

Understanding residential property in:

Paddington Notting Hill Kensington South Kensington



"With a shortage of good quality properties available in the area, buyers are making decisions quickly and are usually offering the asking price in order to secure their next home or investment."

Antony Dilieto
Paddington



The first quarter of 2011 was certainly interesting, with headline grabbing events unfolding across the globe. As unrest and uncertainty prevailed in many countries, London's attraction for wealth only grew, with the prime property market a key beneficiary. Within our report we discuss this in more detail alongside the following points:

- Not only is London standing out internationally, its economic resilience is also noteworthy from a UK perspective.
- London's residential market has become even more polarised over the first months of 2011. Housing in the City of Westminster has seen an increase in prices of

317% since 1995, massively outperforming the rest of the United Kingdom.

- In Paddington, both domestic and overseas buyers have grown in confidence over the first months of 2011. We have seen marked increases in demand from parents looking to buy property for their children and the two bed market is particularly strong.
- In the past six months we have transacted on properties at values on average 11% higher than in the previous six months.
- More stock is needed across the market, both for sales and lettings.

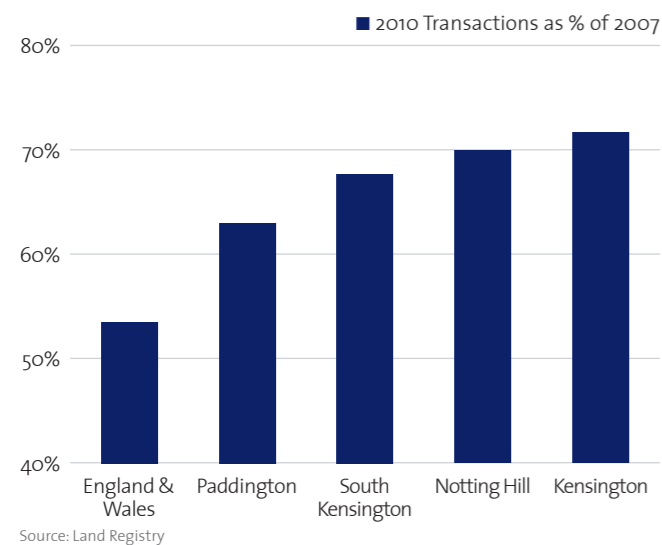
With increasing international political turbulence, London has become even more prominent as a safe haven for overseas wealth. While this has boosted demand for property, supply remains extremely restricted.

The first quarter of 2011 has certainly underlined London's attraction from an international perspective and has also seen improved confidence from domestic buyers. High levels of demand for prime property has led to buyers often being prepared to pay whatever it takes to secure the right property. Prime Central London currently seems immune to house price falls and has also bucked the national trend for low numbers of sales, see chart below. In Central London particularly, demand is strong and prices of prime property in Kensington & Chelsea and the City of Westminster have risen 15.6% and 8.3% respectively over the past 12 months.

