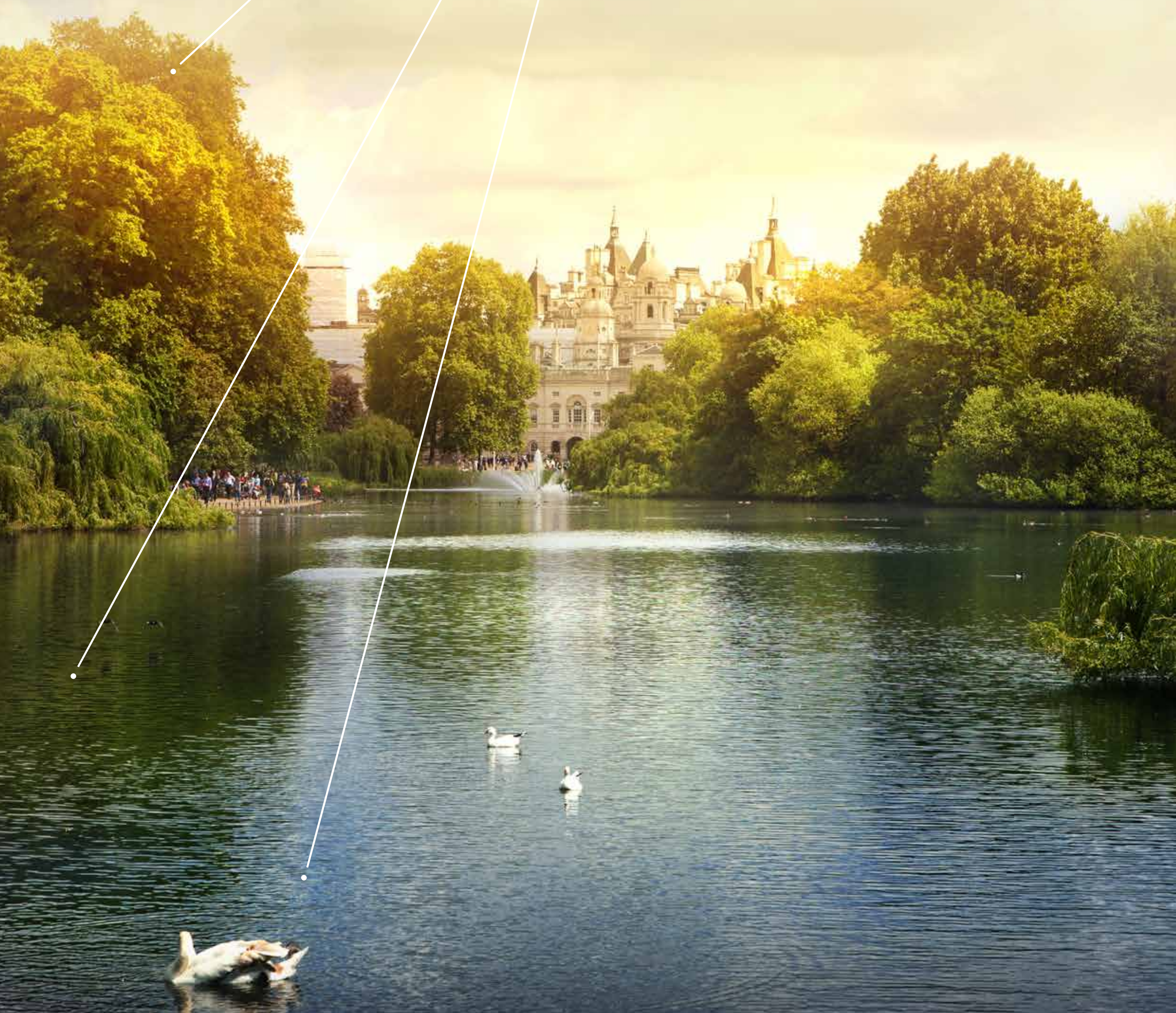
LON RES

RESIDENTIAL. REVIEW. SUMMER 2016.

BETTER.DATA.CLEARLY.



OPENING THOUGHTS...

In December 2014, the Chancellor applied reforms to stamp duty. There was a concern that the London property bubble was part of a threat to the wider economy, and measures had to be taken to slow it down. It has become clear now that this tinkering was more political than fiscally prudent, and it was presented as a way to ensure that owners of high value property should pay their fair share rather than a quick way to jump on a bandwagon that allowed the treasury to extract extra revenue. The result so far is that transactions in the London market in the bracket between £2m and £7m have slumped by 47.62% in the like-for-like period April, May and June.

But it is not just London's higher value market that has been affected, even the market up to £1m has seen a 36.95% decline in sales. When you are presented with figures such as these over a relatively short period, then something is wrong, "…and the soundest way to raise revenues in the long run is to cut the tax rates." Unfortunately, the "long run" generally tends to be defined as a period of time longer than one term of parliament but another revision to stamp duty may be necessary. The counter is that weakening sterling and depressed prices may attract even more overseas buyers, and possibly shut the door on the home market.

Meanwhile we had a referendum on Britain's future in Europe and we are leaving – just not yet. We have a new leader, parliament has to ratify the vote, someone has to trigger Article 50, and new trade deals are yet to be negotiated. This is political turmoil and markets appear quite able to cope with that, as evidenced by the FTSE 100 a week later finishing 3% above its level before the vote. It certainly isn't a benchmark, however.

