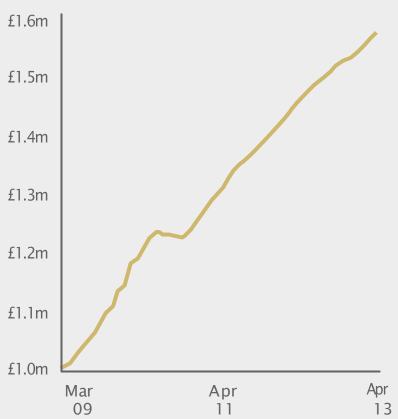
Knight Frank

LONDON PROPERTY IS BACK

LIAM BAILEY, GLOBAL HEAD, RESIDENTIAL RESEARCH

Issues propelling London prices over recent years has been an appetite from global purchasers for tangible investments. Add in ultra-low interest rates, together with the fact that not only is London outside the Eurozone but that the pound is weak and you have the perfect ingredients for that heady cocktail – "the safe haven investment." Having the worlds best schools, a unique cluster of leading universities, a trusted legal system, the English language, clear property title and enjoying the status of being the worlds most important city to global HWNIs all help. But currency performance, the cost of money and the fear of financial investments have been instrumental in pushing prices higher.

"London's 57% price growth over the past four years, compares favourably with price performance in other leading global cities, such as New York & Singapore."



Price performance Prime central London price growth, based on £1m invested in March 2009

Source: Knight Frank Residential Research

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LONDON'S SOLID UPWARD GROWTH TREND, COMPARED TO OTHER CITIES

DATA ANALYSIS

Knight Frank's international network of research teams collects an unrivalled range of data analysing the world's most important prime residential and commercial property markets. The graphs on the opposite page illustrate the five-year change in capital values of luxury homes in selected locations and the change in rental values of office space in the world's most important financial centres.

CREATING WEALTH

Creating wealth, it seems, is hardwired into us as a species. The total number of HNWIs around the world is increasing once more, despite the global economy still suffering from the aftershocks of the credit crunch and the ensuing financial crisis.

Much of this wealth creation is taking place in the world's new economic powerhouses, but London and New York are still considered the most important cities for the super-rich.

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SO MANY COMPELLING REASONS TO INVEST IN RICHMOND

POSITIVE OUTLOOK

Richmond upon Thames is unique with rich history, beautiful landscapes and world class tourist destinations.

The outlook for Richmond upon Thames local economy is extremely positive. The borough has a diverse economy and is an entrepreneurial borough, characterised by a high proportion of micro-businesses and a large number of self-employed residents.

BUSINESS SERVICES

Business Services is the largest sector in Richmond upon Thames with 22,100 employees, accounting for 30% of the employee jobs available in the Borough. In addition, 6,100 residents are self employed in this sector in the borough. Locally there is a diverse mix of sub-sectors, with a strong focus on higher value activities with the largest job contributors being the legal, accounting and consulting professions.

SCIENTIFIC & TECHNICAL

Richmond upon Thames is a unique borough which has a cluster of high value professional, scientific and technical companies and a strong green technology sub-sector.

It is one of top boroughs in South London for professional, scientific and technical sector employment. Around 56% of employees in the borough are from the knowledge sector and there are 2,975 professional, scientific and technical units in the borough, representing 25.1% of the total businesses.

With one of the highest proportions of highly educated residents in London, 56.9% of residents are educated to NVQ Level 4 and above compared to the London average of 38.6%, the borough consistently beats UK averages in education, skills and training.

2013 LONDON CITY RESIDENTIAL REVIEW

2013 delivered modest rental growth. 2014 will see stronger, sustained, growth in rents. After 2014 our long term forecast is for rents to rise about 4% per annum, which is equivalent to long term income growth.

While there are undoubtedly short term risks, the long term picture for investors in London is positive. The Office for National Statistics has revised upwards its forecast for household numbers in London for 2021 by 4.7% percentage points and the impact of infrastructure projects, exemplified by Crossrail, will improve the capacity of London's economy factors contributing to higher accommodation demand.

Investors might be disgruntled by a fall in rental income currently, the surge in capital values has ensured that total returns have remained at double digit levels for each of the past 3 years.

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LEISURE, TOURISM & HOSPITALITY

Richmond upon Thames has the highest employment in the tourism sector within South London with 12% of the Borough's workforce employed in tourism related jobs, significantly higher than the 8% national proportion.

The main distinctive feature is the number of museums, historical sites, botanical gardens providing tourism-related employment, providing over 12% of the total in the sector compared with the proportion of 2% in England and 3% in London.

