



2010/11

THE SOUTH BANK REVIEW

Knight Frank

HIGHLIGHTS

- Price inflation on London's South Bank has not only outperformed the rest of prime London in the past five years but the area has also recovered faster from the economic slowdown with prices regaining their 2007 market peak in early 2010.
- The South Bank is a maturing market. Since the millennium it has succeeded in creating its own unique identity and cemented its reputation as London's cultural hub, a sentiment reflected in its contemporary architecture and physical landscape.
- For international purchasers the interaction of currency movements, strong capital price growth and, more recently, rising rents, has created an attractive investment case for many investors considering central London property.
- Prime central London will escape price falls overall in 2010 and will see steady growth from 2011. We envisage that key, dynamic sub-markets such as the South Bank will outperform the prime market average.

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THE RAPID GROWTH IN LONDON'S PRICING SINCE SPRING 2009, REFLECTS NOT ONLY THE STIMULUS GIVEN TO THE MARKET FROM LOW INTEREST RATES AND THE WEAK POUND BUT ALSO THE IMPACT OF THIN SUPPLY.

London – a world apart

The performance of London's prime properties has been one of the few good news stories for the UK's housing market since the global financial crisis hit in 2008. Properties in prime London witnessed price inflation of 17.3% in the year to August 2010, whilst the comparable figure for the UK was closer to 3.9%. Perhaps most noticeable, however, is the strong performance of key sub-markets.

The South Bank for example, an area that runs along the southern edge of the Thames from Westminster Bridge to London Bridge, recovered from the economic slowdown faster than the rest of prime London with prices regaining their 2007 market peak in early 2010 (figure 1). Indeed, in 2007 due to the South Bank's price performance and the exclusivity of its new residential offer the area was incorporated into Knight Frank's Prime Central London Index.

Summer 2010 saw prices soften slightly in London as demand and supply became more closely aligned. The supply of stock for sale rose by 22% in the four months to September 2010 and new applicant volumes fell back marginally by 8% over the same period. However, the latest indicators for the London economy suggest that fears of a significant correction are overdone. The London economy is outperforming the UK average by some margin and this trend is set to continue. The capital's GDP is forecast to rise to 1.0% in 2010 and reach 3.3% in 2012 whilst comparable projections for the UK peak at just 2.8% in 2012, according to the Office for Budget Responsibility.

The rapid growth in London's pricing since spring 2009, reflects not only the stimulus given to the market from low interest rates

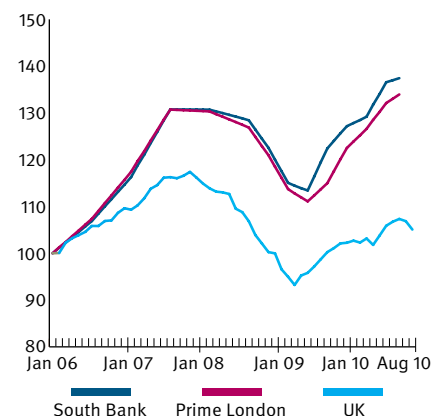
and the weak pound – which drove up both domestic and international demand – but also the impact of thin supply over the past year, set against very healthy interest from buyers.

The globalisation of London's residential market – a long-term trend in London but one that became supercharged during the long 2000's boom – was finally confirmed as an almost irreversible factor during the recent economic turmoil. The global wealthy's appetite for London property now appears to be an insatiable and permanent feature. In 2009-10 a record 49 different nationalities purchased homes in central London and we expect this figure to rise further in 2011. Rents in London have been rising since June 2009, after falling dramatically by 20% in the previous 12-month period. The oversupply which characterised the market up to mid-2009 has been replaced in 2010 with the emergence of a landlord's market, with rising rents and lower void periods, a change which has obviously been welcomed by investors.