Economic turmoil is quite another issue, even though Osborne when Chancellor reiterated that we are in good shape despite the UK's current account deficit being at a near record high. It is, nevertheless, the first item the Financial Policy Committee referred to as it relies on "continuing material inflows of portfolio and foreign direct investment." In the commercial real estate market they note it had "experienced particularly strong inflows of capital from overseas" and where "valuations in some segments…had

CHANGE IN COST OF BUYING IN PRIME CENTRAL LONDON IN WORLD CURRENCIES

	A$ Australian Dollar	RM Malaysian Ringgit	₽ Russian Ruble	S$ Singapore Dollar
2 YEAR CHANGE	-10.4% ↓	-10.8% ↓	34.8% ↑	-22.9% ↓
1 YEAR CHANGE	-16.3% ↓	-12.8% ↓	-4.5% ↓	-17.9% ↓

Source: LonRes/ Bank of England – takes into account changes in exchange rates and values in prime central London

£1.4 BILLION
total value of sales in Q2 2016

-42%
properties sold compared with Q2 2015

0.7%
increase in LonRes Prime London Lettings Index compared with Q2 2015

3.4%
average gross rental yield Q2 2016

become stretched.” They also refer again to the high level of UK household indebtedness, which I presume has risen in the last two quarters as it had fallen relative to income since their Stability Report last December. “The current market for UK financial stability is challenging.”

The best statement I read about the Brexit issue is one where “the future of Europe lies in a ‘variable geometry’ of diplomatic relations that satisfies those who want more integration as well as those who want less.” We seem to be stuck in an all or nothing scenario which doesn’t benefit anybody and yet everybody agrees that the political experiment that was and is the European Union is in urgent need of reform.

The wider picture is one in which people are voting against globalisation and the free trade that comes with it, and who better than Barack Obama to argue “that the global elites have been inattentive to the issues of wages, income and opportunity.” Nowhere was this message felt more keenly than in Sunderland, home of Nissan in the UK and yet where 61% voted to leave. With free trade must come greater security and higher wages – I believe people voted to leave because they felt that uncertainty was better than more of the same.

Finally, a year after we were asked to assist in providing a solution to the complex issues and legislation surrounding anti-money laundering and MLR Regulations 2007, we have launched ResCheck, which deals with sub-agency arrangements. I urge you to support this initiative as HMRC has been helpful in clarifying matters where we and Eversheds have highlighted inconsistencies.

William Carrington

August 2016

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HK$ Hong Kong Dollar	€ Euro	US$ US Dollar
-28.8%	-12.0%	-28.9%
-17.9%	-17.4%	-18.0%

RES DATA

LonRes publishes a range of area-specific analysis on the sales and lettings market via ResData. Subscribers have immediate access to this rich research facility and can download reports directly from the LonRes system.

SALES. MARKET. OVERVIEW.

The market this year has been significantly distorted by both the referendum and the introduction of the 3% stamp duty (SDLT) levy for additional properties in April. While sales values have fallen, most noticeably in the upper price bands, it is transaction volumes which have borne the brunt of the uncertainty which has permeated the market in recent months.

The run up to the referendum

It would be easy to blame the EU referendum for the slowdown in the prime London market. In reality it is just one, albeit significant factor, in a series of changes which have acted as a brake on price growth and sales activity in the central London market.

According to our latest survey, 79% of agents reported the referendum had caused the majority of their buyers to delay their decision to purchase in the second quarter. This was borne out in our transaction figures. The number of properties sold in Q2 2016, across our three prime areas, fell by 41% compared with the first three months of the year, with 42% fewer transactions than during the same period a year ago. Even taking into account a busier first quarter (when deals were pushed through pre 3% SDLT levy) transactions in the first half of 2016 were down 25% in prime central London (PCL), 11% in prime London and 6% in prime fringe compared with the first half of 2015.

Those who did buy between April and June were looking to negotiate on price. Properties sold in Q2 2016 in PCL achieved an average of 90.9% of initial asking price, down from 93.6% at this point a year ago and 97.0% in Q2 2014. Prime London properties sold in Q2 2016 achieved 91.5% of initial asking price with prime fringe achieving 94.7%.

Despite a significant fall in transaction volumes, average prices have changed little over the last 12 months. In PCL prices achieved in Q2 2016 were, on average, 0.5% lower than at this point a year ago, with prime London (+1.8%) and prime fringe (+0.6%) seeing marginal increases.

However, compared with 2014, when the market last peaked, buyers across our three prime areas are now paying an average of 10% less for homes priced at £2 million or more and 6% less for homes under £2 million.

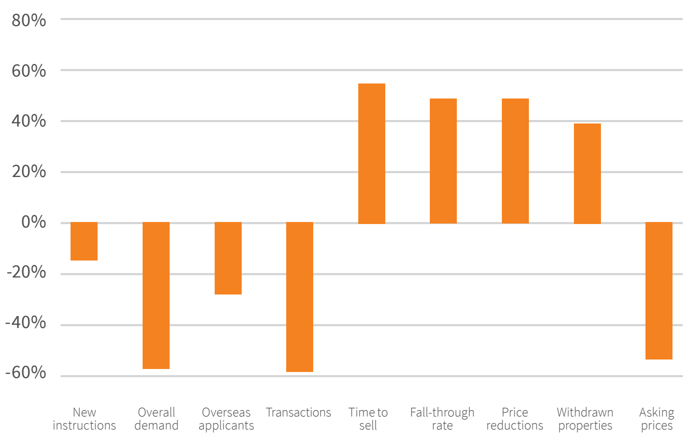
Post referendum

It is still too early to tell what the impact of the referendum on 23rd June will mean for central London. Our latest survey suggests subscribers are expecting the outlook for prices and transactional activity to remain challenging for the remainder of the year. 81% of agents expect a fall in prices and 75% expect a fall in transaction volumes compared with 2015 levels.

