LON
RES

RESIDENTIAL. REVIEW. SUMMER 2017.

BETTER.DATA.CLEARLY.

OPENING THOUGHTS...

A man walks into an estate agency and asks the agent to show him a large family house to rent for the next two years. "I want to move straight in with my family. What have you got?"

A week later he rented a house for £25,000 a week, or £1.3m a year. A few years ago, that might not have been the most sensible move, but it must now serve as a cautionary tale that higher taxes do not necessarily mean higher receipts. The referendum to leave the EU no doubt acted as a catalyst for uncertainty, but political soundbites and posturing do not make for a coherent economic plan, and stamp duty (SDLT) tinkering with additional taxes on second homes will see the slowdown in house sales transfer out of London into the rest of the UK. Indeed, revenue forecasts since the introduction of Land and Building Transaction Tax (LBTT) in Scotland in April 2015 are such that transaction volumes have fallen and the "middle" market may be subject to review. Revenue forecasts in the first year were some £33m short of government estimates and the second year about £82m behind forecasts.

Turning back to that £25,000 a week rental, the SDLT payable on that house as a second home would have been in the region of £5,150,000. Couple this with the political shenanigans that add to the difficulty in selling a house in this market and you can quickly see why revenue receipts are declining in London as uncertainty prevails. The tax is such a burden that it makes sense to either rent or not move home at all. In 2014, before this latest revision, SDLT payable on this property would have been £2,310,000, still a sizeable amount but nothing compared to this latest tax grab.

ROUND UP: THREE PRIME AREAS

£1.85 BILLION total value of sales in Q2 2017	**-10%** properties sold compared with H1 2016	**+5%** properties let compared with Q2 2016

Elsewhere in this issue is fascinating analysis by Marcus Dixon on the real elephant in the room; what happens to the cost of a mortgage when interest rates go up, and a comparison with market conditions in the recession of 1989–1993. A low interest rate on a capital repayment mortgage then was 8.5%. In a recent briefing note by Barclays Equity Research, their view is that the impact of the rate rise is "overblown." For people who have been working in the industry for the last 17 years there is a sense of uncertainty (that word again), prevailing in a market where there has been a bull run. For buyers, there is no return to the 10% per annum capital appreciation that could be expected. For sellers, the asking prices of 2014 have gone. The market is adjusting as it always does, but HM Treasury will bear some of the pain this time as they forgot that the London residential market is part of the economy, not a cash cow needing to be milked. There are better ways to deflate a bubble than this.

In Brexit news it is true that Brussels is looking at moving as much business away from the UK as it can, especially from the City of London. The *Financial Times* reported that a study by the European Central Bank (ECB) has now concluded that it would involve exorbitant cost to the EU because they would need to lay, build, and install their own network of undersea fibre optic cables. The UK was far-sighted enough to lay these in the 1980s. London now accounts for 43% of foreign transactions involving the euro. There are some 8,000 miles of cable emerging from the seas. London's strategic position is such that the industry's biggest data centre operators are increasing capacity to cope with rising demand, especially from Asia and the US.

Lastly, here at LonRes we have taken steps to connect agents in the capital with those based in rural locations. With city-and-country transactions on the rise, ResCountry is our latest new service enabling subscribers in both markets to harness these all-important opportunities. Hear more about the current dynamics between London and the country towards the rear of this issue.

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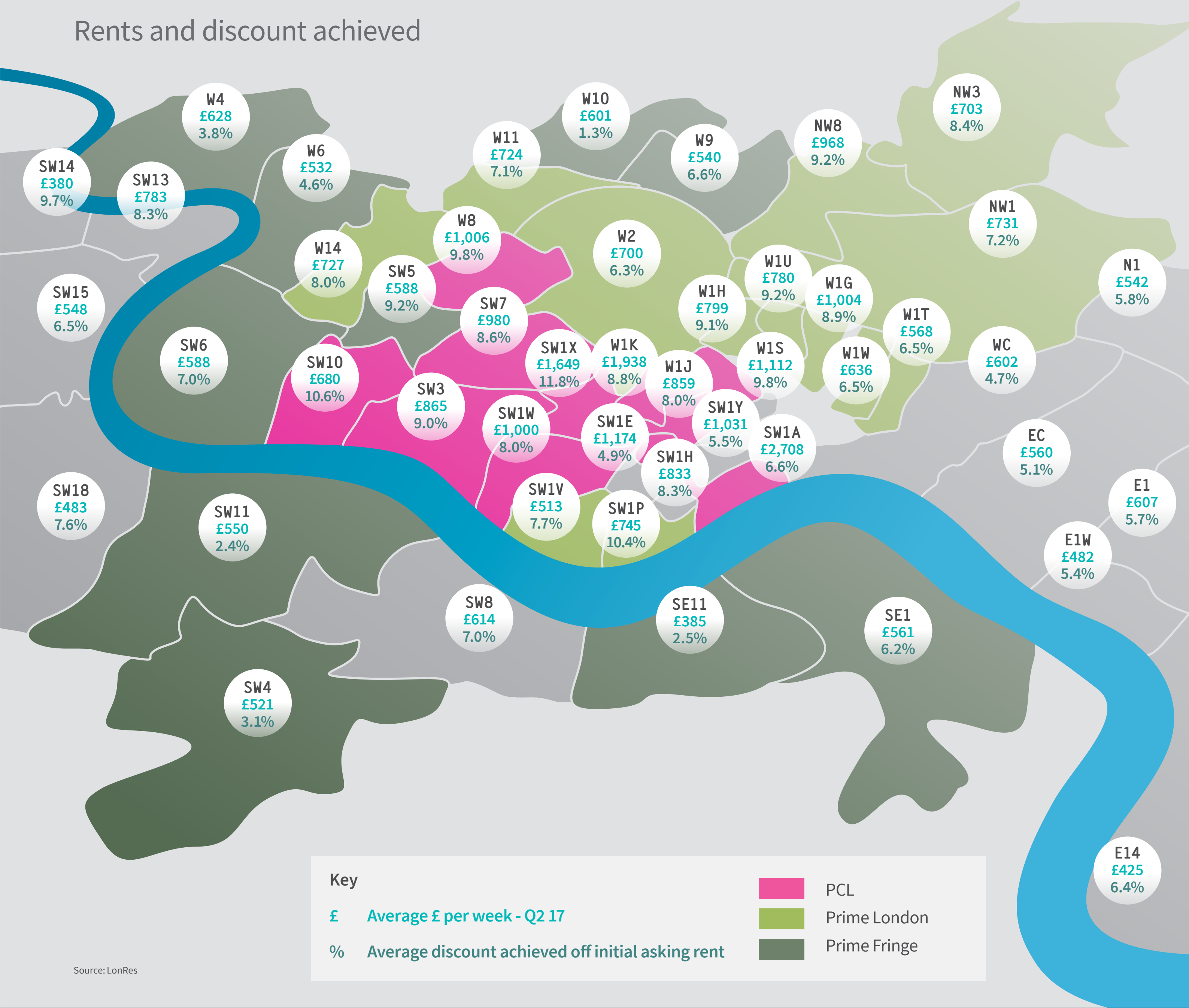
MAPPING. PRIME. LONDON.