Crucial to the health of the London sales market is the state of the city employment market. Following two years of decline and negligible growth in 2010, the direction of employment growth will regain positive territory from the end of 2011 reaching 2% growth by 2012. Financial and business services are forecast to expand at a faster rate

Figure 1
The South Bank outperforms prime London
Price inflation, indexed to 100 at Jan 2006



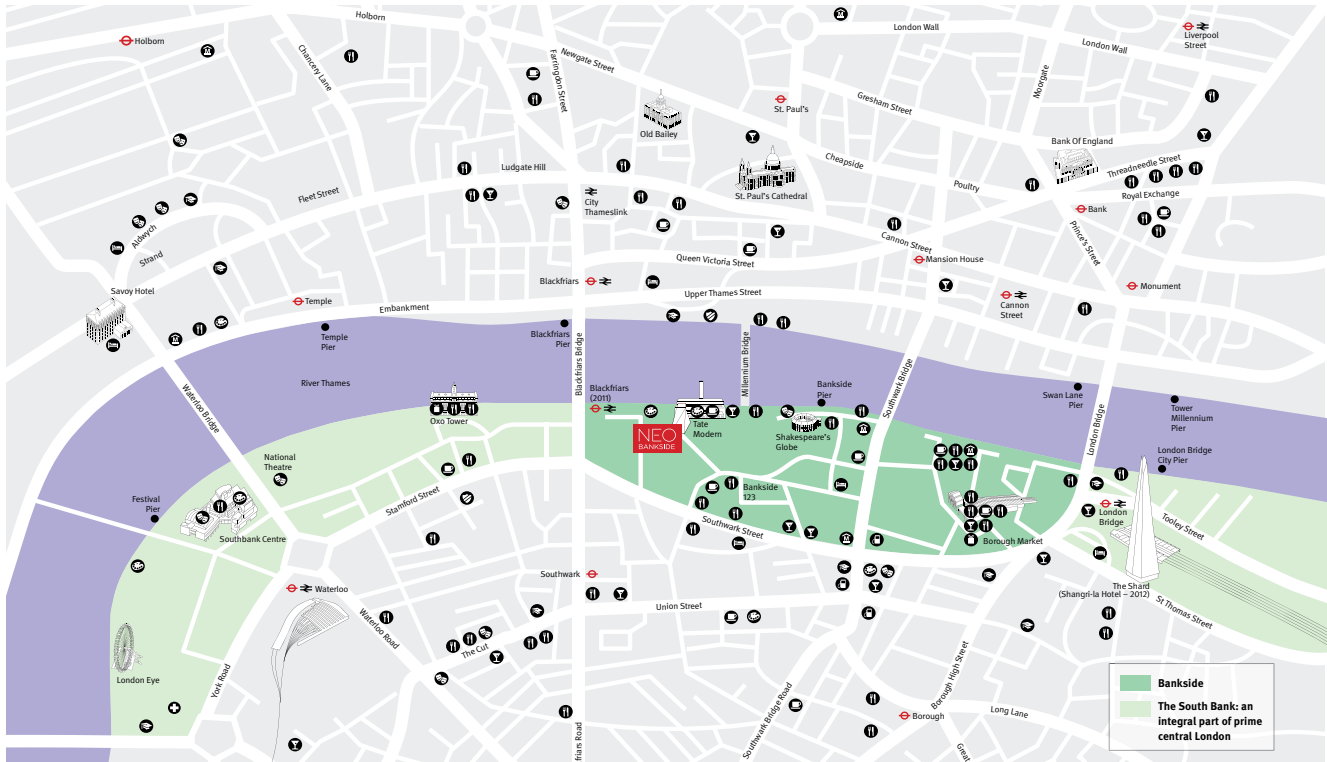
Source: Knight Frank Residential Research, Nationwide

than the wider jobs market. This trend already appears to be underway – the number of newly available jobs in the City increased by 71% in the year to July 2010 according to a recent survey by Morgan McKinley.

Despite the fact that London's financial district was hit hard by the global recession, it continues to occupy the top global ranking, as confirmed by the 2010 Global Financial Centres Index – albeit jointly alongside New York. As a business location, London's convenient time zone allows it to play a bridging role between Asia and the US whilst also acting as a gateway to Europe. The city is easily accessible – served by an excellent transport network boasting five international airports and direct flights to 530 destinations worldwide. English, as the globally recognised business language, is perhaps the city's key strength making it a top choice for multinationals choosing a location for their global headquarters.

