MERCURY HOMESEARCH

“Hypocrisy can afford to be magnificent in its promises; for never intending to go beyond promises; it costs nothing**.”** **Edmund Burke**

“Hypocrisy is the vaseline of political intercourse.” **Billy Connolly**

“The greatest loss of time is delay and expectation, which depend upon the future. We let go the present, which we have in our power, and look forward to that which depends upon chance, and so relinquish a certainty for an uncertainty.” **Seneca**

“The greatest mistake you can make in life is to be continually fearing you will make one.” **Elbert Hubbard**

The Reports Of My Death Have Been Greatly Exaggerated

Thank goodness we live in an age of sober reflection and objective analysis of the facts. Oh… of course the problem with 24 hour television news coverage, email bombardments and marketing messages is that they each want to stand out from the crowd. Unfortunately there only seems to be one modus operandi for achieving this: SHOUT LOUDER.

Consequently stories are often spun out of proportion. This is especially true of London property. However, before I rant about at the latest misinformation here are some facts for you:

– Global property investment rose by 17% last year to £486.8bn, dominated by the world’s top 25 cities. New York retained the top spot with $55.4bn and 7% of the market. London was in second place, significantly closing the gap with a 40% increase in investment volumes (Estates Gazette)

- Residential sales at auctions up 18% on September last year. Turnover will be £362m with 46% of the total raised in London and South-East (EIG)

- There are c. 845,000 empty or derelict homes in the UK.

- A new forecast by Spear's in conjunction with WealthInsight shows that the total wealth of the UK's richest is expected to grow by 12.5 per cent from 2014 to 2016 - ahead of other major European economies. The appeal of the UK's pro-business laws and global links - as well as London's dominance in global finance - means it is expected to attract more overseas wealth than its European rivals.

- Knight Frank’s Prime Global City Markets report states that London is the city that is the most attractive to the world’s wealthy and predicts that by 2030 it will be home to 4 million high income households

- Property Week’s latest annual planning survey shows the average validation to determination time across London and the Manchester and Bristol regions is 25 weeks, almost double the government’s 13 week target.

- London has overtaken Hong Kong to become the most expensive city for high end, new build property - which has now reached a world record at £2,000 per square foot.

- The cost of a new build home, situated in the popular core of the UK's capital, has risen by 16pc over the last year (CBRE).

- Transaction levels are down 11.5% on the previous quarter and 21.8% on 3rd quarter 2013.

- Average price per square foot is down 1.8%. The annual rate of price growth has slowed to 12.6%, down from 15.6% in the second quarter of the year.

- Interestingly the properties showing the biggest falls in transaction levels are:

  Houses down 55% compared to flats 28% in prime central London. Properties under 500k have seen a fall of 50% in transaction levels, 30% for those over £5m and 25% between £500-750k. £205m saw a drop of only c.13% (Lonres)

- Within central London the number of withdrawn properties went from being at the lowest level since the second quarter of 2007 to the highest level since the third quarter of 2010 in just three months.

If you read the press you may be accustomed to headlines such as “House Prices Crashing”. This will tempt you into reading the article where the journalist will earnestly explain that house prices are falling and that the boom is over. Unfortunately we, the reader, then discover that the entire article is based on a 0.8% fall in prices.

Now they may be right, as who knows what the future will bring. But I would suggest that saying a fall in prices of 0.8% is indicative of a definitive crisis is a touch bold. I would also suggest that any figure on “the property market” claiming to be that accurate are invariably inaccurate.

Of course, much of the hysteria over price falls over the summer was based on Rightmove’s indices. These fell dramatically over the summer months and were used as fodder for the media circus. Unfortunately these are based on asking prices rather than transaction prices which are two wholly different things.

Transaction numbers have plummeted in the last quarter but average prices have fallen just 1.8% in prime central London in the last three months according to Lonres. Yes this is a change in the trend but it is hardly catastrophic. Nor is it surprising when one considers the drivel being spouted about Mansion Tax, unfavourable comments about international buyers, sterling strength, the Mortgage Market Review and general uncertainty about the election.