However, there are opportunities for purchasers. In Q2 2016 values in PCL had fallen to levels equivalent to prices paid in 2013, indeed in certain price bands buyers were paying even less.

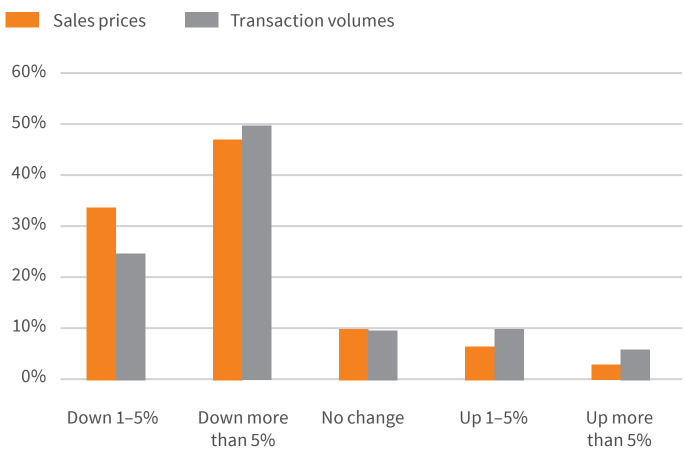
For those not buying with sterling, a combination of price falls and exchange rate movements could have a significant impact on the cost of PCL property now and in the coming months. Of our agents surveyed, 61% expected to see an increase in demand from overseas buyers from outside the EU, looking for opportunities following the vote to leave.

Results of LonRes Q2 2016 Agent Survey



Source: LonRes Q2 2016 agent survey, net balance of agents reporting a change

Agent expectations for the remainder of 2016



Source: LonRes Q2 2016 agent survey, expectations compared to 2015 levels

KEY STATISTICS IN SALES – Q2.2016

£1,749
average value achieved per square foot in PCL

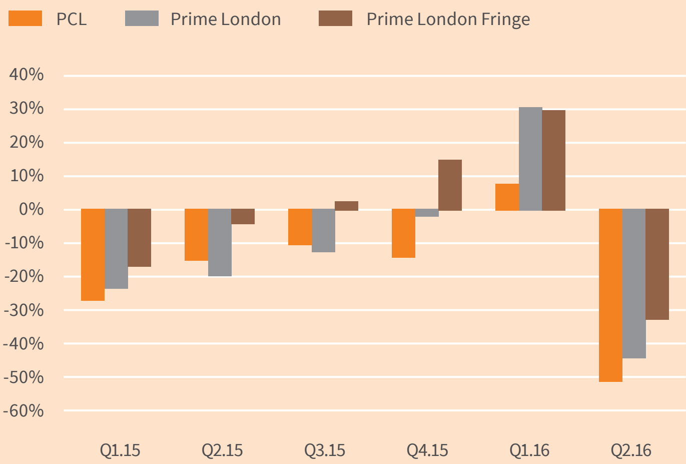
75%
of agents said vendors remained unrealistic on price

56%
of agents expect a fall in the number of European buyers in the next 12 months (24% expect a rise)

83%
of agents reported an increase in price reductions (just 4% saw a fall)

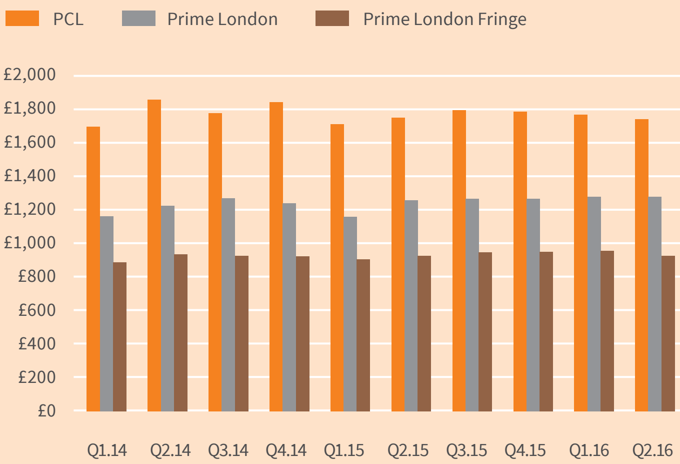
KEY MARKET TRENDS IN SALES

Annual change in transactions



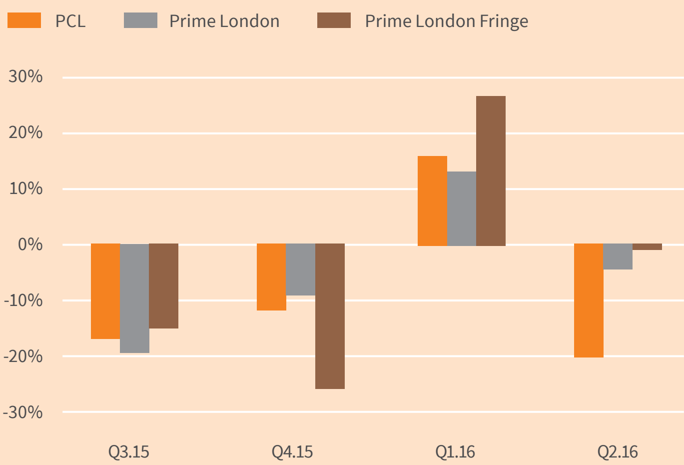
Source: LonRes - Please note 2016 transaction volumes were affected by 3% SDLT increases and the EU referendum