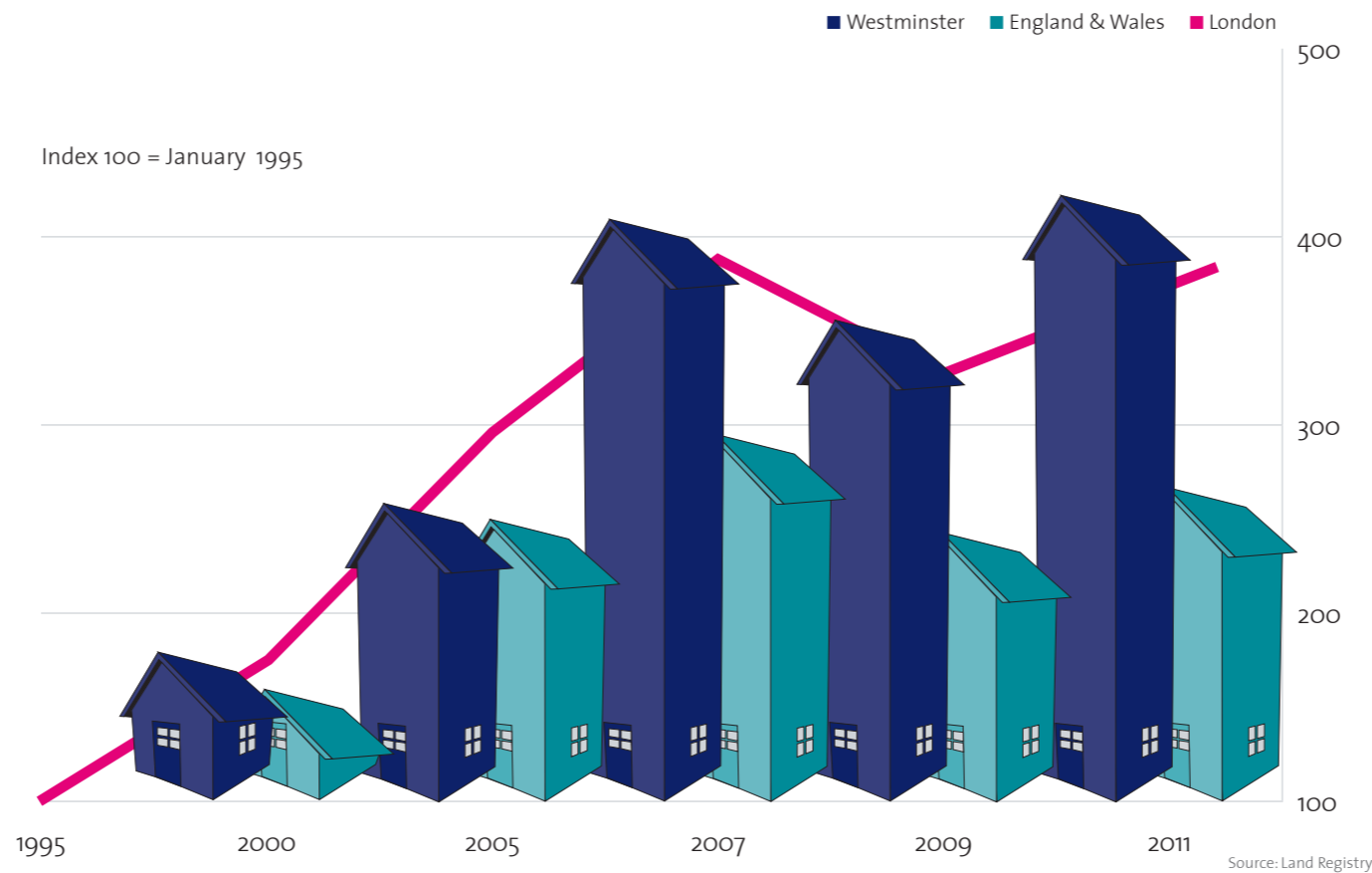
In addition to London's global prominence, its economy also stands out domestically. A recent report from the Confederation of British Industry showed that financial services firms grew strongly in the latest quarter, and a report from the London School of Economics concluded that London had come back stronger from the recession than any other region.

Highest value transaction of first 2 months was in Hyde Park Gardens, W2 for £4.8m

Stronger recovery in transactions in Prime Central London



Long term outperformance of London property



It is these unique features of the London market which have meant an overall increase in prices of 271% since 1995, and an even stronger growth of 317% in the City of Westminster, massively outperforming the rest of the country.

In other parts of the country growing unemployment, stretched finances, prospects of higher interest rates have taken their toll on confidence. Although national house price indices can often give different messages, they are all currently pointing towards a downward trend in the UK as a whole. The Halifax says prices dipped by -2.9% over the year to March 2011, while the Land Registry put the fall at -1.7% and Nationwide stated prices were largely unchanged at 0.1%.

