July 2015

MERCURY HOMESEARCH

Stats, Facts and Stories of Note:

- Countrywide says that the average UK property is let within 32 days – the shortest time on record… The average let agreed while tenants are in place is equal to 105% of the asking rent… In London, 51% of new lets are agreed while there is still a sitting tenant in the property, up from 41% in 2014. (Property Industry Eye)

- CBRE forecasts that Middle East investors will spend $180bn on overseas' commercial real estate in the next decade. $145bn will be in Europe of which $85bn will be in the UK

- In the last 5 years, the number of tech companies in London has almost doubled compared to the previous 5 year period. With more than a thousand investments, London is now the capital of European tech, leaving Paris and Dublin behind. (Citywealth)

- In reality there are more mortgages available which require a 5% deposit and first-time buyer numbers are increasing. (Craig McKinlay – Mortgage Director, Halifax Building Society)

- Berkeley Group posted a 42% jump in annual profits.

- In the past 10 years, total UK household wealth has grown by £3.9 trillion - or 75 per cent - to £9.1 trillion, meaning that since 2004, individual households have seen their wealth increase by £126,572. (This is Money)

- While the value of the housing stock has increased substantially, growth in mortgage debt has slowed sharply in the past five years. Between 2004 and 2008 mortgage debt grew at an annual rate of £90 billion, but this rate has slowed to just £12 billion since 2009. (Lloyds Banking Group)

- The retail spend in the West End will top £10bn by 2019, which will be more than in any other European city (JLL)

- Almost 40pc of the annual £25bn housing benefit bill goes to private landlords. The Department for Work and Pensions latest housing benefit costs predict the amount of housing benefit spent on privately rented accommodation - £9.5bn for 2014-15 - will rise to £10.8bn by 2018-19 (The Daily Telegraph)

- Bank of England figures show that at £168bn – more than £5,800 per household – the total outstanding unsecured debt remains some way below the peak reached in September 2008 when UK consumers collectively owed £208bn alongside their mortgages. (The Guardian)

- In 2014 UK household savings were an estimated £3,545 billion (Lloyds Banking Group)

- Japanese developer Mitsui Fudosan Co said on Friday it would lead a 400 billion yen ($3.21 billion) residential and commercial project in London, its largest overseas investment as it seeks new opportunities outside Japan. (Reuters)

- "The combined wealth created this year by the Shanghai and Shenzen markets could purchase all the property in London twice." That insane and amazing comparison came from UBS Wealth Management's James Purcell on Friday. Try to grasp the scale of that. London, with a population of more than 8 million, and one of the most expensive cities in the world in terms of property, could be bought out by just the *gains* made in the first five months of 2015. (Business Insider)

Wonderland

Well the election is nearly two months behind us and the prime London property market has shot up 15% already. Buyers are scrambling over each other as if it was a Boxing Day sale in Oxford Street. Estate agents continue to report that their phones are lit up like Xmas trees. Buyers bemoan the lack of stock. The SDLT hikes have been forgotten and the government is thinking of raising them again.

And now back to reality…

There is certainly more activity as buyers are now more confident. However, their confidence pales compared to the rather bullish nature of many sellers who believed the fantasy scenarios reported in the press in the immediate aftermath of the election.

Of course the absurd comments of a couple of agents have been taken as gospel and were given huge headlines while the more circumspect commentators were nudged to the bottom of articles as an afterthought, if they ever made it past the editing room at all. Such is the way of the world in this age of hype.

The outcome is that there is a considerable gap between buyers' and sellers' expectations. Indeed the added cost of SDLT has been vastly underestimated by the more bullish sellers and agents (to be fair to most of the estate agents they have been more cautious than the headline grabbers).

This has created a situation where many agents are tearing their hair out because they are receiving good offers but sellers are rejecting them in the misguided belief that here are hordes of salivating buyers knocking at the door. Most agents tell me that they are having to educate their clients that this is somewhat far from the truth. It appears to be a long slog…

This is not to say that transactions are not taking place. Of course they are, but only where properties are sensibly priced. Indeed if the property is of high quality and a rarity then it will always be in demand.