Achieved price – £ per square foot



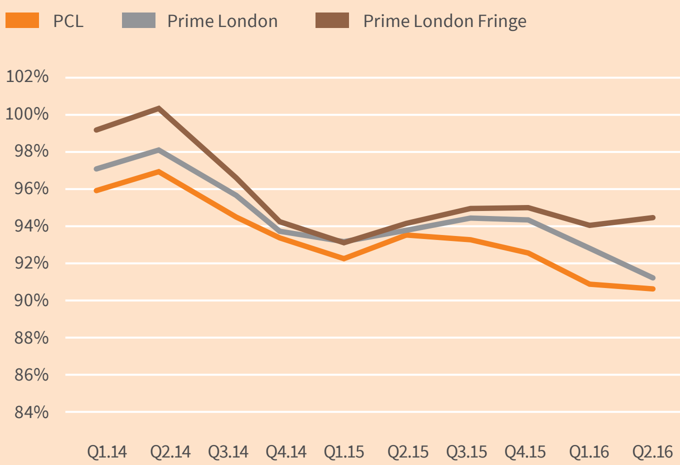
Source: LonRes

Annual change in level of new instructions



Source: LonRes

Average percentage of initial asking price achieved



Source: LonRes (100% = achieved full asking price)

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

LETTINGS. MARKET. OVERVIEW.

The prime London rental market has not escaped the uncertainty which has gripped the UK economy and housing market in recent months. However, just weeks on from the referendum the market is seeing an increase in activity, with a rise in the number of properties going under offer and let in late July.

Results from our latest agent survey report a fall in the number of new tenancies agreed in the second quarter (Q2 2016). PCL was the only one of our three prime areas where the volume of new tenancies agreed increased, albeit marginally, with 0.4% more properties let. Both prime London (-6.7%) and prime fringe markets (-14.7%) recorded fewer new lets in the three months to June.

Demand from corporate tenants fell in the second quarter, with 63% of agents surveyed having seen a fall in demand in the three months to June, with just 8% reporting an increase. All three prime areas saw volumes of stock reaching the market increase in Q2 2016, this, coupled with lower volumes of properties let, meant the number of properties on the market rose by between 17% and 19% compared with Q2 2015.

Across our three prime areas, the Q2 2016 LonRes Prime London Lettings Index recorded an increase in achieved rental values of 0.9% compared with the previous three months, with rents having increased by 0.7% since Q2 2015. Growth was driven primarily by prime London, recording an increase of 5.3% over the last 12 months.

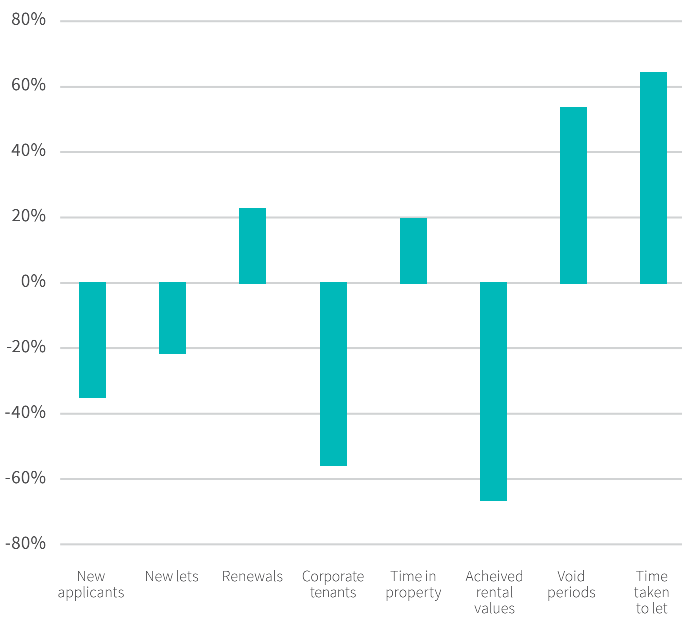
The PCL and prime fringe indices both registered falls of 2.4% and 0.7% respectively over the same period. Despite increases in achieved rental values in some areas, a rise in stock on the market to let has meant tenants have become more confident in negotiating on asking rents. Properties let across our three prime areas in Q2 2016 achieved an average of 93.8% of initial asking rent, down from 95.2% a year ago. Tenants in PCL negotiated the highest average discount, paying an average of 92.2% of initial asking rent in the three months to June.

What lies ahead?

Just weeks on from the referendum, it is difficult to predict how the market will fare this year. Our survey shows expectations on rental growth remains muted. Just 10% of survey respondents anticipate a rise in achieved rents this year, down from 29% in Q1 2016.

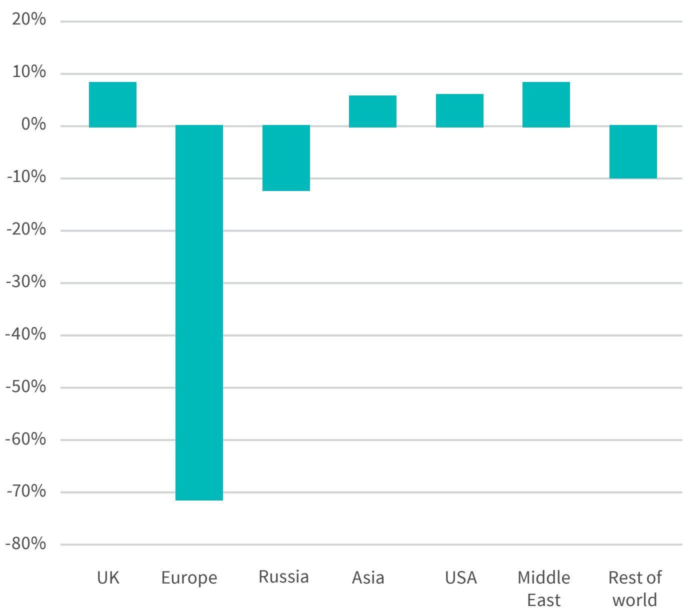
However, activity within the lettings market is recovering from the post-referendum dip. Immediately following the vote there was a spike in fall throughs and the number of properties going under offer fell. However, this was short lived, three weeks on, fall through volumes has settled back to levels we would normally expect at this time of year. The number of offers and lettings agreed have also risen. Indeed the second week of July recorded the highest number of properties put under offer of any week so far this year.

