September 2015

MERCURY
HOMESEARCH

Stats, Facts and Stories of Note:

- The pace of company creation is nearly double that of four years ago. Net figures show that 20,000 more companies were created in the last 5 months than were dissolved. **(Evening Standard)**

- A two-bedroom flat was bought in 35 minutes by crowdfunders. The £509,600 property in Tower Hill, London, was put on the residential crowdfunding platform Property Partner.
  In its first six months it has invested over £5m in 18 properties and had over 40,000 people registered on its site. (Property Industry Eye).

- Analysis by Savills shows that 54% of buyers acquire their property with no debt whatsoever, with a further 25% taking a mortgage of less than 50%.

- BTL lending may have tripled since the bottom of the market but it is still 40% below its 2007 peak. (Savills)

- The Council of Mortgage Lenders estimates the private rented sector was worth £990 billion in 2014 and will reach £1trillion by the end of 2015.

- 230 apartments in Maine Tower in Docklands with asking prices from £350,000 to £1.25m sold out in a single morning

- Knight Frank reported a 182% surge in the numbers of people willing to pay £5000 a week for luxury rentals in the three months to June 30. There was also a 34% increase in the number of tenancies signed in this price bracket in the year to March 31.

- In the first six months of the year the Government raised £4.45 billion from stamp duty, down £1.58 billion, or 26 per cent, compared with the second half of 2014.

- Buyers spent £1.8bn on land for **property** development in central **London** in the second quarter of 2015, according to figures from CBRE **(Financial Times)**

- A jump in the number of £10million-plus properties being snapped up in London is being fuelled by top techies in their thirties. (Contractor magazine)

- LonRes data shows that transactions across prime London are down 22.7% on the same time last year and that prices on a £ per square foot basis are down 0.9% on Q2 2014.

- £1.9bn the total value of sales in Q2. 20% of sales were agreed off market. 32% to owner occupiers. (LonRes)

- London has retained its position as the most active real estate market in the world, with $39bn (£24.9bn) transacted over the 12 months to the end of Q2 2015. Manhattan saw $28bn - DTZ

THE GREAT BRITISH SUMMER

“Don't knock the weather. If it didn't change once in a while, nine out of ten people couldn't start a conversation.” **Kin Hubbard (1868 - 1930)**

Another wonderful British summer is drawing to a close.

Or should I say abrupt halt as torrential rain, dark skies and low temperatures batter us.

“Why on earth would you holiday in the UK when you are guaranteed sun in Europe – and look at the exchange rate too?” I said to Serena while we were stuck in a traffic jam, in the rain, on the way back from Cornwall.

“Do be quiet, darling. I have already booked the house for next year” and who am I to argue with “she who must be obeyed”.

So what else has happened over the summer? Well we have bought a house which means that I am having to listen to a lot of talk about fabrics and other paraphernalia. To be fair my opinion is being sought. Unfortunately it is also being ignored:

“I think we should buy more cushions to put on the beds”.

“Why? They just get in the way. All we do is take them off at night and then you put them back on the bed in the morning. It’s a total waste of time”.

“You don’t understand”

“No, I don’t. Can you explain?”

“Oh, shut up. Can’t you see I am trying to order some lampshades online?”

Ah, married bliss.

But less of the glamour that is my life. What has been happening to London property prices over the summer months?

Well the estate agents’ favourite word to describe the market at the moment is “patchy”. Buyers are understandably cautious and being selective while owners are equally sanguine - either taking their properties off the market if they can’t get their price. Many are not even considering selling until next year.

The supply of properties for sale is very low – although you will have noted from the stats above that 20% of transactions have taken place off-market so there is more selection than the average buyer realises.

The simple fact is that there are very few forced sellers – interest rates are low and when one factors in the high cost of moving and the lack of properties to then buy if you do sell, it is unsurprising that the market has become so quiet.

Likewise buyers now faced with increased moving costs thanks to the SDLT hikes are taking longer and are choosing to rent – especially at the very top end of the market. Of course the lower number of transactions at the top end has meant lower Stamp Duty receipts for our beloved government.

However, if things do not change then I would not be surprised if the government reduced SDLT. This is a big IF, but by no means impossible. Not only are they making less money, but the rise in SDLT has had the unintended consequence of incentivising wealthy investors into the lower price brackets.

For example, I was speaking to a client who wants to invest £3m in the market. I have advised him that for his purposes he should buy one £1m property and then a £2m property as the SDLT breakdown looks like this:

- £1m - £43,750
- £2m - £153,750
- £3m - £273,750

So he would save £76,250 in SDLT costs minus the additional legal fees, etc. of buying two properties. He could obviously save more if he bought three £1m properties.

So by raising SDLT to, frankly, savage levels at the top end, the government has brilliantly made life more difficult for those buying at the lower end (and before you start complaining about £1m not being the lower end, investors will also be attracted to properties worth £250k, etc.).

