RESIDENTIAL. REVIEW. SUMMER 2018.

OPENING THOUGHTS...

With the arrival of Kit Malthouse as the seventeenth incumbent Minister of State for Housing since 1997, one could say that this time, at last, we have someone with real experience of local government – he was Deputy Mayor under Boris Johnson and previously a councillor for Westminster for eight years.

Given that the important parts of their remit include planning policy oversight, Help to Buy, assisting on housing supply and delivery and developing home ownership policy, it would be fair to assume that there is a lot of work to be done. With the average minister remaining in office for just under 15 months is it any wonder that not much gets resolved? The government's view on this position is clearly one of low importance and a holding position for a minister. I fear that it is for the property professionals to get on with the task required to move the residential market along.

In terms of Brexit and the property market, I believed that its outcome would follow the line of che sara sara, and we would accept the consequences and benefits of divorce from the EU. Recent events suggest that the outcome is a long way from working to our advantage with either a soft Brexit or another referendum now being mooted as leading options. I haven't yet seen or heard of one meaningful concession from Europe but there is always a silver lining in any scenario. Still, there is a huge amount to do and now is the time to stop the blustering.

All the property market wants is a period of certainty and stability, and none of what has happened recently with the revolving door at Housing or in the Brexit negotiations thus far have given us that. Surely we need our politicians to lead and give us more than soundbites, press releases, initiatives and consultations? Yet we get on with it and are rewarded with yet more legislation that is costly for business to implement and open to misinterpretation.

In other news, the prime central London (PCL) market appears to have woken from its slumber as buyers return in the hope of purchasing property that takes out the effect of both stamp duty and the second homes tax. This is certainly evident on transactions above £20m where discounts of 15% were to be had. Below £10m, however, buyers' thoughts are still shaped by those high charges and quite possibly now, Brexit. The result is a strong lettings market across all areas.

Turning now to the online presence of the market leader, Purplebricks. There is an interesting article by Mike DelPrete, a thought-leader in real estate tech, who on his website, asserts that Purplebricks is now "materially profitable in the UK – at scale." And that is the point. He does not mention that you still need to demonstrate growth even in a shrinking market. As far as I can see there is no reason why an online offering would be any more immune than a traditional agent to the vagaries of a diminishing market. He also makes no reference to PCL (why would he? But it does generate the most revenue of any of the residential markets in the UK) where the threat posed by the online agent is not growing at all, with just under 1% of market share. In America, where Purplebricks has recently launched into what is a crowded market place, theirs is not the cheapest option. With the cost to Purplebricks running at $21,482 per listing, I do not see them making any significant inroads into the New York City (NYC) market. NYC is a closed market with realtors who are embedded in their markets.

The presence of country agents on LonRes suggests that some buyers recognise that there is another market outside London, and one where there are deals to be done. The LonRes country agents get an instant benefit by selling the London connection to their clients, while the London agents can benefit by helping their clients find a property in the country.

Finally, our partnership with Let Alliance goes from strength to strength, partly because of the depth of its product and partly because of the experience of the company's team and its founder. And that's without mentioning their personal service - something that we at LonRes have always subscribed to. For those of you not familiar with Let Alliance, they provide our subscribers with a range of opportunities to generate new income streams especially where revenue may be lost by the coming tenant fees ban.

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The analysis for this publication was written and compiled by Marcus Dixon, Head of Research, LonRes. This issue was produced in July 2018 using data to 30 June 2018.

SALES. MARKET.OVERVIEW.

Prices edged up in prime central London this quarter, but political uncertainty continues to put the brakes on transaction volumes.

Across prime central London prices increased in Q2 2018. Price rises were modest, up 1.2% on Q2 2017, but this is the highest annual growth figure recorded since Q3 2015. In contrast, Greater London, which since 2015 had outperformed prime central, continued to slow in the second quarter. The Land Registry recorded a fourth consecutive monthly fall in May. This has impacted prime fringe, which tracks the wider London market more closely. Both Prime London and prime fringe markets saw prices fall, down 3.9% and 5.0% respectively on Q2 2017.

