

Knightsbridge & Chelsea South Kensington Notting Hill



National average annual house prices fell this much in July 2011.



Transactions in London were 9% lower in the first five months of 2011 than in 2011.



Achieved prices in K&C as a whole in June 2011 were this much above peak.



Kensington sales in the last 12 months have increased 75% compared to 2007.

"Kensington has continued to experience inflation through a persistent shortage of stock. We are still selling properties very quickly and seeing strong demand from our applicants."

Josh Grinling

The second half of 2011 started with renewed economic crises as fears rose of another recession in Europe and the US and stock markets saw record levels of volatility. As investors look to safeguard their holdings, the question now is whether the enthusiasm for prime London property will continue.

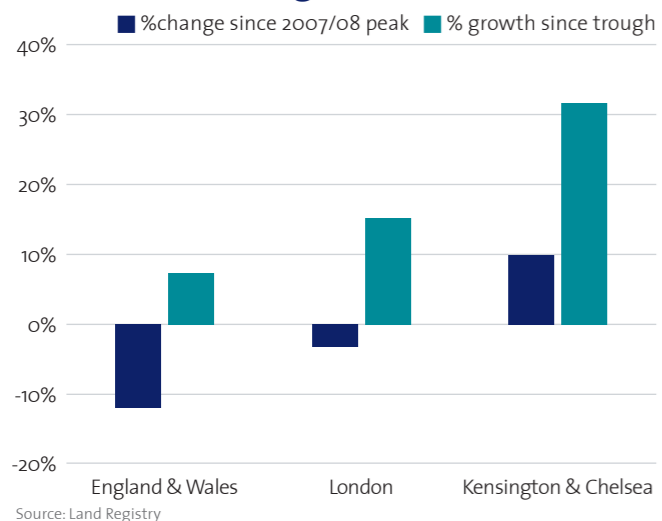
With London as a notable exception, the past months have seen relatively small movements in average residential property values recorded, with prices drifting down modestly.

According to the Land Registry, London remains the only region in England to have recorded growth (0.8%) over the last year and, within that, prime areas have significantly outperformed.

Since the trough of the market, average values across Kensington & Chelsea have increased by 31.3%, compared to 6.1% nationally. Current average sales values across Kensington & Chelsea are now some 9.6% higher than the previous peak whilst, nationally, average prices remain 12% below peak.

Wealthy international buyers have looked to prime central London as a safe haven for investment as economic conditions deteriorated elsewhere. A strengthening global wealth provided a further boost. The 2011 World Wealth Report reported that, globally, the population of HNWIs* grew by 8.3% in 2010 to 10.9m with their collective financial wealth increasing by 9.7% to reach US\$42.7 trillion.

K&C has outperformed both London and England & Wales



*High Net Worth Individuals (HNWI) are defined (in the Merrill Lynch/Capgemini World Wealth Report) as those who hold at least US\$1m in financial assets

Despite the slowdown seen in the national market, in prime central London properties are selling quickly and stock levels remain very low.



The increased spending power of the super-wealthy has also been reflected in the demand for luxury items such as art; Sotheby's recently reported record figures for the first half of 2011.

Low stock levels continue to be a central theme of both the Central London and Kensington markets. In Q2 2011 new instructions over £500k across Central London were down 27% on the same quarter of 2010; across the Central London Winkworth offices we have seen a fall of 14% in the number of new instructions in the past three months.

Transaction levels remain subdued across the country. The volume of sales recorded nationally over the past 12 months is still half of what they were during 2007, and in London as a whole transaction levels are 56% of 2007 levels. Rightmove recently highlighted that 70% of property marketed so far in 2011 in the UK is still on the market. In prime London the story is very different.

The chart below illustrates properties instructed in 2011 in prime central London which sold within one month of being marketed as a proportion of all properties marketed and sold in 2011.

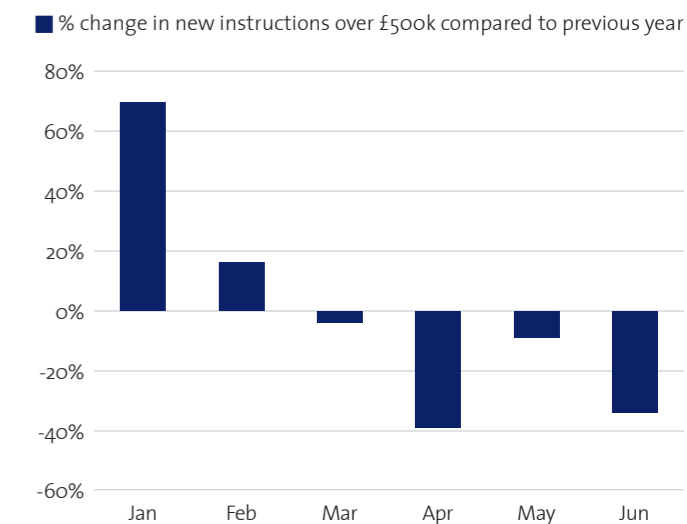
In Central London, where strong international demand has boosted sales, despite low stock levels, transaction levels have improved. In the past 12 months sales recorded in Kensington were 74.8% of those of 2007.