Rents and discount achieved



Source: LonRes

MARCUS DIXON
HEAD OF RESEARCH

This issue is produced in July 2017 using data to 30 June 2017

FOREWORD

With the June election and continued uncertainty over what Brexit will mean for the UK economy, the prime markets could easily be forgiven another quarter of lacklustre activity. Prime London and prime fringe markets remain challenging, however prime central London was busier in the first six months than it was last year. Lack of urgency is still an issue, however withdrawal rates are falling in central London and tentative signs are that prospective buyers and movers are beginning to get itchy feet again.

The prime central London lettings market performed well in the second quarter too. Achieved rental values rose, compared with the first three months of the year, and the number of properties let continued to exceed figures at this point last year. Prime London and prime fringe saw little change in rents over the last quarter, as stock levels continue to hamper prospects for growth, but year-on-year fluctuations in stock have begun to recede and our agents appear less downbeat on the outlook for the next 12 months.

SALES. MARKET.OVERVIEW.

Buyers in prime areas of London remain in something of a quandary. Do they buy now, and take advantage of lower prices and less competition, or hold off and risk missing out?

This quarter, as we saw in the first three months of the year, tax changes and political uncertainty continue to impact the market. The second quarter last year was bookended by the 3% stamp duty (SDLT) levy for additional properties and the EU referendum. This year, the April announcement of a snap general election in June, added further uncertainty to a market which was already challenging. All this makes deciphering what is happening to the prime market more difficult than usual.

Transactions

The first half of the year finally saw some positive news emerging from prime central London. A combination of more motivated and realistic sellers and lower prices has tempted more buyers into purchasing in prime central London this year. Indeed, the number of properties sold in the first six months of 2017 was up 3% on the same period a year ago. Prime London and prime fringe, which saw a more significant spike in sales last year surrounding the 3% stamp duty levy, still saw fewer transactions, down 12% and 16% respectively in H1 2017 compared with the same period a year ago.

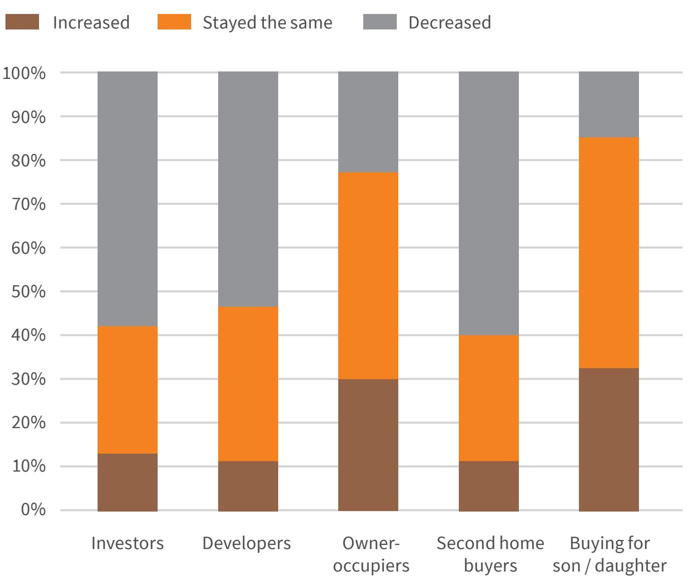
It is smaller properties, popular with investors and second home purchasers, now liable for the addition 3% SDLT levy, which have seen the most significant fall in volumes sold over the last 12 months. Comparing sales in the year to June this year with the previous 12 months shows, across our three areas, a 29% fall in the number of studio and one-bedroom flats sold. This compares to a 13% reduction for flats with three or more bedrooms and 14% fall in the number of houses. Results from our latest survey support this, with just 12% of agents reporting an increase in demand from buyers now liable for the additional 3% SDLT levy.

