RESIDENTIAL. REVIEW. SPRING 2018.

LON RES

OPENING THOUGHTS...

Spring has finally sprung, and with the end of what felt like a very long winter, we have some sun. The low point in terms of transaction numbers may have seemed to be the last two years, but actually in the last 10 years it was 2009 and then 2010. Recently, it has been the stamp duty land tax (SDLT) hikes that have curtailed activity, but I see that the market is adapting (as it always does) and that the vendor/buyer dynamic has changed.

Put into context, the buyer is someone now looking to buy a home, and not looking at another asset class that will provide a year-on-year increase in value. That was the person who asked the agent what the property was going to be worth in a year's time and they are gone, now. Stamp duty charges have put paid to them as well as providing uncertainty as to when house prices are going to edge upwards. The vendor profile is also different, and those who would traditionally be a seller are choosing to stay put.

Downsizing and moving out of London are much more relevant but low interest rates mean that they have a further choice. Paradoxically, the recent shortage of second-hand housing stock at various price bands has not resulted in house prices moving upwards. The relentless capital growth of housing stock in the noughties has been curtailed very effectively in prime London.

So, is this a bad thing? In a word, no. A dose of reality in London allows house prices to catch up outside of London, the wage squeeze in London to be less so, and allows government to pause in its attack on home ownership. I hear those who say "what about help-to-buy?" Well, we have the first set of home owners who will be paying interest at 1.75% on the government loan (it doesn't pay down the debt, to be clear) and RPI increases thereafter.

The government will also look to sell the loan book to the highest bidder. Eleven times in the last 19 years is quite a tax raid and now we have another housing minister, Dominic Raab, the sixteenth in the last 20 years, who quietly replaced Alok Sharma. His biography does not make for inspirational reading, and his latest published document suggesting that immigration has put house prices up by 20% over the past 25 years has met with considerable opposition. Be prepared for more soundbites and another "…package of measures" then.

Turning back to the London market, unusually it is the top end that has fed the downward reduction in house price values, with plenty of evidence to support reductions of 10% or greater. For those minded to sell, then the expectation is to be prepared to negotiate with the buyer from the reduced price to start. Agents have complained loudly about the diminishing pool of property for sale, but I suggest that it is the number of withdrawn properties, where the vendor has given up on selling the property on his terms, will be the next story. Interest rate rises, changing circumstances and finally, acceptance that the market has changed will mean that these properties will come back onto the market, and that is starting to happen now. We are certainly not at the point where agents would take on a property to sell for a minimum period of one year, as happened in the early 1990s.

If ever there is a tale of life after Stamp Duty, then look no further than Rettie & Co's insightful piece on the Edinburgh and South of Scotland market. Battered by the introduction of Land & Buildings Transaction Tax (LBTT) and where the SNP continue to pursue their goal of Land Reform, sales and lettings are both seeing a resurgence in market conditions. Many thanks to Dr John Boyle for his contribution.

Meanwhile at LonRes, we continue to focus on delivering practical solutions and opportunities to help our subscribers adapt effectively to policy and market changes. Look out for a new service coming soon for letting agents.

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SALES. MARKET.OVERVIEW.

Positive news on the health of London's prime markets has been in short supply recently. While the market is still challenging, buyers do appear to be returning at the upper end.

The number of new homes reaching the market in Q1 2018 increased by 11% compared with the same period a year ago. Increases in new supply were more pronounced below £2 million, seeing a 13% increase compared with Q1 2017, homes over £2 million rose by 5% over the same period. A trend agents expect to continue this year. In the most recent LonRes agent survey, 49% of respondents expect sales volumes to be higher over the next 12 months than the last, compared with 26% expecting further falls.

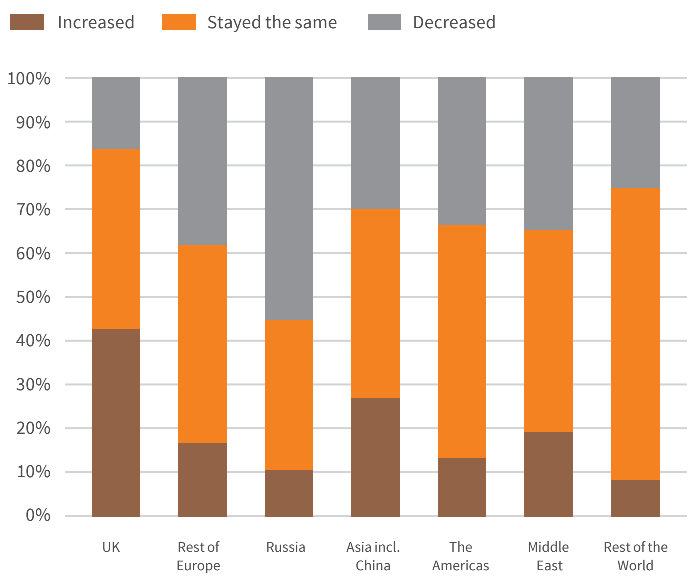
Over the last 12 months transactions volumes across our three prime catchments increased by 3% year-on-year. But, for the second quarter running it was the market over £2 million which saw more activity, with sales up 8% year-on-year. This despite a slow first quarter, where transaction volumes fell 17% on Q1 2017.

