Lonres

Residential Review

- Introduction
- An overview of London's sales market
- An overview of London's lettings market
- The national picture
- Paris residential market
- London's super-prime sales market

PHOTO: © IMAGE SOURCE / ALAMY

Summer 2014

lonres.com
london's property pulse

Introduction

The market is cooling ... at last. Asking prices are no longer the benchmark for the purchaser. In fact, some 80% of sales in the last month are now below the asking price and it is right that prices need to ease. Interest rate rises appear inevitable and the introduction of the Mortgage Market Review (MMR) is having a slowing effect. What is wrong is government tinkering with a raft of initiatives and laws to dampen the market – let us not forget the punitive cost of moving with Stamp Duty Land Tax (SDLT) and now talk of new council tax bands. Ernst & Young has been commissioned to produce an independent report in respect of this.

The Bank of England (BOE) has also recommended that mortgage lenders limit the number of mortgage loans made at 4.5 times income. These should make up no more than 15% of a bank's overall number of mortgage loans. In addition borrowers must pass a "test" to ensure they can afford to sustain repayments on a 3% rate rise over five years.

Yet for all this, our government is incapable of cutting back on its own excesses. They borrowed £24.2 billion in April, to cover the gap between spending and revenue, which is nearly £2 billion more than the same period last year. They blamed lower tax receipts and this only serves to highlight the state's over reliance on the richest taxpayers. The fact that 300,000 individuals account for 7.5% of ALL the government's tax revenue makes it patently clear that raising taxes does not mean higher revenues. The greater the government tax take, the more people will move money to avoid paying more. Just ask the French, as they relocate to London in such numbers that a new super Lycée is currently being built in Wembley. As the property market continues to slow down, the bubble is now deflating and we may enter a period of calm where asking prices, especially in new developments, are reassessed. Our own research confirms that most sales are now occurring below the asking price.

With the UK looking to put the brakes on its house prices, in Euroland there has been no significant growth. Business output is slowing and

£2.9bn

value of sales in Q2 2014

98.6%

average asking price achieved in Q2 2014

£1,304

average price per square foot of properties sold in Q2 2014

5%

rise in average rents in Q2 2014 compared with Q2 2013

£45.31

average price per square foot of properties let in Q2 2014

Lonres summer parties

The first of Lonres's two summer parties was held on a warm summer evening in Belgrave Square. An annual fixture in the social world of London's top property professionals, this year's party, now in its tenth year, was attended by over 700 of you. The party was seen as an opportunity to support Lonres's two chosen charities, The Dog's Trust and Berwick Animal Rescue Kennels (B.A.R.K) and you donated generously. A fundraising photo booth complete with props proved a popular draw and for many of you a souvenir of the evening. The fun continued at our second party of the summer, held at Lord's Cricket ground.

interest rates have been cut to 0.15% and banks who hoard cash are on a negative interest rate.

Is it time, now, to stop the banker bashing? The pursuit of money at all costs, to the detriment of the investor, appears to continue unabated. It only stops when they get caught. The latest saga involves High Frequency Trading in which an individual will use an ultra-fast connection to intercept a customer order for shares, buy them first and sell them to that buyer for a higher price, all in the blink of an eye. There are many institutions under investigation, but Barclays are currently being sued by New York's attorney general and Goldman Sachs has agreed a settlement already. I will leave you to answer the question.

Meanwhile, what of Diamond Bob, former CEO of Barclays? Redemption is calling in Africa where he has raised money via an IPO in London to buy banks (such as Development Bank of Rwanda) and other financial institutions.

Reverting back to the London bubble, it has been my concern that the interventionist measures – designed piecemeal as a series of calming measures (while squeezing more revenue) – are reactionary and will create more problems in the future. Will we have a stagnant market whereby the process of moving and mortgaging is just too complicated, never mind too expensive? The MMR is extremely invasive and you may be certain that the data that is held will be used and monetised, despite the assurances given. I further fear that, in the event that trouble accumulates, it will be harder and may take too long to unpick. The problem is a London one, and I understand and agree that prices may be unsustainable, but to trap those outside London by way of expensive council tax hikes, jeopardises those families who struggle to maintain a large house – the very fabric of England. A banded council tax hike which is postcode sensitive, seems to me to be perfectly fair, especially if one uses time of residency (over ten years?) to take those who have resided in a home for a great many years out of this tax. I would welcome further comment on this.

"As the property market continues to slow down, the bubble is now deflating and we may enter a period of calm where asking prices, especially in new developments, are reassessed."

18th July 2014

William Carrington
Chairman
wcarrington@lonres.com

Anthony Payne
Director
anthony@lonres.com

If you missed the opportunity to donate to the two Lonres chosen charities and would like to do so, we'd love to hear from you. Please send a cheque made payable to 'BSGC Dog Charities' to Ellie Vesey-Thompson, Lonres.com Ltd, First Floor, 37 Battersea Square, London, SW11 3RA.

Photographs from both parties can be seen on the inside back page of this issue of the Residential Review.

Sales

The heat is starting to come out of the central London residential market.