Impact on prices

Comparing prices, quarterly figures, for reasons stated above, are more erratic. However, looking at half year averages suggests all three of our prime areas have seen achieved prices fall. Prime central London values were, on average, 4.4% lower in the first half of 2017 (-6.8% for Q2) compared with the same period a year ago. Prime London and prime fringe also saw a reduction in achieved prices, albeit more modest, down 0.8% in prime London and 2.5% in prime fringe.

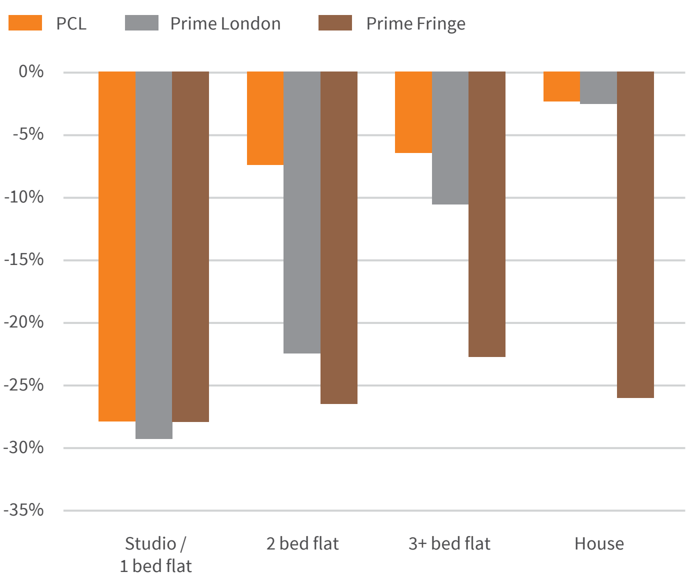
Prospective buyers, many of whom had been complaining about lack of suitable properties on the market, now have more choice. Comparing the number of properties on the market at the start of July shows prime London and prime fringe saw an increase in available of properties of 11% and 13% respectively, with a smaller increase of 4.5% across prime central London.

Change in demand by buyer type – last 12 months



Source: LonRes Q2 2017 agent survey

Annual change in sales by property type



Source: LonRes (year to June)

KEY STATISTICS IN SALES – Q2.2017

£1,699
PER SQUARE FOOT
average value achieved (PCL)

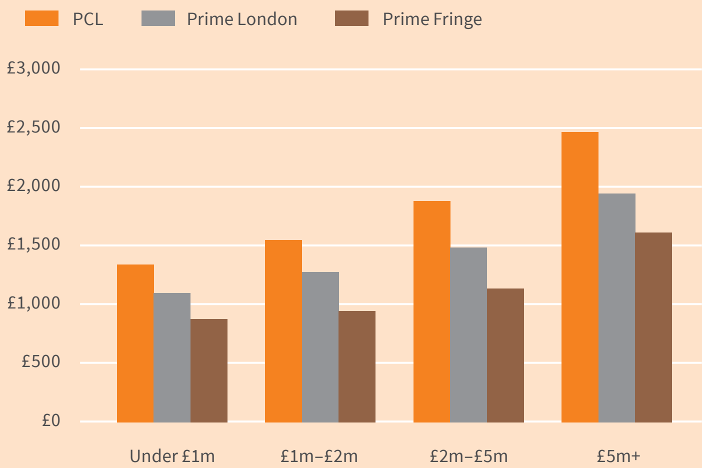
47%
of properties sold for £2 million or more (PCL)

9%
annual increase in total value of sales (three prime areas)

£1.72 MILLION
average sale price (three prime areas)

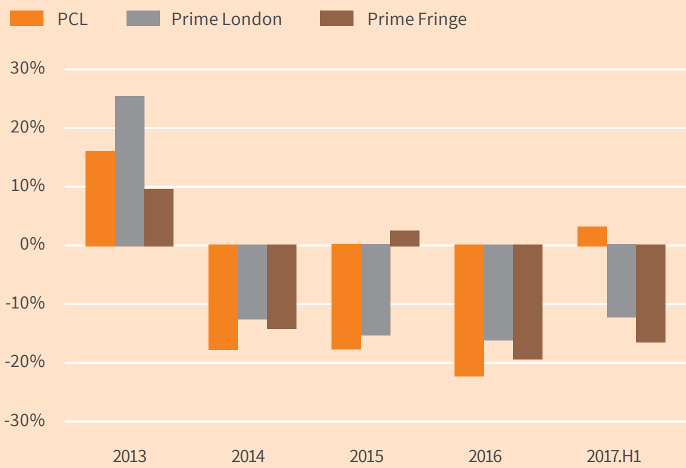
KEY MARKET TRENDS IN SALES

Achieved £ per square foot by area and price band



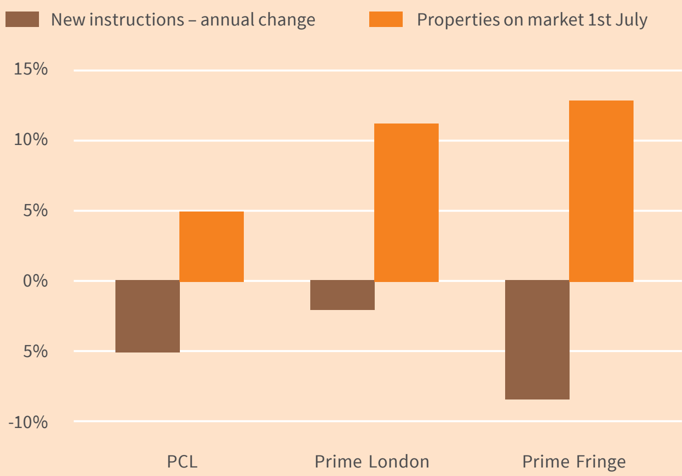
Source: LonRes (sold H1 2017)

