



Quarter 1 – 2016

MARKET TALK

*We present the 'reality' of our London market
based on real stats and figures.*



INTRO AND OVERVIEW



Shane Ballard
Group Lettings Director



Stephen Matthews
Group Sales Director

Welcome to the latest issue of *Market Talk*. After a hotly debated election, London has welcomed new mayor Sadiq Khan, and the capital now looks forward to seeing which of his manifesto pledges he will be delivering first. Chief among those must be solving the housing crisis – see page 7 to learn how he intends to do this.

Now that the new mayor has been elected, other subjects are taking centre stage and of particular relevance is the potential Brexit. Uncertainty around the outcome is having an effect on all industries across the UK and as a result, the central London sales market has seen a decline in the volume of sales being undertaken.

All markets abhor uncertainty and the property market is no different. However the EU referendum is just one factor. The recent increase in stamp duty has deterred investors at the upper end of the market while the lack of supply being seen across all price levels is driving competition among buyers and resulting in higher property values.

Despite some uncertainty, it is still a great time to buy a property as there are a number of schemes available to buyers to help with affordability issues. Barclays recently introduced their first BOMAD (Bank of Mum and Dad) 100% LTV mortgage aimed at first-time buyers, Nationwide is raising the age limit for mortgages from 75 to 85 in July, and interest rates continue to remain at historically low levels with talk of them possibly going even lower.

In the lettings market, affordability issues for first-time buyers have meant that many would-be purchasers are now staying in rented properties for longer. We've seen an increase in the number of tenancy renewals – along with the average length of tenancy – as tenants look to stay put for longer. Incentives such as the London Help to Buy scheme and the Lifetime ISA are very beneficial, but accruing enough funds for the hefty deposits in London continues to be a barrier for many.

PROPERTY PRICES

Data from the Land Registry shows that despite the uncertainty, investment in London property continues to be highly prized and rewarding. House prices in the capital have risen by 13.9% annually according to the latest report, with the average property now valued at £534,785. The London borough of Brent – which includes popular areas such as Kilburn, Queen's Park, Kensal Green and Willesden Green – saw the largest monthly rise in property values at 2.8% in March alone.

Our own data for Q1 of this year shows that across all our North London branches, the number of property sales rose by 47% in March compared to the two previous months, while the number of instructions rose by 26% year on year.

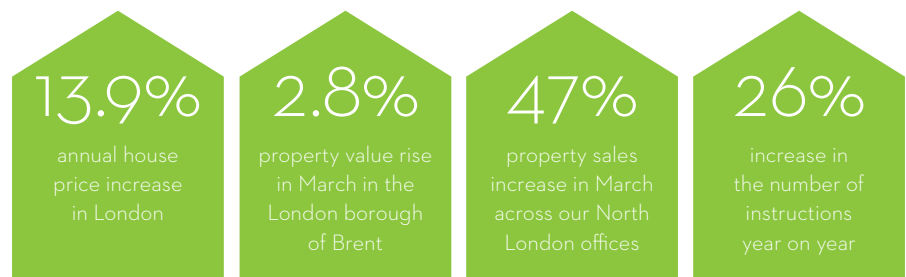
London consists of a series of micro property pockets with different areas seeing significantly different markets. Understanding these is now more important than ever as a property's value just six months' ago may be very different to its value today. Anyone thinking of selling should therefore make sure that they have an up-to-date valuation and also that they are engaging the services of a local agent with on-the-ground experience and suitable comparable evidence to base their valuation on.

One- and two-bedroom properties saw a significant uplift in values towards the end of March as investors sought to acquire these before the additional 3% stamp duty levy came into effect. Since then however, these values have normalised and we are once again seeing an influx of first-time buyers returning to the market now that the investor-oriented competition has diminished somewhat.



“Despite the uncertainties of Brexit, the London sales market continues to perform exceptionally well. Quality homes in the best locations continue to realise great sales prices, some following sealed bids. While investors have been slightly deterred by recent government interventions, we anticipate them returning to the market in the coming months once the dust settles and as capital appreciation continues to outweigh the 3% additional tax levy imposed.”

– Stephen Matthews, Group Sales Director



THE MARKET IN DETAIL

The London property market is heating up with our branches reporting a 42% increase in buyer demand in Q1 compared to Q4 of last year. The supply of properties also saw a boost during the busy spring period and in anticipation of getting a deal done before the Mayoral Election and Brexit.

Despite this, we are at present seeing seven buyers register for every property that comes onto the market. This is marginally less competitive than Q4 2015, when we saw nine buyers per new instruction, however there remains a no-holds barred race for properties in the capital.