Overview

Since the spring, agents' confidence in the residential sales market of central London has weakened and the results of our Summer Agents Survey appear to show slowing conditions in the market. The net balance of agents have reported that, over the past three months, levels of stock, withdrawals, the fall-through rate and the length of time taken to agree property sales have all risen, while demand levels have fallen. Collectively, this has resulted in agents reporting reduced levels of transactions and, in some segments of the market, prices being affected.

Supply rising, transactions falling

With 44% of agents reporting an increased urgency among vendors to sell, given concerns over a property market bubble, the number of new sales instructions in the second quarter rose by 26% compared with the first quarter of 2014. This is up 8% on the same quarter of 2013. While an increase in supply will ease the stock shortages that influenced the market in 2013, transactions have been affected by caution among buyers, alongside additional taxes and government interventions. Over half (52%) of agents report that sales activity in their local markets has been affected by the Mortgage Market Review, which came into force in April.

An analysis of sales across the Lonres survey area shows that transactions in the past quarter were down by 9.9% on the same period of 2014. Furthermore, just over a fifth of all properties (22.4%) currently available to buy have had their price reduced since first being marketed.

However, it is not all bad news. Conditions continue to vary widely across and within the different markets of central London. The Central area has seen the greatest reduction in transactions, down 17.8%, while the North saw a slight increase, rising by 1.4%.

Prices still rising, for now ...

Meanwhile, prices are still rising, particularly in the lower price brackets, where demand is still outstripping supply. Average sales prices per square foot for properties under £2 million rose by 4.1% in the second quarter of 2014. However, price falls were recorded for properties sold at the very top end of the market. We discuss the super-prime market in more detail later in this report.

With price growth already beginning to slow in some areas, confidence in the market has altered somewhat since our Spring 2014 Survey. Indeed, 39% of agents now expect prices to fall over 2014, compared with just 9% in the Spring 2014 Survey. Furthermore, 61% of agents expect lower levels of transactions in 2014 than in 2013. Some cooling of the market is necessary, however, to allow it to return to more stable conditions. This should also begin to calm fears of a bursting housing bubble.

Agent responses to Summer 2014 Survey

58.6%
report reduced levels of demand

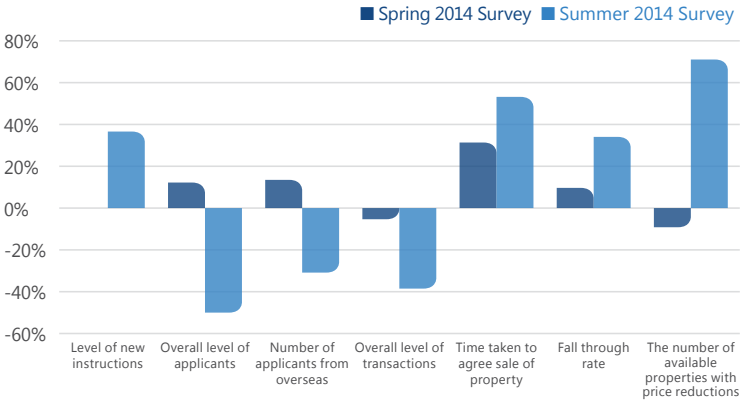
10.1%
report MMR significantly impacting sales activity

58.8%
report demand outstripping supply in lower third

51.4%
report reduced levels of transactions

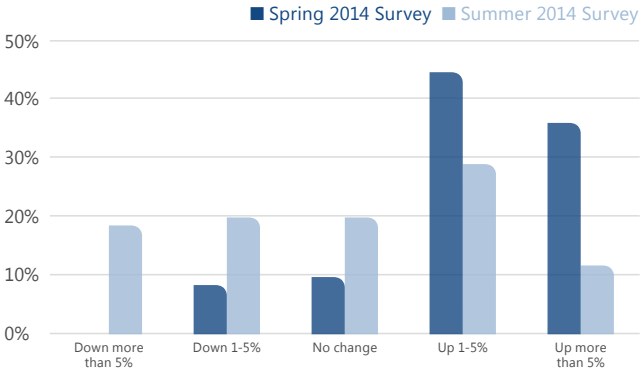
40.6%
expect positive price growth in 2014 (down from 81% in the Spring Survey)

