

Balham Battersea Battersea Park Chelsea Clapham East Putney **Fulham** Hammersmith & Shepherd's Bush
Kensington Notting Hill Pimlico & Westminster South Kensington Southfields West Putney

The Investor View

Fulham
Q1 2015



**Douglas
& Gordon**

God 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 contact our office on Fulham Road. Contact details for this office can be found on the back page.

Property Values

2014 saw capital value growth across all property types – although prices plateaued in H2.

Q4 2014 performance

In the last quarter of 2014 Fulham experienced no movement in capital values. This pattern was unique to Fulham because on average across all Douglas & Gordon offices, both north and south of the river, capital values declined (-1.9%) for the first time in Q4, after 23 consecutive quarters of growth, beginning in Q1 2009.

2014: A year of two halves

- | The first half of 2014 began with a bang, continuing the very strong trend of 2013 (when prices rose 25%).
- | By June prices had peaked. The turning point happened just after the Financial Conduct Authority published their Mortgage Market Review at the end of April.
- | Additional legislative concerns, as well as the Bank of England's, as we argued at the time, incorrect guidance on higher interest rates, meant that buyers approached the market in the second half of the year (H2) with a real sense of caution.
- | Nervous buyers led to declining volumes. The future direction of capital values shifted to sellers.
- | In the second half of 2014 we started to survey vendor intentions. The results indicated that we should expect a slight softening of prices – which did not happen but at the same time, there was no growth in H2.
- | Although the second half was flat, the year as a whole delivered respectable returns in Fulham (see chart) – far from the crash that some commentators predicted.

We expect capital values to have risen by the end of 2015.

Fulham Nominal Property Values

	2014	H1 2014	H2 2014
1 Bed Flats	4.65%	4.65%	0.00%
2 Bed Flats	6.67%	6.67%	0.00%
3 Bed Houses	9.52%	9.52%	0.00%
4 Bed Houses	8.11%	8.11%	0.00%

Source: D&G proprietary data

Outlook for 2015

- | In short: sub £1m will be strong throughout the year; we think that above £1m will start more slowly but gather momentum.
- | Fulham is very much an “emerging prime” story that has seen significant infrastructure improvement in the recent past. In ten years' time parts of the area will be considered “prime”. Savvy investors should look to take advantage of any price weakness in H1 2015.
- | We think that with the current volatility in global financial markets and a general election on 7th May, the first half of 2015 is a buying opportunity for long term investors.
- | Lower Gilt yields have delivered cheaper mortgage deals and lenders are showing an increased appetite to lend into this “emerging prime” London market. Increased credit flows will lead to higher capital values. Once the election is out of the way and with fiscal headwinds keeping interest rates low, we expect capital values to rally in H2 2015 – see page 4 for our forecasts.

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.

During 2014 rents in Fulham were strong – we think that 2015 will be a slower year.

Rental Growth & Yield

Average rental values across D&G Land in 2014 increased by 5.1%. In our non-prime offices rental values grew by 5.6%, considerably stronger than the figure of 2.1% in our prime offices.

Against this background Fulham produced growth of 10%, above the non-prime average. Rental values can be volatile which is why we look at the numbers in the context of longer term rental growth (see 5 and 10 year rental growth data on page 4); which have not been as strong as other areas of D&G Land.

What happened in 2014?

- I The major theme across our offices was that the rental market benefited from a slowdown in the sales market, with potential buyers holding off and remaining in rental accommodation.
- I An additional factor was that some offices experienced a fall in stock levels as investors took advantage of the strong sales market at the start of the year to crystallize their capital gains.
- I A major reason that our non-prime offices performed better than the prime offices is due to a “post financial crisis” trend. It has become fashionable for corporate backed renters to live in other parts of the capital where rental values are typically cheaper - a factor that will continue to benefit Fulham, particularly in the house market.

I This latter point has been reinforced by the new tendency for corporates to pay their rental allowances directly to staff as opposed to directly to landlords..

We are forecasting modest rental value growth of 1% - 2% in 2015.

Outlook for 2015

- I Across D&G Land we are forecasting more modest rental growth of between 1% and 2%. However, in Fulham we expect rents to be slightly stronger.
- I Our forecasts are driven by two main factors:
 1. The City has come off the boil in the second half of 2014. Although we have long argued that, with the growth of other sectors, the financial sector is becoming less relevant, it may weigh on sentiment.
 2. Despite real earnings picking up, we remain concerned that in some instances they will dampen prices.

Finally, this is an election year and housing – notably the Private Rental Sector – will be a major political discussion point. Although there is no proposed legislation on the horizon to concern investors, we will keep all Douglas & Gordon clients informed of any news.

Fulham Nominal Rental Growth

	2014	H1 2014	H2 2014
1 Bed Flats	13.33%	10.00%	3.03%
2 Bed Flats	13.10%	7.14%	5.56%
3 Bed Houses	8.33%	8.33%	0.00%
4 Bed Houses	5.56%	5.56%	0.00%

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	1.54%
FTSE All Sh Yield	3.39%
UK Base Rate	0.50%

Source: D&G Proprietary data

1. Capital Values

Our forecast for 2015 is driven by two political factors. 1) The impact of the changes to stamp duty in the recent autumn statement; and 2) The threat of a mansion tax post the 7th May general election. We believe that, in contrast to 2014, the capital value growth will be weighted to the second half of the year.

Property Value	Prime	Non-prime	Comment
Up to £1m	+10% - +15%	+10% - +15%	Recent changes to the stamp duty regime in December's autumn statement have reduced the tax burden in this bracket. Our view is that it is a political green light for the market. This latter point may lead to strength throughout the year.
Between £1m and £3m	+7% - +10%	+0% - +5%	The proposed mansion tax rate in the £2m - £3m bracket has been signalled by the shadow chancellor. Our view is that the market in prime has over-discounted the situation; in addition sterling weakness will make this market more attractive for foreign investors. In non-prime the recent increased stamp duty for this price bracket will have greater impact for the (mainly) domestic buyers.
Stock between £3m and £5m	+0% - +5%		Although the precise rate of mansion tax is unknown, apart from the fact that the shadow chancellor has said that it will be 1) banded and 2) progressive, we feel that the market is already discounting bad news.
Stock above £5m	+0%		Not a place to be positioned.

2. Rental Values

Concerns over the City and real wage growth lead us to a cautious rental growth forecast for D&G Land in 2015. We predict that growth in rental values will track inflation at a rate of 1% - 2%.

**Fulham
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	13%	13%	36%
2 Bed Flats	13%	28%	40%
3 Bed Houses	8%	24%	16%
4 Bed Houses	6%	12%	12%

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%

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.**

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