

London Residential Quarterly | Spring 2016

Research - Market View

UK economy continues to perform

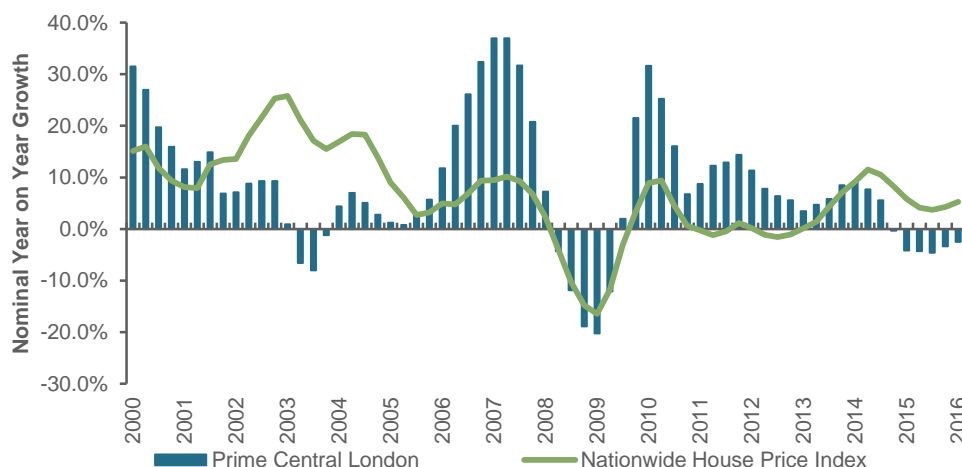
Prolonged periods of low commodity prices and slowing growth in emerging economies have raised concerns of a global economic slowdown; however the outlook for the UK economy remains positive. The national economy is still forecast to grow at above 2% per annum over the next five years, and at 74.1% employment is at its highest level since records began. Wages and inflation have increased. On the downside, the UK's trade deficit and public sector debt continue to rise and are the most concerning aspects of the economy. The Bank of England has maintained interest rates at 0.5% and the majority of forecasters are now not predicting a rise until early 2017.

The UK is facing a defining few months with the pending London Mayoral Election and European Union (EU) Referendum. The looming possibility of a 'Brexit' is increasing uncertainty in the national economy and consequently, UK and PCL housing markets. The consequence of uncertainty is that buyers and sellers are more likely to adopt a 'wait and see' approach. This means low transaction levels in PCL are expected to persist and we expect Q2 to be particularly sluggish. Performance in the second half of the year will depend to a significant degree upon the outcome of the referendum.

National property market

The Nationwide House Price Index (HPI) saw quarterly growth of 1.6% in the first quarter of 2016. The performance of the domestic economy has resulted in every region, with the exception of the North, recording positive price growth since the turn of the year. In contrast to recent trends, price growth in the South East, South West, East Anglia and West Midlands all outpaced London. As of Q1 2016, average UK house prices were 5.3% higher than a year earlier.

Figure 1. UK house price growth vs Prime Central London (PCL)



Source: Nationwide House Price Index, Volterra

The IMF has downgraded global growth forecasts by 0.2% to 3.2% for 2016.



The Bank of England has maintained interest rates at 0.5% and the majority of forecasters are now not predicting a rise until early 2017.



Nationwide House Price Index saw annual growth of 5.3% for the year ending March 2016.



Market impacts

Budget 2016

The Chancellor of the Exchequer gave his Budget to Parliament on the 16th March 2016. The expected implementation of the additional stamp duty land tax (SDLT) on second homes and buy-to-let (BTL) properties was confirmed for the 1st April 2016. In effect, this adds 3% additional tax to the current rates of stamp duty for these types of property purchases. There had been some question regarding exemption for large scale investors, however it was clarified that this was not to be the case.

Additionally, SDLT calculations on non-residential and mixed use land and property changes were announced. As of 17th March 2016, SDLT is now charged on the portion of the price which falls within each rate band on freeholds, lease assignments and lease premiums. (Refer to Table 1 below.)

