



The London Real Estate Market report

WIRE Consulting Research Center

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Market is struggling

- **The Real Estate Market in London is stalling, this may be caused by Brexit referendum or by potential tax increases, we can identify this situation through several indicators:**
 1. Houses prices are diminishing.
 2. Sales are currently at a record low since 2014.
 3. Values of new buildings declined significantly recently.

Real Estate in London Market

Real estate market in London has always been one of the strongest, because global banks have been using the city as a headquarter to sell their financial services worldwide.

The Prime London real estate market has historically been driven by those banks and financial services.

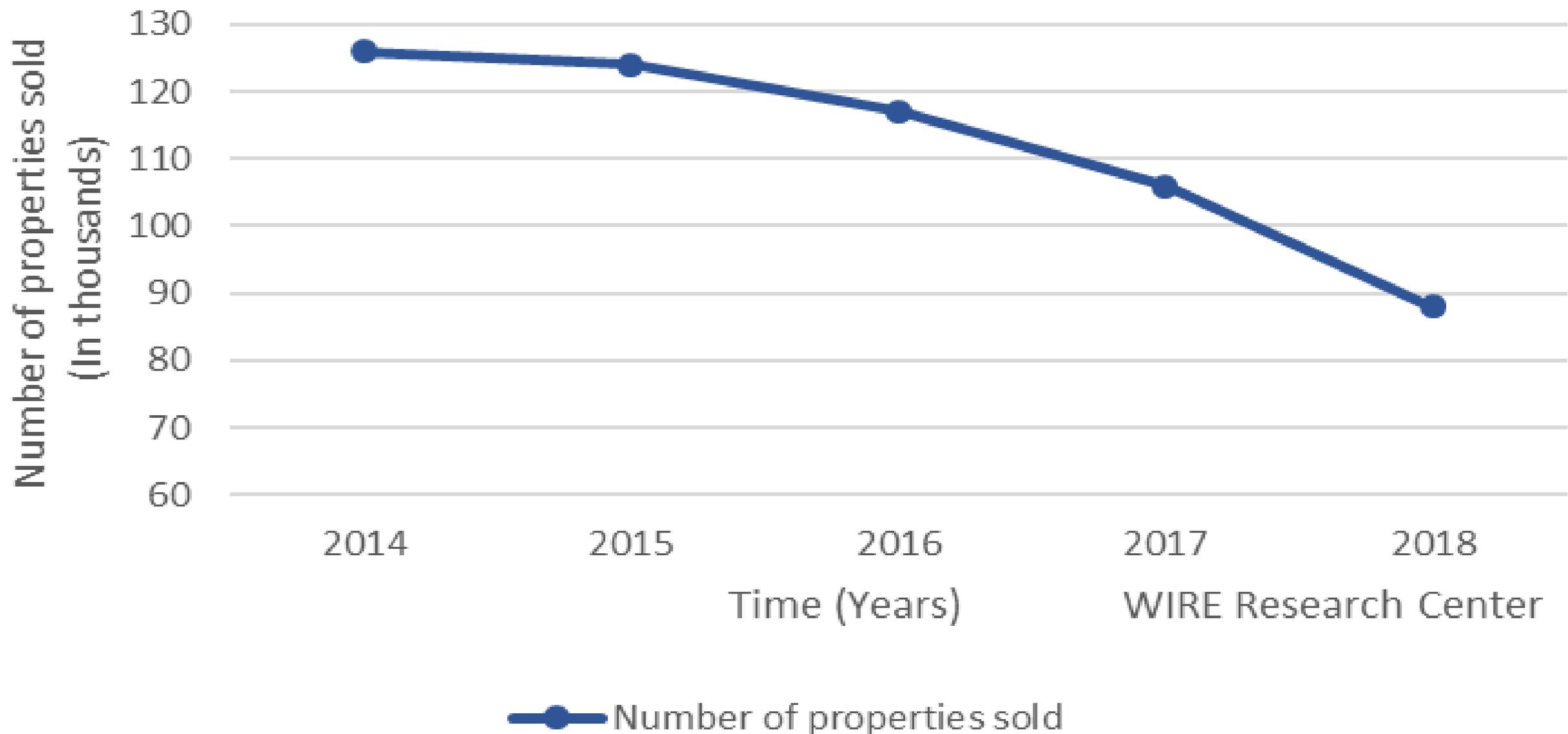
Recently, the volume of transactions has declined significantly because of the uncertainty caused by the Brexit referendum.