The area currently seeing the highest level of competition is Clerkenwell. Our office here has seen demand shoot up by 49% on the quarter while supply has risen by 42% over the same period.

Across all our branches, viewings saw a seasonal jump of 23% on the quarter in Q1. This was largely as a result of buyers delaying their search until the warmer spring months. While sales were down by 5% over the same period, this temporary dip will be alleviated as new homes come to the fore, and we are already seeing an increase in viewings converting into sales. Offices such as our Kensal Rise branch meanwhile are reporting significant levels of both transactions and viewings.



“Not only is Clerkenwell extremely well located, within walking distance of the City and the West End, it also boasts gorgeous period properties, loft conversions and a fantastic community feel. The arrival of Crossrail in two years’ time at Farringdon station will be a huge benefit to the area and has certainly boosted its popularity already. In May, it played host to the hugely popular Clerkenwell Design Week which is a huge draw for some of the brightest and most creative names in the industry. These factors ensure that Clerkenwell continues to be a very attractive and sought-after part of the capital.”

- Jonathan Wilce, Sales Manager of the Clerkenwell office



“Our branch has got off to a flying start. We have seen the number of viewings soar 26% on the year while sales are up 13% annually. This has been boosted by record low mortgage rates and the fact that we have seen a large amount of stock coming onto the market, increasing the liquidity of the marketplace.”

- Paul Harris, Sales Manager of the Kensal Rise office



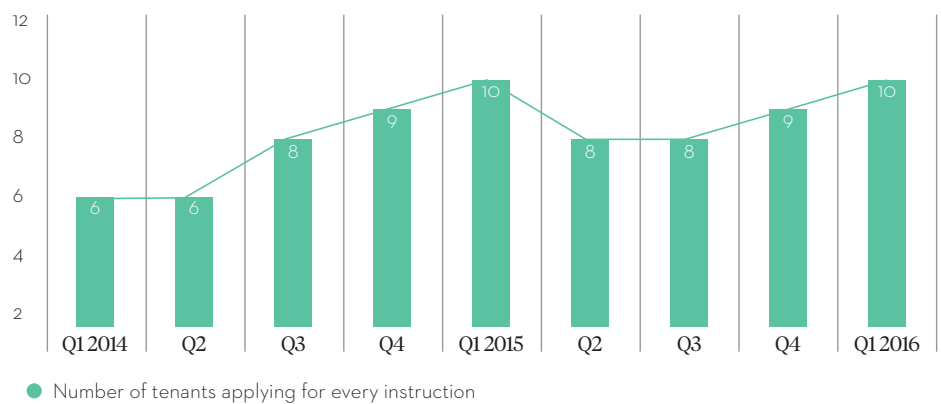
LETTINGS

In Q1 2016, we saw a seasonal surge in the number of applicants, up 40% on the quarter, and the number of viewings of rental properties increased by nearly a third. While the number of properties for let coming onto the market saw an upturn of 13% over the same period, this was not sufficient to keep up with the level of demand, resulting in ten applicants for every new rental property.

The number of tenants chasing every home to come onto the market is only likely to increase throughout the year as affordability issues in the sales market continue to be a barrier for many would-be first-time buyers. We have seen an uplift in stock coming onto the market over the last three months following a surge in the number of buy-to-let investors entering the market, keen to complete before the introduction of the additional 3% stamp duty surcharge on 1 April. Post-April, we are now seeing buy-to-let investors retreat from the market.

As rents continue to rise year on year, tenants are becoming more exacting in their criteria and in general are looking for quality homes which are well located and supported by a plethora of amenities. Landlords need to

Graph 1: Rental Demand vs Supply Ratio



ensure that properties are immaculately presented and maintained. The build-to-rent sector is becoming more appealing for developers who are able to realise healthy yields from the increased demand.



“The most recent ONS rental data shows that London rents rose 3.8% annually in February, which shows that the sales market isn't the only area in which investors can realise good returns. Despite the recent government levies on landlords, we anticipate the coming months will see a number of them returning to the market.”

– Shane Ballard, Group Lettings Director

NEW HOMES

Housebuilding remains at the top of the government’s agenda and Q1 demonstrated the level of commitment it has to tackling the housing shortage, with the announcement in January that it would directly commission the building of up to 13,000 homes on public land. This radical shift in policy means that the government will assume responsibility for developing land, rather than relying on large building firms.

“The current housing shortage in the middle market means there is a high level of demand for new homes in this sector and this is leading to intense competition, pushing up the price of new developments. Many central London developers are now refocusing their attention to meet demand in this very active sector of the market.”