Results of Lonres Summer 2014 Agent Survey



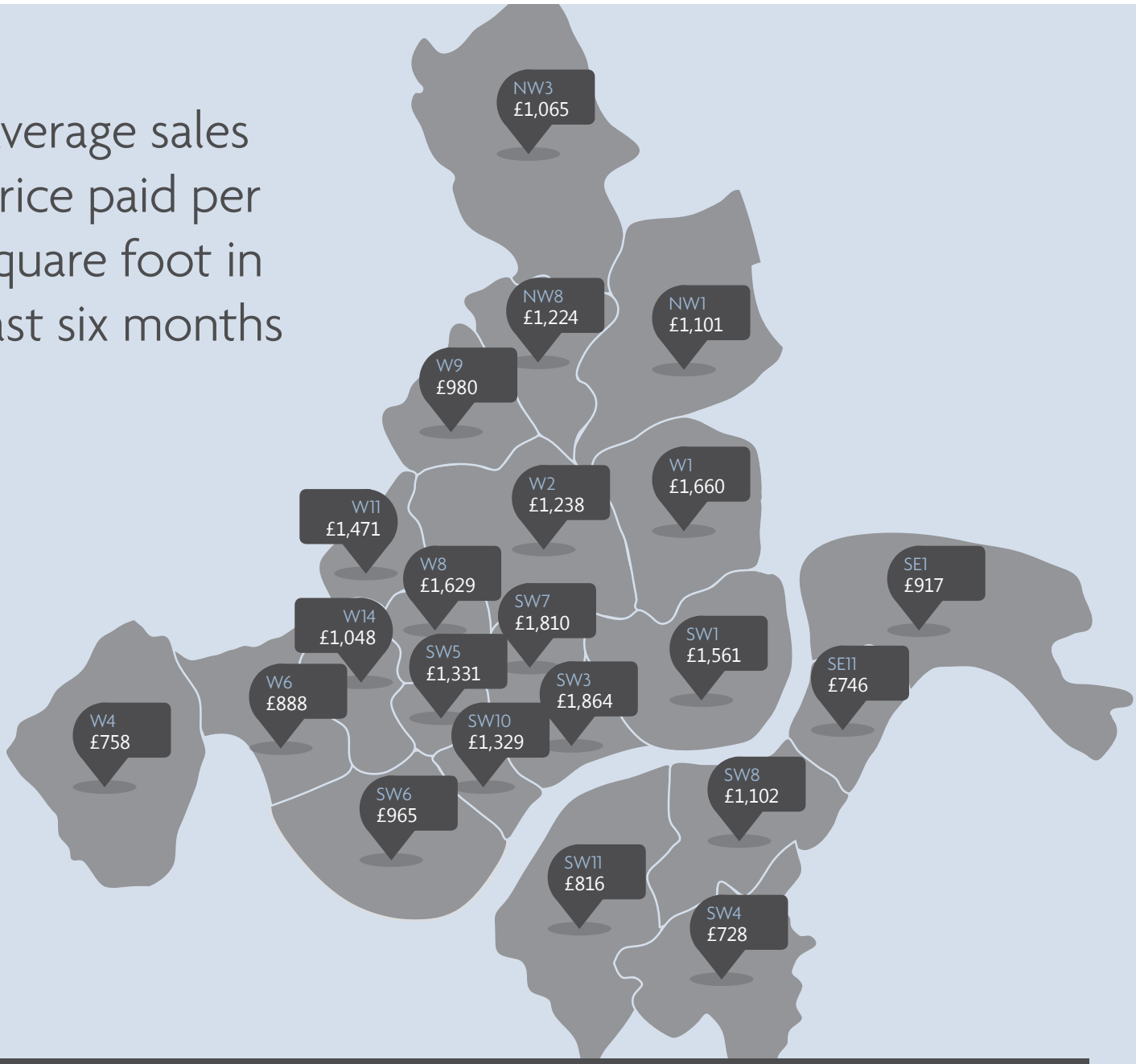
SOURCE: LONRES SUMMER 2014 SURVEY OF AGENTS, SHOWING NET BALANCE OF AGENTS REPORTING A CHANGE

Agents' outlook for sales prices has weakened since the spring



SOURCE: LONRES SUMMER 2014 SURVEY OF AGENTS, SHOWING PERCENTAGE OF AGENT RESPONSES

Average sales price paid per square foot in last six months



Seamus Wylie

ON THE SALES MARKET

AyrtonWylie
Estate Agents and Property Consultants

Over the course of 2014 we have seen the London prime residential market slow down, reflecting the increasing sense of cautiousness among buyers. In particular, at the super-prime end of the market at £20 million plus, prices have softened.

There are a number of factors that have impacted on buyers' confidence, including not only uncertainty surrounding the upcoming general election and the re-emergence of the 'mansion tax' debate, but also the range of recently introduced taxes that have become prohibitively expensive for foreign investors. While the new changes to Capital Gains Tax (CGT) on foreign vehicles are generally accepted by investors, it is the annual property tax and stamp duty arrangements that have primarily influenced appetite, and more recently, the strengthening of sterling.

Having said that, there is still plenty of demand for correctly priced properties in all categories, and we have seen a good deal of activity in the £3 million to £5 million market.

We anticipate that what is happening at the top end of the prime London market now will start to be echoed across the London market generally. With mortgage conditions becoming stricter and interest rate rises now on the horizon, the market will likely calm down and become much more stable.

There are signs of gradual recovery in the London rental market.

Overview

In the spring we reported that the rental market of central London was beginning to show signs of improvement as a renewed confidence in the economy had boosted tenant demand, while supply levels were starting to moderate. Our Summer 2014 Agent Survey shows continued improvement, although there are some mixed views on the outlook for the market.