Annual change in transactions



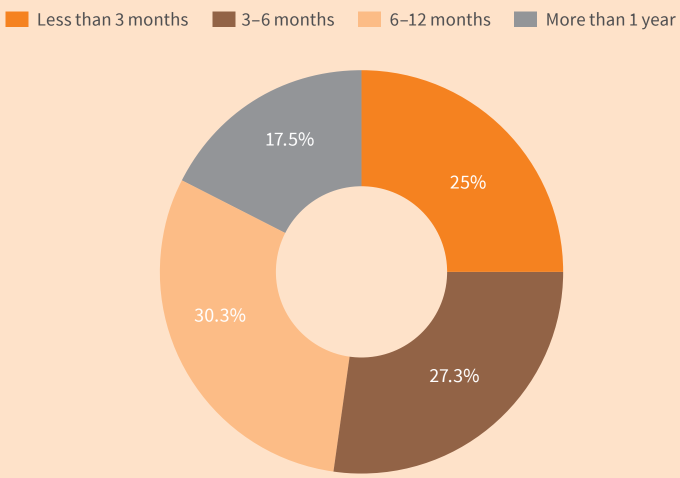
Source: LonRes (2017 figure compares Jan – June sales)

Annual change in new instructions and properties on the market



Source: LonRes (new instructions Jan - June)

Time on the market before finding a buyer



Source: LonRes (Q2 2017 -three prime areas)

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.

For the third consecutive quarter, the number of new lets agreed across prime areas of London increased compared with the same period a year earlier.

After the first quarter, when achieved rents fell across prime central London, the second quarter saw an improvement in market conditions. The number of properties let across prime central London rose 9% in the second quarter compared with the same three months last year. Over the same period, the number of properties on the market fell, down 11% at the start of July, compared with the same point last year. This meant less choice for tenants but left landlords in a stronger position.

A more balanced market in prime central London is supporting increases in achieved rents. The LonRes Lettings Index recorded a 1.4% quarterly rise in rental values in the second quarter. Annually this still leaves prime central London 4.9% down on the second quarter last year, but is an improvement on the annual fall of 8.2% recorded in the first quarter. Average discounts also fell over the last three months, reflecting improved market conditions and landlords becoming more realistic in their expectations on rents. Tenants in the second quarter negotiated an average of 9.3% off initial asking rents, compared with 10.7% in the first three months of the year.

Outside prime central London

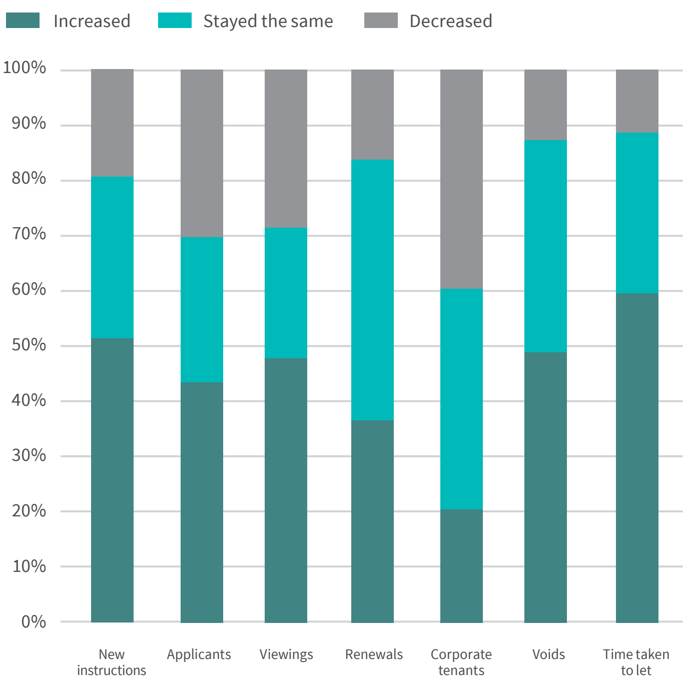
At the end of the first quarter, both prime London and prime fringe had seen a significant increase in volumes of stock on the market, up 25% compared with the same point a year earlier. Three months on, at the end of the second quarter, both markets recorded more modest increases in stock. The number of properties available up 6% in prime London and 14% in prime fringe compared with the end of the second quarter last year.

Rents in prime London and prime fringe also recorded small quarterly falls of 0.8% and 0.2% respectively, down between 3.4% and 6% on the second quarter last year. Both areas saw an increase in properties let, albeit more modest than prime central London over the same period. Prime London recording a 3.4% annual increase in properties let in the second quarter with prime fringe up 0.1%.