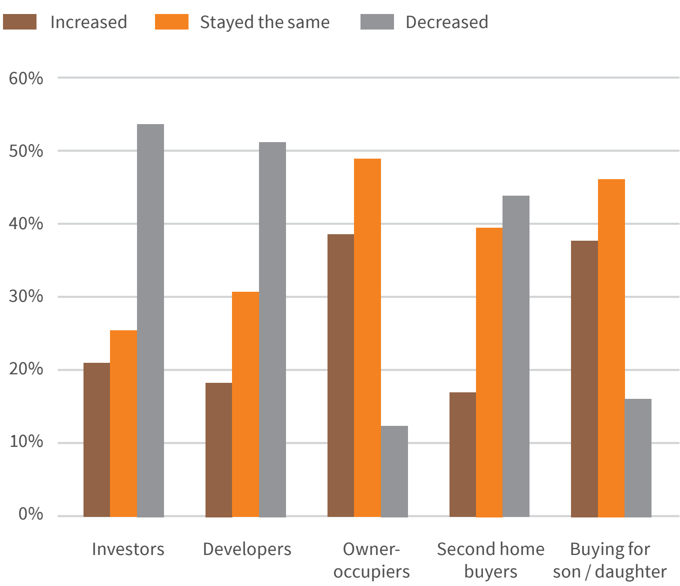
Transactions remained broadly in line with a year ago. Year-on-year our three prime catchments saw 2% fewer sales, with volumes in the second quarter down 6% on the same three months in 2017. That said, agents reported an increase in demand from domestic buyers in the second quarter. Thirty-nine percent of agents saw a rise in demand from owner-occupiers, compared with just 12% who saw numbers fall. The number of applicants from elsewhere in the EU fell again this quarter, just 14% of agents recorded an increase in demand compared with the first three months of the year.

Fewer transactions meant the volume of stock on the market increased across our prime patch. At the end of the second quarter there were 15% more properties for sale compared with the same period a year ago. However, new instructions fell 4% over the same period, leaving some prospective buyers frustrated with the lack of fresh stock reaching the market. Prime central London bucked this trend and saw the highest annual increase in new instructions, up 11% on Q2 2017.

In this market it is realistically priced homes that sell. Encouragingly, our latest LonRes Agent Survey saw 46% of respondents report a narrowing in the gap between vendor and purchaser expectations on price. This was also reflected in the difference between vendors initial expectations on price and those achieved this quarter. In prime areas, buyers paid an average of 9.9% less than the initial asking price, down from 10.6% in the first quarter of 2018. Price reductions also appear to be having the desired effect, with just over half (52%) of homes sold in Q2 2018 finding a buyer following a price reduction.

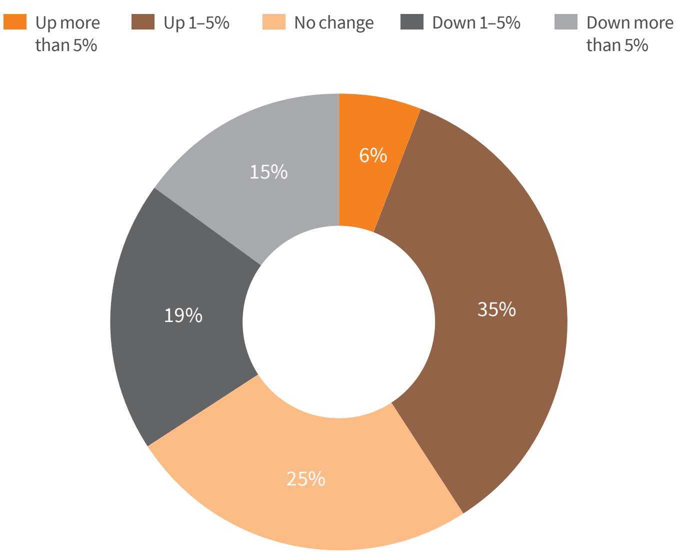
Looking ahead, agents still expect Brexit uncertainty to remain the most significant barrier to increasing sales activity over the next 12 months. Understandably, few are anticipating significant price rises over the next 12 months, but neither are they expecting a significant fall. With a broadly flat market, fewer buyers and rising stock levels, there are opportunities which buyers in prime central London appear to be waking up to.