Results of LonRes Q2 2016 Agent Survey



Source: LonRes Q2 2016 agent survey, Q2 2016 compared with Q1 2016 net balance of agents reporting a change

Expectations of tenant demand over the remainder of 2016



Source: LonRes Q2 2016 agent survey, net balance of agents reporting a change
(a positive result indicates a higher proportion of respondents reporting an increase than a fall)

KEY STATISTICS IN LETTINGS – Q2.2016

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£54
annual rental value per square foot in PCL

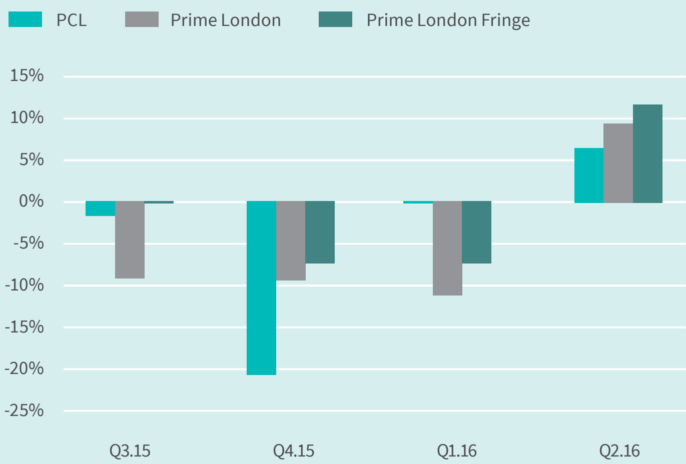
30%
above the 2016 weekly average – properties going under offer in second week of July 2016

35%
of agents saw an increase in the number of applicants choosing to rent rather than buy

3.4%
average gross rental yield across our three prime London areas

KEY MARKET TRENDS IN LETTINGS

Annual change in new instructions



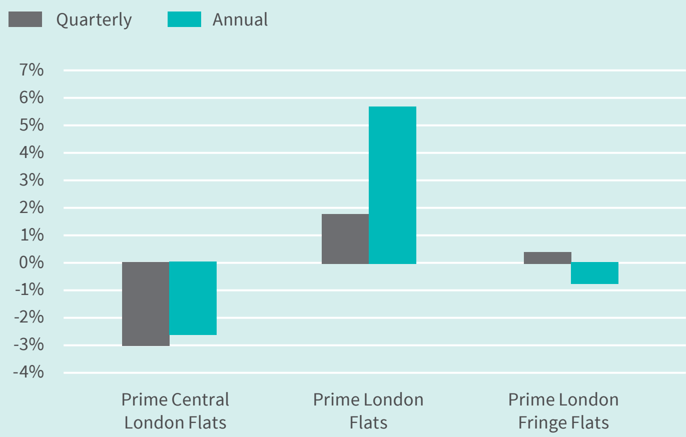
Source: LonRes

Q2 2016 results from LonRes Prime London Lettings Index

All Property	Prime Central London	Prime London	Prime London Fringe
Index	118.9	125.9	126.6
Quarterly change	-1.5%	2.6%	3.2%
Annual change	-2.4%	5.3%	-0.7%
Average rent per week	£1,009	£755	£611

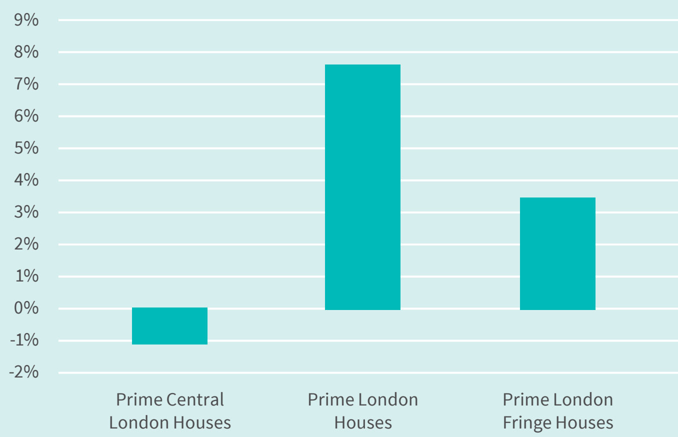
Source: LonRes Prime London Lettings Index

Quarterly and annual change in LonRes Prime London Lettings Index – flats



Source: LonRes Prime London Lettings Index

Annual change in LonRes Prime London Lettings Index – houses



Source: LonRes Prime London Lettings Index NB: different methodology has been used for the house index i.e. annual change in the difference between rents in Q3 15 – Q2 16 compared with Q3 14 – Q2 15

Prime Central London includes properties within the following postcodes: SW1X, SW1W, SW1A, SW3, SW7, SW10, W1K, W1J, W8

Prime London includes properties within: NW1, NW3, NW8, SW1P, SW1V, W1T, W1H, W1U, W1G, W1W, W2, W11, W14,

Prime Fringe includes: SE1, SE11, SW4, SW5, SW6, SW11, W4, W6, W9, W10

NATIONAL. MARKET. OVERVIEW.

