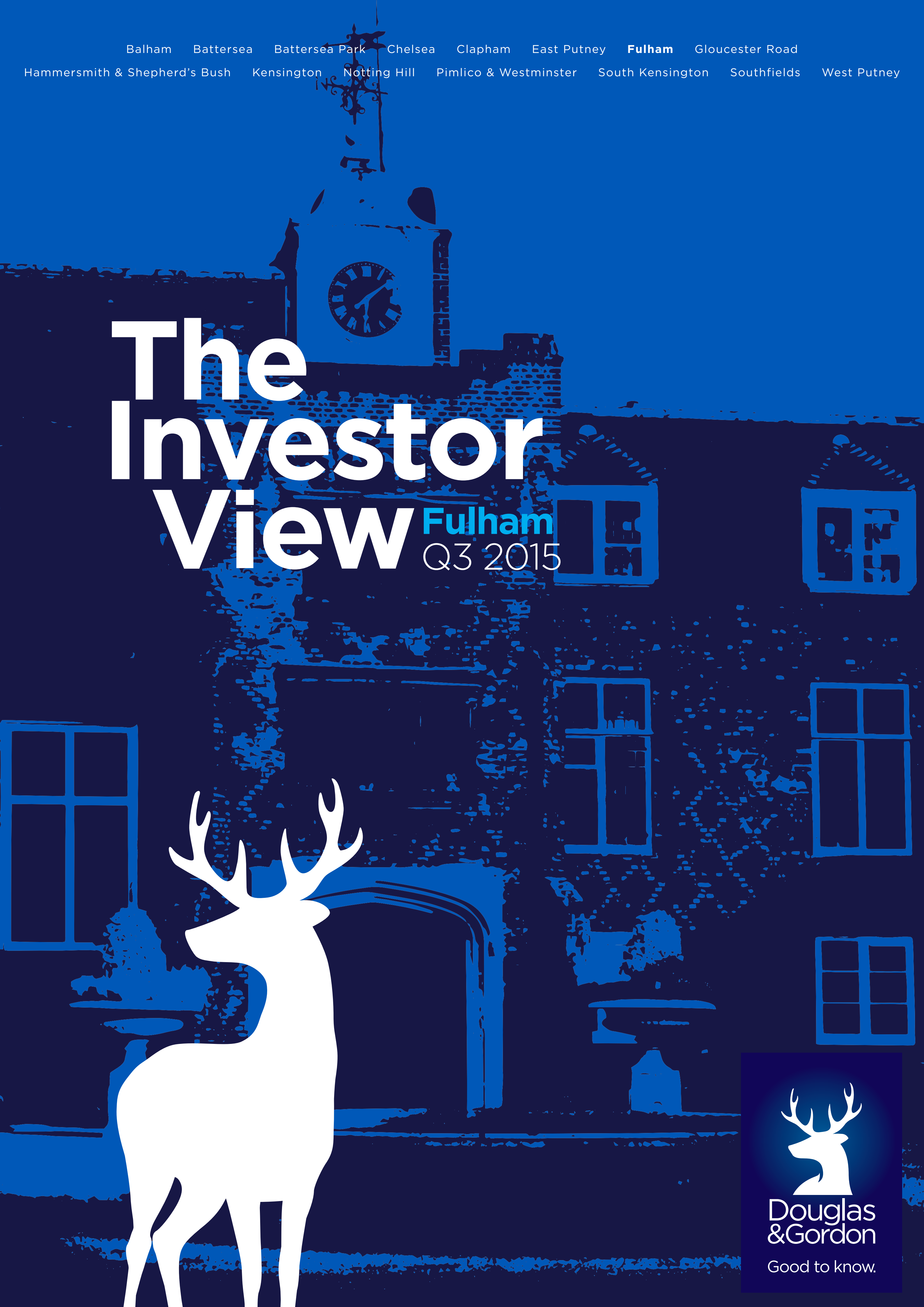
The Investor View

Fulham
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 Fulham area, please do get in touch with our office on Fulham Road. Contact details can be found on the back page.

Property Values

In Q2 2015 Fulham house prices outperformed flats.

Q2 2015 performance

In Fulham capital values of flats and houses have performed differently from each other since the beginning of 2015. Flat prices plateaued in Q2 after increasing in Q1. Conversely, house prices have risen this quarter following a slow start to the year. The trend in Fulham was unlike many other Douglas & Gordon Emerging Prime offices where price rises, at an average of 1.81%, were fuelled by flats and smaller houses.

