



## Market Insight

Clerkenwell West End Islington

# Winkworth

In Clerkenwell, West End and Islington, Winkworth continues to achieve values above 2007 levels for certain properties.

So far 2010 has been eventful year from an economic and political perspective with the first coalition government in power since 1974 and continued speculation over the timing of an economic recovery. The uncertainty we have on a political and economic level is bound to impact confidence and ultimately activity in the housing market. The big question is, how much?

Housing markets in sought after locations such as central London have shown resilience through this economic downturn. However, there is much debate over how great the impact of wider macroeconomic issues will be on average values going forward.

With so many unprecedented events clouding the wider economic and political picture, it is very hard to predict the housing market. However, property remains the most enticing investment choice for many and there are always people looking to transact. The lack of attractive alternative investment opportunities continues to exacerbate this and will provide support for residential values.

Winkworth offices in Islington, Clerkenwell and West End are seeing more balanced

market conditions but are still realising values above 2007 levels for certain properties.

There are several factors driving this market strength; foreign investors in Clerkenwell motivated by weak sterling, investors turning to property as their preferred asset class and enjoying the relative affordability of the West End and more broad based, domestic demand in Islington with many applicants looking to make a much needed move.

We anticipate a more restrained housing market in the second half of the year although central London will continue to be the address of choice for many. For anyone looking to transact this year, understanding the dynamics of your local market will be more important than ever.

The first part of this year was dominated by the election campaign and we now wait to gauge the impact the budget will have on the housing market and indeed day to day life.

In the short term uncertainty will affect confidence; longer term there will undoubtedly be an erosion of disposable income coupled with an increase in unemployment with job losses in the public sector. Both of these factors will affect the demand for housing.

Any policies imposed by the new government will have a more direct affect on the housing market. The immediate abolishment of HIPs has been welcomed by residential market professionals and there are already reports of an increase in supply.

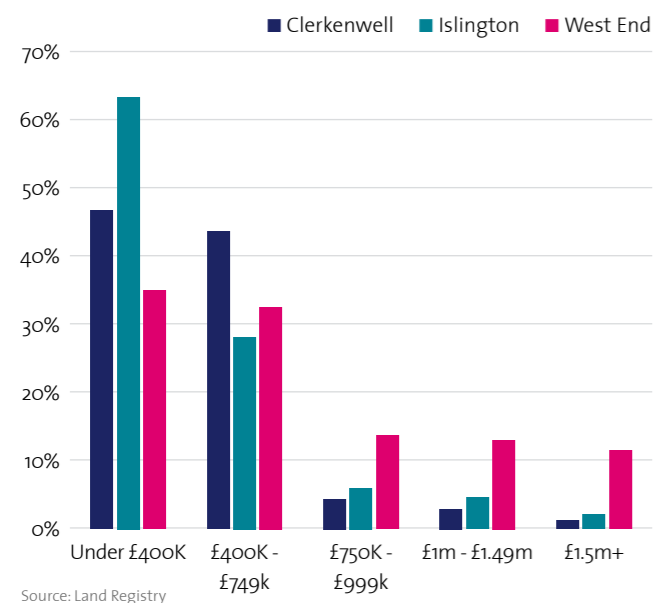
Changes in the tax regime associated with the residential market could also impact market activity. In the run up to the election, capital gains tax (CGT) was very much in the spotlight. This is particularly relevant in central London where many properties are bought as second homes or as investments.

