

RESIDENTIAL. REVIEW. AUTUMN 2019.

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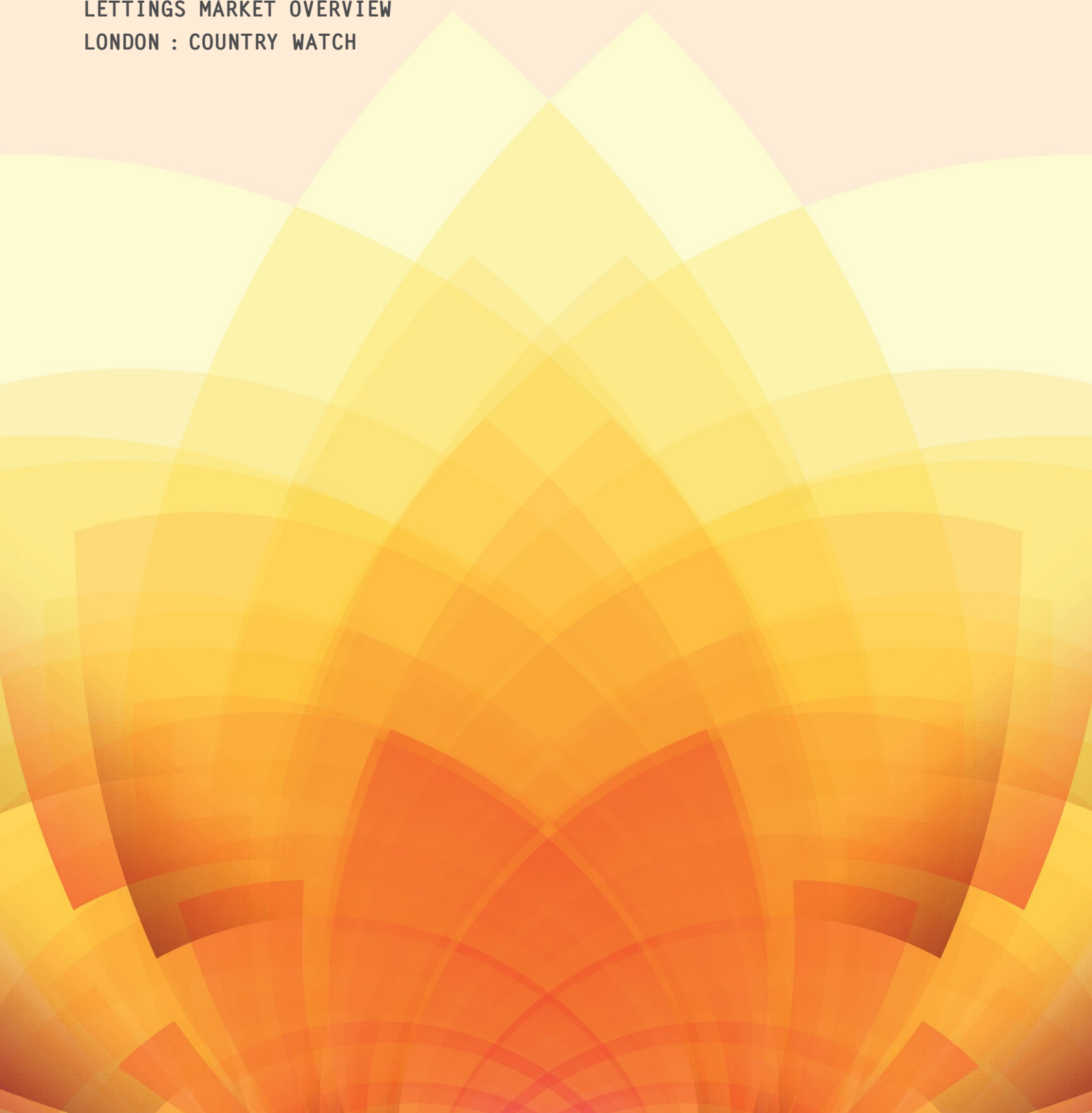
OPENING THOUGHTS

MAPPING PRIME LONDON

SALES MARKET OVERVIEW

LETTINGS MARKET OVERVIEW

LONDON : COUNTRY WATCH



OPENING THOUGHTS...

