Investors see London homes as safe haven

Attraction for homebuyers is the city's pure investment potential

By **YOLANDE BARNES**

LONDON has one of the world's most established residential real estate markets and has long attracted international owner-occupiers and investment buyers.

World volatility has recently boosted the appeal of the city as a stable and mature "safe haven", but buyers are increasingly attracted by the city's pure investment potential.

London is a very international city and its market truly global. Around 35 per cent of buyers across the city's prime market were born overseas, and the more central the location, and the greater the proportion of new build, the more international the market.

International buyers now account for 65 per cent of new-build sales across prime London, rising to 70 per cent in prime central locations and 78 per cent for new build properties over £5 million (S$9.8 million).

The international nature of the city and its commerce has also created strong rental demand. Some 25 per cent of all London's housing stock is now market rented, rising to over 50 per cent in the prime central London boroughs.

This means that there is a large, established and deep private rental market for international investors to participate in, and it is a market where the fundamentals of supply and demand look extremely strong.

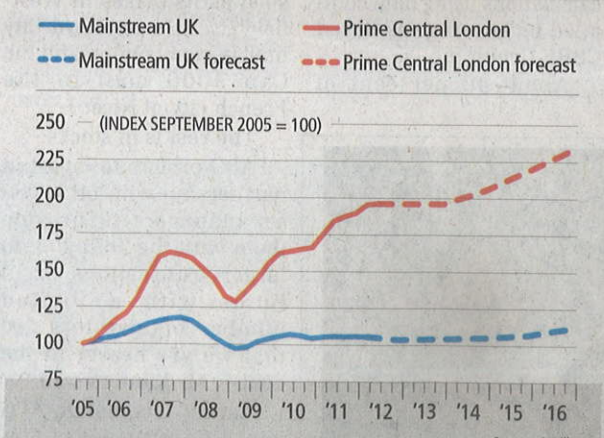
Savills Research anticipates a severe undersupply of new-build housing in the UK capital, with delivery falling well below both household formation levels and the London Mayor's widely publicised housing target.

Estimates are that the current development pipeline will result in a total supply shortfall of 50,000 new homes by 2016.

This fundamental shortage of homes is not only underpinning capital values across London's domestic markets, but is contributing to an acute shortage of

Robust

Residential market



Source: Savills

rental property, and in turn leading to a strong rental growth.

Indeed, across London as a whole, rental growth has exceeded capital growth.

For overseas investors interested in preserving wealth, London's capital value performance makes it a safe haven, while the fundamentals of its rental market continue to enhance its appeal to those interested in income.

The chart shows the extent to which prime central London has outperformed the UK mainstream market, with growth since the bottom of the market in March 2009 totalling 50 per cent and a further 22.7 per cent is forecast over the next five years.

Good returns: *Prospective total 10-year investment returns could be 9.0 per cent for locations such as Newham (left) – home of the Olympics Village.* PHOTO: BLOOMBERG

We have long been advocates of residential property investment in the private rented sector.

Until recently, this has primarily been predicated on the expectation of increased capital value, but there is now a strong case on the basis of income.

Our forecast for rental growth is strong, expected to total 27.6 per cent over the next five years so a strong investment case can also be made for London on the basis of rental growth.

Rapidly rising demand for private rented accommodation is a situation that is unlikely to change for as long as the accessibility of owner occupation remains limited.

This is currently constrained by scarce mortgage finance for aspiring home owners and first-time buyer deposits remain unaffordable.

Although rents have risen sharply this year, the inbuilt supply shortage means that we see nothing overheated about this market.

Our analysis comparing the markets of the top 10 "world class" cities, published earlier this month in the Savills World Cities Review shows that London's yields are relatively high by international standards.

Grossing at 5.0 per cent, London is second only to New York and Moscow, and well ahead of Singapore at 4.1 per cent.

Our recent Focus Investment Special examined the London market in detail and concluded that the time could now be right to commit to residential investment.

The depth and breadth of demand within the London market means that it offers different types of opportunities to investors, based on budget, time horizons and income requirements.

Our analysis suggests that prospective total 10-year investment returns could range from 7.5-8.0 per cent per annum for London boroughs such as Hammersmith & Fulham and Camden, 8.0-8.5 per cent in Kensington & Chelsea and Westminster, to 9.0 per cent in the outer London mainstream markets of locations such as Greenwich and Newham – home of the Olympics Village.

In short, the city offers different property types, different geographies and good reasons for investment across the range of market segments, with a strong outlook in terms of blended return.

On a practical note, the key to sound investment will be to ensure the ongoing management of stock to keep gross-to-net yields low.

And, in terms of stock and geography selection, there is no substitute for solid research and expert advice.

The writer is director, at Savills Global Research