Whilst foreign direct investment into Europe has contracted, London has bucked the trend, not only in terms of the traditional business and financial services sectors, but also with a substantial rise in investment from the emerging markets, and most notably from China. Data from Think London shows China emerged as the second largest investor in London in 2009-10 behind the US, with double the number of companies choosing to set up or expand their business in the UK capital compared to the previous year. The gradual reduction of UK corporation tax from 28% to 24% within the next four years will add further to London's attractiveness as a business location.

The South Bank: the cultural heart of London



The South Bank – a maturing market

We have established that the South Bank's residential market has outperformed the wider prime London market over the past year – in fact over the past five years. So what is driving this uplift in prices in this relatively small neighbourhood on the south side of the Thames? In our view it is the scale of investment and the maturing of a simple concept combined with coherent and joined up thinking on the part of the local authority – Southwark council.

Since the millennium, the South Bank has not only succeeded in creating its own unique identity and cemented its reputation as a cultural hub. The expansion of the area's numerous museums, theatres and galleries, not to mention its boutique shops – including One New Change, The City's newest shopping destination – and leading restaurants, has meant the area is now synonymous with cutting edge design, creativity and the arts, a sentiment reflected in its contemporary architecture and physical landscape.

The South Bank's transformation from a fragmented neighbourhood into London's vibrant cultural epicentre has taken place in a relatively short space of time and the fact its residential offer started from a low base has been key to enabling the district to outperform the wider prime London market in recent years. This is a key reason why the South Bank was included within Knight Frank's Prime Central London Index from 2007 onwards.

Improved transport links have been critical in boosting the popularity of the neighbourhood – with both visitors and prospective residents. Sir Norman Foster's Millennium Bridge has placed The City (London's financial district) within a ten minute walk whilst the riverboat, The Thames Clipper service, now runs from Bankside Pier connecting the South Bank with Waterloo in the west (11 minutes) and with Canary Wharf in the east (20 minutes). It is this ease of accessibility combined with the lifestyle offer which is driving both public investment and private housing demand in the South Bank, the latter though being an option for only an exclusive few.

The South Bank has been the focus of significant investment over the past 10-15 years; from Shakespeare's Globe Theatre and Tate Modern to the London Eye and Borough Market's Jubilee extension. Together, these developments have heightened its profile and put the area on the map. There is no complacency however, and further improvements are underway with the aim of ensuring the district plays an integral part as a visitor destination in the 2012 Olympic Games.

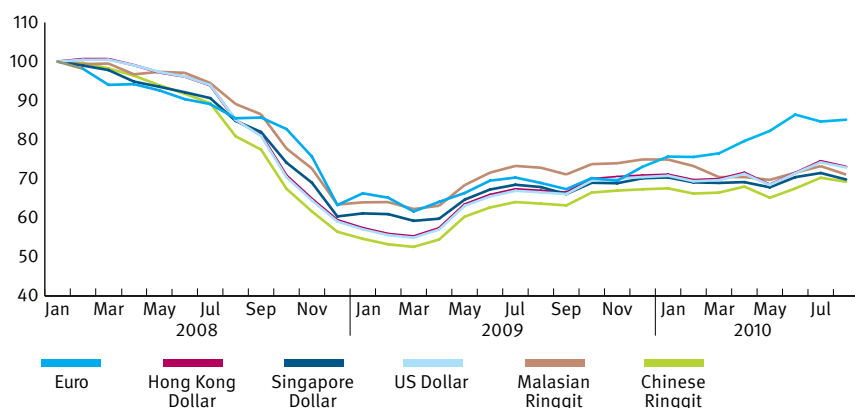
The opening in 2011 of the South Bank entrance to Blackfriars Station will provide immediate access to the circle and district lines. The Tate Modern's £215 million Herzog & de Meuron extension, planned for 2012, will no doubt act as a catalyst for further investment. Future projects also include new iconic residential developments such as NEO Bankside and The Shard, which will be the tallest building in Europe and home to London's first Shangri-la Hotel when completed in 2012. These represent some of the first prime residential developments south of the Thames with enviable views across to St Paul's Cathedral and The City.