With a strong applicant base of committed purchasers, properties sold by the Kensington office in 2011 have taken an average of just over three weeks to go under offer.

Despite a good first half of 2011, the market in Kensington is very price-sensitive with correct valuations being the key to achieving quick sales. A slowdown in growth and uncertain economic conditions mean that realistic valuations remain as important as ever as we move into the autumn. Vendors tempted to overprice property will more than likely be forced to reduce their asking price. Correct pricing and quick sales do not mean compromising sales values; we have exchanged 60% of properties this year at or above asking price with a 14% increase on £/square foot values achieved compared to the same period last year.

The economic environment across the UK remains subdued. The Bank of England noted in its August Inflation Report that the Eurozone represents a key source of potential vulnerability for the future.

Supply levels remain depressed



As life returns to normal after the summer, it will be interesting to see whether wealth from all parts of the globe continues to flow into prime London property. As the various economic crises unfolded in different parts of the world, Chancellor Osborne emphasised the "safe haven" status of the UK at a time of 'sovereign debt turmoil'.

We believe that the security of investment offered by Central London will continue to attract demand for prime residential property, both from overseas and domestic buyers who recognise the long-term investment opportunities. Although stock market volatility has in the past undermined confidence in property, at present it appears to underpin it.

Winkworth market indicators

- Properties on the market in the three months to August are down by 13.6% compared to the previous three months and by 8% compared to a year ago
- Properties sold by Kensington so far in 2011 have taken an average of 3.2 weeks to go under offer
- Sales in the year to date have achieved an average 99.1% of asking price
- Record prices achieved for large houses in 2011 has pushed up the average £ / sq ft price by 14.4% compared to the same period in 2010 whilst average £ / sq ft values achieved for flats have risen 11.4%

Source: Winkworth
Data for the offices of Kensington, South Kensington, Knightsbridge & Chelsea, Notting Hill

Average sales prices in K&C are now 9.6% over 2008 peak values

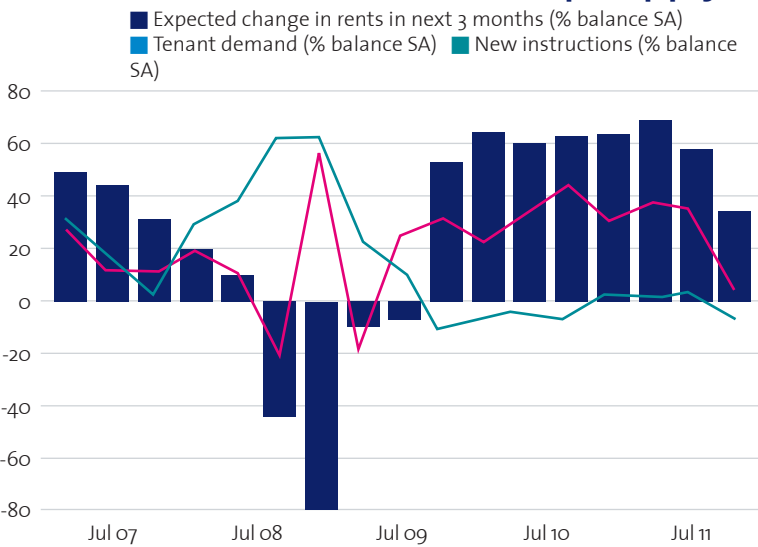
Lettings

With house prices remaining high and the restrictive nature of the mortgage market, more households are choosing to rent. Oxford Economics recently forecast that 60% of Londoners will be living in rented accommodation by 2025. They are also predicting that average rental values will increase by nearly 20% over the next five years.

With economic uncertainties prevailing and interest rates remaining very low, property has been the preferred investment vehicle for many. This is reflected in the mortgage market where 32,000 buy-to-let loans, worth £3.5 bn, were taken out in the UK in the second quarter of the year, the highest number and value since the last quarter of 2008.

In Kensington we continue to see strong demand and, with supply remaining restricted, have seen a 5% increase in rental values over the year. Our rental properties often let within a very short space of time with several parties interested.

Demand continues to outstrip supply



Economic and housing market factsheet

| | House* | Apartment |
|------------------|------------|-----------|
| South Kensington | £1,786,555 | £948,071 |
| Knightsbridge | £2,911,806 | £845,298 |
| Kensington | £1,631,777 | £595,362 |
| Notting Hill | £1,474,914 | £769,549 |

Source: Land Registry - average of house prices over 2010

| | Latest Data | 2010 forecast | 2011 forecast* |
|-----------------|-------------|---------------|----------------|
| GDP | 0.5% (Q1) | 1.3% | 2.0% |
| Inflation (CPI) | 4.4% (Jul) | 4.5% | 2.2% |
| Bank Base rate | 0.5% (Jul) | 0.6% | 1.2% |
| Av. earnings | 2.1% (Jun) | 2.6% | 3.0% |

Source: ONS, Bank of England, HM Treasury

*Average of independent forecasts

| | Latest monthly data | Monthly Growth | Annual growth |
|-------------------|---------------------|----------------|---------------|
| Mtg approvals | 48,421 | 4.3% | 0.3% |
| Transactions | 73,000 | 7.4% | -2.7% |
| Gross mtg lending | £11.2bn | -0.6% | -3.0% |

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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