The strength of the economic recovery in London continues to take many by surprise and caused the Centre for Economics and Business Research (CEBR) to revise upwards its employment projections for London to 2.8% growth in 2014. With greater stability and prospects for employment, 44% of lettings agents have reported increased levels of tenant demand over the past three months, with corporate demand reportedly also rising. This has resulted in agents seeing an increase in viewings and tenancies agreed.

Rental values rising

Stock levels have eased throughout 2014 and in the second quarter of the year there were 6.1% fewer properties instructed to let, compared with the second quarter of 2013. Additionally, tenants are staying longer in their properties and more tenants are renewing their leases. All these factors have affected the choice for prospective tenants and are putting upward pressure on rents. Average rents achieved in the second quarter of 2014 rose by 5.1% on the same quarter of 2013. Rental value growth has been fairly consistent across the different parts of our survey area, ranging from 4.9% in the Central area to 6.2% in the North and West.

While average rents have been rising, in the past three months 63% of agents report an increase in tenants negotiating on rents and on new tenancies. With tenants remaining price sensitive and corporate tenants' budgets being smaller, it is the lower price thresholds that are seeing the strongest growth in demand.

The greatest imbalance in the market is still in the uppermost price thresholds, where agents report demand unable to match levels of supply, despite the level of supply falling.

Outlook

Agents' opinions on the short-term outlook for rental values are divided. In our Spring Survey, 52% of agents were anticipating rises in average rents over 2014. In our latest survey this figure has reduced to just 26%, with 44% of agents now expecting rents to fall. With weaker demand at the top end and tenants negotiating on rents, agents are cautious on prospects for rental growth.

Letting agent responses to Summer 2014 Survey

44%
agents report increase in demand in past three months

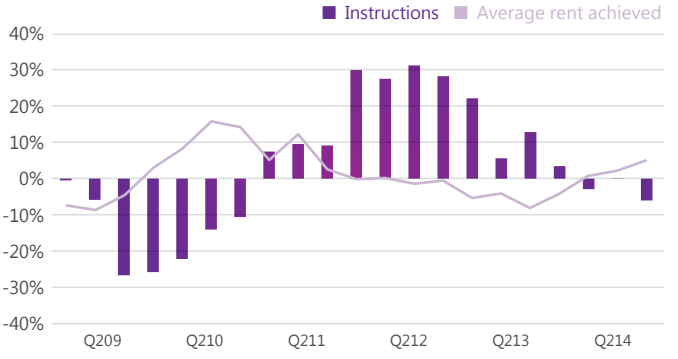
7%
net balance of agents reporting corporate tenant demand increasing in lowest price bands

52%
agents report increase in time taken to let properties in past three months

35%
expect overseas student demand to increase in next three months

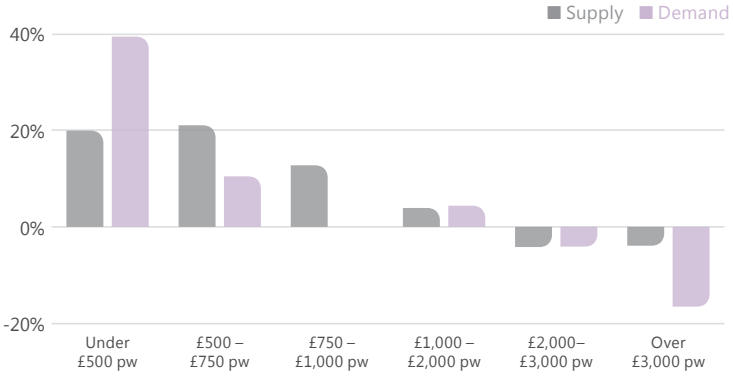
26%
agents expect growth in average rents over 2014