Figure 2

Global savings

Prime central London price change, allowing for currency and unit pricing change, indexed to 100 at Jan 2008



Source: Knight Frank Residential Research

Who is buying?

Residential demand on the South Bank is currently identifiable from two key sources – overseas purchasers and cash-rich domestic buyers, the latter being keen to take advantage of the UK's historically low mortgage costs.

City professionals have been notably active in the South Bank – and in relation to NEO Bankside in particular – motivated by the lack of comparable new-build schemes which offer the same unrivalled views, world-class architecture and high specification, all within easy walking distance of their workplace

Wealthy UK residents living outside of London, most notably in parts of the south west, have also emerged as a strong source of domestic demand. For these purchasers a pied-a-terre in the cultural hub of London with easy access to the West End and a simple commute via nearby Waterloo Station or London Bridge has proved an attractive prospect.

For international purchasers the interaction of currency movements, strong capital price growth and, more recently, rising rents, has created an attractive investment case for many investors considering central London property. The weaker pound alone has created a compelling buying opportunity for some international purchasers. Despite prices rising by 22% in the 14 months up to the end of May 2010, effective prices in central London were still 32% lower compared to their peak

THE WEAKER POUND HAS CREATED A COMPELLING BUYING OPPORTUNITY FOR SOME INTERNATIONAL PURCHASERS.

March 2008 level for a purchaser looking to buy in Hong Kong dollars (Figure 2). Demand to date has been strongest from European, Russian and East Asian purchasers, with interest emanating from a broad mix of owner-occupiers and investors.

A significant driver for investment comes from educational requirements. The South Bank is within a 30 minute tube ride of seven universities including world renowned colleges such as The London School of Economics, Central St. Martins and Goldsmith's.

Over the past decade, the number of international students studying at UK universities has risen by 175%. The strongest growth comes from Chinese, Indian and Pakistani nationals. In the case of China, the number choosing to study in the UK rose from 4,017 in 1998/99 to 47,035 in 2008/09. In many cases investors look to buy to cover the period of their child's stay at university, and the properties are then retained as a long-term investment.

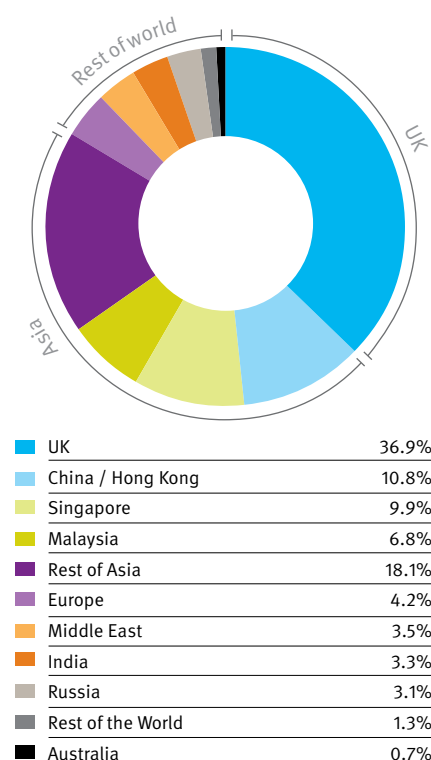
The varying health of the global economies is reflected in the South Bank's purchaser profile. As the Euro crisis developed in April and May 2010, there was a noticeable growth in European buyers looking to place money outside the Eurozone. Similarly, countries such as China and India which did not even experience a significant economic slowdown, let alone an actual recession, have become more active as wealth creation continues apace.

There are now clear signs that price bubbles in many of the big Asian centres are beginning to deflate. The Chinese, Hong Kong and Singaporean governments amongst others have taken a much more activist stance in trying to manage this process. Their success or otherwise will have important repercussions for the central London market. Initial feedback from our Asian teams suggests that there is a strong potential for the negative impact of lower housing wealth in Asia to be at least partially offset by a desire for investors to target safe haven locations such as London.

Figure 3

Who is investing?