However, as spring arrived, measures announced in the Budget were seen as distinctly encouraging to property investors, as was Fitch's re-affirmation of the UK's triple-A rating.

As well as foreign purchasers, we have seen a noticeable increase in domestic occupier demand

Strong demand has reduced average time to sell to 7.2 weeks over the past 3 months, previously 9.6 weeks

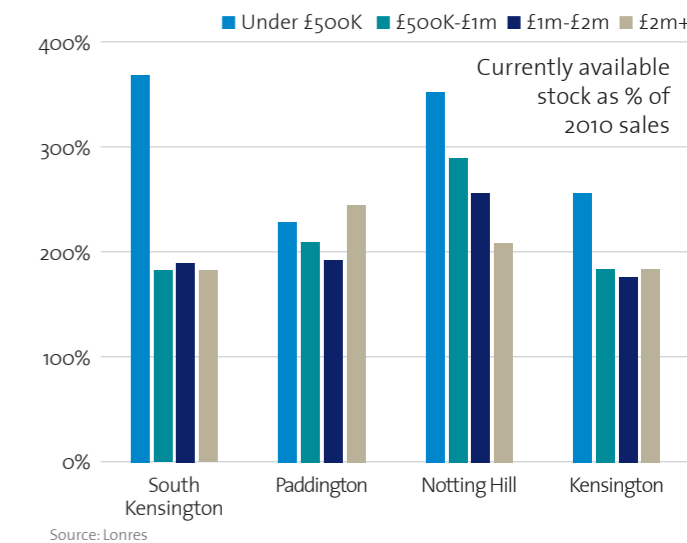
for property. However, a severe lack of properties for sale is frustrating buyers, with stock particularly constrained in the mid to upper price brackets.

We have seen buyers gain in confidence over the first months of 2011 and looking to tie up deals quickly, even if that means going in with stronger offers than we were seeing last year. We are seeing an increase in parents investing for their children who perceive this area as having strong potential for capital growth given its good transport connections and the forthcoming Crossrail link. In such a market properties are selling more quickly than in 2010 with sales agreed at close to asking price.

Furthermore, with our dedicated applicant base we have been able to agree increased numbers of sales off-market at strong pricing levels.

With the potential for interest rates starting to creep up later in the year we may start to see some increases in supply. Vendors, particularly reluctant landlords who were forced to let when they could not sell their property and were previously protected by low base rates, may once again offer their homes for sale which could dilute the

Stock more constrained in upper price bands

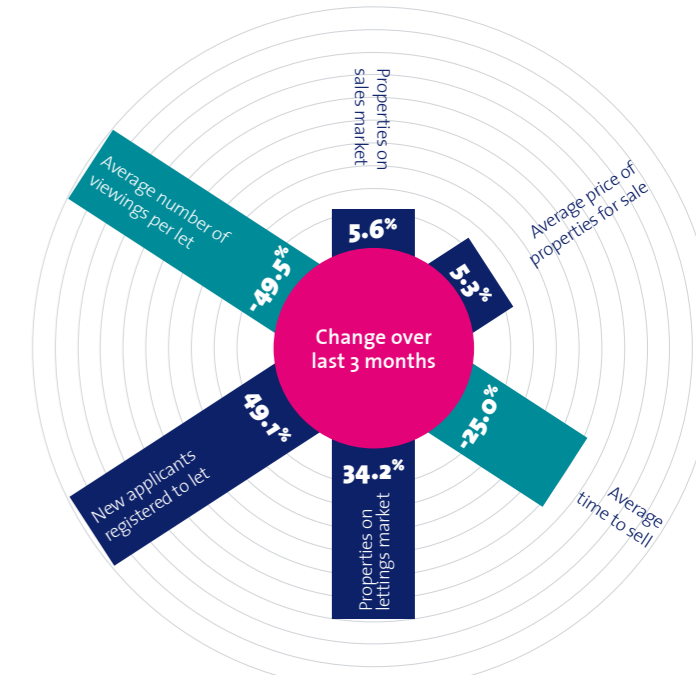


market slightly. However while demand remains high the market has the potential to absorb some increase in stock before prices are affected.

