

Investing in UK Real Estate

February 2009

With stock and property markets in turmoil worldwide, it is hard to find good news for investors. However, many view the fall in real estate values as an opportunity and UK real estate is no exception. Falls in value allied with exchange rate fluctuations have, in the view of many market commentators, made UK real estate attractive for those wealthy in currencies other than sterling.

Withers as an international law firm does not provide investment advice. However, we attach a number of commentaries on the UK [residential] real estate market which may be of interest to you. As a law firm we are acting for clients investing in real estate and would be happy to discuss the legal and tax issues with those wishing to make such investment.

Withers have offices in London, New York, Greenwich (Connecticut), New Haven (Connecticut) Geneva, Milan and Hong Kong and are ideally placed to assist the international investor in UK real estate.

Property Vision... The market for 2009 has opened better than expected given the very poor sentiment post Lehmans. At Property Vision, we have seen a significant increase in new clients - which is our leading indicator for future business as these buyers are set to buy something over the next six months to a year.

Where are they coming from? A large proportion, not surprisingly, are non-sterling buyers: sterling has been so weak over the last year that anyone in the dollar or euro zone is looking at at least a 25% cheaper market in their currency terms. If you add this to a market that has come off between 25-30% from the peak, then the market for these buyers has more than halved. They are not the only show in town. It is sometimes forgotten that most buyers are not necessarily investors - they simply want a house and are probably selling one to buy another. These buyers tend to hold off at the moment of crisis (Q4 last year) but want to get on with their lives despite (or maybe because of) the gloom around them. We are seeing this in January.

There is still little of quality on the market, but this may well change as the year progresses and the downsizing in the City forces sellers onto the market.

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Black Brick... Recent weeks have seen the pound slump to historical lows against a raft of world currencies, falling to just \$1.42 and €1.07 in the last week of January. Across London, industry specialists are reporting a surge in enquiries from international investors who realise that the dramatic fall in sterling, on top of steep declines in the value of prime Central London properties, has left this exclusive slice of the London property market looking more affordable than for many years. Property group Savills report that the average price of prime central London property from the September 2007 peak to January 2009, adjusted for currency fluctuations, has dropped by a staggering 42.2% for Euro investors and 43.5% for US buyers.

The opportunities are exemplified by the recent sale of a Belgravia house, initially marketed in 2007 at nearly £11 million (\$21.2 million in dollars). Black Brick Property Solutions secured the residence on behalf of a US client in late 2008 for a much reduced \$11.3 million; an impressive 47% reduction due in large part to currency fluctuations in a period when the pound had weakened from \$2.02 to just \$1.53. Euro investors are equally well served. A prime London flat marketed at £3 million (€4.3 million in euro terms) in September 2007 would now be available for just €2.5 million, reflecting both a fall in market values and the highly favourable exchange rate conditions for Continental buyers. Black Brick Property Solutions is a leading London property consultancy, providing an independent, tailor-made search and acquisition service across Greater London and the South East of England.

For further information about Black Brick, please contact Managing Director Camilla Dell at Camilla.Dell@Black-Brick.com or take a look at www.black-brick.com.

Prime Purchase... There can be no doubt that the credit crisis and volatility of the world's stock markets have had a dramatic effect on the prime London and country markets in which we operate.

In the capital, Prime Purchase anticipate values will be down 20% compared with last year and some 30% from their peak in 2007 - unsurprising due to London's dependence upon city employment and sentiment. Even the "ultra prime" central London market for properties over £10m has been affected - having been relatively immune over the spring and summer of 2008, Savills Research Department registered a 15% fall in values in the final quarter of 2008.

The prime London rental market is also highly dependent on the financial sector, and in a jobs market as low on confidence as it is, it is not clear how much demand will fall and therefore how far rental growth will slow. Much depends on investor demand, where those willing to commit not in the short, but in the medium to long term will reap the greatest rewards. It is not a market to buy in for yield, but for capital growth, and the market continues to improve in that regard from an investor's perspective.

For international buyers, the falls in the UK market coupled with the weakness of sterling have created considerable opportunity, evidenced by increased interest from euro-rich buyers across the prime markets, keen to exploit what is effectively a 'half-price' sale on values seen a year ago. With an over-

supplied market, relative to buyer numbers, patient investors have both choice and time on their side, and with the right advice can negotiate strongly at all levels.

At the top end of the country market prices have remained reasonably robust, but there is dramatically reduced turnover and values will be affected – this market is intrinsically linked to investor confidence and the top end of the London market. Prime Purchase anticipate that values will be down at least 10% in 2009.

Independent advice based on an authoritative and analytical view of the market has never been more important to our clients. Our ability to monitor sales (many of which are private) enables clients to secure properties when the price represents good value, a judgement increasingly hard to make in the current market without the kind of local knowledge that Prime Purchase can provide.

For further information about Prime Purchase please contact: Guy Meacock (London): gmeacock@prime-purchase.com or Jonathan Bramwell (Country): jbramwell@prime-purchase.com or take a look at www.prim-purchase.com.

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The information and comments contained herein are for the general information of the reader and are not intended as advice or opinions to be relied upon in relation to any particular circumstances. For particular application of the law to specific situations, the reader should seek professional advice.

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