Market evolution

- The Brexit referendum occurred in 2016 caused a high level of uncertainty in international buyers.
- On the following graph we can see how the number of yearly transactions in real estate declined significantly recently in the whole London area.

Number of Properties Sold over time in London



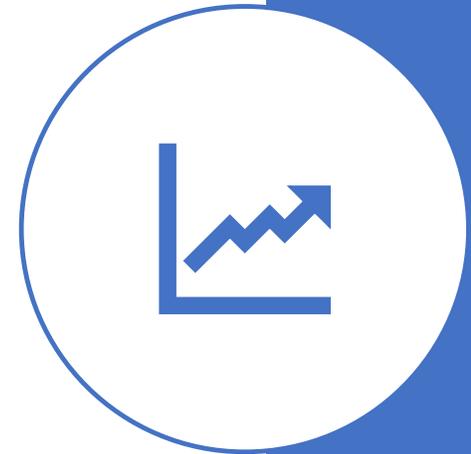
Decline in Properties sold

- London is the most interdependent city to EU in UK, because of its strong economic integration and the significant share of foreign workers in the labor market.
- The results of the Brexit referendum, caused a situation of high uncertainty, as the effects that the exit from EU will cause are not yet clear.
- International buyers are reluctant to invest in a market with high price sensitivity and limited supply considering the adverse situation.
- This uncertainty is identified in the decline of the number of transactions which took place per year, properties sold in London decreased from 126 thousand to 88 thousand in just 4 years.