Table 1. Non-residential and mixed-use land and property SDLT rates

Old transaction value bands	Tax rate on each slab	New transaction value bands	Tax rate on each slice
Up to £150,000	0% / 1%	Up to £150,000	0%
Over £150,000 to £250,000	1%	The next £100,000	2%
Over £250,000 to £500,000	3%	More than £250,000	5%
Over £500,000	4%		

Source: HMRC, Strutt & Parker

May 2016 Elections

On the 5th May 2016, the following elections will take place across the UK: Scottish Parliament, Welsh Assembly, Northern Ireland Assembly, Local Council elections in England, Mayor of London and London Assembly, and Police and Crime Commissioner elections.

In the London's Mayoral election, the front runners have announced similar housing policies which focus on limiting the number of foreign investors in the market, making new builds more accessible for Londoners, and increasing London's housing stock (from 25k to 50k per annum). However with the impending EU Referendum, the London election results are unlikely to have any immediate impact on the PCL market.

EU Referendum

The referendum on the UK to remain in the EU will take place on 23rd June 2016. It is anticipated that a period of uncertainty will persist in the run up to that date as residential markets are highly influenced by uncertainty. London in particular is anticipated to feel the effect of nervous buyers, the consequence of which is likely to be a drop in trading. Across the UK, except in areas where high numbers are employed in international (or associated) businesses, the short term impact would be less.

"While any increase is always unpopular, a 1% change is relatively small. I do not think it will stop people buying a property although they may adjust their offer price accordingly."

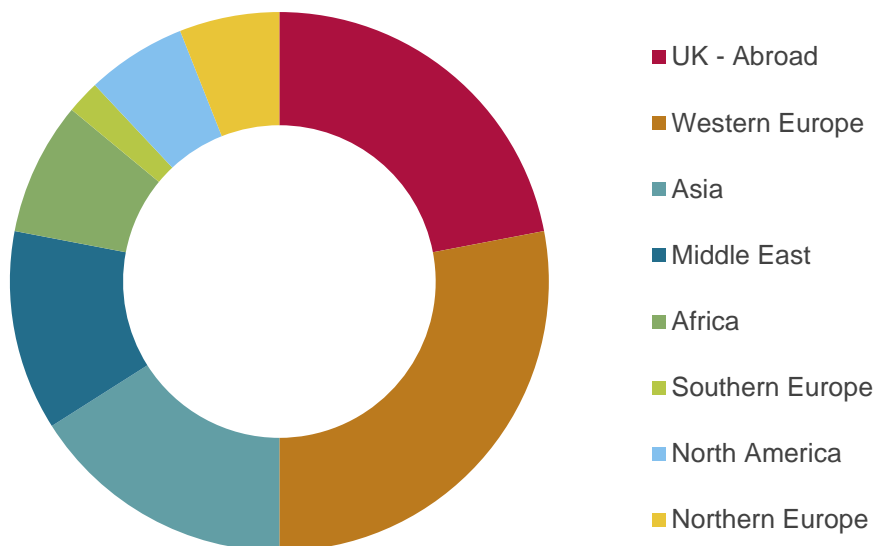
- Mark McAndrew,
Partner, Estates & Farm
Agency



Prime Central London second-hand sales market

Strutt & Parker's data for the first quarter of 2016 showed that nearly 36% of all buyers in PCL were originally from overseas. There was a significant increase seen from UK buyers from abroad when compared to the same period last year. Also, there has been a marked drop in buyers from Asia and Europe when compared to the same period last year, -20% and -84% respectively, which can likely be attributed to the uncertainty surrounding the EU Referendum.

Figure 2. Known PCL buyer nationalities for Q1 2016 (removing UK – domestic market)

