

# MERCURY

## HOMESearch

“The basis of optimism is sheer terror.” **Oscar Wilde**

“An optimist is a person who sees a green light everywhere, while a pessimist sees only the red stoplight. . . The truly wise person is colorblind.” **Albert Schweitzer**

**Oscar Wilde** - “Philosophy teaches us to bear with equanimity the misfortunes of others”, which I am sure is how we have all coped with the misfortune of Balls, Cable and Milliband.

### **Stats, Facts and Stories of Note:**

- Roughly 63% of the population in England own their home outright or on a mortgage (English Housing Survey).
- Fubon Life Insurance Co. has agreed to buy the London site Madame Tussauds for £348.8 million - the Taiwanese insurer is seeking higher returns overseas.
- Excluding London and the South East, UK house prices increased by 8.1 per cent in the 12 months to March 2015 – a far higher percentage than usually recorded, showing values are strengthening across the country - Office for National Statistics
- PCL Second Hand Sales Market - 610 properties were sold in Q1 2015, which was an overall decrease of 27% compared to the same period in 2014 – Strutt & Parker

- London has the fifth best current account balance as % GDP (Norway is the top). Meanwhile the rest of the UK lags horribly with a significant deficit - Deutsche Bank
- Credit rating firm Fair Isaac Company (FICO) recently announced the creation of an alternative credit scoring system...the new system will affect 15 million consumers, including those ... who even have negative credit events on their history, like foreclosures. FICO expects a full one-third of these consumers to be rated at least 620, which is the minimum for many credit decisions. (Dent Research)
- Mortgage approvals in Britain rose in April to their highest level since June last year and they look set to keep growing – British Bankers' Association
- Approvals for house purchase rose to 42,116 from 39,203 in March, the highest figure since June last year. (Reuters)
- The Council for Mortgage Lenders said there were 17 per cent fewer loans for house purchase in Greater London during the first quarter of the year, at 17,300, compared to the final quarter of 2014. (This is Money)

### **Post-Election Blues**

Well the dust is beginning to settle after the election. The good news is that this means that there will be fewer politicians on television.

Ed Balls has been lobbed out of parliament as has Vince Cable. No doubt they will reappear in the private sector in high paying jobs – the same high paying roles they seemed so intent on punishing in their manifestos.

Champagne socialists – don't you just love them... As George Orwell astutely surmised "some pigs are more equal than others".

So a Conservative victory is good news for those with ambition and determination or as the Daily Express so subtly put it: "Hallelujah, Britain votes for sanity!"

The property industry and homeowners breathed a sigh of relief and the papers were full of stories about estate agents whose “telephones were lit up like Christmas trees” and who immediately signed £75m of deals the following day.

Of course £75m could just be one or two transactions so that is hardly indicative of a major frenzy. The estate agent’s telephone could have malfunctioned... or it could have just been some easy PR to promote their businesses and attract sellers. Take your pick.

### **So what has happened in reality?**

Well there has obviously been a deep sense of relief. In the case of property owners the pendulum has swung from outright fear to gleeful greed in some cases. No doubt this has been exacerbated by some of the more fanciful stories in the press. For example I inspected an apartment yesterday which has an asking price of £2.3m which I would be hard pushed to recommend buying at £1.5m.

However, high quality properties that rarely come to the market are continuing to attract offers at strong prices. But the unabashed frenzy that many were predicting has not materialised. There are a number of reasons for this:

1. Prices did not drop significantly in the run up to the election
2. Many properties available are still pretty average. Buyers are aware that some sellers may be holding off until September so they are content to do the same
3. International buyers are still digesting the impact of CGT for non-doms
4. Sterling has strengthened dramatically
5. The SDLT hikes in December have significantly increased the cost of transactions

All of these points but especially the last one have not really been taken into account by the more bullish commentators over the last few weeks.

Consequently the market has not miraculously bounced 10-20% overnight. In fact it is instructive to see how many price reductions there have been in the last two weeks as agents and some sellers have begun to realise that we are not about to see a return to the buying frenzy of 2006/7.

### **So what happens to London property prices now?**

Well there is likely to be a period of reflection as the market tries to find some equilibrium between buyers and sellers' expectations. July and August tends to be a little quieter as so many people are away on holiday, so this may naturally occur over the summer. Estate agents will be hoping for a more active September/October.

