December 2015

MERCURY
HOMESEARCH

Stats, Facts & Points of Interest

– In 2015 prices in Greenwich rose by 17.9 per cent, in Newham by 19.3 per cent and in Barking and Dagenham by 15.2 per cent.

– According to RICS, the number of properties coming to the market has fallen for 10 consecutive months

– There were 1.2m property sales in 2015 compared to figures of c.1.65m before 2008

– The Centre for Economics and Business Research has predicted that prices will double in London between now and 2025 (sounds shocking but equates to increases of 7.2% per annum).

– The Peninsula Hotel chain has been granted consent for the construction of a 190-room hotel at 1-5 Grosvenor Place on Hyde Park Corner.

– Of those properties sold in Mayfair so far this year, 39% had reduced their asking prices since they were first marketed. This compares with 20% in 2014 and 25% three years ago – (**Wetherell)**

– Analysts at BNP Paribas think house prices will rise by 27% by the end of 2019

- In 2015 buyers spent £1.1 billion — nearly double the previous record of £687 million spent in 2011 — on commercial property in Oxford Street (**Evening Standard**)

- There were $4.3 trillion dollars of mergers and acquisitions in 2015 according to Bloomberg

- Between January 2010-2015 the value of residential property in London increased 61% (or 10% per annum) to £1.48 trillion (**Savills**)

Wild Guesses Masquerading as Facts

Happy New Year. I hope you enjoyed the holidays and did not consume as much as I did. I have ballooned in some style and have had to buy a couple of suits while my tailor tries to catch up with my expanding waist… Serena is not impressed!

Fortunately a friend is in similarly dire shape so we have had a bet to see who loses the most weight by 1st February 2016. It will not be cheap for the loser. The result will be announced with much fanfare in the next report (unless I lose).

What did I get for Christmas, I hear you ask? Well due to some miscommunication I received not one, not two, but three log baskets. Yes, you read that right three baskets… in which you put logs. Of course, it may not have been an administrative error. My family may just think I am a crashing bore who is only interested in storing logs.

Anyway life could be worse and I am told it's the thought that counts…

But less of this blithering. I expect you want to know what has been happening in the London property market.

Well, as predicted transaction levels plummeted because it was an election year and there was added uncertainty due to the changes to SDLT, CGT, IHT, non-domicile regulations and the reduction in mortgage interest rate relief for buy-to-let investors. Transaction numbers for houses over £10m fell over 30% in some areas.

Unsurprisingly this also had an effect on prices although they were not quite as dramatic as some of the reporting on the prime London property market. To give a broad overview, I have used the following figures from Knight Frank:

Chelsea	-2.7%
South Kensington	-3.7%
Kensington	+2.5%
Mayfair	+3%
Knightsbridge	-6.1%
Belgravia	-0.2%
Notting Hill	-3.8%
Marylebone	+4.7%

Of course, these statistics don't tell the whole story. High quality properties were still selling although it was noticeable how many were not on the open market - we acquired two exceptional houses for clients with direct access to communal gardens which were not openly available.

The negative press also worked to our advantage in negotiations where we were able to achieve good discounts or snap up properties for clients where the owners who needed to sell had deliberately undervalued their properties.

However, we had to wade through a lot of rubbish to find these opportunities. There were a huge number of decidedly average and poor properties being marketed at idiotic prices. Hence the high level of price reductions – agents, desperate for stock were overvaluing properties or were willing to take on properties for which the owners wanted an unrealistic premium. Those who wanted to sell had to reduce their prices.

Many properties were simply withdrawn from the market, which also highlights the discretionary nature of the prime London market.

Meanwhile prices in London as a whole were up, fuelled by significant price rises in areas like Greenwich and other outer London boroughs. This is nothing new and is exactly what happens in every cycle:

Prime central London always outperforms the rest of the country immediately after a crash. The reason for this is remarkably simple - the wealthy are the only people who can afford to buy as the banks simply won't lend.

Hence the incredibly high number of cash purchases (50% of properties over £1m were bought with no finance between 2011-2013 according to research by Savills and Lloyds Bank).

When the banks do start to lend again they only lend to the safest credit risks, i.e. wealthy individuals. Again this favours London and the South East.

Prices will now start to catch up in much of the country as the banks become more willing to lend, wages increase and buyers outside of London become more confident (The Council of Mortgage Lenders reported a 10% annual rise in lending to first-time buyers).

Meanwhile prime central London prices will tread water or increase at a significantly slower rate. Then they will take off again very much as they did in 2002/2003.

What we don't know is by how much prices will rise, but that doesn't stop people making predictions. Of course, it is human nature to want some clarity on the future so "the experts" oblige by staring into their crystal balls. The danger arises when the guesswork is taken as fact!

But for what it's worth here are some predictions for the UK as a whole including mine:

Savills:	7%
Rightmove:	6%
Nationwide:	3%-6%
Halifax:	5%
Knight Frank:	4%

Me: 5% but with higher increases in lower price ranges and c. 2% in higher price brackets

Of course these predictions for the whole of the UK are of absolutely no use to anyone as Kensington will perform differently to Kelso, Westminster and Wrexham will refuse to conform, etc., etc. This is also true within London itself which comprises several markets.

I don't expect there to be a huge amount of price movement in prime central London over the course of the year. Prices may increase to begin with and then tail off after the SDLT increases take effect from 1st April.

