FORTUNE FAVOURS **THE BOLD**

Uplifting opportunities in a depressed market

Prime Watch Analysis by Sterling Private Office
Published Q1 2019

STERLING PRIVATE OFFICE

STATE OF PLAY

With the possibility of a no-deal still on the cards as we head towards 29th March, market confidence and interest rates both remain low. But while some have drawn in their heads, others have come out of their shells.

The market over £2m has been particularly active[1], and the super-prime market even more so[2] – buoyed by foreign buyers keen to cash in on nervous sellers and a weakened pound. But has the market hit its bottom? The truth is, there's just no way of knowing. But with high stakes come high rewards. And if we are now looking at the bottom of the market, the right investment could be extremely profitable. As Warren Buffet said: 'be cautious when people are greedy, and greedy when people are cautious'. Of course, with the right advice, there are a few things you can do to stack your hand…

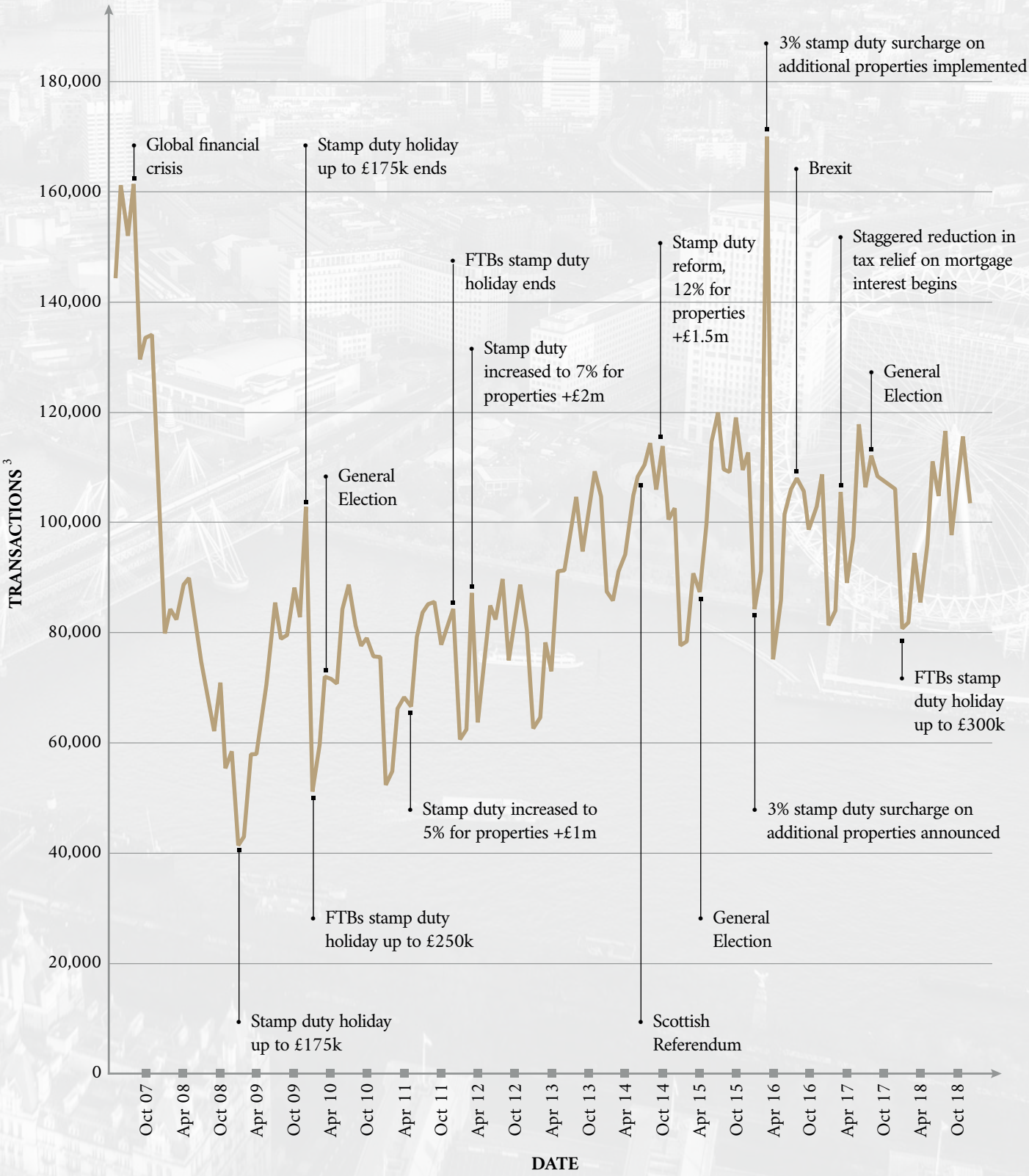
[1] LonRes | 2018
[2] Savills | 2019

AN UNCERTAIN *MARKET*

With demand and supply constricted, media speculation of a 1990s-style crash continues to rumble along. But while the continued saga surrounding Brexit is no doubt a major factor, it's far from the whole story.