Change in demand by type compared with Q2 2017



Source: LonRes agent survey Q2 2018

Agent expectations on change in sales volumes – next 12 months



Source: LonRes agent survey Q2 2018

KEY STATISTICS IN SALES – Q2.2018

£1,722
PER SQUARE FOOT
average price achieved in PCL Q2 2018

Source: LonRes

+3.0%
annual change in UK house prices

Source: LonRes

-0.4%
annual change in London house prices

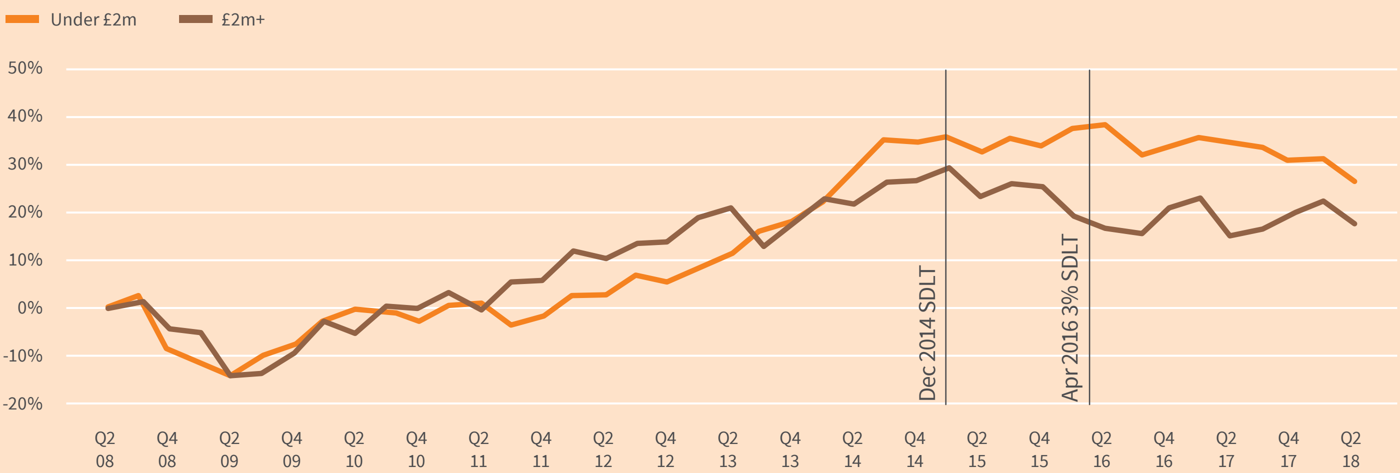
Source: LonRes

+1.2%
annual change in PCL house prices

Source: LonRes

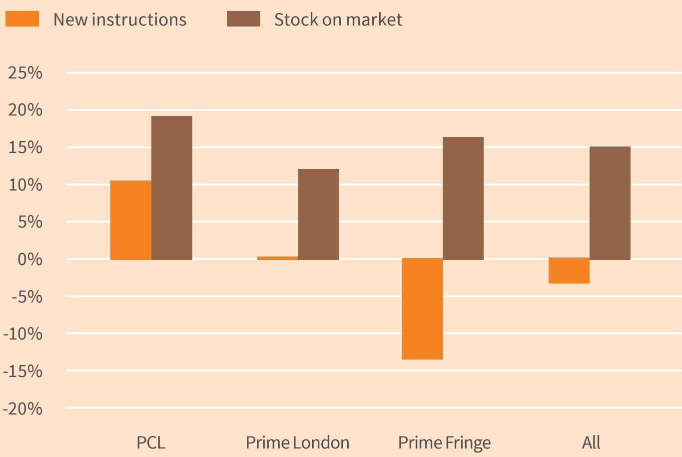
KEY MARKET TRENDS IN SALES

Change in achieved prices since Q2 2008 by price band



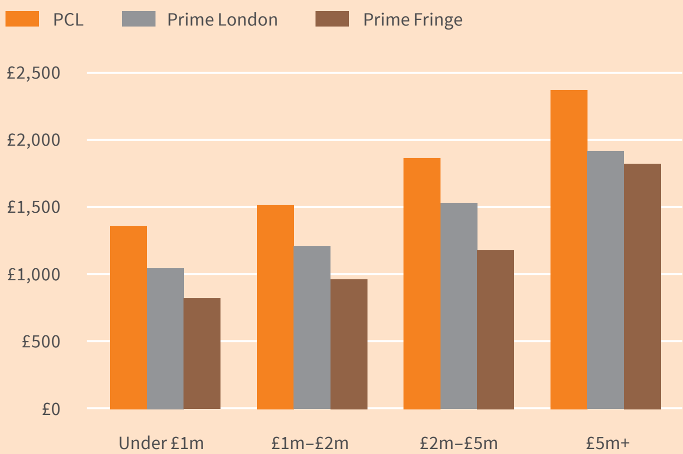
Source: LonRes

Stock on the market and new instructions – annual change



Source: LonRes

£ per square foot by area and price band



Source: LonRes

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.

Fewer new instructions has impacted stock levels in prime areas of London this quarter. This leaves landlords in a strong position as rents rise.

The LonRes Prime London Lettings Index recorded an increase in rents across all three prime catchments. Prime central London rose by 3.9% in Q2 2018 compared with the same period a year ago, prime London posted a 4.6% increase, with a 4.4% rise across prime fringe.

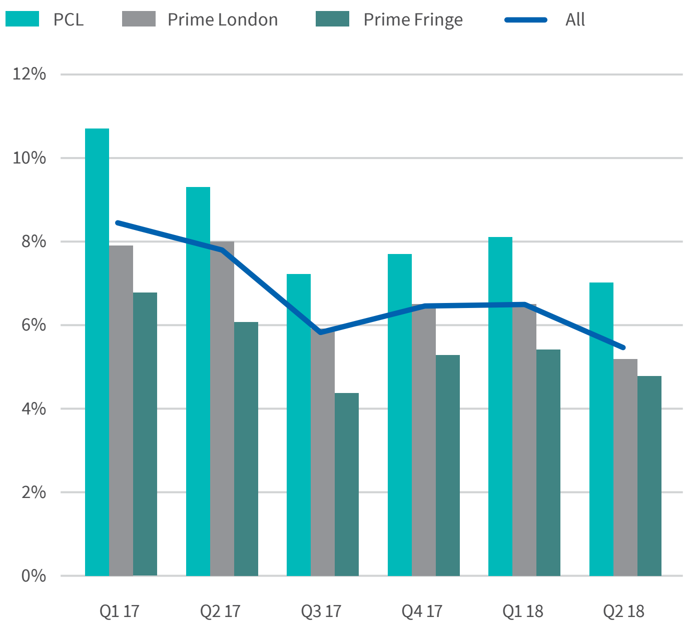
Increases in the LonRes index this quarter, alongside flat or falling values in the sales market, have had a positive impact on yields. Eighteen of the 24 neighbourhoods within the LonRes Prime Lettings Index saw an increase in gross yield this quarter. Agents have reported fewer new buy-to-let properties reaching the market this year. Nationally, UK Finance reports the total value of buy-to-let loans fell to £700 million in May, down 22% on the same month last year. Combine this with an increase in investors marketing their properties for sale, and more tenants renewing, and it comes as no surprise that the number of available properties has fallen. In our latest LonRes agent survey 50% of agents reported an increase in renewals this quarter compared to last, with 9% having seen volumes fall. Just 25% of agents surveyed had seen an increase of rental stock within their market. And comparing the number of properties available to let this year with last shows a fall of 24%.

Fewer properties reaching the market to let has meant less choice and greater competition among prospective tenants. Alongside increases in achieved rents we have seen average discounts off initial asking rents fall back, from 7.8% a year ago to 5.5% in Q2 2018. Fewer properties required a price reduction this quarter. Last year 49% of properties had been reduced before finding a tenant, this fell to 38% in Q2 2018.