In light of the Brexit negotiations having taken a new twist, there are two issues that we could look to benefit from if we ever actually leave the EU. The first is we will not have to adhere to the policies of the European Central Bank (ECB) as it decides how to deal with the eurozone slowdown. The CEO of Allianz, Europe's biggest insurer, said it was wrong for eurozone governments to implement fiscal reforms: "The reason why we're not doing fiscal reforms is because you're making it easy for people to spend money they don't have." And that was pointed directly at the outgoing ECB chief, Mario Draghi.

This is, I think, quite important, as the incoming president will be Christine Lagarde. As the former head of the International Monetary Fund (IMF), she presided over the Greek bailout (with the ECB), and was responsible for the \$57bn bailout of Argentina. She was also found guilty of negligence by a French court in 2016 but no punishment was deemed necessary. Her appointment to the ECB was "offered" to her by Emmanuel Macron, who has ramped up the rhetoric against Great Britain and Brexit of late. One thing is certain, France always needs our help so perhaps he could tone down the tubthumping? The second issue is the Speaker of the House of Commons, stepping down from his post on 31 October. Certainly John Bercow is a colourful character, occasionally divisive, but it is critical that the speaker is an impartial presiding officer. In my view, it has added fuel to the fire in an already disjointed House of Commons.

Most of you will know that LonRes was founded in March 2000 by myself and Anthony Payne. The success of the company is due largely to the fact that this is a business created by people embedded in the residential property market, with a deep understanding of the needs of our customers and the challenges they face as the market changes. Despite our youthful looks, we are edging towards a combined seventy years in the market. What is changing is the need to be ever more aware of compliance, regulation and qualification. We brought in ResCheck some years ago to give our subscribers comfort in doing business together and indeed, this is something our friends at HMRC understand.

It has taken some time to find the right partner to have a commensurate depth of experience in anti-money laundering (AML) compliance, but we are certain we have found it in Financial Crime Services (FCS), headed up by Jerry Walters. With a law enforcement background spanning 25 years with the City of London police, Jerry and his team are not an organisation that has sprung up overnight to provide "expert" advice because they have a "wealth" of experience, but because they know the law, having been at the coalface. To be clear, they are able to deliver the measures that give you and your business absolute certainty and protection. Also, all their training is CPD-Certified.

It is rare that I trumpet what we do, but our experience and knowledge mean that we have built a unique position of trust with you all. The future of successful agency will be one where compliance and regulation work hand in glove with your business, and we are here to make life simpler and safer for you.

The clocks will have gone back by the time this edition goes to print, but what will happen after Brexit as the European parliament has voted to scrap Daylight Saving Time in 2021? Does that mean there will be two time zones in Ireland and we may yet see "double summertime" after Brexit? It sounds suspiciously like Groundhog Day may re-enact itself. Of course, we are used to seeing this already in this country. Groundhog Day may be defined as a series of unwelcome or tedious events appear to be recurring in exactly the same way. Whatever do I mean?



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SALES MARKET OVERVIEW.

An absence of any discernible resolution to Brexit over the summer has not deterred buyers in prime London.

Transactions across prime central London (PCL) rose 14% in the third quarter of 2019 compared with the same period a year ago. Prime London and prime fringe saw activity rise too, up 7% and 6% respectively. This is the first quarter for two years when all three areas recorded an annual increase.

The market below £2 million was particularly buoyant, with sales across our three prime catchments up 12% annually. But fewer bought at the top end. As we go to press it is still unclear whether the chancellor will prioritise Stamp Duty Land Tax in the next budget. What is clear is that the potential for tweaks to stamp duty, first mooted in late June, appear to have impacted buyers at the

upper end of the market. The number of homes sold at £5 million or more fell 25% in Q3 2019 compared to the same three months a year ago.

Those who have chosen to purchase are seeking out deals, but price falls are slowing as increased demand impacts on available stock levels. Prices across our three prime catchments fell 2.8% in the third quarter on values achieved in Q3 2018. This compares to price falls of 6.6% in Q1 and 5.1% last quarter.