### Average values still increasing

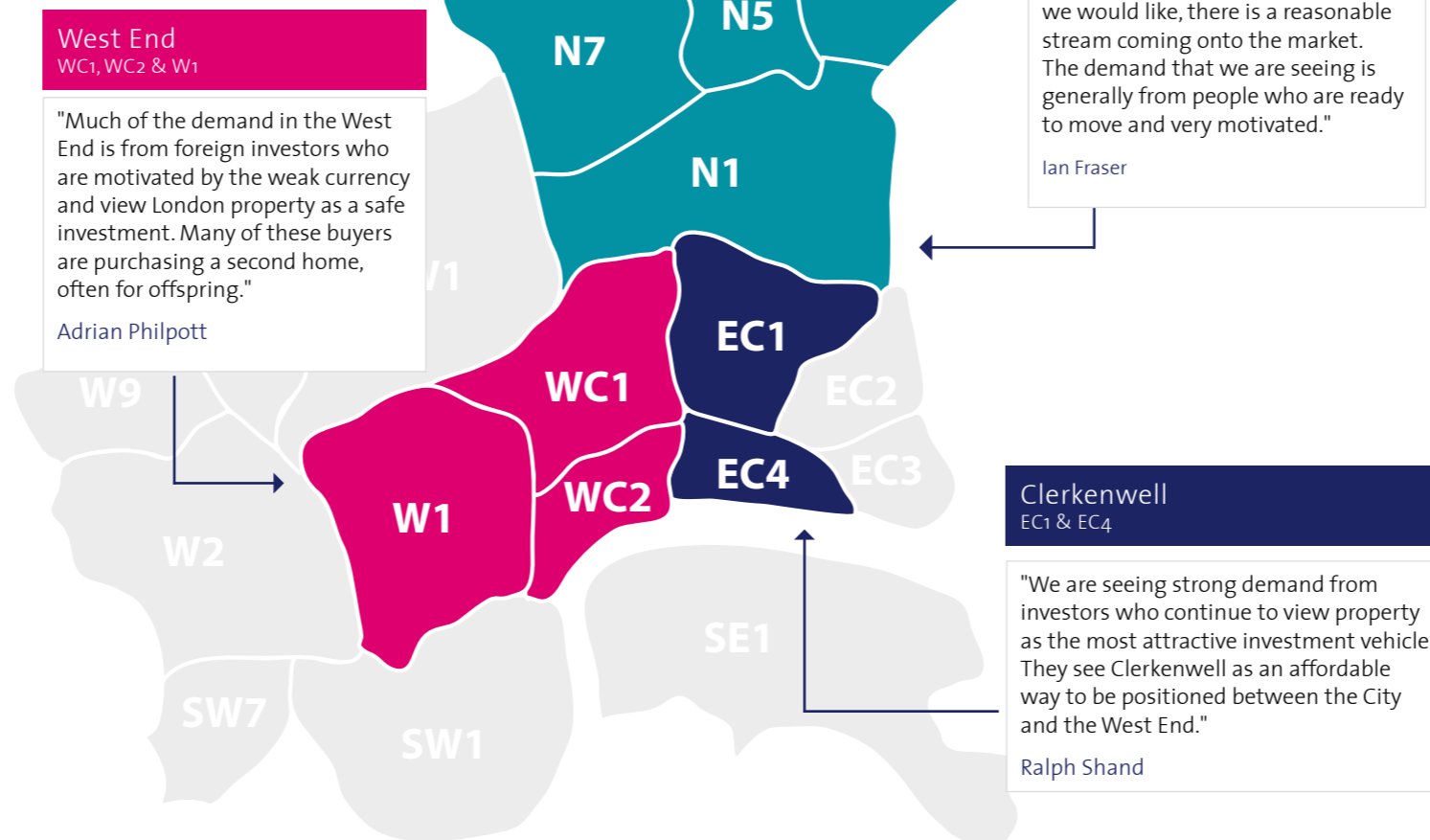
Apart from a blip in February, average values across the UK have seen continuous growth over the last 12 months. According to the Nationwide the national mainstream market has grown 10.7% over the last year and is now 11.4% above the low reached in February 2009.