In the context of the last 12 months

- Both house and flat prices in Fulham are slightly higher than December 2014, but they remain little changed on 12 months ago.
- In Q2 a number of Buy-To-Let investors sold up in the flats market – encouraged by the firm prices in Q1.
- Although stock levels were good in Q2 (and there is evidence that buyers are more motivated) the market remained very price and location sensitive.
- The one surprise from the Fulham data has been the positive performance of the larger houses; in some offices in our Emerging Prime area prices are down 10% from last summer.
- 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 market are rising, data from the last six weeks indicates that in other segments, it is too soon to detect any market movement.

Fulham Nominal Property Values

	Q2 2015	Q1 2015	Since Q2 2014
1 Bed Flats	0.00% →	5.56% ↗	5.56% ↗
2 Bed Flats	0.00% →	3.47% ↗	3.47% ↗
3 Bed Houses	2.17% ↗	0.00% →	2.17% ↗
4 Bed Houses	5.26% ↗	-5.00% ↘	0.00% →

Source: D&G proprietary data

Looking to the future, 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.

Fulham rental growth was strong in Q2 ... and over the last 12 months.

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 an average growth of 1.5%.

Against this rather buoyant background, our data shows that Fulham produced the strongest rental growth of all our Emerging Prime offices (+3.5%). In the short term, rental values can be volatile but over the last 12 months Fulham has seen a strong rental performance – particularly in the flats market.

- One of the major drivers behind this rental growth has been a lack of stock. As mentioned on the opposite page, many Buy-To-Let landlords are selling up.
- An interesting factor to note is that the two bedroom flat market has seen good rental growth over the last 12 months, not just during Q2 2015.
- The larger house market has seen signs of growth for the first time in four years. City money appears to be returning to Fulham - attracted by the good schools.

A pick up in the sales market might dampen rental growth.

Outlook

Over the last 12 months in Fulham, 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.

Fulham Nominal Rental Growth

	Q2 2015	Q1 2015	Since Q2 2014
1 Bed Flats	1.45% ↗	1.47% ↗	6.06% ↗
2 Bed Flats	4.17% ↗	1.05% ↗	11.11% ↗
3 Bed Houses	2.96% ↗	3.85% ↗	6.92% ↗
4 Bed Houses	5.26% ↗	0.00% →	5.26% ↗

Source: D&G proprietary data

Current Rental Gross yields December 2014

1 Bed Flats	3.00% – 4.00%
2 Bed Flats	3.00% – 4.00%
3 Bed Houses	2.50% – 3.50%
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.

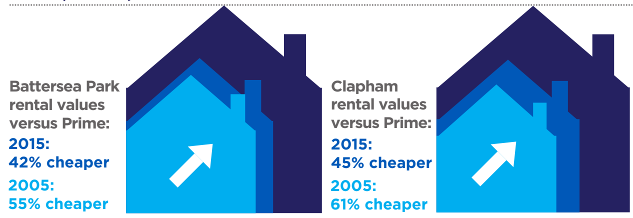
In the rental sector, the performance of Emerging Prime in relation to Prime tells an interesting story.

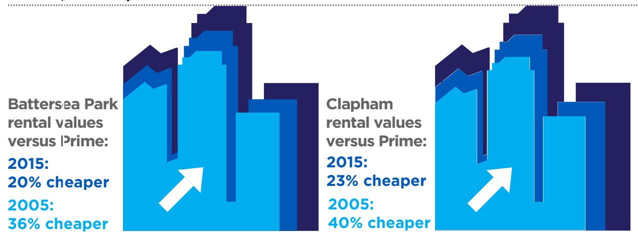
Over the last 10 years, rents in Prime have remained relatively static. By contrast, there has been considerable rental growth in Emerging Prime - consequently, the gap between the two markets is narrowing.

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.





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.

Fulham 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 2014

	2014	5 years	10 years
1 Bed Flats	5%	36%	100%
2 Bed Flats	7%	76%	129%
3 Bed Houses	10%	73%	147%
4 Bed Houses	8%	122%	176%

Nominal Rental Income Growth to Dec 2014

	2014	5 years	10 years
1 Bed Flats	13%	13%	36%
2 Bed Flats	13%	28%	40%
3 Bed Houses	8%	24%	16%
4 Bed Houses	6%	12%	12%

Other Assets Capital Returns to Dec 2014

	2014	5 years	10 years
Nationwide HPI*	7.20%	16%	24%
Halifax HPI*	7.80%	12%	16%
FTSE100	-2.70%	21%	36%
RPI	1.6%	18%	36%

**House Price Index*

Fulham 2015 Our view

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

Our Fulham Office

656 Fulham Road, London SW6 5RX

Sales Alexander Leschallas
T **020 7731 4391**
E **aleschallas@dng.co.uk**

Lettings Ella Newhouse
T **020 7731 4791**
E **enewhouse@dng.co.uk**

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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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