Annual change in rental values achieved and properties instructed to let



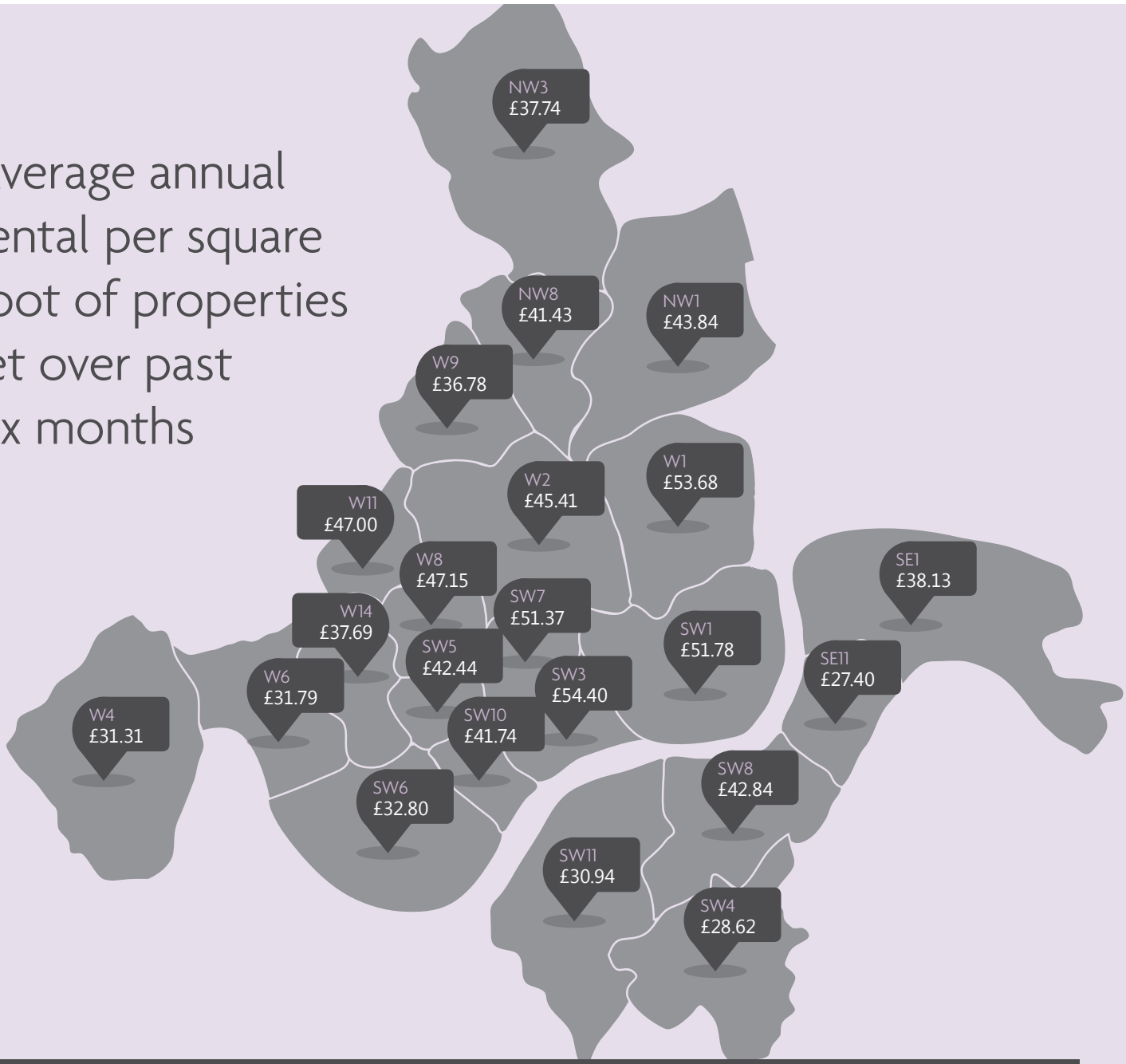
SOURCE: LONRES

Rental supply and demand changes over past three months



SOURCE: LONRES SUMMER 2014 SURVEY OF AGENTS, SHOWING NET BALANCE OF AGENTS REPORTING A CHANGE

Average annual rental per square foot of properties let over past six months



Catherine Cockcroft

ON THE LETTINGS MARKET

Lettings Director, Aylesford

AYLESFORD INTERNATIONAL

While the lettings market remains active, tenants continue to be price sensitive and so realistic rental values remain the key to attracting tenants. Properties that are priced according to the market and are well located, modern and immaculate are in good demand and can be taken up in a matter of days.

In May and June we experienced good demand for family homes as parents thought ahead to the next academic year. In particular, for those coming from overseas, gaining a place in a good London school is the first step in the relocation process before securing a top-end London family home.

Uncertainty surrounding the upcoming general election and the possibility of a 'mansion tax' has prompted some landlords to decide to sell their properties, thereby reducing some of the stock levels on the market. Many existing tenants are also opting to renew existing contracts, so fewer properties are coming back on to the market.

However, we are still seeing some over-supply in the one and two bedroom flat market. This, coupled with the fact that tenants are still negotiating aggressively on prices and that corporate budgets remain tight, means there continues to be downward pressure on values. Landlords are generally accepting lower offers, and are aware of the need to balance rental values with good-quality products in order to prevent lengthy void periods.

The national picture

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The UK economic recovery shows no sign of waning, with rising confidence levels and falling unemployment. GDP forecasts are upbeat, with 2014 growth forecast to outperform the 1.7% achieved in 2013. There still remains concern about the longer-term stability of the recovery, with fears of a pricing bubble in the housing market – something the government is understandably keen to avoid. The lack of clarity on the timing of the Bank of England's impending interest rate rise is also causing some unease.

The UK economy has moved from recovery into an expansionary phase as growth continues to spread. The latest Markit/CIPS PMI Output/Activity Index for June confirms strong activity levels in the services, construction and manufacturing sectors.

Employment levels are rising and, according to Markit's latest survey data, job creation is at an all-time peak, with its all-sector PMI Employment Index moving up from 56.4 in May 2014 to 58.8 in June 2014. The latest official Labour Market statistics also confirm employment growth. From February to April 2014 the number of people in work rose to 30.54 million, up 345,000 on November 2013 to January 2014 and 780,000 higher than the equivalent period a year earlier. Unemployment is falling, and during the three months to April 2014, the number unemployed fell to 2.16 million, with 347,000 fewer people out of work than the same period a year earlier.