More stock is needed across the market, both for sales and lettings. With a strong and committed applicant base we have occupiers ready and willing to enter the market at the right price. While there appears to be nothing on the horizon that could alter the strength of demand currently being enjoyed in Central London, we are mindful of the fact that optimistic valuations could have the potential to destabilise the market.

Highest rental of 2011 achieved on Howley Place, W2 for £3,500 per week

Winkworth market indicators



Source: Winkworth
Data for the offices of Paddington, South Kensington, Kensington, Notting Hill

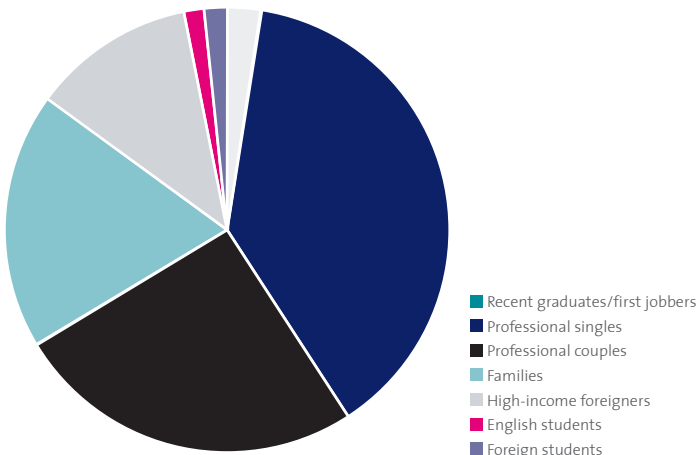
Average values in Westminster have risen 317% since 1995

Lettings

The lettings market is performing well, particularly in Central London, as a large proportion of buyers continue to default to renting due to the very low sales stock levels. However, the supply of rental properties remains very constrained and this is further exacerbated by many tenants electing to renew their leases. The result of this high level of demand and tight supply is strong rental growth as reflected in the findings of the latest RICS survey.

Although we have seen some cap in rental value increases in Paddington due to the squeezing of tenant incomes, the outlook remains positive. The latest ARLA report states that demand for rental property will continue to outstrip supply for much of 2011 and into next year. The Budget's concession to the property investment market could also have an impact with new rules announced whereby investors will be charged stamp duty on the average price, rather than the total, of properties purchased in a portfolio.

Profile of tenants Q1



Source: Winkworth
Data for the offices of Paddington, South Kensington, Kensington, Notting Hill

Economic and housing market factsheet

	House*	Apartment
Paddington	£2,058,000	£737,971
Notting Hill	£2,632,000	£768,186
Kensington	£2,160,095	£672,114
South Kensington	£2,515,289	£697,836

Source: Land Registry - average of house prices over 2010

*Weighted by house type and number of transactions

	Latest Data	2010 forecast	2011 forecast*
GDP	0.5% (Q4)	1.8%	2.1%
Inflation (CPI)	4.0% (Mar)	3.6%	2.1%
Bank Base rate	0.5% (Apr)	1.0%	2.1%
Av. earnings	2.2% (Apr)	2.6%	2.9%

Source: ONS, Bank of England, HM Treasury

*Average of independent forecasts

	Latest monthly data	Monthly Growth	Annual growth
Mtg approvals	46,967	-1.5%	0.1%
Transactions	72,000	-1.4%	-2.7%
Gross mtg lending	£11.35bn	-0.8%	-1.0%

Source: Bank of England, HMRC

About Winkworth

Winkworth is a leading franchisor of residential real estate agencies and is listed on the London Stock Exchange.

Established in Mayfair in 1835, Winkworth has a pre-eminent position in the mid to upper segments of the central London residential sales and lettings markets. In total, the company operates from over 80 offices in the UK, France and Portugal having doubled in size in recent years.



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