The increase in renewals has undoubtedly contributed to the reduction in new lets agreed this quarter. The number of new lets agreed was down 8% across our three prime areas compared with Q2 2017. All three of our prime catchments saw new lets agreed fall this quarter. The only price bracket to see the number of new lets increase was for properties priced at £2,000 per week or more. These registered a modest 1% increase in Q2 2018, compared with the same period a year ago.

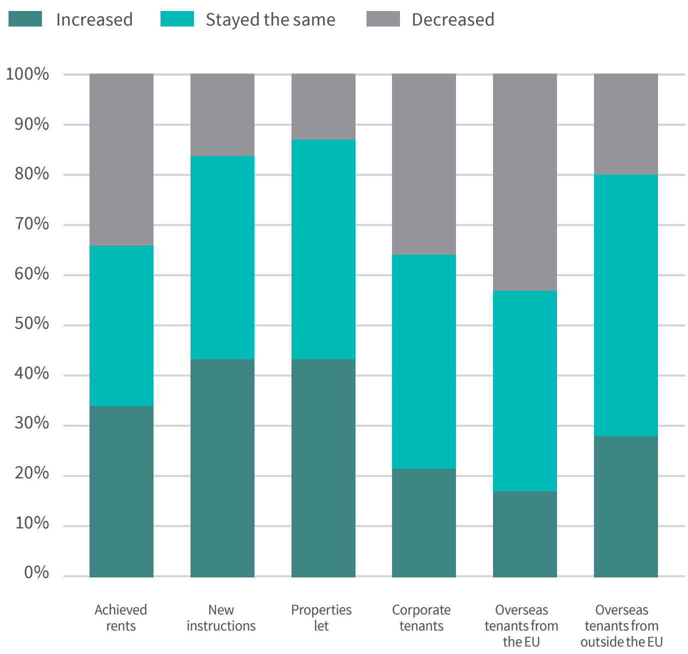
Looking ahead, agents remain cautiously optimistic about rental growth in the coming year. Prospective buyers' unease about committing to purchase pre-Brexit will, our agents expect, benefit the rental market over the coming months. Indeed, by this point next year, 85% of agents expect the number of prospective tenants who had previously been looking to buy to be on par with, or higher than, current volumes.

Average discount achieved off initial asking rent



Source: LonRes

Agent expectations – next 12 months



Source: LonRes agent survey Q2 2018

KEY STATISTICS IN LETTINGS – Q2.2018

£42
PER SQUARE FOOT
annual rental value (three prime areas)
Source: LonRes

40%
properties let after a price reduction (PCL)
Source: LonRes

7%
average discount achieved on initial asking rent (PCL)
Source: LonRes

£1,120
PER WEEK
average rental value achieved (PCL)
Source: LonRes

KEY MARKET TRENDS IN LETTINGS

Q2 2018 Gross yield by area and Q/Q change

South Kensington	2.66%	▲
Chelsea	2.80%	▲
Mayfair & St James's	2.82%	▲
Knightsbridge	2.87%	▲
Belgravia	2.91%	▼
Kensington	2.97%	▲
Regents Park & Camden	2.99%	▼
Earl's Court	3.13%	▼
Hampstead	3.26%	▲
Fulham	3.27%	▲
Notting Hill	3.34%	▼
St John's Wood	3.39%	▼
Marylebone & Medical Territory	3.39%	▲
Fitzrovia	3.39%	▲
Bayswater	3.43%	▲
Nine Elms	3.55%	▲
Hammersmith	3.83%	▲
Westminster & Victoria	3.83%	▲
Chiswick	3.95%	▲
Clapham	3.98%	▼
Maida Vale	3.98%	▲
Pimlico	4.13%	▲
Borough	4.19%	▲
North Kensington	4.26%	▲

