

RESIDENTIAL RESEARCH



MIDTOWN 2014

LONDON MARKET FOCUS

MIDTOWN EVOLVES AS A
PRIME RESIDENTIAL MARKET

THE CROSSRAIL
UPLIFT IN MIDTOWN

INVESTMENT ANALYSIS VERSUS
PRIME CENTRAL LONDON

KEY FINDINGS

Prices for the best new-build property in Midtown range between £1,400 and £2,500 per square foot, following a 15% price rise over the past 12 months

Number of £1m+ properties for sale doubled in 2013 compared to 2012

The number of new-build homes worth more than £1 million sold in 2013 exceeds the whole of the previous decade combined

The number of two-bedroom flats in Midtown with asking rent in excess of £2,000 pcm **increased from 149 in March 2012 to 258 in March 2014**

Total investment returns stand at 17.8% in Midtown, higher than the prime central London average of 10.6%



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"Midtown is gaining more in common with the Upper East Side in New York, a centrally-located area with some of the city's best residential property."

CORRIDOR OF POWER

A growing prime residential development pipeline is transforming London's Midtown from a central thoroughfare into a destination in its own right.

The unique location

Spending the night in a luxury property in London's Midtown district once meant staying at the Savoy hotel on the Strand.

As a series of prime residential developments come to fruition in this long-overlooked part of central London, that is no longer the case.

Like the first arrondissement in Paris, Midtown is located in the geographical bullseye of the capital, between the major hubs of the West End and City.

Unlike the first arrondissement, a new-build residential pipeline means Midtown is evolving beyond a 'corridor' that connects one area to another to become a destination in its own right.

It is gaining more in common with the Upper East Side in New York, a centrally-located area with some of the city's best residential property that is also within walking distance of its cultural venues, restaurants, shops and Central Park.

Though Midtown has no official boundary, the 0.8-square mile district on the map on pages 3 and 4 is the current home of the legal profession and the former home of British journalism on Fleet Street. It includes Covent Garden market in the west and Smithfield market in the east, though its boundary is likely to become more blurred as it evolves, particularly in the north and north-east.

To the south, it is bordered by the River Thames and South Bank district. To the north is the City Road area between Angel and the City, which is set to become a high-rise residential district designed by some of the world's most famous architects.

Midtown's role as a corridor between London's political and commercial districts dates back several hundred years, when the Strand acted as the principal east-to-west route connecting what were two separate settlements of the Palace of Westminster and the City of London.

As the map shows, Midtown is still within a 20-minute walk of Big Ben and the Houses of Parliament in the west and the Bank of England in the east.

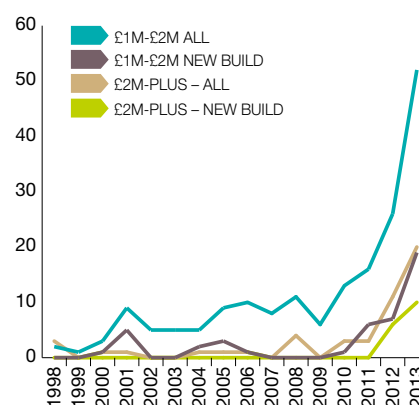
In the nineteenth century, its western half became the setting for several theatres, including the Adelphi and the Lyceum. In 1889, theatre impresario Richard D'Oyly Carte built The Savoy, Britain's first luxury hotel, with the proceeds from Gilbert and Sullivan operas at the Savoy theatre on the Strand.

Other landmark hotels followed at the start of the twentieth century, including the Strand Palace and the Waldorf. Midtown's other main thoroughfares of Aldwych and Kingsway were built around the same time, designed to showcase London as a city of tree-lined boulevards.