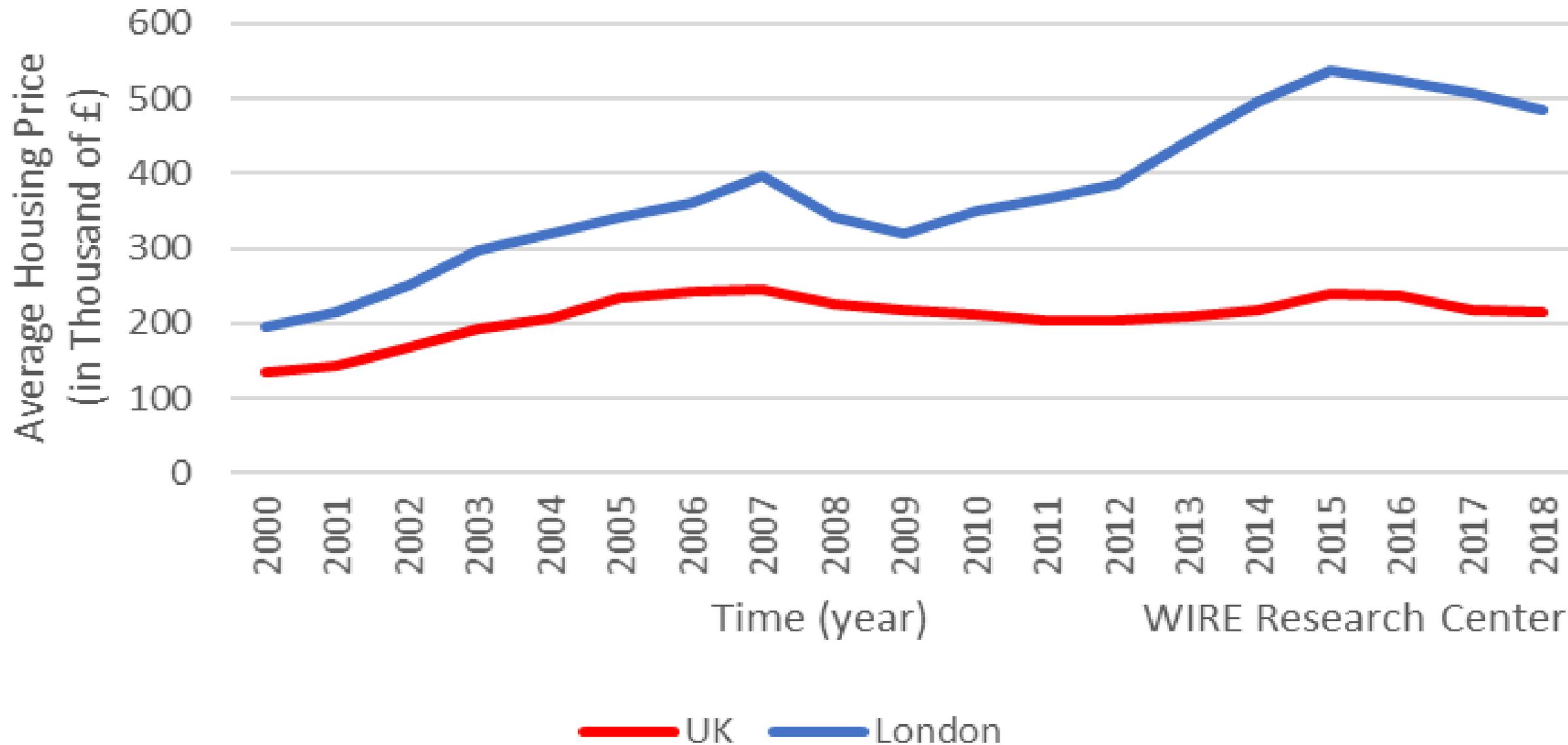


Price evolution in London vs UK

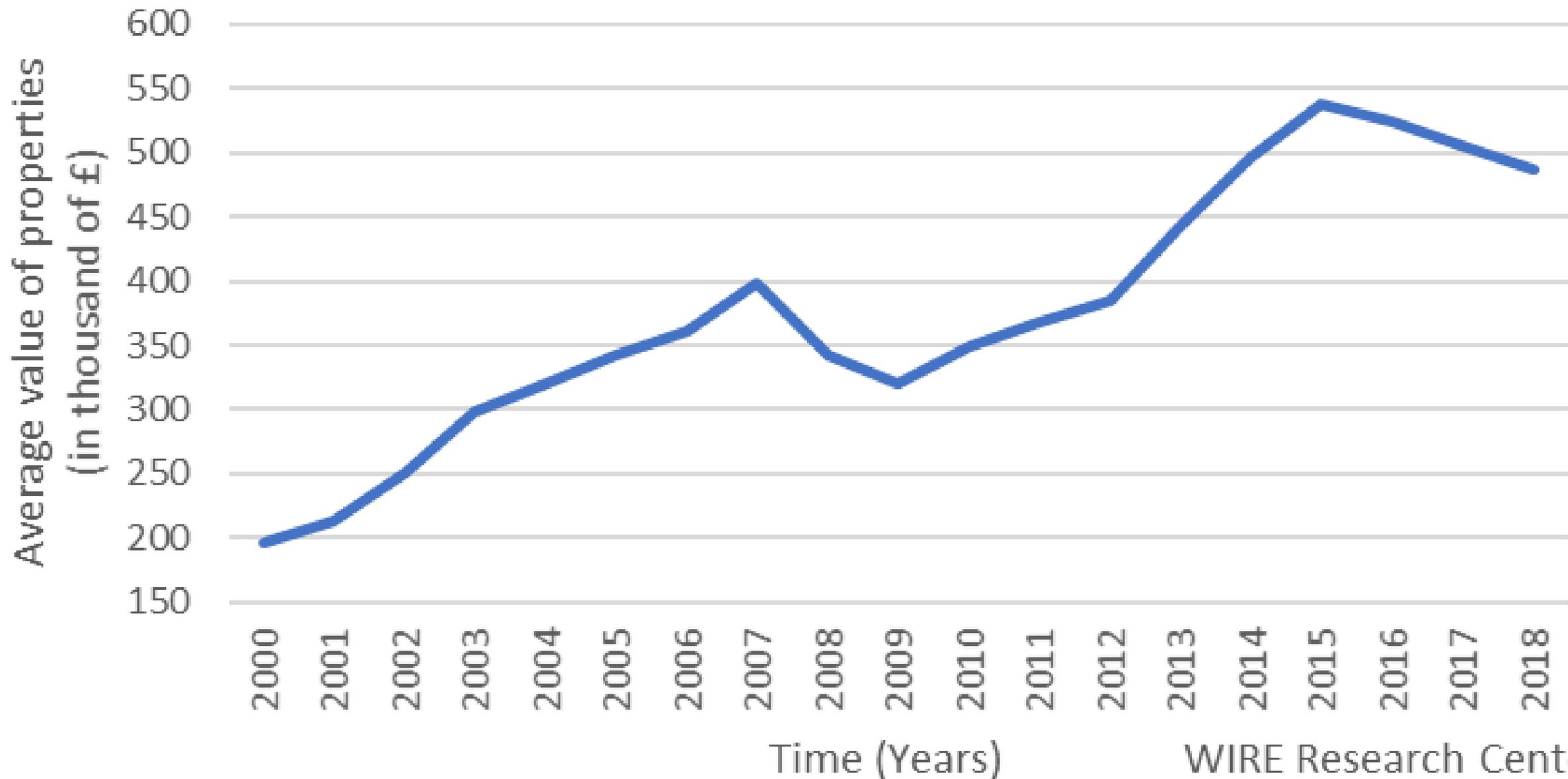
- London's status of EU financial headquarter has historically fueled the house price growth compared to other areas of the UK.
- In the period from 2009 to 2015, London's market real estate experienced a much higher growth compared to UK thanks to the injections of foreign investors and the strength of London tertiary service.
- In the following graph we can see how the London's real estate market grow in prices using the evolution of prices in the whole UK area as a benchmark.