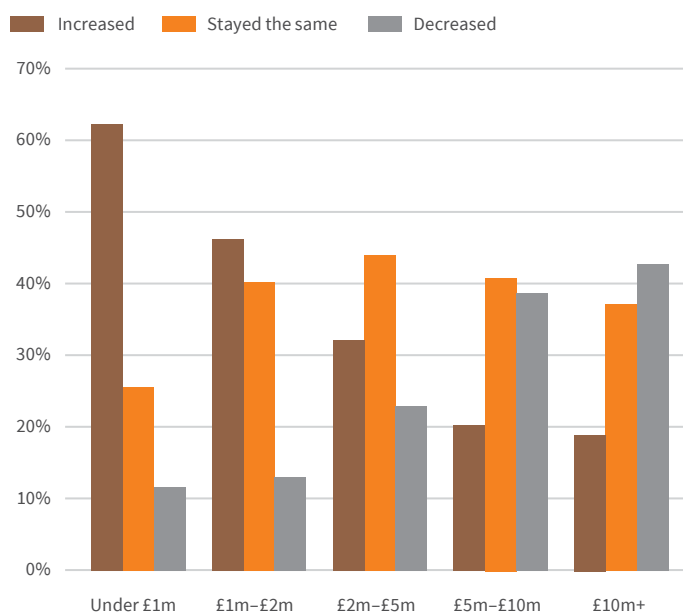
In PCL, prices achieved in Q3 2019 were 5.8% down annually, 17% lower than at the 2014 peak and 13% less than those achieved in the three months prior to the EU referendum.

Overseas buyers appear to be returning to the prime markets. According to the LonRes Agent Survey, 60% of agents reported an increase in buyers from Asia. While the number of agents reporting an increase in buyers from the Americas and Middle East far outweighed those reporting a fall.

Potential buyers are being left disappointed by a lack of stock on the market. Across our three prime areas there were 14% fewer homes on the market at the end of the third quarter compared with the same point in 2018. This was exacerbated by a 12% fall in the number of new instructions annually in the third quarter. The picture looked rosier in prime central London, where new instructions rose 9%. However, an increase in sales meant that at the quarter end there were still 13% fewer homes listed than there were a year earlier.

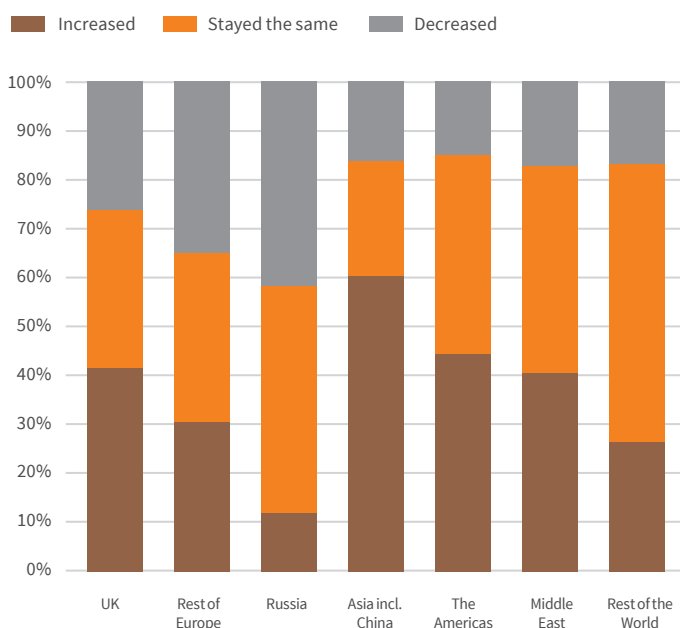
In spite of continued political uncertainty, the rise in buyer activity this quarter bodes well for further improvements once the Brexit fog begins to lift. Agents appear to agree, with 72% of the LonRes subscribing agents surveyed expecting prices to be the same, or higher, in 12 months time. Less than one in five expect fewer transactions in the next year compared to the last.

