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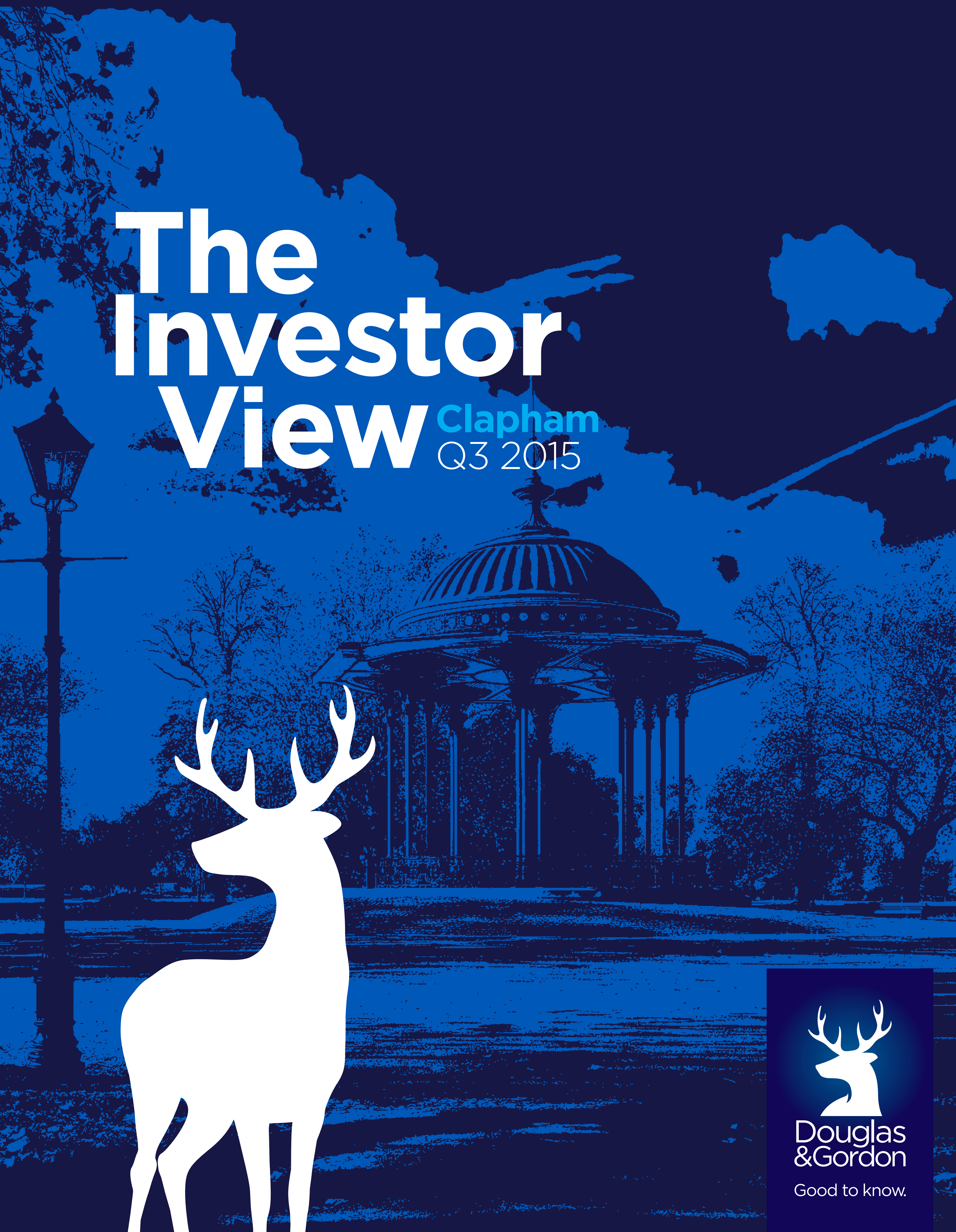
# The Investor View

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

## Property Values

**Capital values in Clapham had another strong quarter but should be viewed in the context of the last 12 months.**

### Q2 2015 performance

In Q2 capital values of flats and houses continued their strong performance of Q1. The trend in Clapham was more pronounced than many other Douglas & Gordon Emerging Prime offices, where average prices rose by 1.81%, driven by flats and smaller houses.

### In the context of the last 12 months

- House prices in Clapham are higher than December 2014 and now command similar prices to 12 months ago.
- 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).
- This is a major factor behind the preponderance of basements currently being excavated in the Clapham area – where space can be added at a fraction of the cost of moving.
- Capital values of flats in Clapham are showing a better year-on-year performance than houses. This disguises the fact that prices of flats peaked sooner (in Q1 2014). Prices therefore remain unchanged versus 15 months 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 6 weeks indicates that in other segments, particularly for higher valued stock, it is too soon to detect any market movement.