There were 770 business units in the sector in 2008, including prestigious locations such as Hampton Court Palace, Kew Royal Botanic Gardens, Ham House and Garden, Marble Hill House plus hotels and numerous visitor destinations.

RETAIL SERVICES

Locally retail is the third largest sector in the borough with 7,700 jobs in 2008, a higher proportion than central London and in line with the national average.

CREATIVE SERVICES

With over 3,900 businesses in this sector, Richmond upon Thames provides more than fifth (23%) of South London's creative industry. This supported at least 16% of the Borough's jobs (11,500) in 2008, not accounting for self employment. This is significantly higher than London and comparator economies.

The high proportion of jobs, local businesses and consultancies within the creative industries in the Borough is a reflection of the highly educated and skilled residents. The physical and cultural heritage of the borough have long been a draw for the creative industries.

PROPERTY INVESTMENT. BUYING AT THE RIGHT POINT

TIMING YOUR INVESTMENT

Richmond is one of the cheapest boroughs in London to purchase right now. The price of a typical one bedroom flat is over five times more expensive in Knightsbridge.

RICS (Royal Institute of Chartered Surveyors) have forecasted a 9% capital growth for UK property in 2013 & 2014. The graph (below) shows a typical sigmoid growth curve illustrating price movement towards market maturity. London property is, in our opinion – at the steepest point of potential price increase with plenty of room to grow.

Starting from a low base, such price growth would generate a large percentage return on investment.

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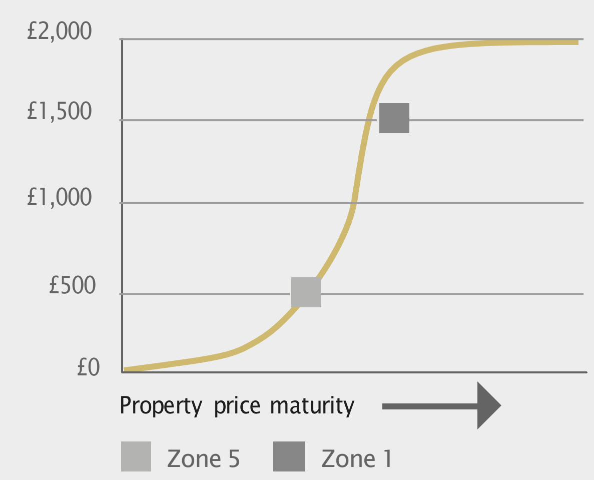

THE RICHMOND INVESTMENT OPTION — BUY & HOLD

RENTAL RETURN

We forecast that the Richmond will achieve rental returns of 7% to 9%. Yield annual rent divided by purchase price is a key measure when investing in property. A house costing £100,000 that rents for £7,000 per annum would have a 7% yield.

CAPITAL GROWTH

Capital Growth rates in Richmond are currently between 9% and 12% per annum. We believe that investing in Richmond will increase dramatically once sizeable infrastructure investments by Westfield are completed. This boost to local economy, transport links integrating Richmond more efficiently with central London will result in a boost of around 17% next year, in total a return of 31% over the period of 3 years.

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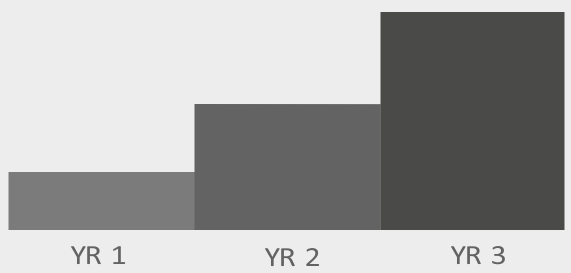
BUY & HOLD



THE FLIP MODEL: RETURNS ON EQUITY FOR A 10% UPLIFT UPON RESALE

	Time 0 01/10/2008	Q1 01/10/2008	Q2 01/10/2008	Q3 01/10/2008	Q4 01/10/2008	Q5 01/10/2008	CASH RETURN	IRR
Equity invested:	-10							
Resale proceeds:		20						
Net cashflow:	-10	20	0	0	0	0	100%	1512%
Equity invested:	-10	-10						
Resale proceeds:			30					
Net cashflow:	-10	-10	30	0	0	0	50%	191%
Equity invested:	-10	-10	-10					
Resale proceeds:				40				
Net cashflow:	-10	-10	-10	40	0	0	33%	76%
Equity invested:	-10	-10	-10	-10				
Resale proceeds:					50			
Net cashflow:	-10	-10	-10	-10	50	0	25%	42%
Equity invested:	-10	-10	-10	-10	-10			
Resale proceeds:						60		
Net cashflow:	-10	-10	-10	-10	-10	60	20%	27%