The recovery seen in the housing market has not occurred evenly across the country - London has seen the strongest rebound and continues to outperform the rest of the country. At the end of the first quarter of this year, annual growth stood at 15.7%. The prime central London market has been particularly strong and Winkworth central London offices are all still seeing unprecedented prices being achieved for some

### Profile of transactions over last 6 months



Winkworth central London offices justify the continuing strength in their markets despite the challenging economic environment.



transactions. There are several variables driving the strength in this unique market. These include weak sterling, restricted supply exacerbated by existing cheap financing and a lack of attractive alternative investment options.

Although supply and demand dynamics have supported values to a degree, there has been an inevitable fall in the volume of transactions. The second half of 2009 saw the level of transactions recover but in the first few months of this year volumes fell again. Over the first quarter residential transaction levels in the UK recorded by the Land Registry fell 25%.

Land Registry data for all sales in Islington, West End and Clerkenwell highlights a similar trend, with the volume of transactions falling 19.7% in the six months to the end of February 2010 compared to the same period in 2007/08. Transaction levels in the West End were particularly affected, being down 25%.

In this area, the majority of transactions (80%) recorded by the Land Registry are valued under £1m. Volumes have been affected most severely in this price bracket, partly due to the significant reduction in mortgage lending that has prevailed over the last two years.

### Supply and demand correction?

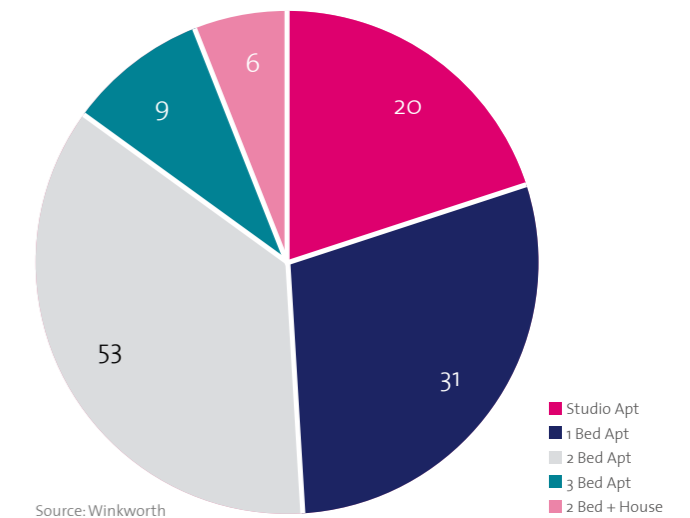
An imbalance in demand and supply has been pivotal in the recovery of the housing market (especially in markets such as central London), but there are signs that this may be changing. The Royal Institution of Chartered Surveyors (RICS) reported that the number of new instructions from vendors recently outstripped new buyer registrations for the first time in 16 months.

The market in Islington, West End and Clerkenwell began to recover in Spring 2009 at which point strong demand was opposed by an acute shortage of supply as most sellers were unwilling to sell at a level well below peak 2007 prices. This resulted in prices climbing back to where they had been at the peak and even a little beyond.

This year has seen a continuation of this strength, though less pronounced than 2009. The central London Winkworth offices are still registering a very healthy number of buyers and whilst there are still limited stock levels there is an adequate stream of properties coming onto the market.

Winkworth offices in central London are still seeing strong demand, especially for well presented, well located property. Over the last few months, investors have accounted for an increased proportion of demand. In the Clerkenwell and West End offices, they currently account for up to 40% of applicants. Many of these investors are buying for other family members and not motivated by rental income. They are generally cash rich buyers and are prepared to invest at a

### Type of property most in demand



premium for the right property. With bank rates flat and stock markets volatile, property remains the investment of choice for many.

There is also demand from foreign buyers capitalising on weak sterling with a noticeable number of buyers coming from the Far East. In Clerkenwell and the West End there has been an increased number of Russian buyers.

In Islington demand is generally both more domestic and needs based. The Winkworth office continues to see a good level of demand from this type of applicant. It was pent up demand from these buyers in Spring 2009 that acted as a catalyst for recovery as households decided they did not want to delay moving.