The improving UK economy is favourably impacting consumer sentiment. For the GfK UK Consumer Confidence Barometer, June 2014 was a significant month as the index rose one point, taking it into positive territory for the first time since March 2005. It will be interesting to see whether this upward trend is sustained in the coming months.

One ongoing concern is the stability of the recovery in the UK housing market, as house prices continue to rise strongly. In the year to April 2014, the Office for National Statistics UK house price data confirmed a 9.9% increase, which was up from 8.0% in the year to March 2014. This growth has been spread across most of the country, although it has been strongest in London. This upward trend is also corroborated by the Nationwide House Price Index. Its latest Q2 2014 data confirms annual price rises in all UK regions, with the strongest growth in London.

With rapidly rising house prices, a major concern is borrowers over-leveraging themselves, and being unable to make mortgage repayments when interest rates eventually rise. The government has taken steps to prevent this, tightening mortgage lending with the introduction of the Mortgage Market Review (MMR) in April 2014. Although it is too early to speculate on its long-term impact, latest Bank of England (BOE) mortgage data shows a fall in approvals, with banks approving 61,707 purchases in May 2014, compared to 62,806 the previous month.

The BOE's Financial Policy Committee (FPC) has also just announced further recommendations to control unsustainable individual debt. These include, from October, restricting lenders so that no more than 15% of their total number of mortgages can be made at a ratio of higher than 4.5 times the borrower's income.

The outlook is for a strong performance for the UK economy in 2014, which could slow in 2015 with the impending interest rate rise impacting growth.

3.2%

forecast 2014 GDP.
Revised up from 3% in May
OXFORD ECONOMICS

1.9%

2014 forecast CPI
HM TREASURY
(AVERAGE OF INDEPENDENT FORECASTS)

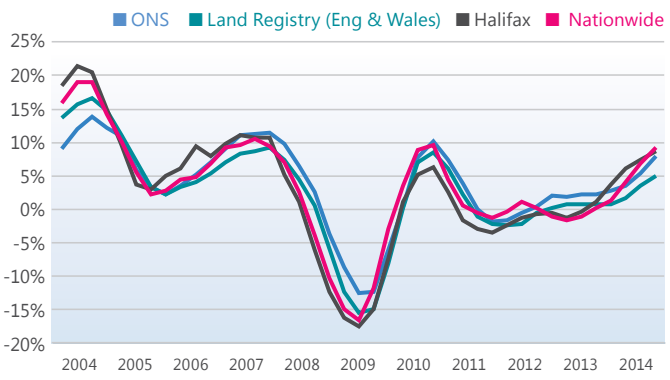
26%

Q2 2014 annual house price growth in London
NATIONWIDE HOUSE PRICE INDEX

£16.5m

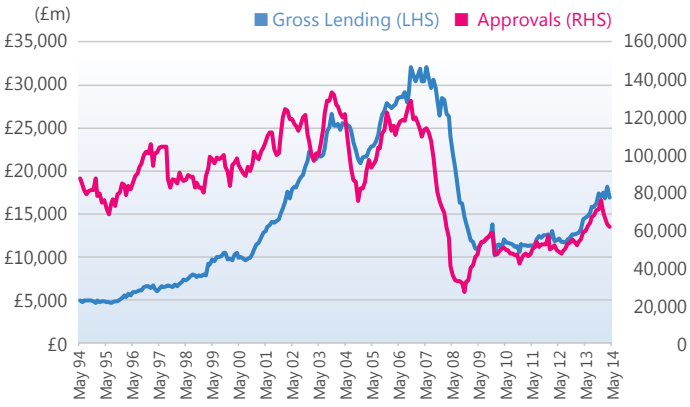
May 2014 gross mortgage lending, unchanged from April 2014
COUNCIL OF MORTGAGE LENDERS

Annual UK house price growth



SOURCE: ONS, LAND REGISTRY, HALIFAX AND NATIONWIDE

Gross mortgage lending versus mortgage approvals



SOURCE: BANK OF ENGLAND (LENDING TO INDIVIDUALS AND HOUSING ASSOCIATIONS)

Paris residential market

The punitive tax regime put in place by the French government has had a very negative affect on the country's housing market. This is something we are sure the British government is watching with interest.

Laurent Lakatos
DIRECTOR OF DATABIENS

Overview

The housing market in France has entered a very interesting period in its history as the government's increasingly punitive tax regime has led to a dramatic slowdown in the growth in values. The measures not only include a wealth tax on assets over €1.3 million and a high rate of tax on businesses paying high earners, but also changes to stamp duty rates and a hike in VAT on renovations.

France's economy struggles

Although a recovery, albeit fragile, is under way in Europe, in France it seems to have stagnated as a result of weak consumer spending and business investment. Economic output, as measured by GDP, fell from 2.1% year-on-year in 2011 to just 0.4% in 2012 and 2013. Oxford Economics are forecasting that GDP growth in France will increase slightly this year to 0.7% and to 1.1% in 2015. Unemployment stood at 10.2% in France at the end of 2013. The jobless total rose by 14,800 in April 2014 to a new record high of 3.36 million, representing a monthly rise of 0.4% and an annual increase of 3.5%. This has put further pressure on President François Hollande who had pledged to get unemployment falling by the end of last year.