Average House Pricing in London vs UK



London Average Housing Price Evolution

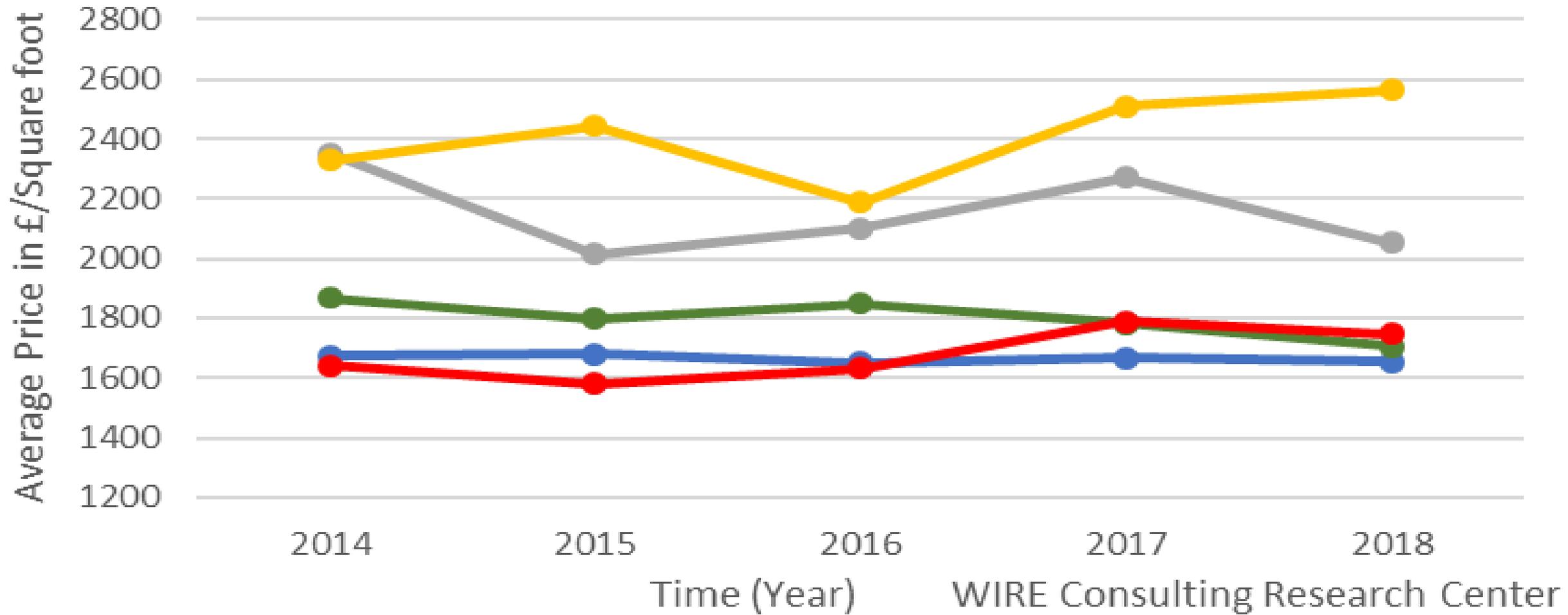




London housing price

- London's housing price has experienced an incredible growth in the period from 2000 to 2015.
- In 15 years the average house price has increased by 274% in the capital.
- However, in the period after the Brexit referendum, housing the price growth stopped, even resulting in a decline of prices.
- In the period from 2015 to end 2018, however prices declined by 9.5%.

Most expensive in areas in Prime London average £/square foot



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Chelsea Kensington Belgravia Mayfair Marylebone