Achieved prices across our three prime catchments fell by an average of 3% compared with Q1 last year. But, in a similar pattern to transactions, the performance of the market above and below £2 million differed. Across our three prime areas, homes sold for £2 million or more achieved an average of £1,769 per square foot in Q1 2018, up 3.2% on the same period a year ago. Prices fell 5.8% under £2 million to £1,038 per square foot over the same period.

There are a few possible explanations as to why. Firstly, the performance of the wider London market. As the prime markets slowed in 2014/15 it was higher value homes which bore the brunt of the initial price falls. As the top end slowed, homes in what we would consider fringe prime neighbourhoods and less expensive properties in more established prime postcodes continued to see prices increase, following a similar trajectory to the wider London market. Two years ago, homes sold at £2 million or more recorded annual falls of 5.5% compared with growth of 4.4% under £2 million. More recently, as London price growth slowed so too has the lower end of the prime market.

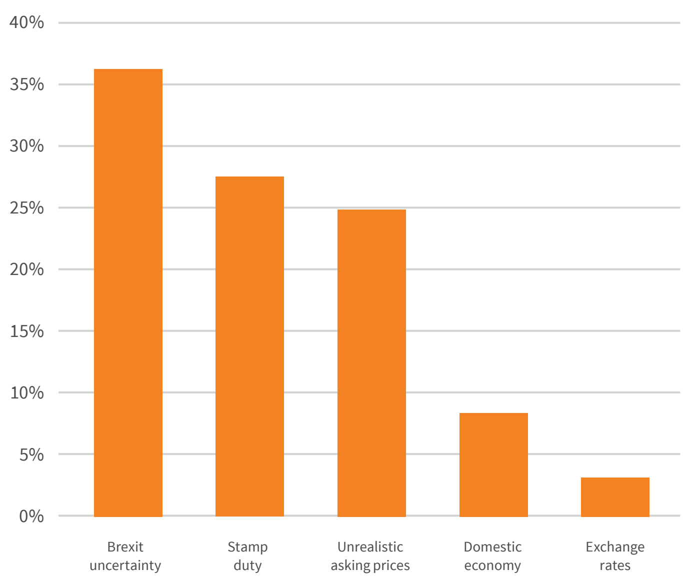
Changes in the types of buyers in prime areas has also impacted demand. In the most recent LonRes survey, agents reported a fall in investor and second home purchasers, with almost half reporting a fall compared to Q1 2017 and less than 20% seeing an increase. In contrast, 44% had seen more owner-occupiers (just 10% reported a fall), particularly those looking for larger family homes. Buyers appear to be seeing value and are becoming less cautious of short-term price fluctuations on what they hope will be a longer-term hold.

Change in buyer demand – last 12 months



Source: LonRes agent survey Q1 2018

What will have the greatest impact on demand over the next 12 months?



Source: LonRes agent survey Q1 2018

KEY STATISTICS IN SALES – Q1.2018

£1,712
PER SQUARE FOOT
average value achieved (PCL)

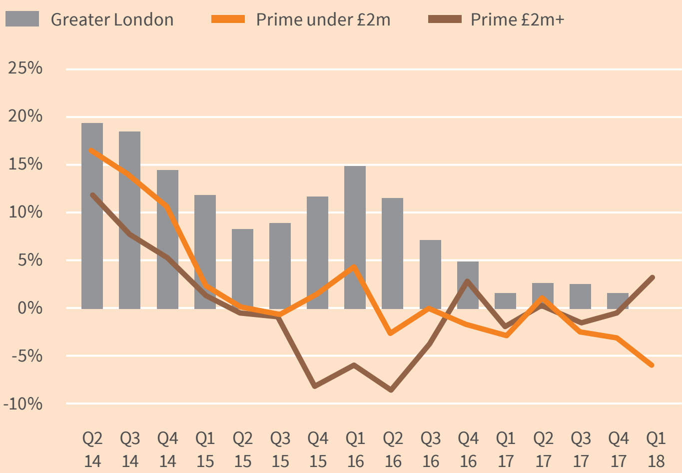
13%
increase in the number of available properties (three prime areas)