However, the new build market is likely to fare much worse. As I have mentioned previously this is already happening to a degree and I have been warning clients for over 18 months that 2016 would likely be a bad year for the new build market. This is a theme that has recently caught on as reported in City A.M. amongst others:

"Faisal Durrani, head of research at agent Cluttons, said: "We can expect a flood of supply with non-domiciled investors returning off-plan residential stock to the London market, especially throughout 2016.

"We estimate approximately 60,000 homes are due for completion in 2016 and 2017.

"Of these, we believe between 50% to 60% have been sold off-plan to international buyers. Therefore, it is likely that up to 30,000 properties could be returning to the market in the coming two years."

Meanwhile in the Evening Standard, Adam Lawrence, chief executive of property firm London Square, said "between 10 per cent and 15 per cent of buyers wanted their reservation fees to be returned".

If you have not read my report *The Properties to Avoid Buying in 2015 and 2016* then you should email veronika@mercuryhomesearch.com to request your copy.

So is it all doom and gloom for prime central London over the next few years?

Well I certainly think that if you are purely interested in investment then you would be better advised buying in Manchester, Liverpool, Birmingham, etc. for the next couple of years as the proposed infrastructure improvements to the "Northern Powerhouse" will drive prices higher.

However, if you want to buy in London I expect that prices will be higher in 5 years' time and much higher in 2025. Of course, there will be some price fluctuations along the way (although you must read *The Properties to Avoid Buying in 2015 and 2016*).

That is not to say that there will not be another major property crash. It is one of the very few things I can predict with total confidence although I think it will be a number of years away.

Why am I bullish on prime London property?

Well there are a number of factors, but, put simply, there is still an awful lot of money targeted at our small island and at London in particular.

The South China Morning Post reports:

"Asia Pacific institutional investors, including those from Hong Kong and mainland China, are expected to pump US$240 billion into global property by 2020, according to a survey by CBRE.

Asia Pacific institutions, which include sovereign wealth funds, pension funds and insurance companies are sitting on a combined war chest of nearly US$15 trillion as of the start of 2015, according to CBRE.

Traditionally, pension funds and other institutional investors have channelled funds into corporate and government bonds, among other investments, although a need for greater diversification is behind the drive for global real estate, CBRE said.

"We estimate Asian institutional investors today have real estate allocations of around 2 per cent, which is more than it was three years ago, but still considerably below their own internal targets and much less than peers in The Organisation for Economic Co-operation and Development countries which sit at 5-7 per cent,".

Hong Kong and mainland China will be major investors.

"Five of the top 10 global sovereign wealth and pension funds are from Asia Pacific, including the Exchange Fund in Hong Kong and SAFE from China. A

number of these institutions have announced plans to further increase their allocations to property investments".

Of course, London and the UK will only see a certain percentage of this money and much will also go into commercial property, but the investment will continue and not only from Asian funds and corporations (many of the government's recent tax changes are targeted at smaller investors and are not as onerous or simply do not apply for bigger companies).

Land prices are agnostic; where the money comes from is irrelevant, but as long as the money continues to flow in then expect prices to continue to increase (please note I am not condoning money-laundering, etc. I am just expressing a fact). This is why price increases confound so many city analysts, economists and journalists; especially those who focus on house price to earnings.

That is not to say that it is fair or that it won't cause social unrest at some stage. However, first time buyers are becoming less and less important in terms of price rises:

"UK home-ownership, still quite high by international standards, has fallen from over 70pc of households in 2001 to 63pc today. Among 25 to 34-year-olds, though, that share has plunged from 68pc to 39pc. Only 7pc of 16 to 25-year-olds own a property, down from 37pc little more than a decade ago….

Given that home-owners vote in larger numbers, and still just about represent a majority, it's almost as if successive governments have been happy to see prices spiral, knowing that the resulting "feel-good factor" will garner voters in sufficient numbers, regardless of the broader impact.

House prices grew nationally by 9.7pc during the quarter to October, compared with the same a year ago… with the latest Halifax survey showing the strongest annual increase recorded so far this year.

This boost reflected "growing housing demand, fuelled by improving economic conditions" but also "an imbalance of demand and supply". (The Daily Telegraph)

This is the real effect of Quantitative Easing. Older generations, i.e. the generations with the most assets, have benefitted disproportionately.

"*In London, property now makes up 20 per cent of high net-worth individuals' wealth, compared with 33 per cent in the US, Singapore and India; 30 per cent in China and 27 per cent in Australia*" (City A.M.), which again underlines why judging house prices in comparison to earnings in cities like New York and London is misleading and has been so for decades and not just recently.

Of course, nothing is certain. Severe flooding, sustained terrorist attacks in London or some other black swan event would severely affect prices, but then that is true of anywhere. However, if the last year has proven anything it is this:

If you buy a poor or average property, it will become virtually illiquid in weaker markets or you will have to accept a much larger discount to fair value if you must sell.

As mentioned, I expect prices to be fairly steady this year in prime central London and to rise moderately over the next couple of years. BUT, please don't rush your purchase and acquire a moderate property just to avoid, for example, the SDLT increase after 31st March. It will prove to be a false economy and a big mistake.

If you would like further advice on this or if you have any questions, please email veronika@mercuryhomesearch.com.

In the meantime, I hope you have a healthy and prosperous 2016. I am now going to the shops to buy a running machine for my desk. Failing that, a couple of doughnuts…

Best regards,

Jeremy

p.s. If you have any questions or would like to discover how we can help you acquire your ideal home or investment on the best terms possible, please contact Veronika at veronika@mercuryhomesearch.com or call 0800 389 4280 (or +44 800 389 4280 from outside the UK).