Demand by price bracket - change in last three months



Source: LonRes Agent Survey Q3 2019

Change in buyer demand by nationality - last 12 months



Source: LonRes Agent Survey Q3 2019



Source: LonRes



of agents said demand for houses was outstripping supply

Source: LonRes Agent Survey Q3 2019



17%

of properties on the market are currently under offer (three prime areas)

Source: LonRes



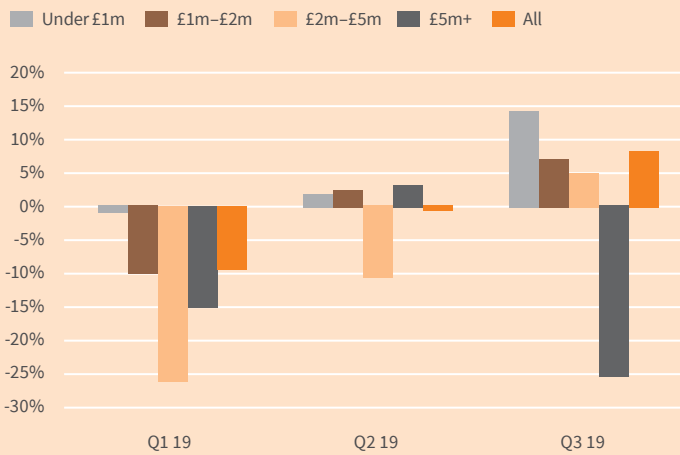
£4.4 BILLION

Value of properties listed for sale in Q3 2019 (three prime areas)

Source: LonRes

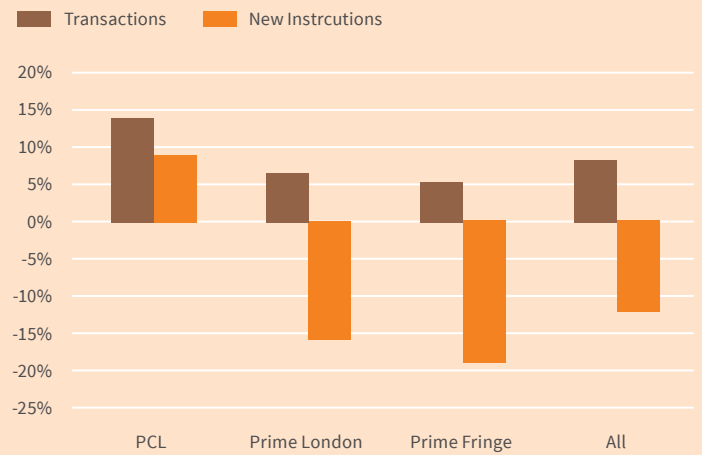
KEY MARKET TRENDS IN SALES

Transactions by price band - annual change



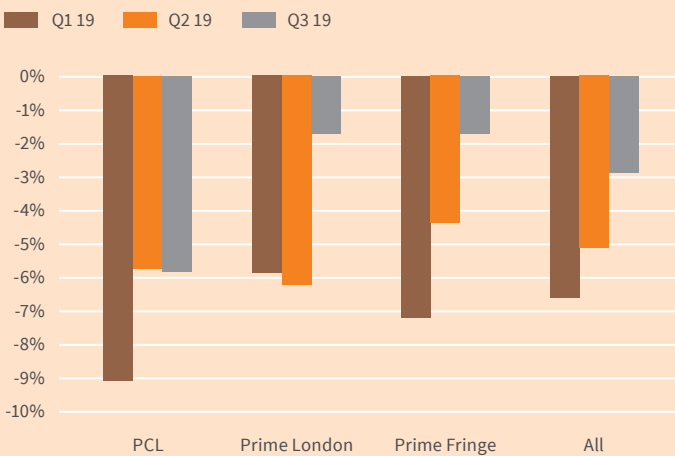
Source: LonRes (three prime areas)

New instructions and transactions - annual change



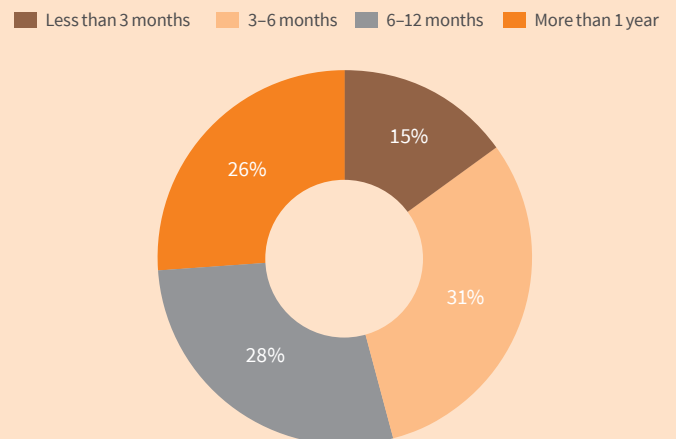
Source: LonRes

Achieved prices – annual change



Source: LonRes (three prime areas)