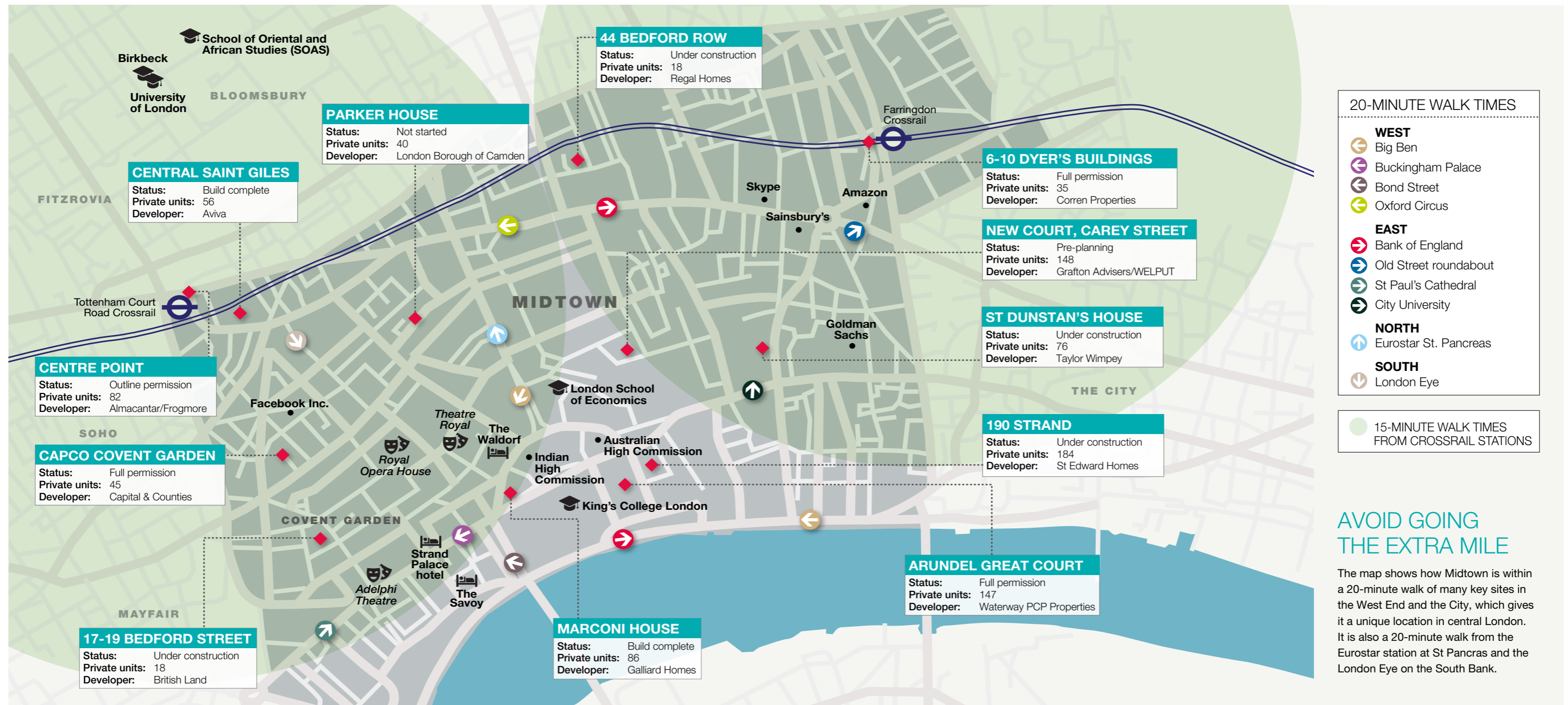
Despite its centrality and amenities, Midtown has been relatively overlooked in terms of central London's development activity in the 21st century, during which time prime residential schemes have emerged alongside new office towers in areas like South Bank, the City and King's Cross, the new home of Google.

In future, Midtown will not only sit in the bullseye of central London, but the bullseye of these new districts.

FIGURE 1
£1 million-plus sales in Midtown since 1998



Source: Land Registry



AVOID GOING THE EXTRA MILE

The map shows how Midtown is within a 20-minute walk of many key sites in the West End and the City, which gives it a unique location in central London. It is also a 20-minute walk from the Eurostar station at St Pancras and the London Eye on the South Bank.

STUDYING UP IN PRIME CENTRAL LONDON

Since the financial crash, foreign students have joined the ranks of bankers in terms of their spending power in the prime central London sales and lettings markets. A key attraction for landlords is that a year's rent is often paid in advance and many return to the market as professional buyers after a period studying in London.

The fact they like to walk to college means Midtown is one of the best-located districts for students in central London. As the map shows, it contains the London

School of Economics and King's College while it is also a short walk north to University College London, Birkbeck College and the School of Oriental and African Studies.

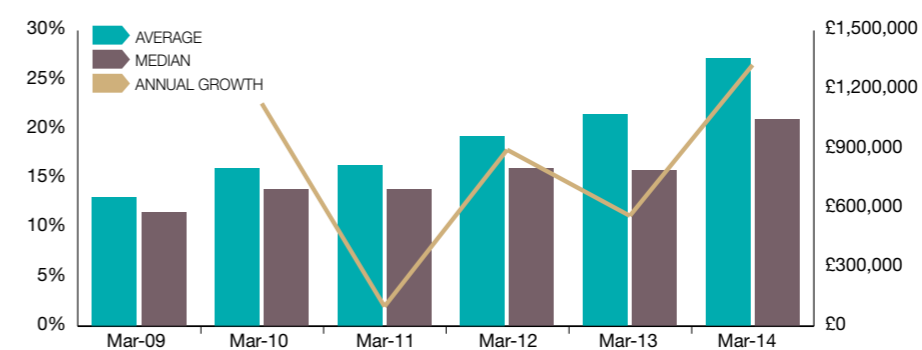
The surrounding areas are already popular with students. Knight Frank data shows 41% of tenants are in their 20s or under in neighbouring Mayfair, with students accounting for a large part of this number. Meanwhile in the Riverside area, which includes South Bank, Knight Frank data shows students accounted for 25% of

tenancies in the year to the end of November 2013.