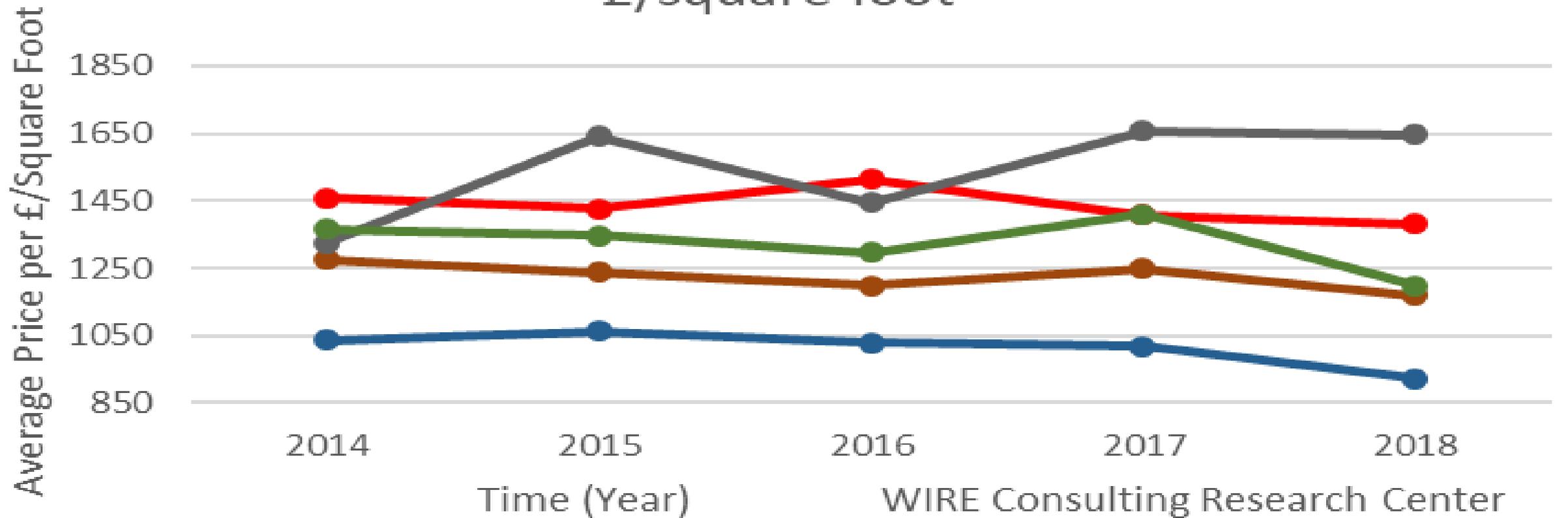
Prime London Market

As we can see, the average housing prices in the most expensive areas of Prime London have not been seriously affected by the Brexit referendum.



These areas did not experience a significant change, as prices remained almost constant in Chelsea, Kensington and Marylebone, while we saw a decrease in Belgravia and a strong increase in Mayfair.

Other areas in Prime London average £/square foot



● Notthing Hill and Holland Park

● Fitzrovia

● Fulham

● Pilimico, Westminster and Victoria

● St John's Wood and Regents Park

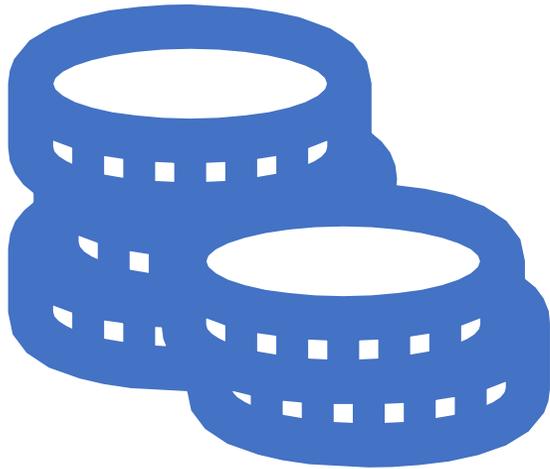
Other Areas in Prime London

Different is the situation in the other areas of Prime London, where almost every area analyzed slightly decreased in price in the last 5 years.



The only area where price increased is Fitzrovia, where now prices are similar to the ones of Chelsea and Kensington.