Time between launch and exchange – sold in Q3 2019



Source: LonRes

Prime Central London includes properties within: SW1Y, SW1X, SW1W, SW1A, SW3, SW7, SW10, W1S, W1K, W1J, W8
 Prime London includes properties within: NW1, NW3, NW8, SW1P, SW1V, W1T, W1H, W1U, W1G, W1W, W2, W11, W14
 Prime Fringe includes properties within: SE1, SE11, SW4, SW5, SW6, SW11, W4, W6, W9, W10

LETTINGS MARKET OVERVIEW.

For both existing tenants and prospective buyers the prime lettings market remains a safe haven.

Despite an increase in sales this quarter, the lettings market continues to tempt prospective buyers. According to the most recent LonRes Agent Survey, 62% of respondents reported an increase in the number of prospective buyers switching to the rental market this quarter, compared with just 4% seeing a fall.

But new entrants to the prime rental market may be surprised by the relative lack of available stock and competition for the best properties. Prospective tenants are now facing the tenth consecutive quarterly fall in new instructions. The number of properties listed to let in the third quarter fell 8% compared with the same period a year ago and was 23% down compared with the number of new instructions listed three years

ago. This time last year, 20% of properties listed to let were under offer. This had risen to 32% by the end of Q3 2019.

Demand remains highest for properties below £1,000 per week, with the majority of agents surveyed seeing an increase for homes in this price bracket. This compares to a fall in demand for homes priced at more than £1,000 per week. Smaller flats remain in short supply, with 84% of agents reporting more studio and one-bedroom flats were needed to meet demand.

Competition among prospective tenants for properties has resulted in further rises in achieved rents this quarter. The *LonRes Prime Lettings Index*, across our three prime catchments, recorded a 5.2% increase in Q3 2019 compared with the same period a year ago. Prime fringe saw the highest annual change in achieved rents, up 7.9% on Q3 2018, with a 6.7% rise in prime London and 3.8% in PCL.

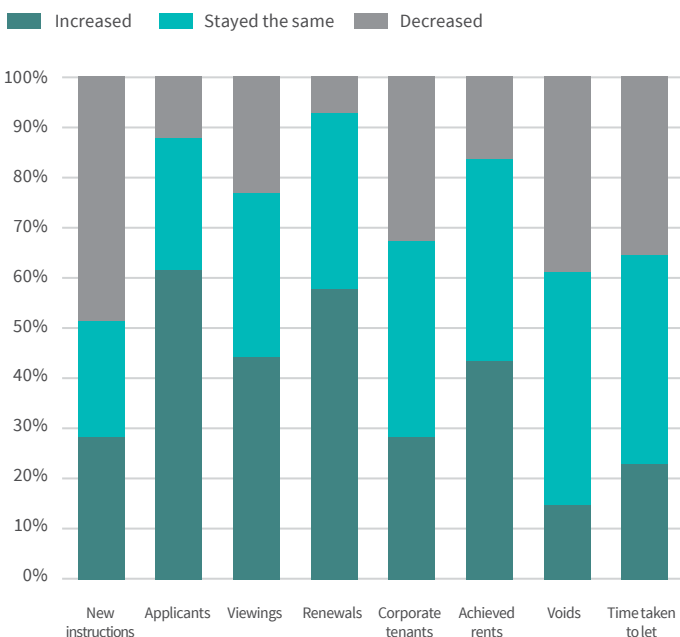
For landlords, rental growth has been welcome news, particularly as many are now counting

the cost of changes to taxation on rental income. The *LonRes Prime Yields Index* saw gross yields rise across all three of our prime catchments to 3.8% in Q3 2019. Increases in achieved rental values alongside lower sales prices meant yields were at their highest level since Q1 2013.

Indeed, with increases in rents softening the tax blow, most landlords appear to be holding on to their existing rental portfolios. Less than a third of agents saw an increase in landlords selling up this year compared with last. 70% of agents reported that volumes had remained the same or fallen in the third quarter.