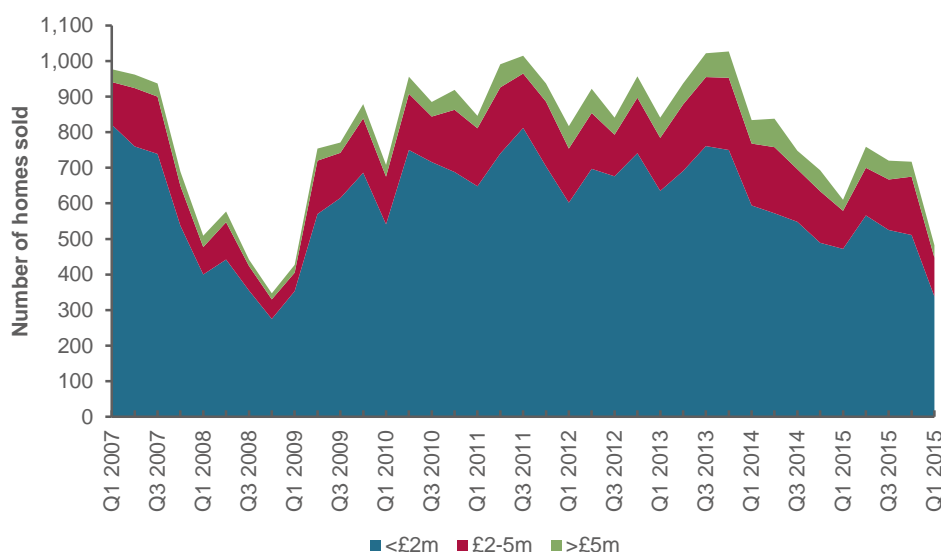


Source: Strutt & Parker

By the numbers

A total of 482 properties were sold during the first quarter of 2016, which was an overall decrease of 21% when compared to the same period in 2015.

Figure 3. Historic number of sales in PCL



Source: Dataloft, Lonres.com, Strutt & Parker

There has been a 67% increase from buyers who work in technology & media compared to Q1 2015 in PCL.



Flats remain the preferred housing type in PCL, with nearly 57% of buyers in Q1 2016 wishing to purchase one.



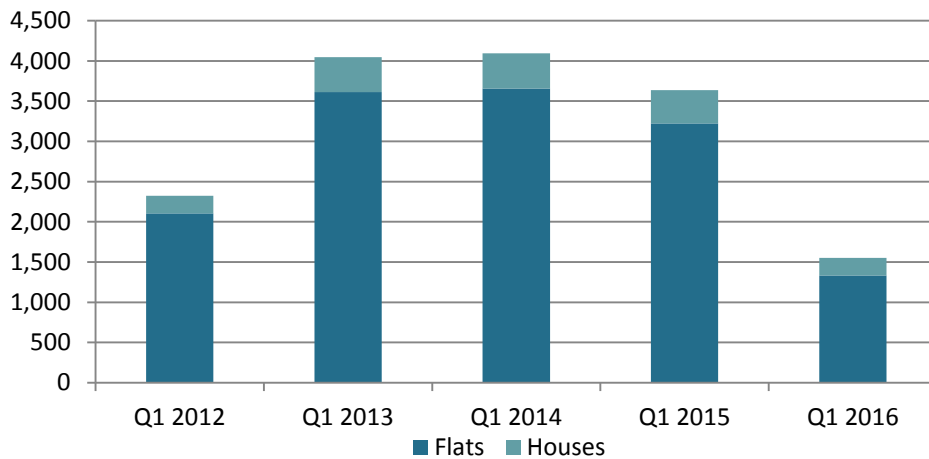
Compared to the five year quarterly average, the total volume of transactions were 33% down in Q1 2016.



Prime Central London lettings

There were 1,552 property lets agreed in PCL during the first quarter of 2016, which was 43% down overall compared to the first quarter of 2015.