Looking ahead

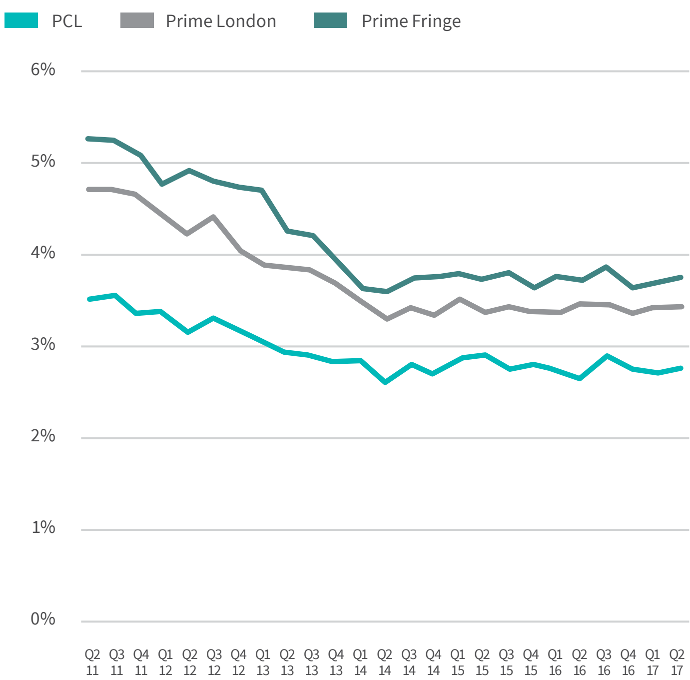
In the latest LonRes survey, 64% of agents surveyed still expect achieved rental values to be lower this time next year. However, following improved market conditions across prime central London in the last three months, our agents were less likely to forecast more significant rental falls over the next 12 months. The number of respondents expecting falls of more than 5% falling from 21% three months ago to 14% this quarter.

LonRes Survey Results – change over last three months



Source: LonRes Q2 2017 agent survey

LonRes Prime Yield – All property gross yield



Source: LonRes

KEY STATISTICS IN LETTINGS – Q2.2017

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£44
PER SQUARE FOOT
annual rental value
(three prime areas)

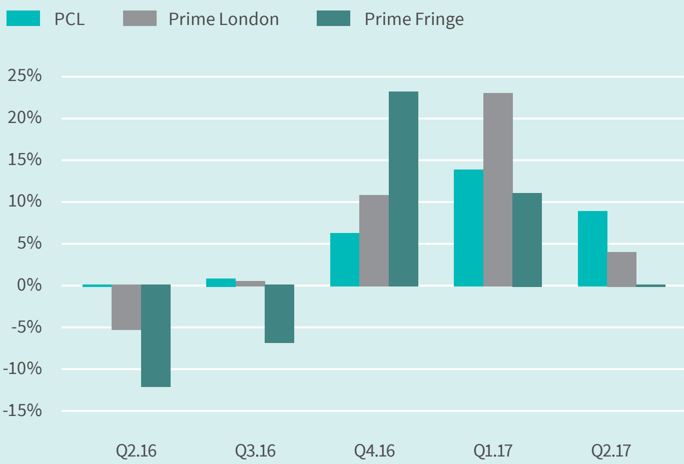
7.4%
average discount achieved
on initial asking price
(three prime areas)

88%
of properties let
were flats
(three prime areas)

12%
annual change in amount
spent on new lets
(PCL)

KEY MARKET TRENDS IN LETTINGS

Annual change in properties let



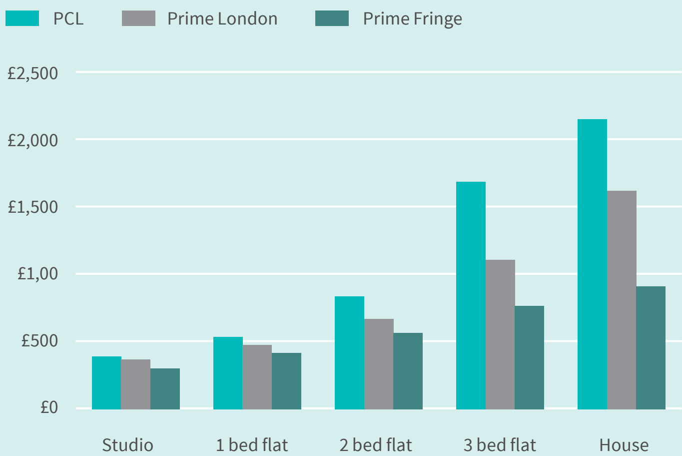
Source: LonRes

Q2 2017 results from the LonRes Prime London Lettings Index

All Property	Prime Central London	Prime London	Prime Fringe
Quarterly change in achieved rents	1.4%	-0.8%	-0.2%
Annual change in achieved rents	-4.9%	-3.4%	-6.0%

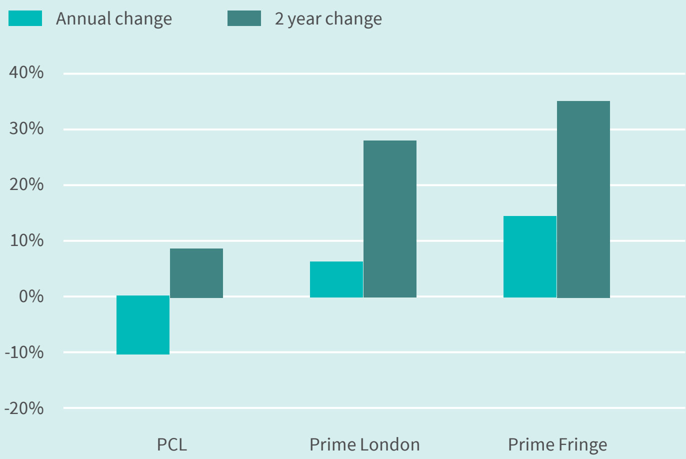
Source: LonRes Prime London Lettings Index

Achieved rental values - £ per week



Source: LonRes - let Q2 2017

Properties on the market to let – 1 & 2 year change



Source: LonRes – volume on market 1st July each year

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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.