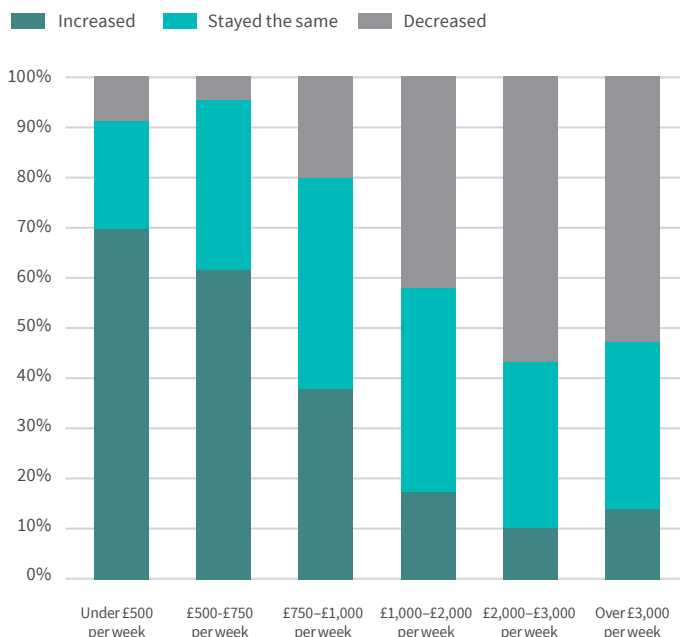
Looking ahead we expect supply to remain constrained in the prime lettings market, which should continue to have a positive impact on rents, political uncertainty notwithstanding. Our agents agreed, just 15% of those surveyed anticipated rents would fall over the next 12 months, with 63% expecting further increases in achieved rents in the coming year.