When you take into account the fact that the Tories are at the start of their 5 year term and you can see that a reduction in SDLT levels would not be too politically damaging now.

So should you wait for this to happen before buying? No. If (and remember it is a big if) it does happen then you will likely see a surge in prices above the savings made in SDLT costs as pent-up demand is freed and greater confidence in the government's approach to the market is restored.

This is not to say that the market has been dead over the summer. I have bought properties for clients in the £2-£4m bracket and one of my clients who is looking to buy a substantial house was not able to view the property before it was bought.

Meanwhile a house on Durham Place sold for £10m and a house in Ladbroke Square sold for over the asking price of £9.75m with the buyers exchanging on the same day that the offer was accepted.

So there are transactions happening across the price ranges, but they are definitely skewed towards the sub £2m and especially £1m price range.

Of course the biggest talking point recently has been the action in the stock markets over the final weeks of August. Is this the beginning of financial Armageddon? Will it herald a catastrophic fall in house prices? Well the stock market and property market are far less correlated than most people believe, even in London.

Think 1998 and 2000 for example. House prices were unaffected by the hammering the markets received during the Asian crisis, the problems in Russia and the collapse of Long Term Credit Management and, of course, the dotcom debacle.

Indeed, we have taken on a number of new clients in the last week despite what has been happening.

For those who work in the City and who are glued to their Bloomberg terminals this can seem like madness (and many of my clients are in the financial sector), but history shows the lack of correlation except when land prices collapse taking the banking sector with it (and not vice versa).

So despite what seems to be a dreadful time to buy property, I am quite bullish which is why I have bought a home. My optimism about the market (based on a number of factors including rising employment and wages) isn't the only reason for us buying:

1. Serena likes it because it is Georgian and in a designated Area of Outstanding Natural Beauty.
2. My revolting children like it because there are banks in the garden that they can roll down.
3. and because I am a crushing bore, I like it because I know that there are vast improvements to the local station and railway line planned which will lead to quicker trains to London which will lead to stronger house price growth.

If you are investing, it is important that you consider where infrastructure improvements are happening. For example, CBRE estimates that Crossrail is set to add £5.5 billion to home values and the value of homes around the stations along its route has grown by 20 per cent more than underlying capital appreciation in London and the South-East.

Of course, not everyone wants to live in Slough, so there are greater considerations when buying a home, but if you can marry your property requirements to an area where there will be significant infrastructure investment, then you will financially benefit.

This is why London house prices outperform the rest of the country over every property cycle. There is more money invested there than anywhere else. Not only into the roads, rail and airports but also shops, offices and leisure facilities.

Companies also invest more in their people and businesses. As the economist reports:

"London's trading floors dominate the selling of bonds and currencies: twice as many dollars are exchanged there as in America and twice as many euros as in the euro zone. A fifth of cross-border lending is booked in Britain, more than anywhere else in the world.

The City boasts more foreign banks than any other financial centre, but banking is just one of its elements. Managers based in London control 18% of the world's hedge-fund assets and 13% of private-equity funds—much less than America's share, but double the proportions of 2001. Over 500 foreign companies are listed on the London Stock Exchange, more than on any other venue.

The financiers are supported by a dense network of professionals: London is teeming with lawyers, accountants and consultants of all stripes. Around 8% of Britain's economic output comes from finance. It generates net exports of $95 billion, almost three times the size of the American industry's, according to The City UK, a lobby group."

Of course the danger is that the government does something galactically stupid to alienate this investment and undermine London's position as the number one city in the world.

So the challenge for politicians is to ensure that London's success is used as a platform for the rest of the UK rather than it becoming a black hole that sucks in all the resources and talent. This is easier said than done but will simply lead to social unrest if the issue is not addressed.

Unfortunately, in such situations, the geniuses in Westminster's default mode is to resort to taxation as a means of reallocating wealth – the rise in SDLT being a classic example (unless the Conservatives are more cunning than I give them credit for and the plan was to reduce SDLT after a suitable period of time).

What they should focus on is how to make the pie bigger by incentivising entrepreneurialism and investment throughout the country rather than penalising wealth creation through the clumsy mechanism of taxation. It is simply inefficient and does not work. This has been proven time and again in numerous different countries.

With this in mind, the budget in July had one massive piece of good news – corporation tax will be reduced to 18% - the second lowest rate in Western Europe. This will attract further investment into the UK. Much of this will be into London which in turn will feed into higher property prices.

Although London property prices are unlikely to match the increases of 2010-2015, there is a high probability that prices will continue to rise at 5-6% per annum before we see a return to much stronger gains in about 6 years' time.

Of course, price increases will vary in each area of London and also in different price ranges, so you need to have a clear understanding of what is happening if you wish to make the best acquisition possible.

If you have any questions or would like to discover how we can help you acquire your ideal home or investment, please contact Veronika at veronika@mercuryhomesearch.com. I endeavour to answer all questions but they must be sent to Veronika to collate.

Best regards,

Jeremy