£1.7 BILLION
total spend in Q1 2018 (three prime areas)

10.8%
average discount achieved off initial asking price (three prime areas)

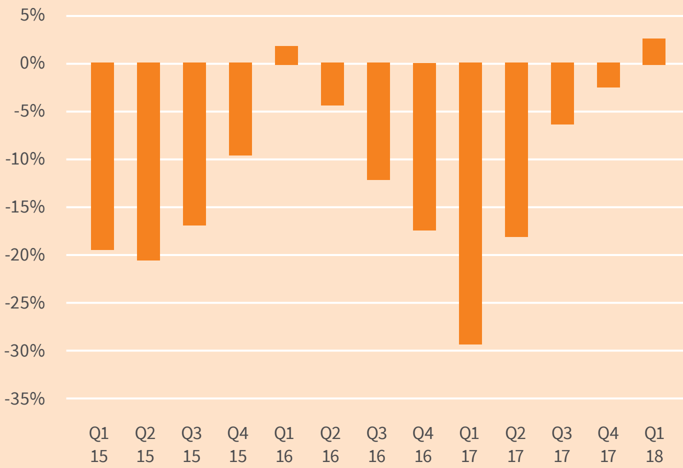
KEY MARKET TRENDS IN SALES

Annual change in achieved prices



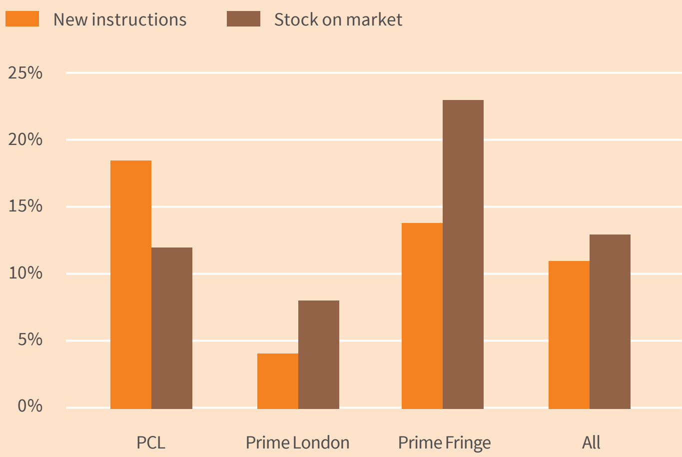
Source: LonRes/ Land Registry (to Q4 17)

Transactions volumes year-on-year change – three prime areas



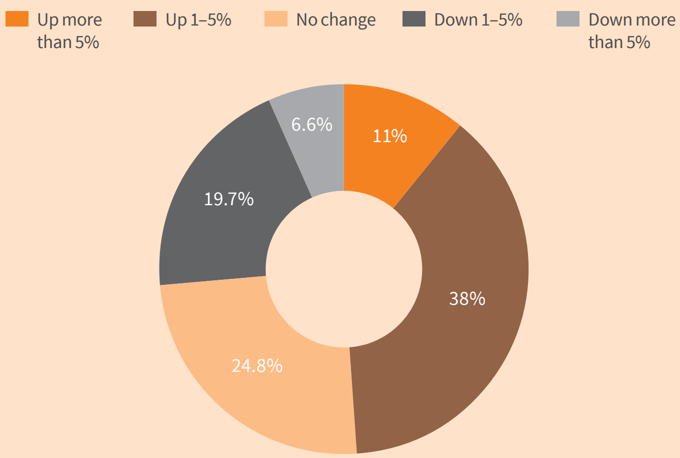
Source: LonRes

New instructions and stock on the market - annual change



Source: LonRes

Agent expectations on change in transaction volumes– next 12 months



Source: LonRes agent survey Q1 2018

Prime Central London includes properties within the following postcodes: SW1X, SW1W, SW1A, SW3, SW7, SW10, W1K, W1J, W8
Prime London includes properties within: NW1, NW3, NW8, SW1P, SW1V, W1T, W1H, W1U, W1G, W1W, W2, W11, W14,
Prime Fringe includes: SE1, SE11, SW4, SW5, SW6, SW11, W4, W6, W9, W10

LETTINGS. MARKET. OVERVIEW.

Fewer sales, particularly to investors, is feeding through to the prime lettings market. There is less on the market and an increase in tenants renewing their leases is impacting the volume of new lets agreed this year.