Figure 4. Historic agreed lets in PCL by housing type

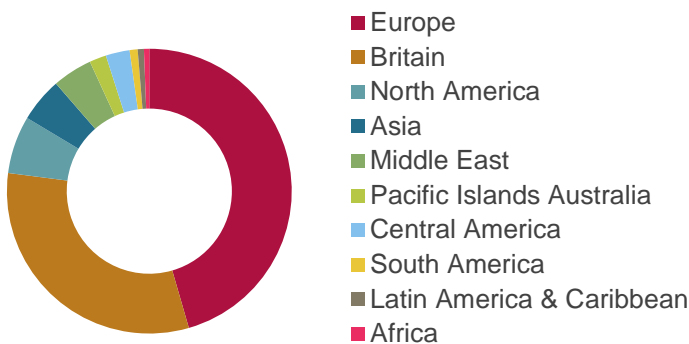


Source: Dataloft, Lonres.com, Strutt & Parker

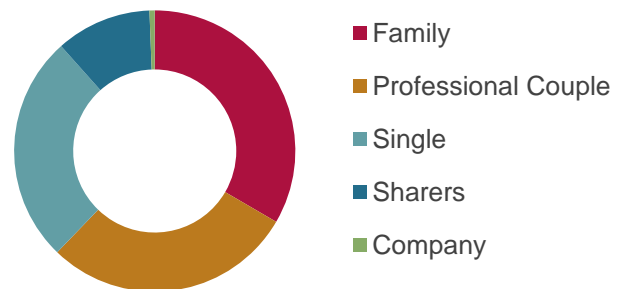
The first quarter was also 39% below the five year average of 2,547 property lets, highlighting the impact the current economic conditions and additional Stamp Duty Land Tax are having on the lettings market in PCL.

Figure 5. Tenant profiles in PCL Q1 2016

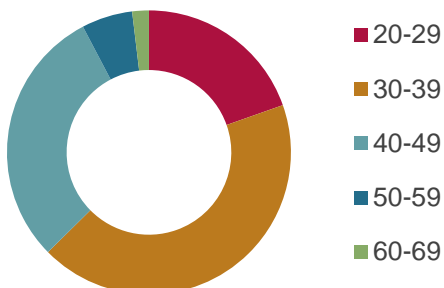
Nationality



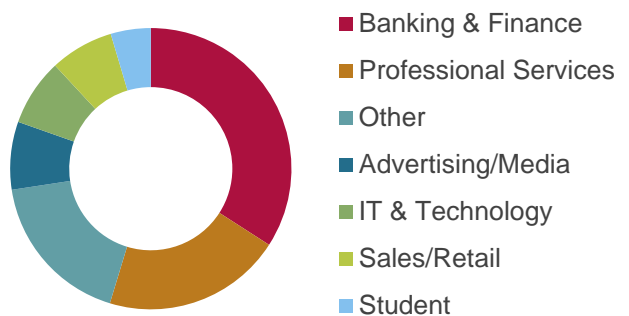
Lifestyle status



Age



Employment industry



Source: Strutt & Parker

"Beautiful properties in prime areas and situated within good buildings are still popular and rental levels seem to be marginally less affected than other sectors of the market."

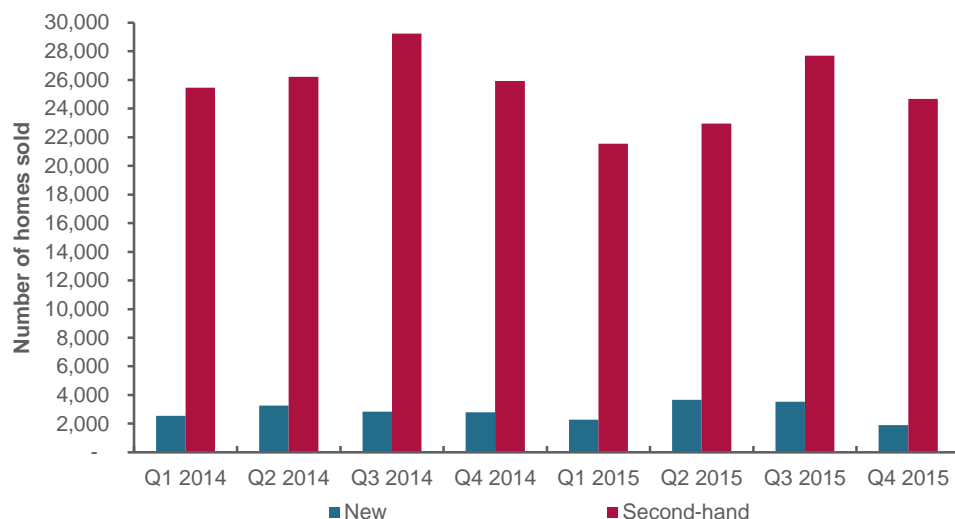
- Nina McDowall,
National Partner Lettings



Greater London housing sales market

New home sales in Greater London continue to be approximately 10% of overall sales per quarter. First quarter 2016 data is not yet available but will be updated in due course.