The area immediately to the north of Midtown in the Bloomsbury district of London, which includes several university accommodation blocks, is the most densely populated student area in the whole of London, according to 2011 census data. It means Midtown is well positioned to benefit as students move out of university-provided accommodation after their first year and wish to remain close to the campus.

FIGURE 2

Average asking price of a two-bed flat in Midtown since 2009



Source: Knight Frank Residential Research and Vizzi Home

In addition to a prime residential pipeline (see map), Midtown is also poised to benefit from the impact of the Crossrail high-speed train link running through its northern area. Knight Frank research shows that residential property located within a 10-minute walk of a Crossrail station will outperform wider price growth in the area by 1% until the route opens in 2018 (see map).

The map shows a 15-minute walk zone from both stations, which covers 76% of the Midtown district. **The whole of Midtown is accessible from Farringdon or Tottenham Court Road in 20 minutes.**

As well as the high-speed line's most important interchange at Farringdon, the Midtown area also includes the Tottenham Court Road station at its north-western tip, a district that will benefit from the residential redevelopment of Centre Point tower and higher quality retail at the eastern end of Oxford Street. Midtown's major shopping and tourist venue of Covent Garden is also getting a facelift to include higher-quality retail as well as prime residential units (see map).

Another of Midtown's significant attractions as a residential market is that it is home to many of London's leading universities (see box on page 3).

There are also several major embassies, including the Indian and Australian.

Residential sales

With a large-scale prime development programme in South Bank on the opposite side of the River Thames, the development of the City Road area to the north and the established prime market of Mayfair to the west, there is a clear geographical logic that underpins Midtown's prime residential pipeline.

The logic is even more compelling when you consider that prices at the top of the market in South Bank are about £3,000 per square foot, which compares to just over £2,000 in Midtown. It is a differential that defies the generally accepted wisdom that London residential property north of the Thames is more expensive and demonstrates the scope for price growth.

More generally, prime prices for new-build residential in Midtown range from £1,400 to £2,500 per square foot, which is about 15% higher than 12 months ago, as the district becomes increasingly targeted by developers.

That is lower than other prime central London markets like Mayfair where prices range from £2,500 to as high as £5,000, demonstrating

Midtown office market: strength in diversity

Its centrality and prime office rents of £60 per square foot versus £97.50 in the West End means Midtown is luring a growing number of cost-conscious companies to the area, benefitting from a broader shift from west to east as central London occupiers seek better value-for money, a trend that will have a positive impact on the area's residential market.

Office take-up in Midtown was a record 363,000 square feet in the final quarter of 2013, taking the total for the year to 1.2 m square feet, the highest

annual figure since 2006 and a 54% increase on the 2012. Furthermore, the sector share of the burgeoning TMT market is 45% in Midtown, a much greater percentage than in either the West End or City.

However, the area is not over-reliant on one sector of the office market. Midtown is currently the London base for Amazon, Goldman Sachs, Sainsbury's, Skype and Facebook (see map), showing it is an area where lawyers, bankers and tech companies sit easily side by side.

the appeal of Midtown to buyers and investors who are no longer as loyal as they once were to traditional core areas and increasingly seek value-for-money wherever it lies.

This is demonstrated by double-digit levels of annual price growth in areas like Marylebone, City & Fringe and Hyde Park Estate versus more moderate single-digit growth in markets like Mayfair, Belgravia and Knightsbridge.

As figure 1 shows, 2013 was the year the prime residential sales market in Midtown began to take off. The volume of properties worth more than £1 million in postcode sectors that overlap the area defined on the map almost doubled.

This is particularly true for the new-build market and there were more sales of new-build homes worth more than £1 million in 2013 than over the whole of the previous decade combined and it is this trend that developers such as Berkeley, Taylor Wimpey, Galliard and Almacantar are tapping into (see map).

This strong investment case is supported by asking price data. Based on the same

postcode data, the average asking price of a two-bedroom flat exceeded £1 million in Midtown for the first time in 2013 (see figure 2).