A difficult mortgage market

The mortgage market has always been well regulated in France. Under French lending rules and French law, lenders must take into account the affordability of any proposed new mortgage lending. The typical criteria used in this assessment is that the monthly payments, plus all the existing financial commitments must not exceed 33% of total gross monthly income (some lenders use the less generous net income). Mortgages are proving particularly difficult to obtain in the current market owing to salaries sticking and property prices softening. As a result lenders are being cautious about the security of repayments. The result is a rise in fall-throughs at point of exchange as mortgages are being refused.

A buyers' market continues

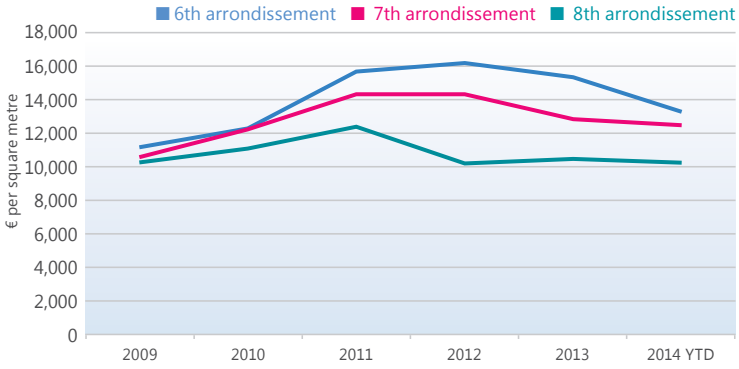
There continues to be an active sales market in Paris, but this is mainly for heavily discounted properties. Vendors who have been trying to sell their properties for the last year or two are finding that when they drop their asking prices by 20% there is a good level of demand. The woes of the sales market means that there is good demand for rental properties in Paris at present.

Wealth taxes dampen the top end

Price growth has been particularly subdued at the top end of the market as buyers factor wealth tax implications into the prices they are willing to offer on a property. Vendors are increasingly accepting lower prices for their properties across Paris. The difference between asking and achieved prices in the more upmarket 6th and 7th arrondissements, together with the 8th arrondissement averaged 6.82% in June this year. This has increased from the year before but it is not as high as the levels seen in less desirable areas of the city.

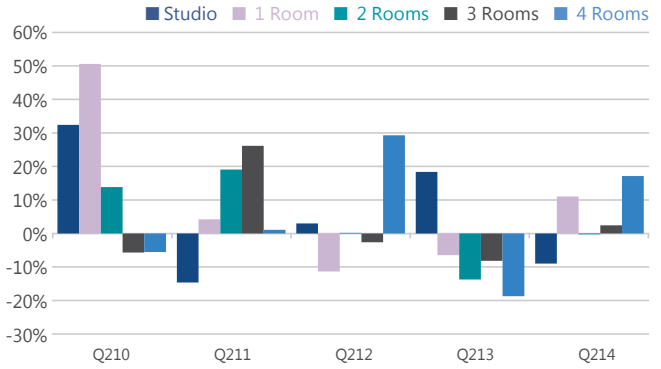
Some price stabilisation appears to be happening in some of the more upmarket arrondissements. This is especially the case in the 7th and 8th arrondissements which recorded average achieved sales values of 12,480 €/sqm and 10,521 €/sqm respectively in June 2014. Indeed, analysis of annual growth by number of bedrooms shows that in Q2 2014 there are signs that average prices are returning to levels recorded two years prior. Over the past 12 months, four bedroom and one bedroom properties have recorded the highest rates of growth at 11% and 17% respectively but this merely takes them back to around the level recorded.

Signs of prices stabilising in prime areas of Paris



SOURCE: DATABIENS.COM

Annual growth returning average values to 2012 levels



SOURCE: DATABIENS.COM

London's super-prime sales market

Between 2009 and 2013, the average price paid per square foot for properties priced over £10 million in prime central London rose by 31%. Overseas investors were instrumental in propelling this end of the market, generating a new breed of property developer keen to capitalise on growing wealth from the most discerning of buyers. However, as value growth filters out from the most prime parts of London, how is the super-prime market of central London reacting?

Overview

The super-prime market of central London recovered quickly after the financial crisis. With political and economic uncertainty abroad, along with favourable exchange rates, overseas buyers sought the perceived security of the London market. The rising wealth of the world's richest – and increasingly wealthy – residents and their desire to own a trophy home in one of the world's leading financial centres, left residential property in central London an investment of choice. With supply rarefied for the most expensive properties, prices rose quickly. Developers, keen to tap into this pool of the global élite and their rising wealth, pushed ever higher the quality of specification, design, facilities, security and, ultimately, price.

However, a raft of new taxes aimed at the upper price thresholds, the strengthening of sterling, ongoing rumblings surrounding the introduction of a 'mansion tax', increased stability in the global economy and the upcoming UK general election have all combined to affect market sentiment in recent months, particularly from overseas investors. After several years of considerable price rises in super-prime properties, value growth is now filtering out to other price thresholds and areas and London's super-prime market is slowing.