Central London new-build residential purchasers by nationality, 12 months to August 2010



Source: Knight Frank Residential Research
Note: The percentages may not add up to 100% due to rounding

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Landmark Living

Iconic new developments, in particular those designed by an exclusive set of architects (including the world respected Rogers Stirk Harbour + Partners) now command a premium in today's global cities. This trend is especially noticeable in the world's key financial centres.

London has always been synonymous with iconic landmarks, from the Houses of Parliament and the London Eye, to Tate Modern and Tower Bridge. The Thames riverside has long boasted more iconic landmarks than any other world city. However, due to London's historic richness and its sheer density, the capital's prime residential stock is largely comprised of period properties in garden squares or around the Royal Parks making development opportunities in prime central locations a rarity.

New York and Hong Kong boast star-studded skylines of both commercial and residential new-build landmarks. London, by comparison, is in short supply. One Hyde Park in Knightsbridge and Montevetro in Battersea, both designed by Richard Rogers as well as Albion Riverside and 21 Chesham Place, designed by Foster and Partners deserve mention but these have been completed over a period of 10-15 years.

Aided by a forward-thinking local authority, the South Bank has emerged as London's focal point for contemporary architecture. On completion, the four glass pavilions of NEO Bankside will be joined by Renzo Piano's London Bridge Tower, the so-called 'Shard of Glass', Norman Foster's City Hall and 20 St. Mary's Axe (also known as 'The Gherkin') as one of a new generation of architectural jewels on London's skyline. In our view the unparalleled lifestyle offered by the South Bank will only enhance this dynamic urban cultural quarter in coming years.



NEO BANKSIDE IS POISED TO BECOME ONE OF THE MOST DESIRABLE AND EXCITING RESIDENTIAL ADDRESSES IN THE WORLD.

Case study: NEO Bankside

A joint development by Native Land and Grosvenor, NEO Bankside is poised to become one of the most desirable and exciting residential addresses in the world; a development of 199 stunning, luxury apartments and penthouses, designed by the international, award-winning architects Rogers Stirk Harbour + Partners. Sales rates at the development, which is due for its first completion in late 2010, have been strong. Around 75% of the apartments released to date have already been sold. This is despite the recent turbulent economic climate.

Situated next to Tate Modern and close to the iconic Millennium Bridge and with views across the River Thames to St. Paul's Cathedral, NEO Bankside is positioned in arguably the most desirable location on the South Bank.

One-bedroom apartments (539 sq ft) attracted significant interest from investors and all have now sold in the first phase with prices ranging from £650,000-£800,000. Two-bedroom apartments with direct views onto the Thames and St Paul's Cathedral have been popular with owner-occupiers with prices starting from £1 million. NEO Bankside's popularity has resulted in a new benchmark for pricing in the South Bank with values of £1,100-£1,700 per sq ft now not uncommon.

For both investors and owner occupiers alike, the development meets exacting standards, providing unrivalled facilities such as a business centre, a gym amidst the leafy landscaped gardens, secure underground parking and 24 hour security and concierge – not only does NEO Bankside offer first class services but with its close proximity to transport links, and, in particular, the new Blackfriars' Station South Bank entrance, The City and the rest of London are within easy reach. These are all key services which will maximise rental interest and minimise void periods for investors.

For owner occupiers the draw is clearly the lifestyle, with access to London's leading cultural hub right on your doorstep. This is in addition to the apartments' high quality finish together with the development's attractive payment terms and spectacular views.

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Residential Research

Liam Bailey

Head of Residential Research
020 7861 5133
liam.bailey@knightfrank.com

Residential Development

Stephan Miles-Brown

Head of Residential Development
020 7861 5403
stephan.miles-brown@knightfrank.com

Rupert Dawes

Head of New Homes
020 7861 5445
rupert.dawes@knightfrank.com

Meriam Makiya

Associate, Primus
020 7861 5487
meriam.makiya@knightfrank.com

For new development sales call 020 7861 5499



The London Eye

Prime London definition = Belgravia, Chelsea, Kensington, Knightsbridge, Marylebone, Mayfair, Notting Hill, Regent's Park, Riverside and St John's Wood, Canary Wharf, Fulham, Hampstead, Richmond, Wandsworth, Wapping and Wimbledon

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