The past couple of decades have seen the worst financial crisis since the Great Depression and a prolonged period of intensive housing reform and regulation, much of it under considerable media pressure. With wave after wave of knee-jerk interventions, each coming so soon after the last, the market has never had a chance to fully settle.

TIMELINE



[3] HMRC January 2019

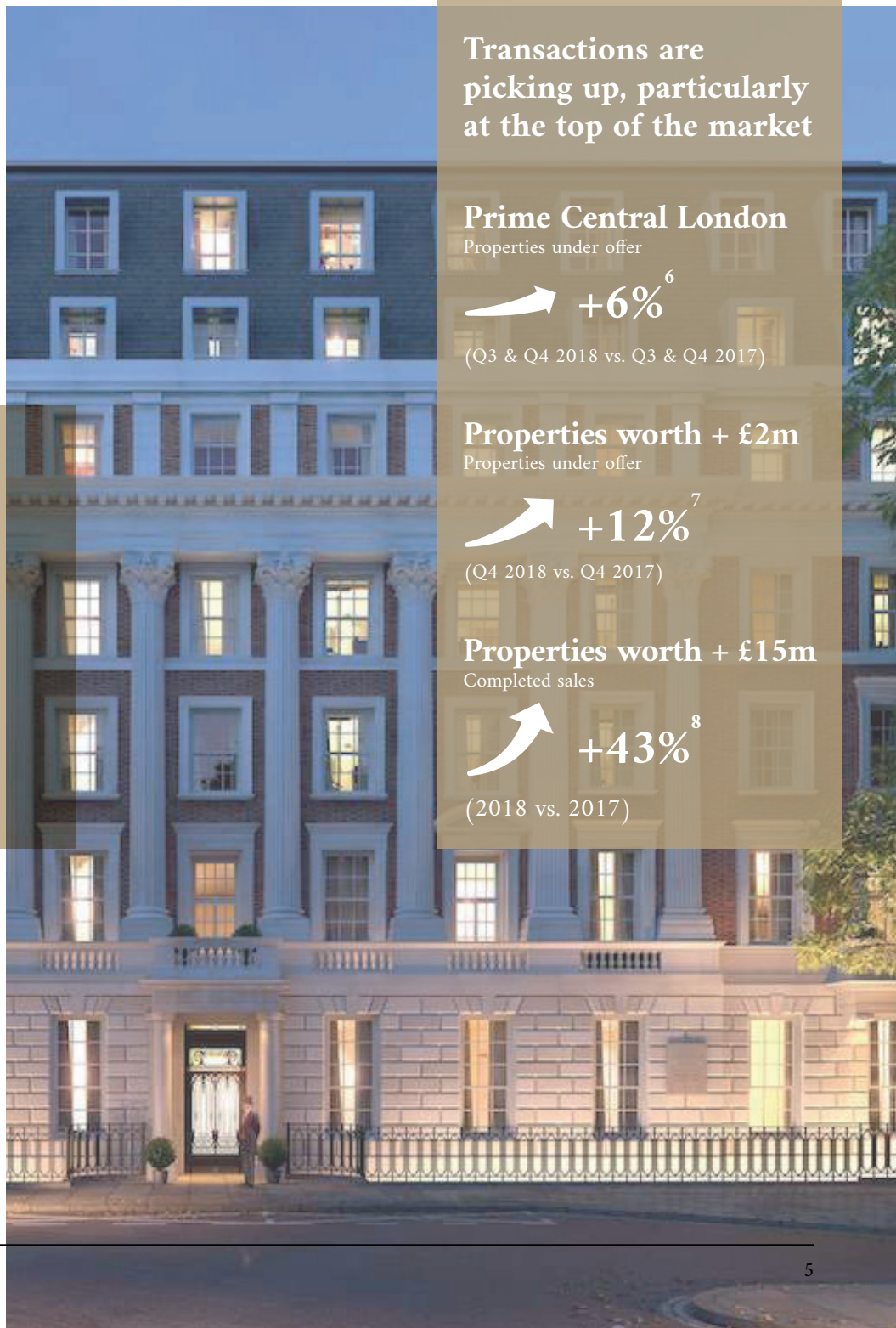
SIGNS OF *GROWTH*

But while the uncertainty has made some cautious, others have become emboldened. LonRes analysis shows the number of properties going under offer in Prime Central London is rising[4].