**Clapham Nominal Property Values**

| | Q2 2015 | Q1 2015 | Since Q2 2014 |
|---|---|---|---|
| 1 Bed Flat | 6.67% ↗ | 4.17% ↗ | 6.67% ↗ |
| 2 Bed Flat | 6.22% ↗ | 5.44% ↗ | 2.94% ↗ |
| 3 Bed House | 6.67% ↗ | 9.09% ↗ | 2.40% ↗ |
| 4 Bed House | 3.70% ↗ | 3.85% ↗ | 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 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.

**Rents in Q2 continued to be strong in the flats market but the summer season for houses has got off to a slow start.**

## 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 in Q2 rental rates rose by 0.85% in Clapham. In the short term, rental values can be volatile; this quarter should be viewed in the context of a strong last 12 months – particularly in the flats market.

- Low stock levels ensured that the Clapham rental market for flats remained firm in Q2. It is rare to see two bedroom flats (the staple of the lettings market) producing two quarters of such strong rental growth.
- By comparison, the house rental market has been subdued. We are, however, still in the early stages of the summer season, historically a busy time of year for the rental market.

***This was the first quarter since Q1 2014 where capital growth was higher than rental growth.***

### Outlook for 2015

During the last 12 months our Clapham office has seen 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.

It is interesting to note that the Q2 2015 data for our Emerging Prime offices indicated that this was the first quarter since Q1 2014 where capital growth was higher than rental growth. We expect this trend to continue with potential consequences for rental values.

**Clapham Nominal Rental Growth**

| | Q2 2015 | Q1 2015 | Since Q2 2014 |
|---|---|---|---|
| 1 Bed Flats | 1.33% ↗ | 0.00% ➡ | 5.56% ↗ |
| 2 Bed Flats | 2.06% ↗ | 4.30% ↗ | 7.61% ↗ |
| 3 Bed Houses | 0.00% ➡ | 2.22% ↗ | 6.15% ↗ |
| 4 Bed Houses | 0.00% ➡ | 0.00% ➡ | 2.94% ↗ |

*Source: D&G proprietary data*

**Current Rental Gross yields December 2014**

| | |
|---|---|
| 1 Bed Flats | 3.70% – 5.00% |
| 2 Bed Flats | 3.00% – 4.50% |
| 3 Bed Houses | 2.70% – 4.00% |
| 4 Bed Houses | 2.70% – 4.00% |
| 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.

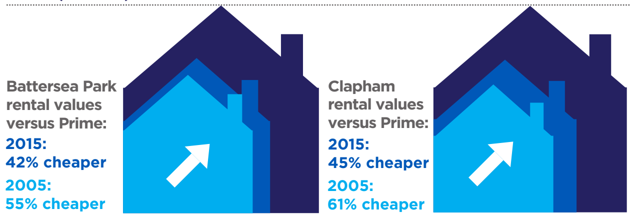
Over the last 10 years, rents in Prime have remained relatively static. By contrast, there has been considerable rental growth in Emerging Prime - consequently, the gap between the two markets is narrowing.

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

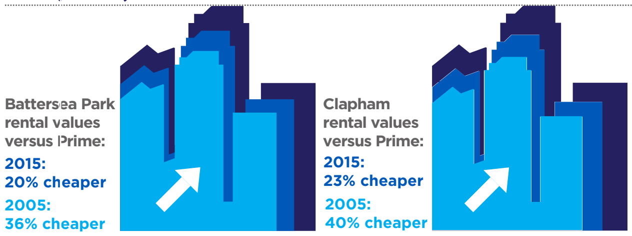
There are several factors behind this convergence:

- 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.

## Clapham 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 | 5 years | 10 years |
|---|---|---|---|
| 1 Bed Flats | 7% | 32% | 67% |
| 2 Bed Flats | 3% | 33% | 66% |
| 3 Bed Houses | 8% | 36% | 75% |
| 4 Bed Houses | 6% | 25% | 75% |

**Nominal Capital Returns to Dec 2014**

| | 2014 | 5 years | 10 years |
|---|---|---|---|
| 1 Bed Flats | -4% | 24% | 60% |
| 2 Bed Flats | -4% | 49% | 116% |
| 3 Bed Houses | -1% | 72% | 141% |
| 4 Bed Houses | 4% | 63% | 171% |

**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*

## Clapham 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.**

Douglas &Gordon

Good to know.

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

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