LonRes Survey Results - change over last three months

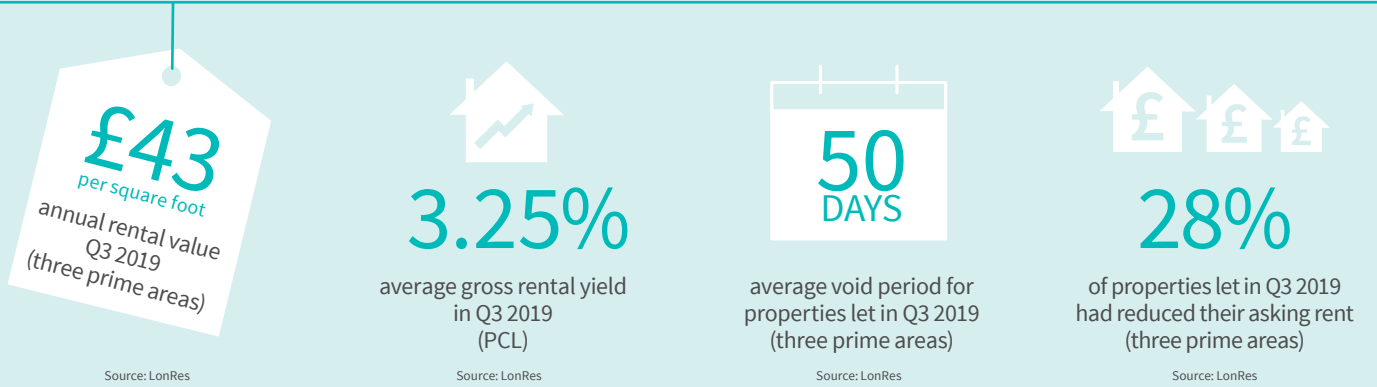


Source: LonRes Agent Survey Q3 2019

Demand by price bracket - change in last three months

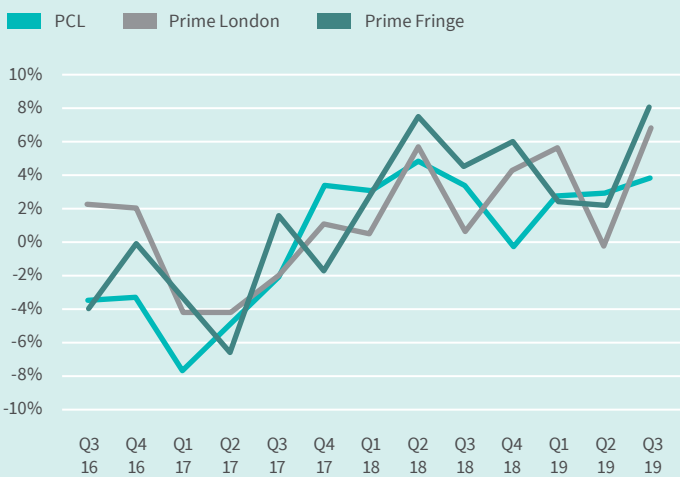


Source: LonRes Agent Survey Q3 2019



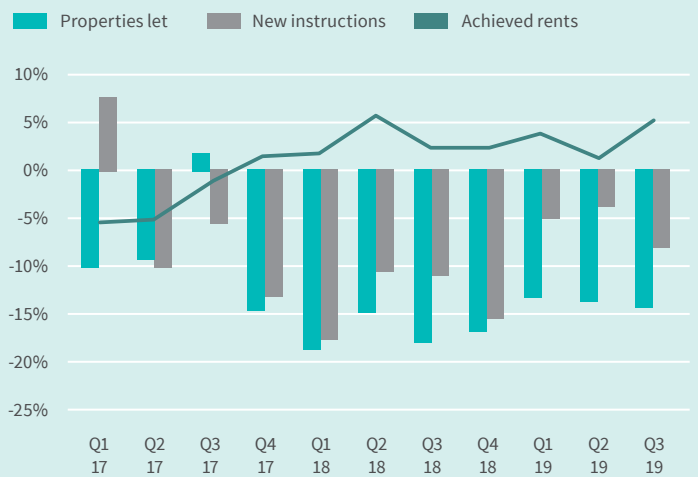
KEY MARKET TRENDS IN LETTINGS

Annual change in LonRes Prime London Lettings Index



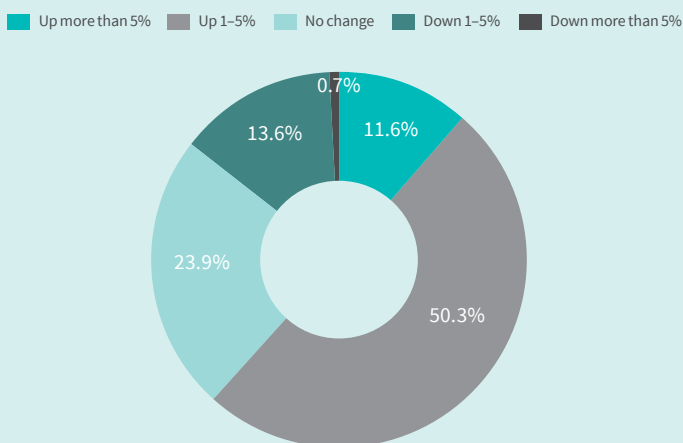
Source: LonRes Prime London Lettings Index

Annual change in market activity and rents



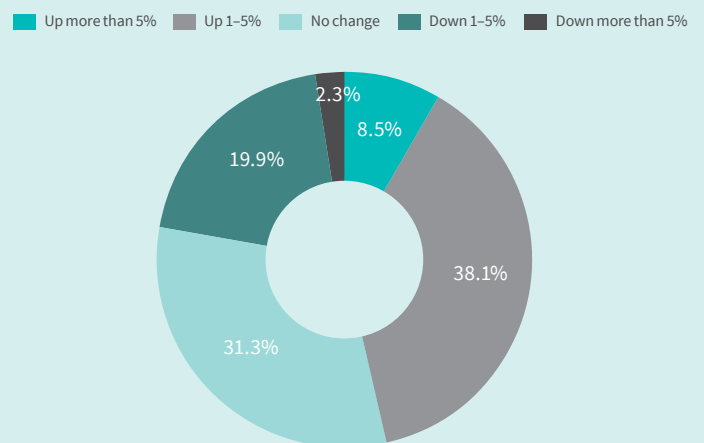
Source: LonRes (three prime areas)