Supply and demand

The super-prime market of London is a very small part of the overall market; 5.5% of sales in 2013 were priced over £5 million across the Lonres survey area with just 1.4% priced over £10 million. As such, small changes in either supply or demand can make considerable changes to the market. Nonetheless, demand levels at the top end of the market do appear to be faltering more acutely than across the rest of the market. In our Summer 2014 Agent Survey, two-thirds of agents report the number of applicants for properties priced over £5 million falling in the last three months.

Meanwhile, 62% of agents believe that demand for properties in the top tier of the market is not keeping pace with supply. However, there was, in fact, a 13.6% reduction in properties being instructed over £10 million in the second quarter of 2014 compared with the same period of 2013. It would therefore seem that demand changes are having the greatest impact on this section of the market. As a result, the super-prime market of central London has recorded some price falls in 2014. Average prices per square foot for properties over £10 million fell by -5.7% in the second quarter of 2014.

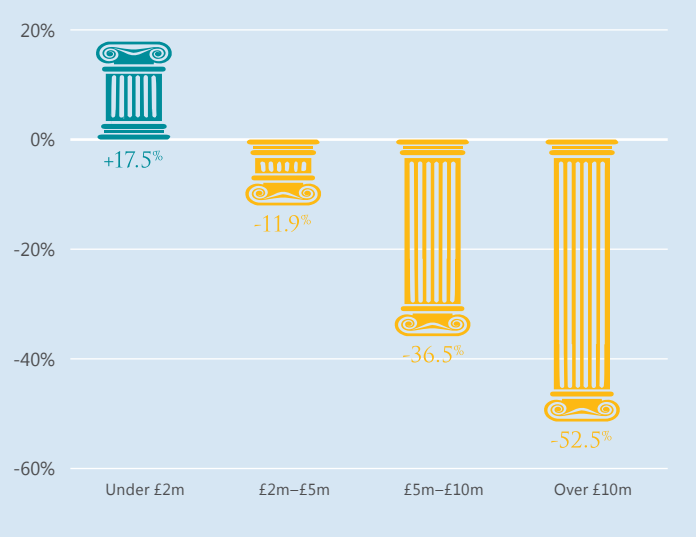
Overseas demand

In the last three months, the net balance of 52.5% of agents surveyed in our Summer Agent Survey reported falling demand from overseas buyers for properties priced over £10 million. In particular, 41% of agents report that demand from Russians for central London properties has fallen in the past three months.

With the London economy growing more strongly than previously expected and the outlook improving steadily, our survey has indicated an increasing number of UK buyers looking for properties in central London across all price bands. However, in the short term, agents have less confidence in the upper end of the market. While the overall confidence score from agents for the market under £2 million is now 3.6 (scoring out of 10, with 1 being most confident), confidence for the market over £5 million is a weaker 6.1.

That said, London's culture, leisure, educational establishments, relative political and economy stability and investment potential should ensure the long-term appeal of London to the world's wealthiest. A period of stabilisation will allow the market to 'pause for breath' before the next wave of foreign investors arrive.

Change in foreign demand by price band over past three months



SOURCE: LONRES SUMMER 2014 AGENT SURVEY, NET BALANCE OF AGENTS REPORTING A CHANGE

Annual change in price paid per square foot Q2 2013–Q2 2014

SOURCE: LONRES, INCLUDING SALES ACROSS THE LONRES SURVEY AREA

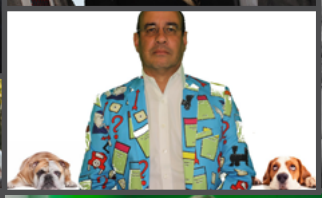
The Lonres Summer Parties









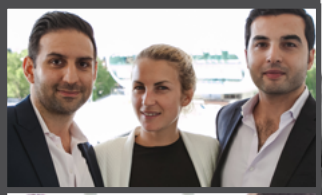




Belgrave Square

Over 700 of London's top residential property professionals enjoyed the warm sunshine of a June evening in one of London's finest garden squares.

Lord's

Overlooking the most famous cricket ground in the world, some 300 Lonres guests whiled away a fine summer's evening.











PHOTOS: © ERRAN STEWART

About this publication

This newsletter was written for Lonres by Dataloft. By utilising Lonres and other valuable sets of data, Dataloft provides a unique and bespoke service to Lonres' clients. Through analysing data and writing market commentary on their behalf, at both a local and national level, Dataloft provide marketing material that raises the profile of their clients and helps to cement their position as experts in their areas.

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In partnership with Lonres, Dataloft uses its own analysis tools and models to evaluate trends in Lonres data as well as the wider housing market, providing value-added commentary for Lonres subscribers.

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For more information please visit www.dataloft.co.uk or contact Harriet Black on 01962 867712.

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PROPERTY MARKET INTELLIGENCE AND DESIGN.

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Meet the team at Lonres

lonres.com
london's property pulse

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