Foreign investors are particularly lively, snapping up properties at discounted rates in a discounted currency. Commenting in The Times this January, Sterling Director Jonathan Mount reported:

> **"Developers are feeling exposed because they are holding too much stock... In the event of a no-deal scenario, we absolutely believe there will be a run on the market."**

And just a few weeks later, Chairman of Dubai's Damac Properties, Hussain Sajwani, made clear his intent to invest up to £1bn in Central London property[5]. He commented: "London is London; you buy when there is blood on the streets."



Transactions are picking up, particularly at the top of the market

Prime Central London
Properties under offer

+6%[6]
(Q3 & Q4 2018 vs. Q3 & Q4 2017)

Properties worth + £2m
Properties under offer

+12%[7]
(Q4 2018 vs. Q4 2017)

Properties worth + £15m
Completed sales

+43%[8]
(2018 vs. 2017)

[4,6,7] LonRes | 2018
[5] Bloomberg et al. | 2019
[8] Savills | 2019

THE DOUBLE DOLLAR *DISCOUNT*

Analysis from Savills indicates that a Central London property worth £5m at the height of the market in 2014 could now be acquired for closer to £4.03m[9]

When you then factor in the effect of a weakened pound, dollar-denominated buyers could net an effective 40% saving on the same property.

Saving on a £5m property

£ GBP		$ USD
Q2 2014		Q2 2014
£5,000,000	=	$8,548,500
Q4 2018		Q4 2018
£4,029,739		$5,145,573
19.5%	% SAVING	40%

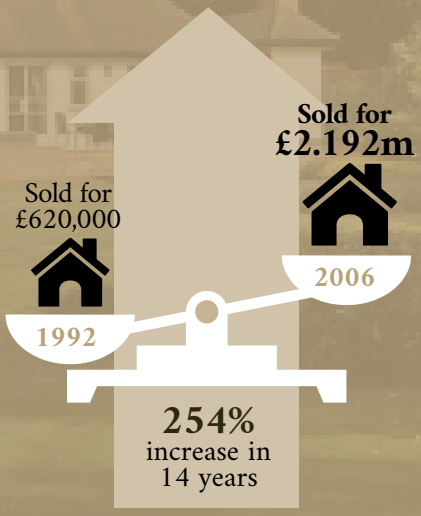
[9] Savills | Market in Minutes | 2019

A CRASHING SUCCESS

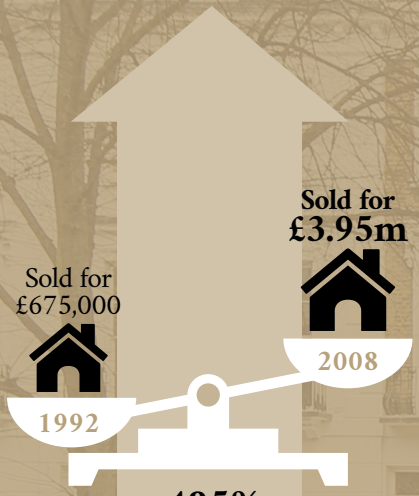
Those buying now could see phenomenal returns.

Some of the steepest climbs in market history took place after major corrections like Black Wednesday (1992) and the global financial crisis (2007-2008). Indeed, a property one of our clients acquired in 2009 has seen capital appreciation of almost 50% in just 7 years.

Little Waltham, Buckinghamshire



48 Royal Avenue in Chelsea



BUT HAS THE MARKET *HIT ITS BOTTOM?*

It's impossible to say. We are in unchartered water. In a worst-case scenario, the Governor of the Bank of England, Mark Carney, has stated that house prices could continue to tumble by as much as 30%[10].

At the same time, respected industry sources predict that by 2022, we'll see prices rise in the Prime Central London market by 10-15%. Others have claimed it will be closer to 30%[11].