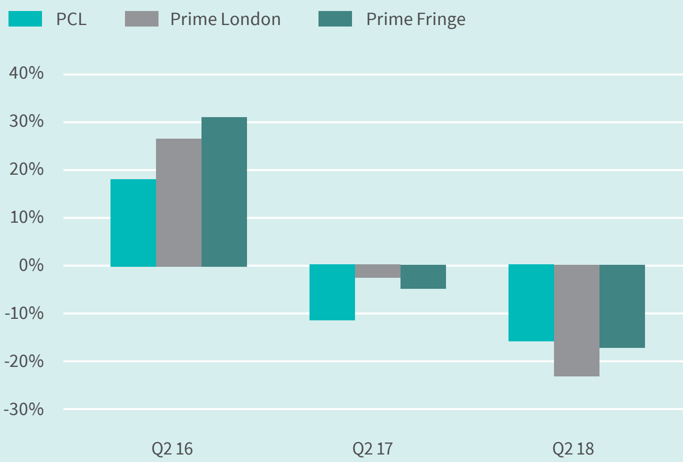
Source: LonRes Q2 18

Q2 2018 results from the LonRes Prime London Lettings Index

All Property	Prime Central London	Prime London	Prime Fringe
Quarterly change in achieved rents	1.5%	3.0%	1.7%
Annual change in achieved rents	3.9%	4.6%	4.4%

Source: LonRes Prime London Lettings Index

Annual change in rental stock



Source: LonRes

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THE.COUNTRY. MARKET.

Industry experts discuss the country market

TOM HAYMAN-JOYCE
Partner
Hayman-Joyce, Moreton-in-Marsh

"*The Cotswolds has it all. An Area of Outstanding Natural Beauty, honey-coloured villages and rolling hills, the Cotswolds is for many quintessential England. Add to this the fact that the area is well connected to London and has an abundance of good state and private schools, and it's not difficult to see the appeal for buyers looking to escape the capital.*

And compared to London, the area represents good value. Selling a £2m town house in Fulham buys a small farmhouse or manor house in the Cotswolds, where property sells in the region of £300 to £500 per square foot.

Buyers are drawn not just to the breath-taking countryside but to the lifestyle that the area offers. From the world-class Royal Shakespeare Theatre to the award-winning farm shop, Daylesford Organic. And for those who prefer the outdoor life there's racing at Cheltenham and country pursuits to enjoy.

Much of the demand is for period Cotswold houses and estates, which are limited in number. In an area where new supply – governed by local planning policies – is primarily confined to the larger market towns and villages, the Cotswolds is a place where properties tend to retain their value.

Of course, the area hasn't been immune to the impact of increased stamp duty rates, especially for purchasers of second homes or higher value properties. However, a few years on and buyers seem to have adjusted to the new taxation or by purchasing a property with a commercial element, classing the property as mixed use – where non-residential stamp duty land tax percentages apply – mitigated against them."

SPENCER CUSHING
Branch Manager
Sowerbys, Burnham Market Office

"*While the perception among Norfolk residents is that the majority of second home buyers are London based, the reality is, that it's the lure of childhood memories, of bucket and spade holidays on the beach that draw in buyers from the capital and concentrates them in and around Burnham Market and the stunning North Norfolk coastline.*