The first three months of 2018 marked the fourth consecutive quarter when new instructions across our three prime areas fell. Over the last three months there were 11% fewer properties listed compared with the same period a year ago. Fewer new instructions has meant the number of available properties is down too, by 29% across our three prime areas, compared with Q1 2017.

While tenants remain in the mood to negotiate, a more balanced market has meant average discounts off initial asking prices fell to 6.4% this quarter, a reduction on Q1 2017 when average discounts peaked at 8.2%.

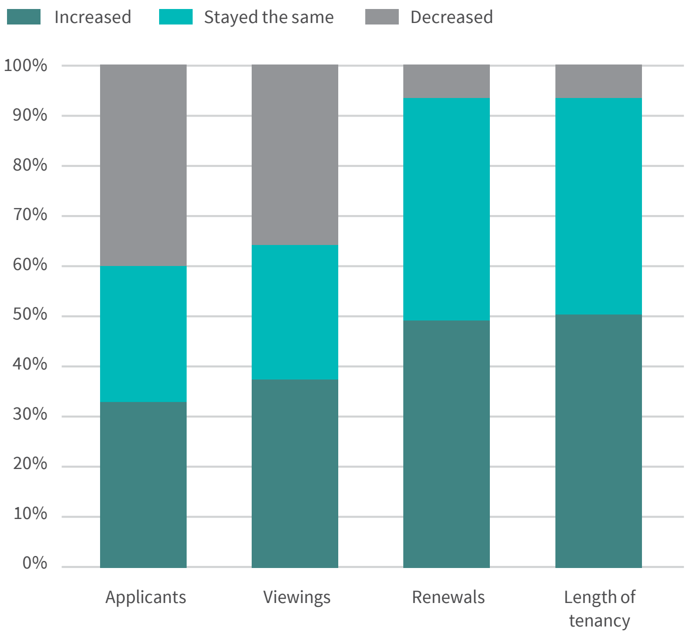
More constrained supply has supported growth in rental values in two of our three prime catchments this quarter. Prime central London and prime fringe markets saw achieved rents increase in the first quarter compared with the same three months last year. Achieved rents up 2.1% in prime central London and 1.4% in prime fringe. Prime London recorded a modest fall, down 0.3% on Q1 2017.

Tenants are now more inclined to renew and remain in their current property than look for an alternative, with 49% of agents reporting an increase in renewals over the last three months (just 7% had seen a fall). This has impacted on the number of new lets agreed this quarter. Across our three areas there were 10% fewer properties let in Q1 2018 compared with the same period a year ago. A situation compounded by landlords selling investment properties. A year on from the first amendment to mortgage tax relief, 40% of agents surveyed reported an increase in landlords selling their investment properties compared with the same point a year ago (23% had seen the number fall).

Market conditions have also benefitted landlords, who experienced shorter average voids this quarter. A year ago, properties let across our three areas had an average void of 63 days, with 36% of lets seeing a new tenant move in within a month. In Q1 2018 LonRes data showed average voids had fallen to 58 days, with 40% of properties without a tenant for less than a month.

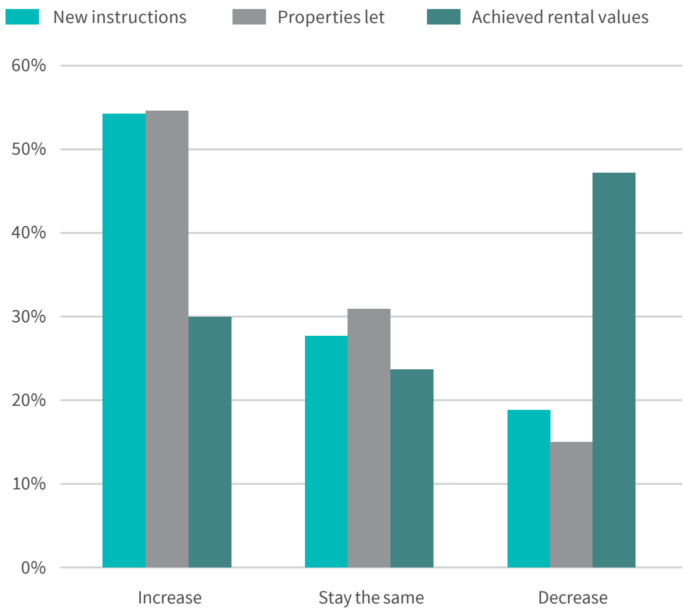
Looking ahead, agents remain optimistic that new instruction levels would begin to rise over the next 12 months. 54% of agents expect new instructions to increase compared to just 19% predicting a fall. The outlook for rents was less clear cut, with 47% expecting rents to fall against 53% who thought they would remain the same or increase.