£18.2BN
gross mortgage lending in May 2016, 14% higher than in May 2015 (CML)

£307,824
average asking price for properties marketed in July on Rightmove

+8.2%
annual growth in UK house prices – April 2016 (ONS)

-11.9%
annual change in UK transaction figures in May – seasonally adjusted (HMRC)

The main house price indices continue to report increases nationally, however the outlook for prices, in the short-term at least, remains more pessimistic following the leave vote.

The delay in publishing official figures on transactions and prices achieved in the mainstream markets make it difficult to immediately assess the impact of significant political or economic changes on the market. The latest figures suggest that in May the market had already slowed, with the number of homes sold down 11.9% compared to the same month a year earlier. The National Association of Estate Agents (NAEA) reported demand from prospective buyers was at a three-year low, with the number of applicants registered per office averaging 304 per member branch, down 21% year-on-year and the lowest since November 2013.

Responses to the RICS June survey were more pessimistic about the outlook for the market over the next 12 months. The survey recorded the third consecutive monthly fall in transaction volumes. Sales expectations turned negative for the first time in four years, with more agents expecting transaction levels to fall than rise over the next 12 months.

According to RICS, expectations on price growth over the next five years have softened, perhaps unsurprising at a time when uncertainty over the result of the referendum was peaking. Respondents in June were forecasting growth in prices of 14% over the next five years, down from 20% in the May survey.

Lending

Gross mortgage lending increased in May, with the Council of Mortgage Lenders (CML) figures showing a 14% increase on May 2015. This is higher than expected, but was predominantly driven by growth in re-mortgage activity. Lending for house purchases has seen a slowdown, with gross lending to home movers down 2% on the same month last year. In April and May, for the first time in 20 years, the number of loans issued to first-time buyers exceeded the number issued to home movers.

With an increased number of deals pushed into the first three months of the year, avoiding the 3% stamp duty levy for additional properties, it is unsurprising that the number of loans offered for buy-to-let purchases fell significantly (since March). CML figures show volumes were down 85% in April, compared to March, with a 51% year-on-year fall in new buy-to-let lending advances in May.

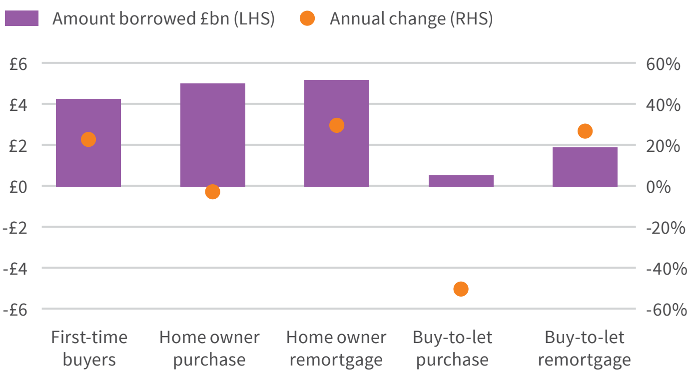
London

The latest government house price indices show London has once again outperformed every other region, recording a 14.5% increase in achieved prices over the last 12 months. This does however, obscure some significant differences between boroughs. Growth in Waltham Forest (25%), Barking & Dagenham (22%) and Newham (21%), among other outlying boroughs, outpaced more central boroughs. Kensington & Chelsea at 1.8%, City of Westminster at 3.2% and Hammersmith & Fulham at 3.9% all recording significantly lower annual growth.

Regional house price growth – last 12 months

Source: ONS House Price Index

Gross mortgage lending by type



Source: CML- May gross mortgage lending

A.NEW.HOME?

Following the financial crisis in 2008 many developers chose London as the area in which to focus their development activity. Many overseas investors were keen to buy into these new inner London schemes, however falling demand, alongside high volume of new stock completing, means developers must now look elsewhere for buyers too.

Changes to buying costs, more stringent rules on anti-money laundering and higher taxation, (which has affected domestic investors too) have been introduced by government to curb overseas investment into the London residential sector. This was a significant contributing factor in deterring foreign investment and has left developers with units still to sell within schemes currently under construction.

However, these schemes have much to offer, many featuring secure parking, a gym, concierge and often enviable views of London. Indeed, the main issue for many potential buyers has been the way these schemes are sold and the prices they were asking, rather than the developments themselves.

For owner-occupiers, buying off-plan is rarely an attractive proposition, most house hunters are looking for a home now, not in two years when a scheme completes and their mortgage offer will have long expired. However, with units in new developments nearing completion, having either remained unsold or being 'flipped' by their current owners, there are opportunities for buyers who may previously have dismissed new developments.

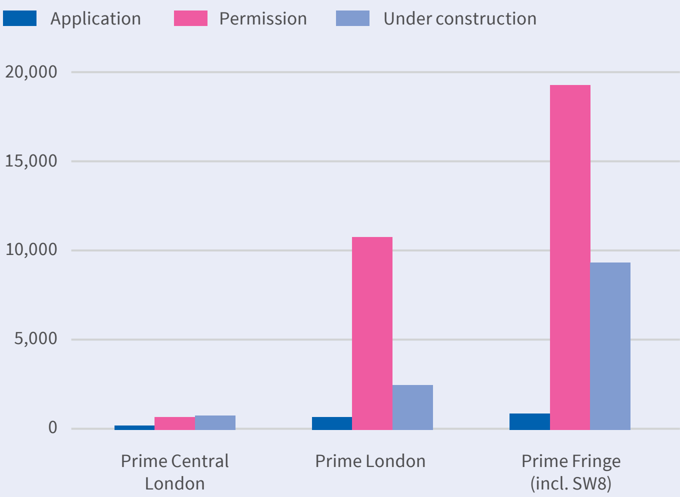
Opportunities within new developments

Volumes of new development differ significantly across prime areas of London. Prime central London (PCL) has the lowest number of new units under construction, with permission, or at application stage, of our three prime areas. Units for private sale, under construction in PCL, represent just 1.5% of current housing stock. This compares with 4.4% in prime fringe areas (including Nine Elms in SW8). Alongside properties under construction there are over 30,000 private units with planning permission granted across our three prime areas (including SW8), 62% of which are located in prime fringe areas.