Comparison to historic corrections[12]

Today

Down 18.4%[13]
(2014 vs. 2018)

Global Financial Crisis

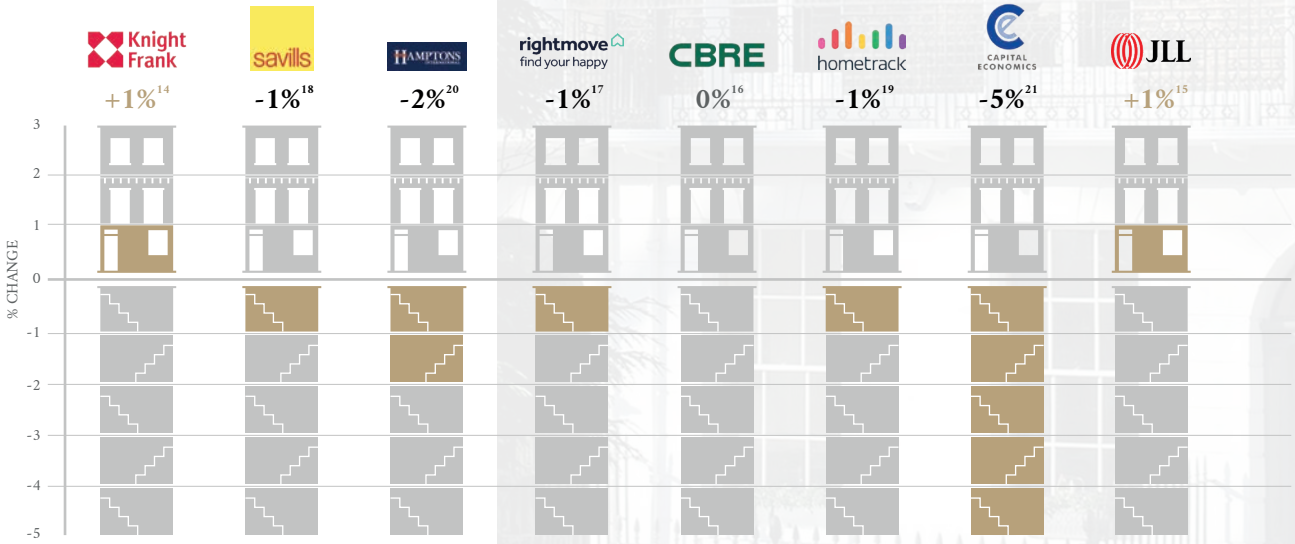
Down 24%
(March 2008 vs. March 2009)

Black Wednesday

Down 21%
(July 1989 - July 1992)

Predictions for 2019

London house price growth



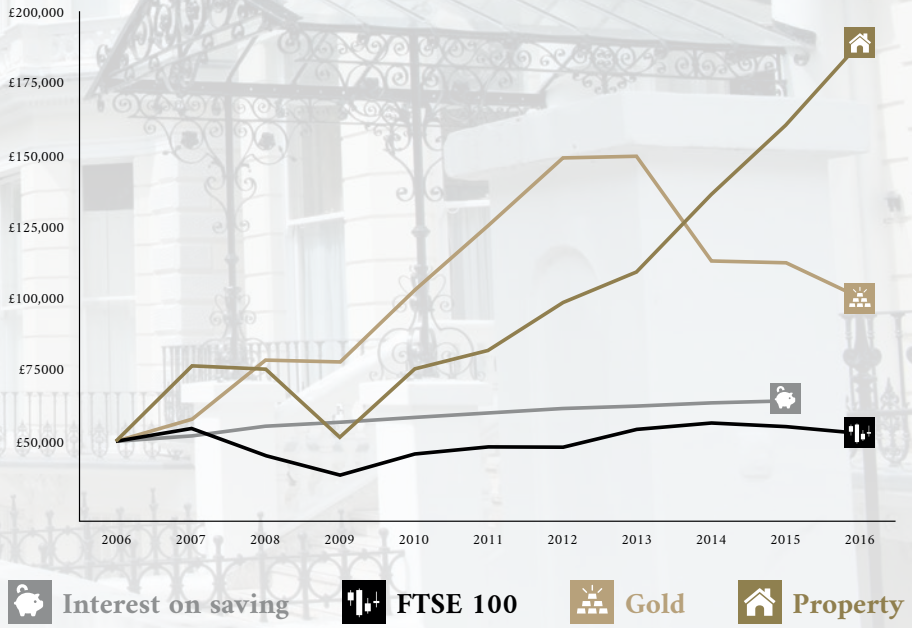
[10] The Guardian et al. | November 2018
[11] PrimeResi | Jan 2019
[12] Knight Frank et al. | March 2018
[13] Savills | 2019
[14] Knight Frank | UK Residential Market Forecast | 2018
[15] JLL | Residential Forecasts | 2019
[16,17] City AM | December 2018
[18] Savills | Market in Minutes | 2019
[19,20,21] Zoopla | Property Market Regional Forecast | 2019

THE SMART MONEY

No one can predict the future, but we can learn from the past. And in the long term, property has always outperformed other asset classes.