3.0%
annual increase in London house prices (Land Registry)

24%
of buyers paid the additional 3% SDLT (ONS Q1 2017)

36%
of mortgages in Q1 2017 with a 30 year term or higher (Bank of England)

42.5
average number of properties available per agent (RICS June 17)

London has experienced more than two decades of relatively consistent house price growth. According to the Nationwide, house prices are now 439% higher than they were in 1997, compared with 239% growth nationally.

But central London has been slowing for more than three years, with falls in prices and activity now spreading outside prime postcodes. It is easy to draw comparisons with the previous, most recent downturn, following the banking crisis in 2008. However, in reality, for central London, the period of falls followed by recovery in prices was relatively short-lived, albeit less so elsewhere in the country. Perhaps a better comparison would be 1989 to 1993. Over this period prices in London, according to Nationwide, fell by 31% from peak to trough and by 19% nationally.

Of course interest rates in the late 1980s were higher (10% or more becoming the norm) than the record lows of 2017. Few are predicting price corrections will be anywhere near those seen in the late 80s and early 90s, when high interest rates and rising unemployment led to significant increases in repossessions. But, could today's equivalent be inactivity?

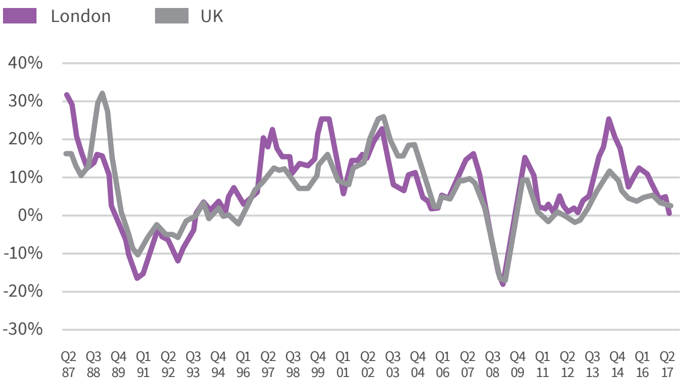
It is not just central London seeing fewer transactions. Across the rest of the country volumes sold have not recovered to pre-downturn levels either. A recent report by the Council of Mortgage Lenders looks at the issue of the 'missing mover'. Data shows that the average home now changes hands every 18.5 years, 50% longer than the pre-recession average of 12 years. In 2006/07 nationally there were 1.6 million homes sold per annum, by 2009 this had fallen to 860,000. Volumes have recovered, but reached a plateau in 2014 at 1.2 million, changing little since. This suggests a 400,000 annual shortfall in transactions compared with pre-recession levels.

With fewer households moving, frustrations over lack of suitable properties on the market add a further barrier for more motivated movers. The latest RICS survey recorded its 16th consecutive month when respondents reported a fall in properties reaching the market. Indeed, the number of properties on agents' books was at its lowest level since the survey began in 1978.

Borrowing more

Bank of England figures show more than one in three mortgages agreed in the first three months of the year were for terms of 30 years or more. Raising concerns over the burden high house prices and increased levels of debt may create in the future. While new regulations do consider the impact of higher rates on affordability, even small increases in interest rates will impact borrowers. For example, monthly repayments on a 25-year £250,000 mortgage would increase by 12% if rates were to rise just 1%.

Annual change in house prices



Source: Nationwide House Price Index – Seasonally adjusted

Historic base rates

Source: Bank of England

WITHDRAWN. PROPERTIES.

With holding costs and mortgage rates at historic lows, few in prime London are forced sellers. Rather than reducing their properties to find a buyer, many vendors are withdrawing from the market instead.

Following the financial crisis in 2008, withdrawal rates across our three prime areas peaked. Prime London and prime fringe saw more than 70% of properties removed from the market due to a withdrawal rather than a sale. The same period also saw the highest rates of withdrawals in prime central London, albeit lower at 60%.

As activity increased and confidence returned to the market in 2009, withdrawal rates fell back to between 30% and 40%. Indeed, between 2009 and early 2014 the number of properties sold each quarter comfortably exceeded those withdrawn.

In a rising market, we tend to see fewer withdrawals. Ambitiously-priced properties take longer to sell, but they do eventually find a buyer – usually when prices increase to meet vendors' expectations. Conversely, when prices fall, we would expect some vendors who do not need to sell to withdraw their homes and wait for the market to improve.