However buyers are generally exercising more caution and properties that are compromised in any way are getting overlooked. Buyers are more particular than ever about buying the right property. Ensuring properties are valued correctly in these market conditions is essential.

### Outlook

With so many unprecedented events clouding the wider economic and political picture, it is very hard to predict the housing market. Undoubtedly, the economic environment remains fragile and, although lending conditions have improved, the mortgage market does still remain restricted.

However, central London remains the address of choice for many and an attractive investment prospect when compared with other asset classes. Supply remains restricted and demand strong for the best properties, which continues to underwrite values.

### Winkworth market indicators

	Local**	Central London
Average time to sell	9.0 wks	7.4 wks
Average number of viewings before sale agreed	26.0	21.1
Demand*	-11.3%	-13.8%
Supply	6.7%	4.6%

\* change from previous 3 months

\*\* Islington, West End and Clerkenwell offices

Understanding local dynamics is more important than ever

## Lettings market

Professionals involved in the rental market are also closely following political developments. The Association of Residential Lettings Agents (ARLA) recently issued a statement saying that a lack of available properties and the proposed increase to the rate of Capital Gains Tax (CGT) presents a grave threat to the Private Rental Sector. They believe an increase in CGT rates could potentially see a fire sale situation arise in the buy-to-let market with investors offloading properties.

This would only exacerbate the existing undersupply situation, a theme being seen across the country. The most recent report from the RICS showed new instructions continuing to decline for the third consecutive quarter, albeit at the slowest pace since the third quarter of 2009.

Although the rental market in central London is driven by different variables to the mainstream market, the overwhelming theme is also a chronic shortage of stock. A serious oversupply situation started in the beginning of 2009 as households failing to achieve the desired valuation for their property decided to let instead (the emergence of 'accidental landlords').

This excess in supply started to abate as tenant demand increased over the traditionally busy letting period at the end of the summer in 2009. This was coupled with the fact that the strength in the market tempted some of the 'accidental landlords' to sell.

The market continues to be very short of stock and there is now a threat of supply levels falling further as landlords consider selling rental properties to avoid any potential increase in capital gains tax.

On the other side of the equation, tenant demand is relatively stable currently. In Islington, there is a balanced mix of tenants from City workers and corporate lets to young professionals and students. As a consequence of the shortage of stock coupled with reasonably stable demand levels, average rental values have recovered well in Islington. Winkworth are currently seeing rental values back up to 2007 levels.

In the West End and Clerkenwell, where demand is more corporate led, applicant levels have not recovered as well. Although average rental values have started to recover the next few months, when the market is traditionally most active, will be telling.

## Economic and housing market factsheet

	House*	Apartment
Islington	£869,800	£338,387
West End	£1,449,255	£720,380
Clerkenwell	£684,388	£451,747

Source: Land Registry - average of last 3 months of data

\* Weighted average of detached, semi-detached and terraced

	Latest Data	Jan 2009	2010 forecast
GDP	0.3% (Q1)	1.9% (Q4)	1.2%
Inflation (CPI)	3.7% (Apr)	3%	2.4%
Bank Base rate	0.5% (May)	1.5%	0.8%
Av. earnings	4% (March)	1.7%	2.1%
Unemployment	8% (March)	7.1%	NA

Source: ONS, Bank of England

\* Average of independent forecasts

	Latest monthly data	Quarterly growth	Annual growth
Mortgage apprs	48,901	-16.1%	17.1%
Transactions	74,000	-16.1%	25.4%
Gross mtg lending	£11.4bn	-18.3%	-0.3%

Source: Bank of England, HMRC

## About Winkworth

Winkworth is a leading franchisor of residential real estate agencies and is listed on the London Stock Exchange.

Established in Mayfair in 1835, Winkworth has a pre-eminent position in the mid to upper segments of the central London residential sales and lettings markets. In total, the company operates from over 80 offices in the UK, France and Portugal having doubled in size in recent years.



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