In addition, unlike most investments, property can provide income as well as appreciation. So, provided you're buying best-in-class and can afford to ride out a downturn, property remains the most robust investment vehicle available to you.

Historical performance:
Property vs. other assets



* Based on an initial investment of £50,000 plus average appreciation for a property in South East England.

Current performance:
Property vs. other assets 2018

[22,23] Knight Frank | Prime Central London Index |Oct 2018
[24] Savills | Market in Minutes | 2019

WINNERS & LOSERS

First-time buyers

Low interest rates, a succession of government incentives, and increased interest from lenders has meant first-time buyers are definitely among those who stand to do well.

Foreign buyers

With sterling floundering and developers and private sellers concerned they're overexposed, foreign buyers – particularly from the Middle East and China – have been leveraging their position to manufacture effective discounts of as much as 40%.

Big spenders

Super-prime properties fell hardest when the slowdown began, but they're also recovering fastest. Those who buy best-in-class now will see good value for money. One prime example is Mike Spink's Carlton Gardens property in St. James's – which was sold this January for £95m. A huge sum, but still £30m under the original asking price.

Small BTL investors

By 2020 buy-to-let investors will be unable to offset mortgage interest against their profits. And dwindling supply of second-hand stock is also a cause for concern. Although, on a more positive note, reduced supply may see rental yields increase. Even so, landlords will need to be savvy to survive.

UK-Domiciled European vendors

Those who bought property in the UK when the pound was strong have seen the value of their home and the pound drop sharply. Faced with uncertainty over whether they'll be allowed to remain in the UK, many may be forced to sell at the least opportune moment.

Flippers

Flippers and other investors who banked on capital appreciation continuing to rise as it did between 2012 and 2015 have been caught short. However, provided they can afford to weather the storm, they may still see an uplift in the long term. But those who haven't accounted for interest rate hikes could be in trouble.

STERLING ADVICE

Plan for the worst

Smart investors might hope for a boom, but they never bank on it. Be sure you, or someone who represents you, has modelled for various contingencies to ensure damage is mitigated should the worst happen.

Diversify your portfolio

Like any investment portfolio, it's crucial that you have adequate diversity. The market doesn't rain and shine on everyone in equal measure. You need to mix different price points, areas, and property types to spread your risk evenly.

Take independent advice

You wouldn't make a multi-million-pound investment in stocks or shares without talking to a stockbroker, property is no different. But make sure the advice you're getting is truly independent. Remember: estate agents represent developers and vendors, not buyers…

Buy best-in-class

In the long term, a best-in-class property will always outperform the rest of the market. But watch how you go, the difference between first-rate and second-class is more subtle than you might imagine.

Be wary of unicorns

If it looks too good to be true, it probably is. We've seen dozens of properties promising high rental yields and unrealistic development margins. Invariably, it's because something else is hampering the asset's value or ability to appreciate – tube rumble, a short or restrictive lease, a building in disrepair, insalubrious neighbours, etc.

Look for untapped potential

Prospects that are underdeveloped can represent excellent value. Last year we acquired an apartment in South Kensington and subsequently project managed the renovations for our client. The additional £400,000 of investment has returned an uplift of almost £1.25m based on the latest valuation.

Be patient

Knowing when to stick is just as important as knowing when to hit. By holding firm, we've negotiated the price of one country estate in Henley down from £7m to £3.9m. And in London, we saved one client £9m on a super-prime Chelsea penthouse. To negotiate well, you have to be prepared to say no to a bad deal.

Stick to your brief

It's not just a question of the right property, it has to be right for you too. Be honest about your requirements and the level of risk you're willing to expose yourself to. Good investments are never one-size-fits-all. And neither is our advice.

STERLING
PRIVATE OFFICE

The Premier in Prime

Jonathan Mount

Sam McArdle

Rachel Thompson

Nick Mead

Jonathan, Sam, Rachel, and Nick worked together in the acquisition arm of Knight Frank for the best part of 10 years before establishing Sterling Private Office: a full-service advisory firm offering first-rate representation to those invested in the UK prime property market. With 50 years' combined experience across UK prime residential property markets, the team offer a truly bespoke and specialist service ranging from acquisitions and development consultancy to fully managed sales and lettings.

info@sterlingprivate.com

www.sterlingprivateoffice.com