For example, we have managed to secure two off-market houses with direct access to communal gardens in recent weeks for clients. Both will prove to be absolutely fantastic homes as well as great investments.

In the meantime, there have also had situations where I have been advising clients between the £2m-£5m that they should not increase their offers. As mentioned some sellers seem to be in Wonderland, but the type of properties we are hoping to buy in these budgets are not that rare. Yes there is a lack of good propositions at the moment but come September I am fairly certain that there will be more choice and we will be able to buy apartments that are better or just as good for the same price or less.

The simple lesson here is try not to put yourself under time pressure as this will severely limit your options and invariably lead you to making more concessions in a negotiation than you otherwise normally would.

Of course another area that is causing concern is the situation in Europe and the ongoing issues in Greece. However, when looking at the situation from purely the prime London property perspective, I think that this will have no effect on prices – certainly not detrimental anyway. If an agreement is reached then it will have zero effect. If there is a Grexit then London prices are likely to rise as the safe haven status of London property (not to mention job opportunities) will continue to drive people in our direction.

Anyway markets don’t crash for the obvious reasons. We need to be looking out for the unexpected – admittedly a fairly futile exercise. Personally I am worried about a property crash/financial crisis in Asia (and not necessarily China led). I don’t think that this will affect the core London market but will certainly hit the new build developments. Indeed there are already signs of weakness.

Then there is the possibility of sustained terrorist attacks in London. But the probability of this would appear to be thankfully low.

Of course there are always numerous reasons why the market might crash. Equally I can give you many reasons why it could continue to head to higher highs. Personally I think we are only at the beginning of the bullish phase of the cycle for UK property.

If this seems out of kilter with my earlier comments about being able to buy the same properties for less come September, it isn’t. I expect prices to rise but the prices some sellers want now, i.e. asking prices, are high and at a different level to where transactions are actually taking place.

The bears would equate now to 2007: steep price rises with a crash being imminent. Indeed, up until seven months ago, I was very cautious indeed. However, I have been doing a lot of research and am now of the opinion that we are closer to 1997 in the current cycle.

Then as now prices had bounced back in London (admittedly not as strongly but QE was not the darling of central bankers back then) but there were plenty of reasons to worry. And the fact that there is a wall of worry now is a good thing. If there was relentless bullishness like 2007 then I would be advising you to run to the hills or at least the closest bar as I did then.

But I don't think we are anywhere near that level of euphoria. 1997 seems more accurate. And there were issues the following year that many had thought would derail the market – The Asian crisis and the collapse of LTCM, for example. However, they did not affect the London or UK property market. Prices kept rising. Indeed even the dotcom bust didn't dampen animal spirits in the housing market. In fact we only saw prices drop in the aftermath of the terrorist attacks in September 2001.

And just consider the house price growth that will happen when banks start lending again. As reported above: "While the value of the housing stock has increased substantially, growth in mortgage debt has slowed sharply in the past five years. Between 2004 and 2008 mortgage debt grew at an annual rate of £90 billion, but this rate has slowed to just £12 billion since 2009."

Of course nothing in life is certain and the 18.6 year property cycle may not repeat this time. However, the only times in over 400 years the cycle hasn't repeated were during the two world wars. And with rents increasing once again and improvement in the employment figures there is nothing to suggest that this time is different.

Alternatively I could simply prove to be a wonderful contrarian indicator…

If you have any questions, please do email veronika@mercuryhomesearch.com. I endeavour to answer all questions but they need to be collated by Veronika. Please do not email me directly.

However, if you urgently require help acquiring a property in London then you can apply for membership to Mercury Homesearch by emailing veronika@mercuryhomesearch.com or calling 0800 389 4280 (or +44 (0) 800 389 4280 from outside the UK).

In the meantime, good luck with your search for a home in London.

Best regards,

Jeremy

p.s. Please note that we have a strict membership policy: “No two members may have the same property requirements as this would represent a conflict of interest”. So you may not be able to join immediately.

However, to reserve a membership place or to at least join our waiting list, simply contact us by emailing veronika@mercuryhomesearch.com or calling 0800 389 4280 (or +44 (0) 800 389 4280 from outside the UK).