With almost 13,000 units currently under construction across our three prime areas, even if some developments in the planning pipeline are delayed, there could still be significant opportunities for buyers as these schemes complete. Comparing achieved prices for re-sales in new developments, with values achieved for existing properties in the surrounding area, shows the premium for new properties has fallen over the last two years.

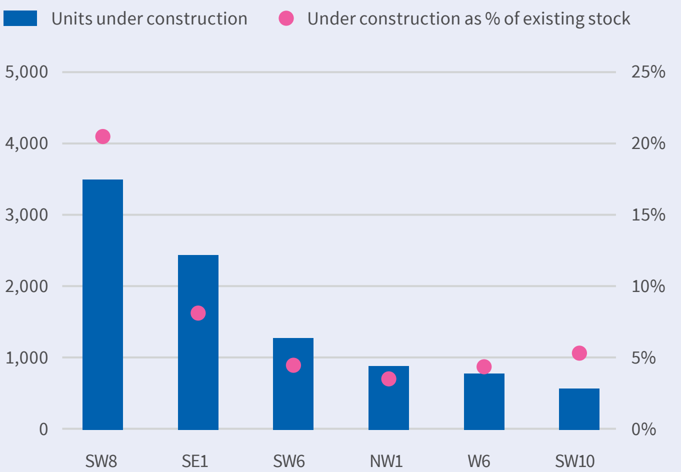
While it is difficult to ascertain the prices paid off-plan, we can use LonRes data on values achieved for re-sales in new developments to assess changes in prices. Comparing large developments within our prime fringe area shows average prices per square foot for re-sales in new developments have fallen by 12% since 2014, compared with a 6% increase in values of properties on the surrounding streets. This has meant the premium per square foot for re-sales in new developments has fallen from 56% in 2014 to 28% this year.

Planning pipeline by area



Source: LonRes/ EGi (units for private sale)

Postcodes with highest volumes under construction



Source: LonRes/ EGi (units for private sale)

LONDON.ON.THE.MOVE.

The latest figures from the Office for National Statistics (ONS) show that more than 205,000 people moved to London from elsewhere in the country in the year to June 2015. In addition, 382,000 London residents moved between boroughs in the same 12-month period.

Last year the number of residents leaving London was 77,000 higher than the number moving from elsewhere in the country. In-migration from outside London only exceeded out-migration between the ages of 21 and 28 years old. New residents within this age group accounted for almost half (47%) of new residents in London last year, with the number of people moving into the capital 70% higher than those leaving.

Of the inner London boroughs, Camden and Wandsworth saw the highest proportion of in-migrants from outside London, with 43% of those of people moving into these boroughs coming from outside the capital.

Comparing migration patterns within London, shows some clear routes Londoners take when moving around the city. Almost one in three people moving into Wandsworth, from elsewhere in London, moved from either Hammersmith & Fulham or Lambeth.

Londoners were more likely to move to neighbouring boroughs. In South East London a third of existing London residents moving into Bexley were from Greenwich. North of the river, 30% of those leaving Islington for another London borough were heading to either Hackney or Haringey.

People living on the edge of inner London, moving from areas popular with families, were the most likely to be leaving London. Greenwich and Wandsworth recorded the highest proportion of residents moving out of London at 45% and 39% respectively.

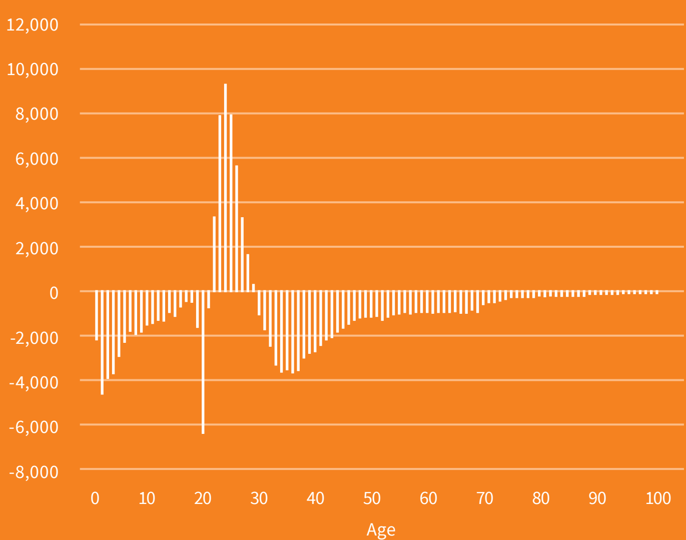
Central London

Out of all the London boroughs, residents moving out of Kensington & Chelsea and Westminster were the least likely to be leaving London, just 24% moving outside the capital. Younger residents were more likely to move out of Kensington & Chelsea. Last year 14% of residents, aged between 26 and 35, moved out of the borough, compared with just 3% aged over 65.