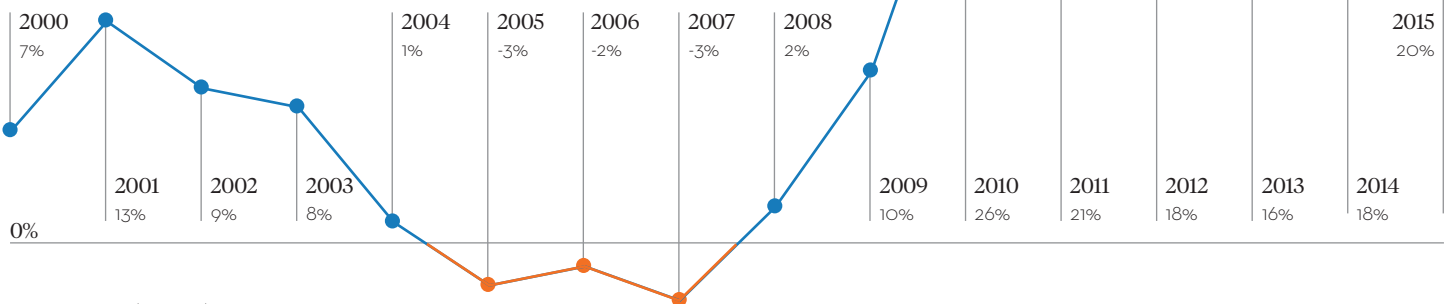
- James Gershfield, Director of New Homes

Measuring the rental premium
 The new-build rental premium is calculated by working out how much more a tenant pays to live in a home that was built in the last five years compared to an equivalent older one in the same location.

In order to tackle the shortage of housing stock however, the right homes need to be built in the right places. New developments at the top end of the market, such as those in the Nine Elms area, have seen a price correction amid concerns of an over-supply of luxury new-build properties in prime London areas.

New homes in established suburbs that cater for local residents are increasingly in demand however. Schemes which we are selling in areas such as West Hampstead, which include The Central, The Ivery and 100 West End Lane, are all particularly popular. Their location in a sought-after enclave, surrounded by local amenities and with good transport links, makes them extremely desirable, particularly among young professionals.

Graph 2: The new-build rental premium



Source: Countrywide Research

THE MAYOR'S HOUSING AGENDA



When the former Mayor of London, Boris Johnson, accepted his position at City Hall in 2008, the recession was in full swing and house prices in the capital averaged £350,000. Fast-forward eight years and they have risen by 52% to average £534,000, with the increase in value largely attributable to a lack of supply.

Newly elected mayor, Sadiq Khan, is taking office at a time when the capital sorely needs real and achievable solutions to solve its housing crisis. His manifesto prioritises housing with an aim of building 80,000 homes a year. It's an ambitious target given that over the past eight years, Boris Johnson only managed an average of 23,840 homes per year. Nimbysism isn't as contentious an issue in the capital as it is outside of it, but finding appropriate sites which are cheap enough to acquire, build and then make a profit on is one of the biggest barriers to housebuilders, especially in light of current Section 106 requirements. Releasing brownfield sites and easing planning requirements is therefore key.

At the heart of Sadiq's manifesto is a focus on affordable housing, and as part of this, he is keen to ensure that 50% of all new homes built are truly affordable. While this is a laudable aim, it will be difficult to achieve as it will directly affect the profits of housebuilders. Many developers could simply adjust their business plans and opt instead to develop homes outside the capital, further impacting the London housebuilding crisis.

While current government measures such as Help to Buy and the taxes on landlords look specifically at addressing issues around affordability, we also require solutions that will enable an adequate supply across all property sizes and all price levels. Increasing the number of homes available – and therefore diminishing competition – is the only real solution that will have any long-term impact on affordability.

Main points in Sadiq's 'Homes for Londoners' manifesto:

-  80,000 new homes every year
-  50% of all new homes built to be truly affordable
-  'Affordable Rent' homes in which tenants pay up to 80% of private market rent
-  'Starter homes' to buy costing up to £450,000
-  Setting up a London-wide not-for-profit lettings agency
-  Promote landlord licensing schemes to drive up standards
-  Support councils in bringing empty homes back into use

To keep up to date with the latest property news and market trends, follow us @greeneandco.

All figures and analysis contained in this report have been taken from our own database (unless otherwise specified) which is compiled from management reports from across all our branches. In this report all figures relate to Q1 2016 or the previous year only.

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