Figure 6. Greater London Residential Transactions



Source: DataLoft, Lonres.com, Strutt & Parker

Residential development

With the goal of 50,000 new homes to be delivered annually throughout London to increase housing capacity; we continue to track not only the new home delivery pipeline but also land transactions. The table below highlights recent land transactions outside of Prime Central London that have the potential to add to the housing stock within the M25.

Table 2. Recent Greater London land sale highlights

Site location	Planning Authority	Number of residential units (est)	Total developable area (ha)
Stompond Lane Sports Ground, Walton-on-Thames	Elmbridge	52	3.16
Walton Court, Walton-on-Thames	Elmbridge	225	2.67
Stag Brewery, Mortlake	Richmond	850	8.6
Vulcan Wharf, Stratford	London Legacy Development Corporation	163	0.17
Garratt Place	Wandsworth	201	0.67
Wandle Riverside Estate, Mill Green Road	Sutton	124	2.14
Former GlaxoSmithKline HQ, Greenford Road	Ealing	593	10.7

Source: Molior, Strutt & Parker Residential Development Database

“Although land transaction levels in PCL have slowed, we continue to see strong demand for sites from speculative residential developers from zone two out to the M25.”

- Dominic Price, Partner, London Residential Development & Investment



Outlook & forecast

Rising uncertainty surrounding the EU Referendum and performance of the global economy has the potential to increase investor and consumer uncertainty, and adversely impact the domestic economy, upon which the national housing market is heavily influenced. However, demand for housing continues to outstrip supply and with interest rates set to remain at 0.5% throughout 2016 and employment at record highs, we expect activity and price growth to remain robust across the UK.

After a prolonged period of exceptional price growth, London's mainstream property market is now considered the most unaffordable in the country. With this quarter's growth statistics as evidence, it appears price growth in London may be beginning to plateau. Regions outside the capital, where there is greater capacity for price growth, may outperform London over the next five years and, within London, up-and-coming sub-markets may outperform traditional prime locations.

Going forward, we expect market activity and price growth to continue to be low as political uncertainty surrounding the EU Referendum and mayoral election coupled with the introduction of higher SDLT on additional homes are all likely to dampen market demand in the short-run, with the risk principally remaining on the downside. Buyers and sellers who do not have to move quickly are likely to adopt a 'wait and see' approach. However, London in general, and PCL more specifically remain a 'safe-haven' for foreign investors, and with the outlook for the UK economy still positive we anticipate price growth will return to a normalised level in the medium/long-term.

"One month doesn't make a year but our March trading in PCL was one of the most positive we have ever experienced. This provides some much needed evidence that confidence and commitment is still there for people to live in the best areas of London even against the uncertain backdrop of economic concerns, the London Mayoral Elections and Brexit."

- Charlie Willis,
Head of London Residential Agency



Table 3. Residential price forecast Q1 2016

Sales	2016	2017	2018	2019	5 Year Growth to 2020
Prime Central London	0.0%	2.5%	5.0%	6.0%	21.0%
UK	5.0%	5.0%	4.0%	4.0%	24.0%
Lettings	2016	2017	2018	2019	5 Year Growth to 2020
Prime Central London	2.0%	2.0%	2.5%	2.5%	12.0%

Source: Strutt & Parker, Volterra

Methodology

As the housing market is seasonal, for the purposes of this report; data is compared year on year, i.e. looking at Q1 2016 in light of changes since Q1 2015. Data may also be compared on a rolling month on month basis. When referring to the PCL market it includes those markets which Strutt & Parker operate in (Knightsbridge, Belgravia, Kensington, Chelsea, Notting Hill & Fulham) and as such is reflective of London's most prime markets. Economic views are attributed to Strutt & Parker's retained economic advisors, Volterra. Additionally, Lonres.com data is used to assess the London sales and lettings market. The behavioural data is collected from our activity in PCL markets: our proprietary "behavioural data" is not representative of the UK as a whole. The global economy remains volatile and therefore there is risk that any market commentary provided will become out-dated within a very short timescale.

Contact us

Charlie Willis

Head of London Residential Agency
charlie.willis@struttandparker.com

Dominic Price

Partner, Development
dominic.price@struttandparker.com

Nina McDowall

National Partner, Lettings
nina.mcdowall@struttandparker.com

Vanessa Hale

Partner, Research
vanessa.hale@struttandparker.com

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