In fact one could say the market is showing remarkable resilience in the face of such headwinds.

Also is David Cameron a political genius? Was that last minute dash up to Scotland just before the vote, in fact, a shrewdly executed plan? He had nothing to lose as the Tories are deeply unpopular in Scotland anyway. By rushing up at the last minute and getting Clegg and Miliband to blunder up with him, made them all look like political chancers rather than potential statesmen.

The downside for Cameron was minimal. Labour, however, is now losing support in one of its historic strongholds even faster than I lose the interest of my wife when I start talking about football. This may mean that Labour has no chance of winning the election. Consequently a Mansion Tax seems like less and less of a realistic threat (and I don't believe they would bring it in even if by some miracle/disaster they did win – they can't afford to lose the stamp duty revenues).

I fear that I may be giving Cameron and his team too much credit, but I live in hope… Nevertheless, there are some people who are overly concerned about Mansion Tax despite the very low probability of it being introduced and are desperate to sell. So there are some opportunities.

So, McGivern, are you saying now is a great time to buy?

Hold your horses. Not so fast.

Assuming that there is not going to be a global economic collapse in the near future (which is not a minor assumption) then now may be a good time to buy. There is still uncertainty which has caused prices in certain areas to fall dramatically. If in May you had won a sealed bid in Fulham, for example, you may well be sitting on an unrealised loss of 15 or even 20%.

But in many areas **transaction prices** for good quality properties have barely flinched. It is only where sellers have become panicked by the prospect of a Mansion Tax that there are individual opportunities to buy at a discount.

Therefore it may be better to negotiate hard now rather than waiting until after the election when the uncertainty will have been removed. As demonstrated in the last report the market bounced back strongly when the uncertainty caused by the increase in SDLT and the introduction of ATED was removed.

The facts at the moment show that there are less sellers in the market. Therefore those who have a pressing need to sell are accepting lower prices. However, in many cases agreements are not being reached with some sellers still hoping for record-breaking prices.

Indeed a large number of properties are being withdrawn from the market, which shows how few people need to sell. This also reveals why asking prices had become so absurd. Many owners would only consider selling at considerable premiums and unfortunately they were abetted by estate agents who at the start of the year were desperate for stock and were hoping that the market would catch up with the prices.

The bulls will argue that this shows that the market cannot fall dramatically. Owners have lots of equity in their properties and will not be forced sellers so prices cannot crash. They may be right. However, the test will come if there is another major financial crisis or interest rates move dramatically.

In the meantime, expect transaction levels to continue to fall up until the election. Prices will probably also continue to decline at a minimal rate. However, there will be individual cases where you will be able to secure good discounts to fair value.

But what about the end of QE?

Well the Fed is not going to add more fuel to the fire. However, it is not going to extinguish the fire either. Instead of selling the $4.5 trillion of bonds, the Fed will be reinvesting the funds from maturing bonds in new issues. This means that it will still be a huge buyer of bonds thus keeping yields low (or so they hope).

Although the reduction of ~~counterfeit~~ money being pumped into the economy will likely lead to weakness it will not be a case of sending the patient into cold turkey. Although I have grave concerns about the titanic levels of debt on which the world economy seems to be cruising, the band is likely to continue playing – as we know the lead singer from the US may be toning down rather than stopping the performance, but the Japanese and European backing duet seem intent on taking up the baton. The show could go on for some time (Japan has just sent the printing presses into overdrive as I write this).

It seems unlikely that this great monetary experiment will not have further unintended consequences. The questions for us are: will we smash into a deflationary or inflationary iceberg? How long have we got at the bar before we do and how many lifeboats do we have at our disposal?

And if you wanted to know how to murder a metaphor, that was it!

Suffice to say that much of what you read in the papers and hear on the news is far too general to be of much use. So if you have specific questions about the areas in which you wish to buy a property, please email me at jeremy@mercuryhomesearch.com.

Good luck with your search for a property in London.

Best regards,

Jeremy McGivern