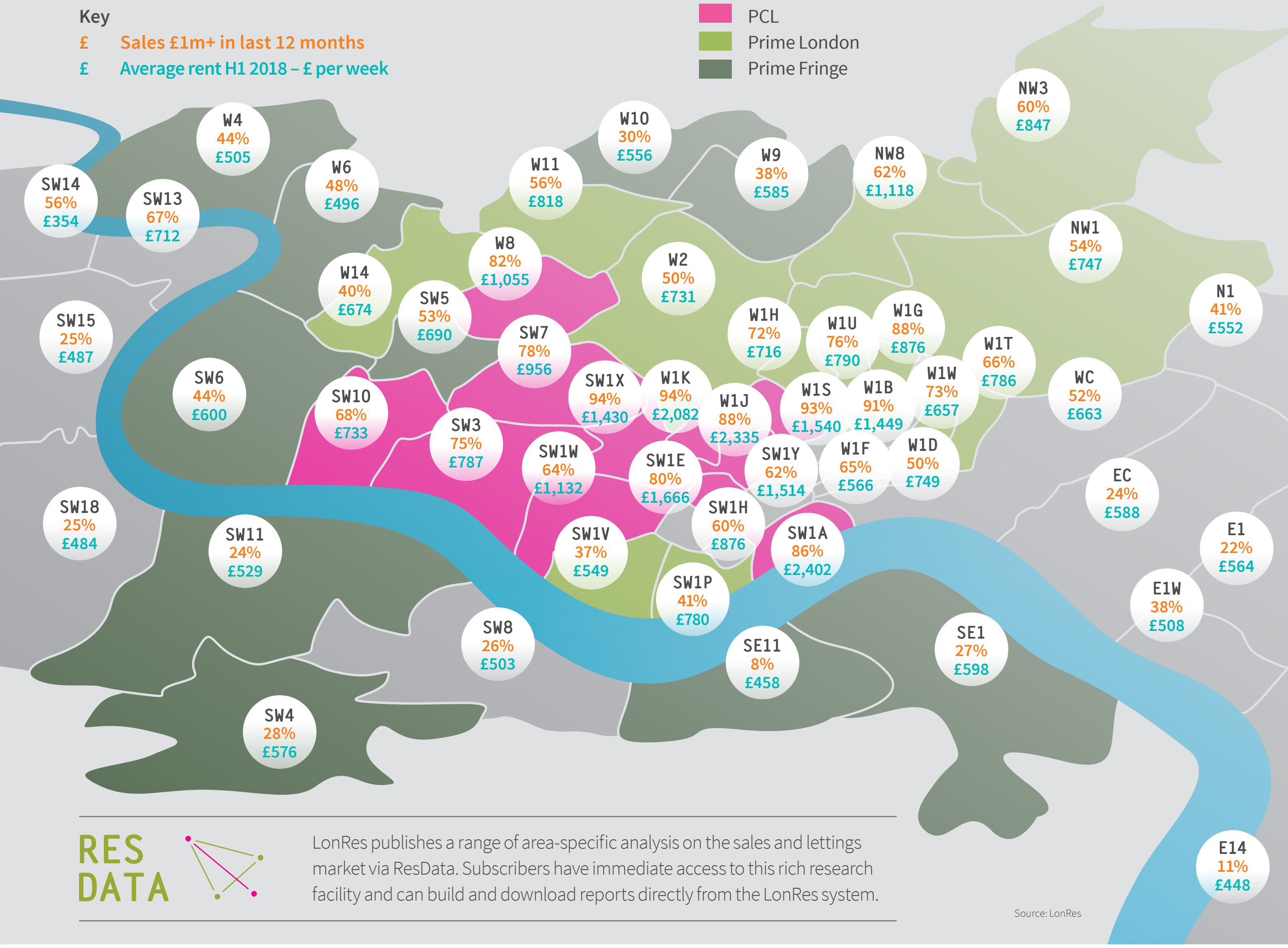
The second homes taxation, that adds an extra 3% to the purchase price of a home by the sea, (or rural country) has undoubtedly hit this market but in March (despite the weather) and in June (despite the weather!) we did see a small recovery – particularly in the £1m market, which is unquestionably driven by buyers from within the M25 and home counties.

And one clear indicator of our strengthening market is the number of best bid scenarios that we have experienced so far this year. Most of our buyers are looking for a property with history and character, but there is a growing trend for traditional looking and sympathetically designed new build properties. Some of our more discrete sites with highly regarded developers are selling off-plan which in turn is having a positive impact on values and desirability of both neighbouring properties and the villages in which they're being built.

Whether these green shoots turn into a deep-rooted trend, is yet to be seen, but we're optimistic. When the London market – a little static right now – starts to take an upturn, we will undoubtedly benefit from the ripples of confidence emanating out."

MAPPING. PRIME. LONDON.

Sales £1m+ in last 12 months – Average rent H1 2018 - £ per week



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 build and download reports directly from the LonRes system.

GET. IN. TOUCH.

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