Comparison

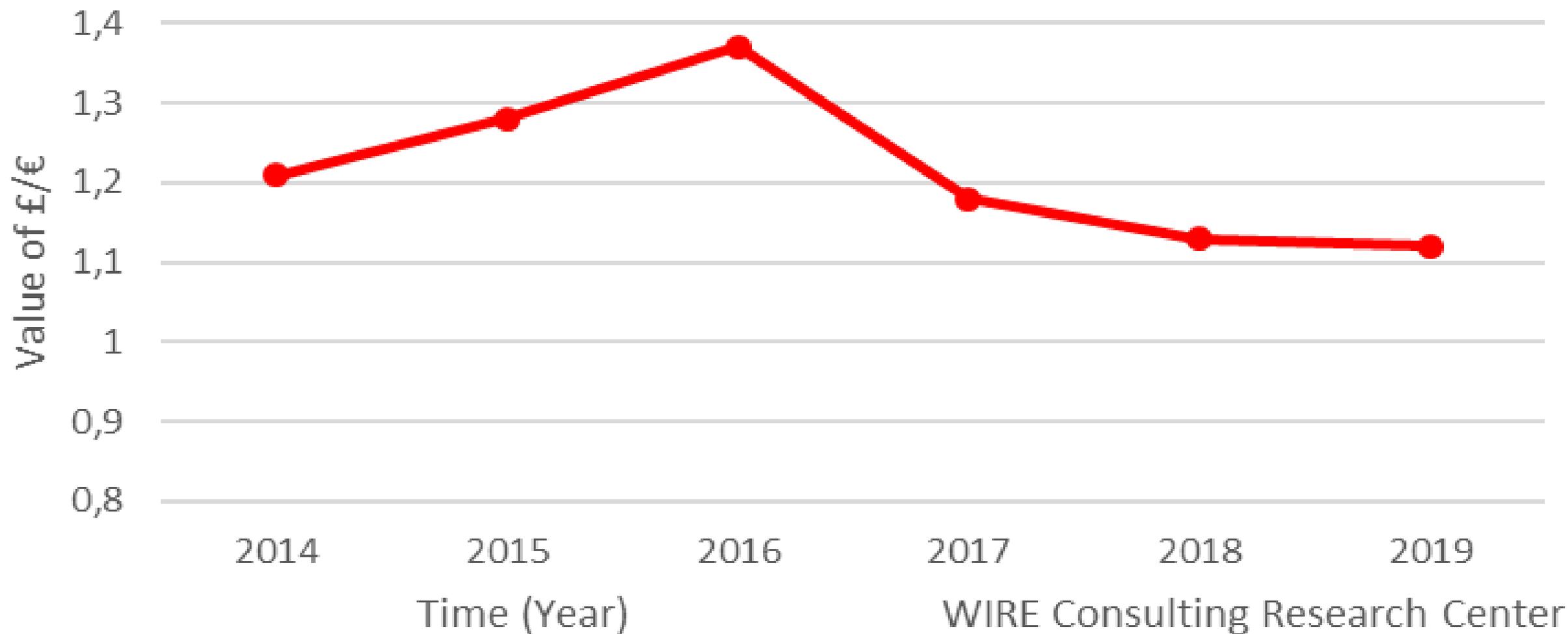


- We can conclude that the less expensive areas of Prime London are the most price sensitive, as we witnessed a price decline caused by the political uncertainty currently affecting London.
- On the other hand, the most expensive areas of the city such as Chelsea, Kensington and Marylebone remained constant in price, while the prices in Mayfair increased significantly.
- This may be caused by the limited availability of properties on the market, exclusive location and because sellers would keep the property rather than sell it for a lower price.

Factors containing house price decline

- As we can see, the decline in transaction occurred is higher compared to the relative decrease in price of the market.
- This happened as the London real estate market is highly price responsive and the amount of supply is limited.
- However, two additional factors helped the market prices not to decline even further, namely:
 1. **Low mortgage interests:** Lowered in order to stimulate potential buyers and decrease total acquisition costs.
 2. **Low exchange rate:** In order to attract more potential foreign investors

Exchange rate of £/€



Value of £/€

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Low Exchange Rate

- Considering the high levels of uncertainty regarding the possible consequences of Brexit, in order to increase exports and attract more potential foreign investors, the exchange rate has decrease significantly.
- The value of 1 pound compared to 1 Euro was 1,37 in January 1st 2016, and dropped to 1,12 in January 1st 2019.
- The low exchange rate represents a good opportunity for other potential European investors who now see their purchase power increased.

Brexit approaching



- As the Brexit deadline approaches much of the market future will depend upon the exit conditions that the UK will agree with the European Union.
- British economy has not reacted badly to this period of uncertainty, in fact a GDP of 1.8% has been recorded both in 2017 and 2018, demonstrating a constant growth.
- If Brexit will obtain a favorable deal to leave the Union, the economy is predicted to grow and overcome this period.

Conclusions and findings

- Concluding, we believe that this period of uncertainty represents a favorable period for real estate investors in London.
- Low interest rate and interest rate are sustaining the market from high price drops caused by the important decrease in transactions.
- If this period of turmoil will be overcome, we expect a short period of stagnation, where prices will remain constant, followed by a period price recovery similar to the one happened in the post-crisis period from 2009 to 2015, where the average housing value increased by 67%.