I am reasonably confident that prices will move higher but whether that will be in the final quarter of this year or the beginning of 2016, we will have to wait to see. But the probability of price rises is high. In fact some of you may have seen research from Oxford Economics that states that the average house price in London will be £1m by 2030 up from £430k now.

This is a massive underestimate in my mind as this works out at under 5% per annum. I think we will hit this figure by 2025 which would equate to annual growth of 8% per annum. What will be the catalyst for growth when prices seem so high compared to earnings?

Well the fact that credit conditions are being eased in America shows you how the market works. Expect the same to happen here. Then there is the infrastructure spending with Crossrail, HS2 and another runway or airport which will directly benefit London and attract more money to London.

As for first time buyers, they will be either usurped or aided (depending on their background) by pension money, the increased use of crowd-funding to finance property, any increase in the IHT banding and the continued influx of international buyers.

Of course, there could be a calamitous financial crisis, regular terrorist attacks in London or other unforeseen events that could cause the market to decline, but at the moment the probability seems high that London will continue to be a very attractive city which will consequently lead to a continued inflow of investment.

### **It Is Not All Good News**

However, the one area which may well be the noticeable exception is the new build market where you can expect to see developers offer greater incentives to buyers. As I have stated in previous reports the new build market is far more reliant on international buyers than London as a whole. As Savills reported:

“Overseas’ buyers purchasing property as rental investments only account for c. 7% of all greater London residential transactions. The percentage seems much larger due to high investor activity in the new build sector which accounts for less than 10% of all London transactions”.

Frankly I think the term “investor” is a rather generous description for many of these buyers who clearly don’t have a clue what they are doing. The most absurd example I have heard of was from an agent at one of the major international estate agents, who told me that she had received a call from an “investor”:

Investor: “Hi, I own a property at the Battersea Power Station Development. I would like to know how much it is worth. Can you help?”

Agent: “Yes, of course. When did you buy it? Was it in the first phase which was initially sold in 2012?”

Investor: “I bought it yesterday”.

The agent didn’t have the heart to tell him that it was probably worth 10% less than what he paid and in fact the bigger agents are not overly keen on taking on the re-sales as there is no real market for them at this stage.

The apartments are being sold at extremely high prices, so the fact that this buyer and many like him think they are buying at a discount shows how little research they have done. But then that is the beauty of the property roadshow for developers and their agents. You create an auction like atmosphere which can make people do the most extraordinary things.

However, speaking to many of the agents it is clear that the roadshows are not going as well as they once were. Indeed some developers are already beginning to openly offer discounts despite the election result.

So if you are thinking of acquiring a property do not be fooled into being pressurised into offering. If you see your ideal property, then don’t hesitate as there are plenty of buyers for the few good quality properties that are available. However, if you feel somewhere is massively overpriced or that what you are seeing is rather mundane then the likelihood is that you can find somewhere better or negotiate a more compelling price.

Of course this advice is extremely general and each situation will be different. Just make sure that you are seeing all the properties that match your property requirements, so that you know that you are seeing the entire market and therefore the best of the best.

If you don't have a complete picture of what is available then it is unlikely that you will make the best acquisition possible. Yes, this does involve a lot of hard work but it is necessary (I have always maintained that much of what we do for our clients is boring, hard labour rather than the glamorous world some believe it to be).

Only when you have a clear understanding of what is available and a good feel for valuations, can you then hope to negotiate effectively and make an astute acquisition.

Of course, you may have neither the time nor inclination to do all this yourself. Indeed you are probably accustomed to being represented by specialists with proven track records.

So if you would like to discover the advantages of membership to Mercury Homesearch and how we can find you your ideal home or investment while avoiding the wasted money, time and stress suffered by the typical property buyer, simply email [veronika@mercuryhomesearch.com](mailto:veronika@mercuryhomesearch.com).

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

Best regards,

Jeremy

p.s. Please email any questions you have to [veronika@mercuryhomesearch.com](mailto:veronika@mercuryhomesearch.com). I endeavour to answer all questions on the London property market but they will be deleted if sent to me directly. Veronika will collate all the questions and ensure that I answer them.