2014 onwards

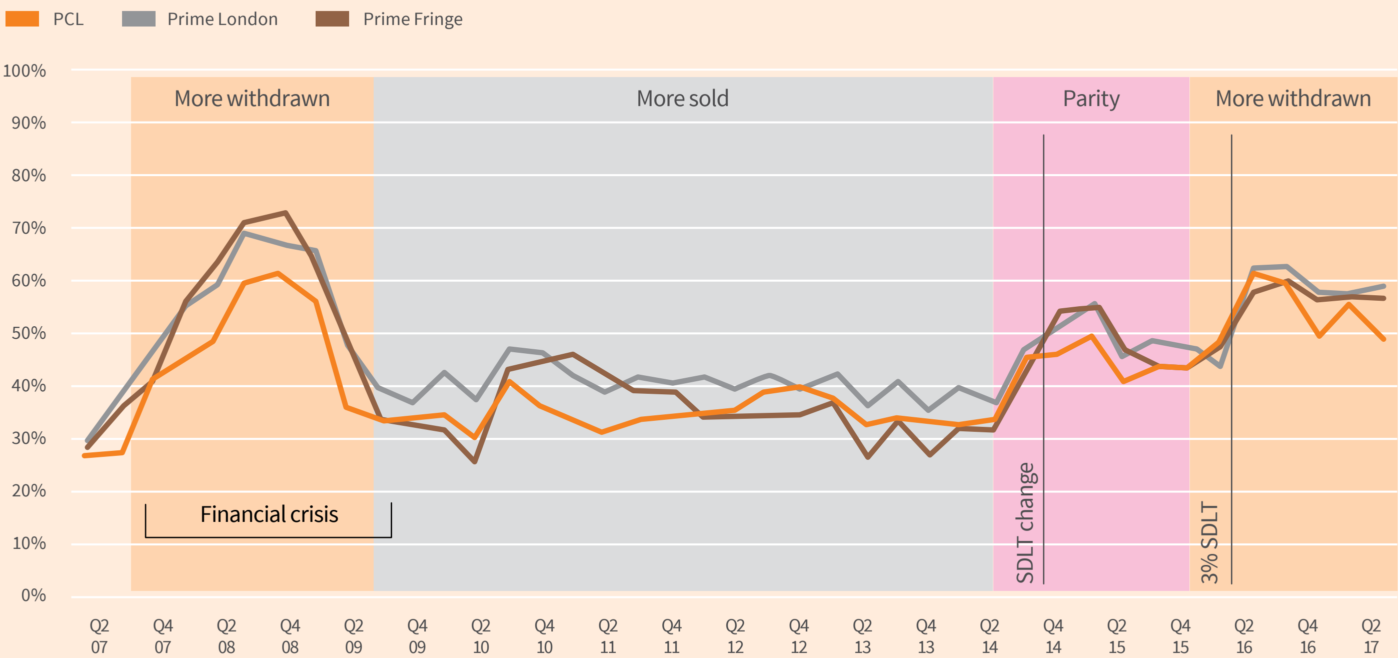
Looking more closely at the market in 2014, shows that the gap between the number of sales and withdrawals narrowed in the second half of the year. In the first three months of 2014, 65% of properties removed from the market had sold (35% were withdrawn). By the fourth quarter more properties were being withdrawn than those finding a buyer. This suggests some uncertainty was creeping into the market. Prospective purchasers sensed the market was close to peak and were unwilling to pay the asking prices set by vendors.

However, it was the two adjustments to stamp duty rates which resulted in the most significant shift in withdrawal rates. The changes to stamp duty in December 2014, which introduced a greater tax burden for higher value homes, resulted in an equalisation in the number of sales and withdrawals across our three prime areas, for the first time since early 2009.

When the market was hit again in April 2016, with the 3% stamp duty levy for additional properties, the proportion of withdrawn properties increased further. With potential vendors deciding not to sell, rather than reduce their price to secure a buyer. In the second and third quarters last year all three prime areas saw less than four in ten properties removed from the market due to a sale as withdrawal rates hit 60% for the first time in eight years.

But more recently the situation has begun to improve, led by prime central London. In the second quarter, half of properties removed from the market had found a buyer, compared with just 38% over the same three months last year. This, coupled with more encouraging transaction figures emerging from prime central London, could signal a rise in sales activity for the remainder of the year.

% of properties removed from the market due to withdrawal rather than sale



Source: LonRes

AGENT.SURVEY.

SALES

29%

of agents expected an increase in transactions over the next 12 months (53% expected a fall)

78%

of agents said they typically conducted 10 or more viewings on a property before receiving an offer

LETTINGS

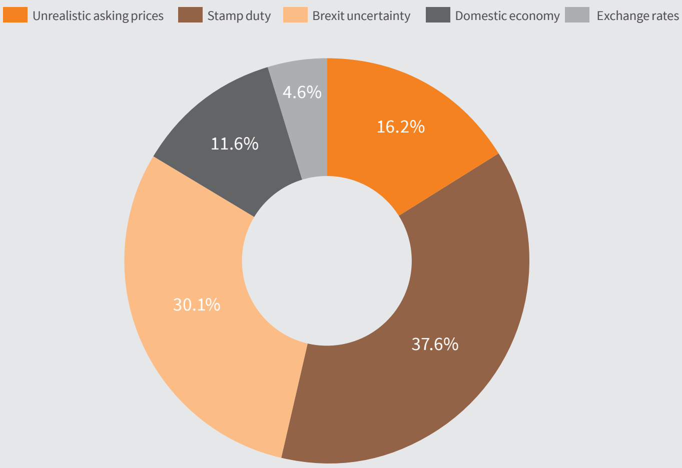
44%

of agents expected to see an increase in demand from domestic tenants over the next 12 months (just 10% expect a fall)

49%

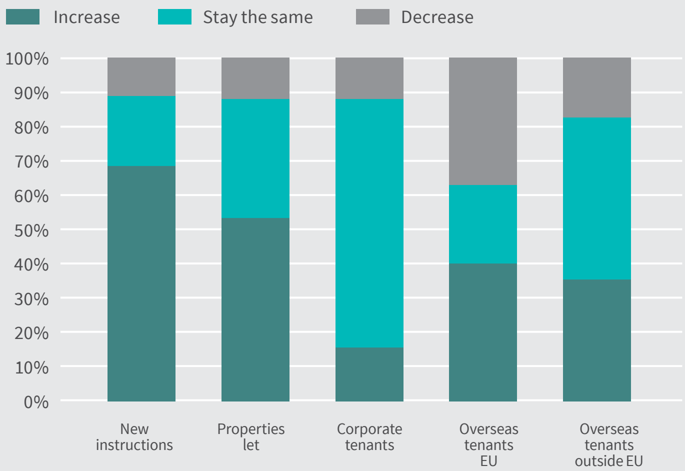
of agents reported an increase in voids over the last three months (12% had seen voids fall)

What will have the biggest impact on buyer demand over the next 12 months?