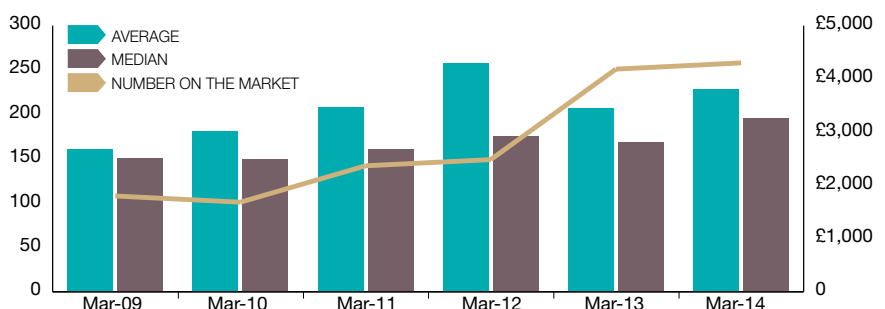
The March 2014 figure was £1.36 million, representing annual growth of 26.5% in the last year, though prime new-build stock would be priced at a considerable premium to this.

The average price has more than doubled in the last five years while the median price has risen 81%, figures that compare to a 68% rise in the prime central London index since its post-Lehman Brothers low in March 2009.

Land Registry data for residential re-sales in Midtown shows prices are rising ahead of the prime central London average. Based on residential re-sales data where the last sale was in excess of £1 million, the average compound annual growth rate for a median set of sales in Midtown since 1998 was 11.9%, which compares to a rate of 9.92% for the Knight Frank prime central London index.

FIGURE 3

Asking rent for a two-bed flat above £2,000 PCM since 2009



Source: Knight Frank Residential Research and Vizzi Home



GLOBAL BRIEFING

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Knight Frank web traffic data shows a similar split of nationalities searching for property in the Midtown area compared to the rest of prime central London, see figure 4.

The majority of web traffic enquiries come from the UK, followed by the U.S. and Germany in a top-ten that also includes French, Australian and a growing group of Brazilians looking for London residential property.

Rentals and investment

In similar fashion to the sales market, the volume of rental properties in the prime bracket in Midtown has grown notably over the last year. Based on data for two-bedroom rental properties with an asking price in excess of £2,000 per calendar month, there were 258 properties on the market in March 2014 compared to 251 in March 2013 and 149 in March 2012.

The average asking rent for a two-bedroom flat per month was £3,805 in March 2014, a 10% rise on £3,456 a year ago. In similar fashion to the office market, the area has started to benefit from a broad move eastwards as West End tenants seek the type of better value in Midtown that residential developers are starting to provide (see figure 3).

While a prime two-bedroom flat in Covent Garden costs about £4,300 per month to rent an equivalent property would cost about £6,500 in Mayfair.

For the very best Midtown schemes, investors may be able to achieve Mayfair rents though it will have to be in blocks that offer a wide range of extra services like valet parking and state-of-the-art gyms to compete with developments in typical Mayfair blocks without these additional features.

Anecdotal evidence suggests a growing number of landlords are increasingly calling

specialist Mayfair agents to predict where the rental market is headed rather than Midtown-based agents. It is a trend noted by Knight Frank's Mayfair office, alongside a general pick-up in interest in the Midtown area, in particular among students and younger cost-conscious professionals who prefer the area's relatively more affordable amenities.

The other major attraction for tenants moving to Midtown from Mayfair is that it puts many within walking distance of work in the main financial centre of the City (see map).

Based on rental yields of 2.8% and capital value rises of about 15%, investors can expect a total annual return of 17.8% for Midtown residential property, which is higher than the prime central London average of 10.6%. It also exceeds other types of asset classes like stocks, hedge funds and commercial property.

FIGURE 4 Web searches for Midtown homes by country of origin

Mar 2013 - Feb 2014



UNITED KINGDOM	57.1%
UNITED STATES	7.0%
GERMANY	4.2%
ITALY	2.7%
SPAIN	2.4%
FRANCE	2.4%
CANADA	2.2%
AUSTRALIA	1.7%
BRAZIL	1.4%
RUSSIAN FEDERATION	1.2%

Source: Knight Frank Residential Research

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Data is based on research by the University of Michigan and California State University. Academics measured walking speeds in 31 countries and found the average speed in England was 3.4 miles per hour.

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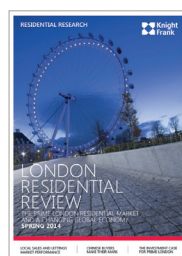
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