Many of those leaving weren't going far. One in six people leaving Kensington & Chelsea moved across the border into Hammersmith & Fulham, but just one in every twenty people leaving Hammersmith & Fulham moved to Kensington & Chelsea. Of those leaving London, Brighton, Elmbridge, St Albans, Oxford or Cambridge, were all notable destinations.

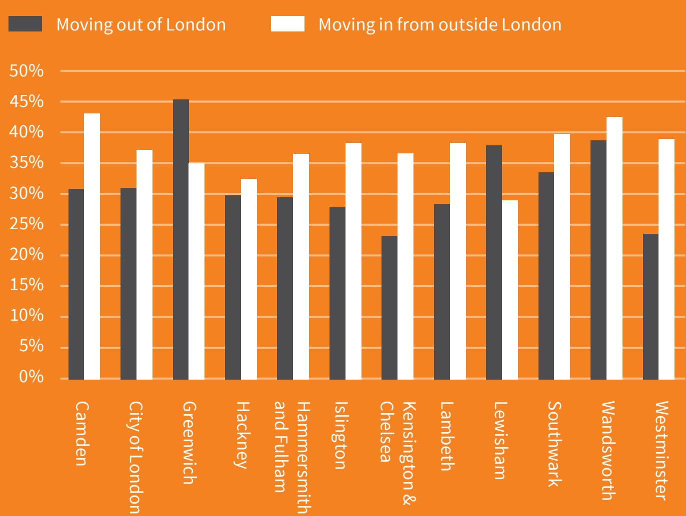
New residents moving from elsewhere in London accounted for 62% of moves into Kensington & Chelsea and Westminster. Of those moving in from outside of London, 31% were from the South East. The East of England and South West recorded the biggest increase in number of residents moving to Kensington & Chelsea and Westminster. The number of people moving from the South West was up 7% and numbers from the East of England up 16%. Cambridge, Wiltshire, Bristol, Bath and the Cotswolds were all notable sources of new residents in Kensington & Chelsea and Westminster last year.

Net migration into London



Source: ONS/ LonRes (year to June 2015)

Inner London – % of moves out of London and into London

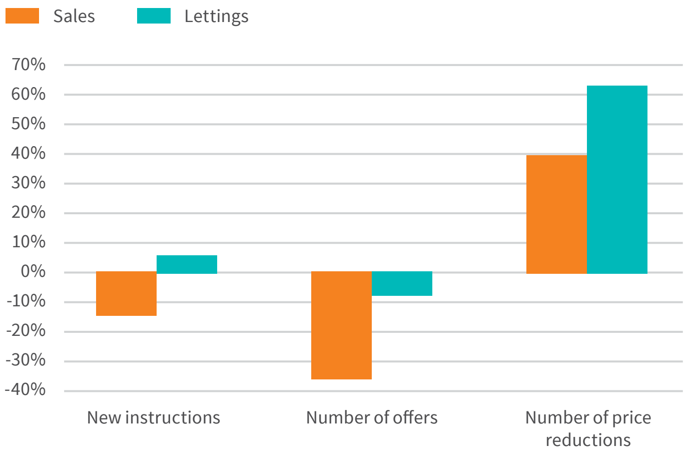


Source: ONS/ LonRes (2015)

THE. MARKET. POST-REFERENDUM.

With the UK having voted to leave the European Union, our survey asked subscribers what the impact had been on the market post-referendum.

Sales and lettings market



Source: LonRes Q2 2016 agent survey, showing net balance of agents reporting a change – proportion of respondents reporting a rise minus the number reporting a fall (if 50% reported a rise and 20% a fall the result would be +30%)

Impact of the vote to leave on landlords and vendors

Source: LonRes Q2 2016 agent survey

LETTINGS

LUCY MORTON

HEAD OF RESIDENTIAL AGENCY
W.A. ELLIS

The referendum has had a much milder impact on our lettings business than we had feared. In the month since the result was released, we have seen an increase in activity from prospective tenants searching for property, which is what we would expect at this time of the year.

The most noticeable Brexit effect for us has been increased stock levels. Lettings stock levels in central London have been high all year, there is as much as 25% more property available to rent in Royal Borough of Kensington & Chelsea in Q1 this year as opposed to Q1 in 2015.

When there is an oversupply, prices soften which is exactly what we've experienced in the first half of this year and this has continued post referendum. Properties which are priced competitively and well-presented are letting well ahead of the competition. There is increased activity from high net worth students and also from families coming into London to get settled before the new school year.

So in short we have seen increased market activity since the referendum, however not quite enough yet to balance the disparity between supply and demand.

SALES

MARK POLLACK

FOUNDING PARTNER AND DIRECTOR
ASTON CHASE

Like most people we were concerned following the outcome of the referendum but a combination of factors have seemingly softened the blow.

For dollar-based buyers, London has become increasingly attractive in recent weeks because of the weaker pound and also because vendors are now recognising that challenging market conditions demand sensible pricing.

As a result some serious foreign buyers have benefitted by saving as much as up to 30% off pre-Brexit prices.

Chinese, Indian and Middle-Eastern buyers have been particularly active and recent deals include a £770k apartment to Chinese buyers on Gloucester Place, a Grade II Listed house on Wimpole Street to Russian buyers for £12m, a semi-detached house on Wellington Road, St John's Wood to a Hong Kong-based purchaser for £4m and a £4.5m house in Clifton Hill, St John's Wood to Chinese buyers.

So, despite our original fears, ironically, Brexit may ultimately prove to be responsible for kick-starting the prime central London market.

RES RESEARCH

Drawing on the power of the LonRes database, ResResearch offers an advanced level of insight on London's residential property market.

No one knows London like we do.

- ✓ Create more compelling pitches for your clients
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