

## LONDON MARKET COMMENT – 2010

The Prime Central London market seems to have turned the corner of the property recession with demand in the last six months of 2009 and the start of 2010 substantially outstripping supply in any given price sector.

The resultant uplift in prices means that in certain locations properties are trading in excess of 2007 pre-crash price levels.

The benefit of the weak pound and UK tax structure for non resident owners still makes the investment interesting nevertheless and international buyers continue to access the market, notably Italians, Chinese and Middle Eastern buyers.

There is very little room to negotiate discounts even for speedy transactions indeed many deals are being tied up after a closed best bids private auction at or slightly above asking prices.

The market has also not seen the much talked of repossessions coming to market. Banks have tended to want to manage their way out of revised valuations that breach their lending covenants with their clients or where the clients have had cash flow difficulties this has been taken up by other forms of security. This is unlikely to change as we move through the year.

One effect of the shortage of sales properties has been a larger volume of rental properties on the market – and again due to the recession a lack of corporate tenants. The combination has had the effect of reducing yields and they are at the lowest level the London market has seen. The relationship between the low interest rate and



returns from monies on deposit and net rental income is still positive for the rental investor who when combining the growth of last year has seen the capital and net rent achieve a figure of some 12% overall.

Liquidity remains an obvious short term issue in particular most private investors felt that was a worthy sacrifice when money in a bank or the stock market could potentially be lost overnight. At least the bricks and mortar will always be there.

With particular reference to the Italian buyers in London one general point that has become clear with the new younger generation of mainly professionals buying property in London is the use of gearing. Whereas before when the first major round of Italians bought in the early mid 90's almost no deals were funded. Nowadays the element of a more sophisticated geared investment and the greater capital returns and again the tax benefits are much more favourably considered.

There is continued interest in the prime London residential market from investors based in Asia, in particular Hong Kong and Singapore. Purchasers are not only acquiring for investment but also properties to live in when they visit London. Those buying for their own use are very selective in terms of location, generally they are familiar with London and often arrive in the UK with a clear idea as to where they would like to live. Buyers with pure investment objectives are less concerned with location and more interested in the potential for capital growth.