Agent expectations - rental values next 12 months



Source: LonRes

Agent expectations - New lets next 12 months



Source: LonRes

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10,334

Number of country properties for sale and listed on LonRes

Source: LonRes - properties outside London



Source: LonRes - properties outside London



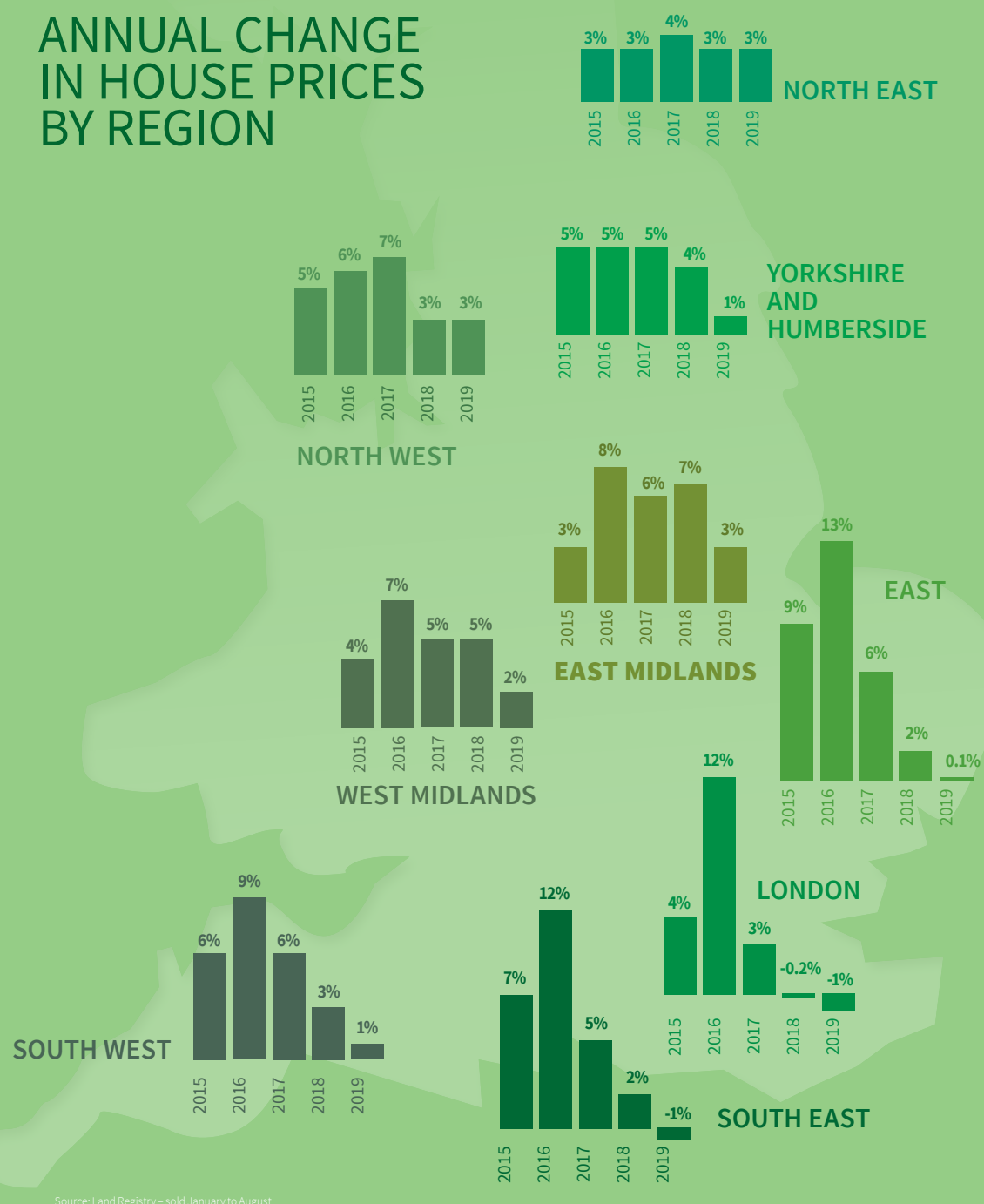
Average discount achieved off initial asking price in Q3 2019.

Source: LonRes - properties outside London



Source: LonRes - properties outside London

ANNUAL CHANGE IN HOUSE PRICES BY REGION



GET IN TOUCH



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