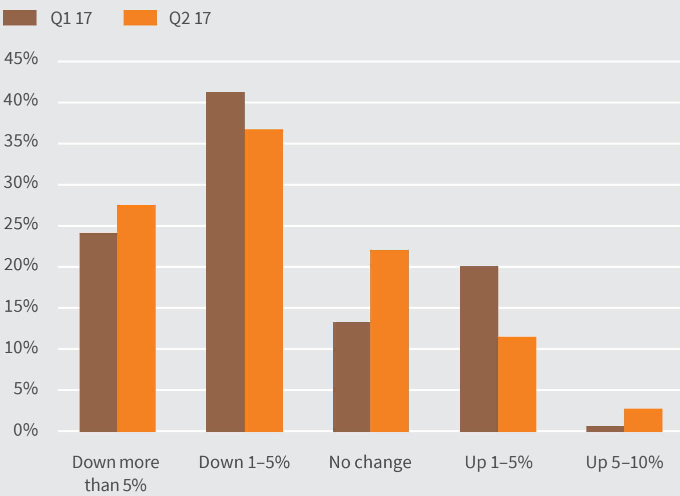
Source: LonRes Q2 2017 agent survey

Expectations on lettings and tenant demand over the next 12 months



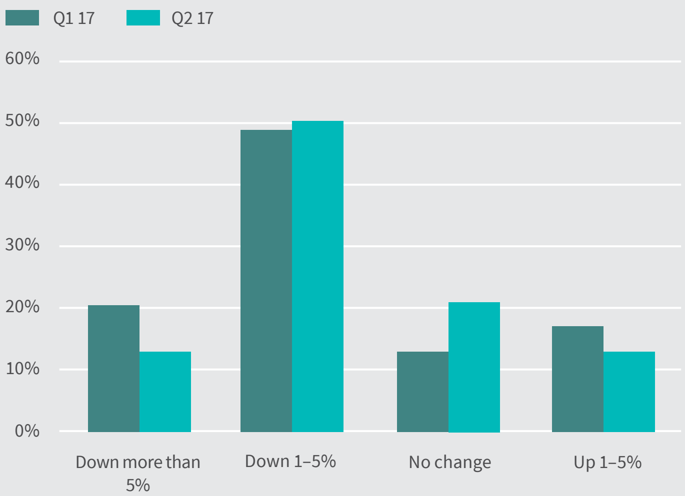
Source: LonRes Q2 2017 agent survey

Change in expectations for achieved sale prices - next 12 months



Source: LonRes agent survey (Q1 & Q2 17)

Change in expectations for achieved rental values - next 12 months



Source: LonRes agent survey (Q1 & Q2 17)

THE.COUNTRY. MARKET.

Industry experts discuss the country market

CHARLIE ELLINGWORTH
Co-Founder
Property Vision

"Moving from London to the country since the financial crisis of 2008 has been dominated by the boom in London prices and the relative stagnation in the country. On the face of it, this should have made the transition easy – but the reality is that buyers making the move were dominated by a fear of never being able to get back into the London market again. Those looking for a second home did not have the same fear. The last three years, where the London market has stalled, has seen a renaissance in country prices as that fear has receded and the normal flow of buyers wanting a country lifestyle for their children has resumed.

Over a longer, say fifteen-year, period we have seen a definite change in what buyers want changed by the internet. Twenty years ago, the big premiums were paid for commuter houses in, for instance, Hampshire where people could commute into the City or Canary Wharf. These still command a premium but with many being able to work one or two days a week at home, 'commuting' now goes right down to Devon or up to Yorkshire. And the areas nearer London are becoming increasingly international with Russians being big buyers, particularly on the likes of St Georges Hill.

Standards have changed. Big, drafty, cold houses that the traditional English buyers were conditioned to living in are not the current zeitgeist. Easy maintenance and modern comforts and luxuries are now the norm and command a premium."

DAVID WILLIAMS
Director
The Grantley Group

"The migration of London buyers to the Surrey Hills shows little signs of slowing. And it's not hard to see the appeal – good transport links, excellent schooling and above all a contented way of life surrounded by rolling countryside and strong community spirit.

Younger families moving from London are drawn to a safer, cleaner environment in which to bring up their children. Coupled with this, Guildford is surrounded by outstanding prep-schools that feed into some of the country's leading senior schools.

In recent years we have seen a shift in the buying habits of Londoners. The preference for a weekend home in the country has been replaced by a family home in the country and a small pied-à-terre in town. But this relies on accessing fast transport links into the capital – a key part of the decision-making process for buyers balancing the viability of an area with early starts.

Increasingly we find that London buyers are selling up in town and renting before buying in the country. This way they're able to try out country life before committing and importantly move swiftly when that special village house becomes available. In our experience London buyers are decisive. And this decisiveness is not lost on sellers. It frequently puts them at an advantage to local, perhaps more cautious, purchasers. Good houses in great roads will always sell for a premium, but being able to act quickly will often secure a sale over a higher price."

RES COUNTRY

PRIME.
RURAL.
PROPERTY.

NEW TO LONRES

Connecting the capital with the country

LONRES.COM/RES-COUNTRY

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