Market activity – change over last three months



Source: LonRes agent survey Q1 2018

Agent expectations – next 12 months



Source: LonRes agent survey Q1 2018

KEY STATISTICS IN LETTINGS – Q1.2018

£42
PER SQUARE FOOT
annual rental value (three prime areas)

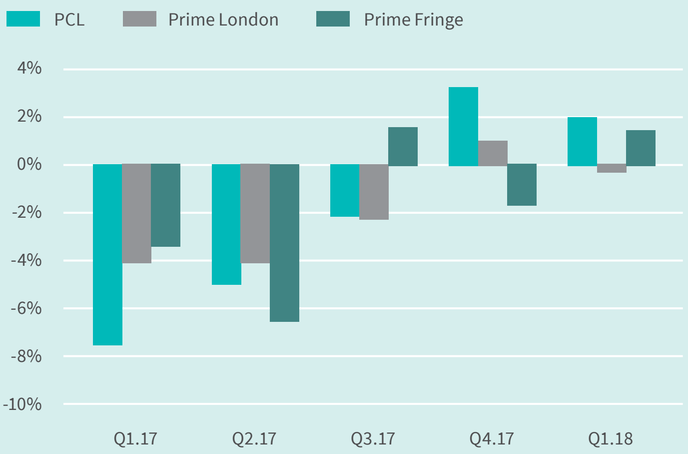
3.36%
average gross rental yield Q1 2018 (three prime areas)

12%
of properties let were houses (PCL)

£991
PER WEEK
average rental value achieved (PCL)

KEY MARKET TRENDS IN LETTINGS

Annual change – LonRes Prime London Lettings Index



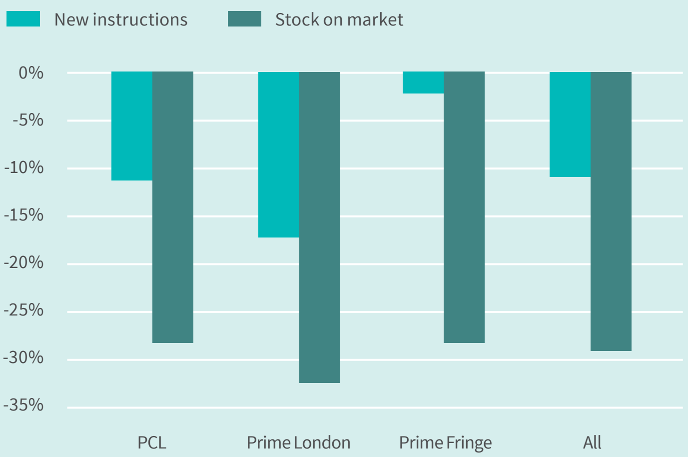
Source: LonRes Prime London Lettings Index

Q1 2018 results from the LonRes Prime London Lettings Index

All Property	Prime Central London	Prime London	Prime Fringe
Quarterly change in achieved rents	-4.5%	-0.8%	0.8%
Annual change in achieved rents	2.1%	-0.3%	1.4%

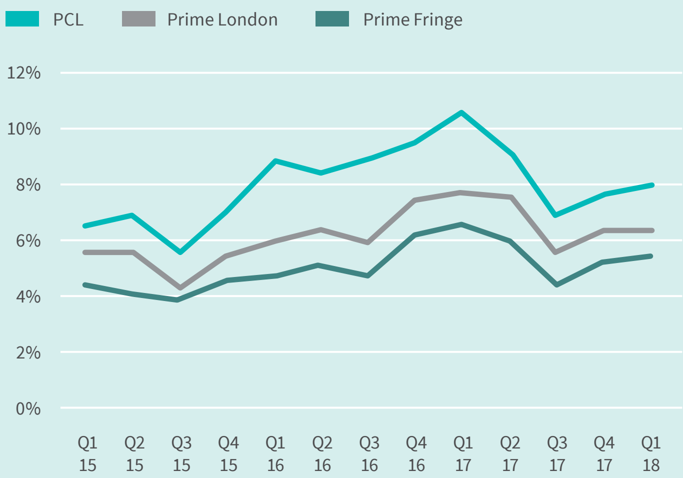
Source: LonRes Prime London Lettings Index

New instructions and stock levels – annual change



Source: LonRes Q1 2018

Average discounts achieved off initial asking price



Source: LonRes

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SCOTTISH.HOUSING. MARKET.

The housing market in Scotland had a reasonably strong 2017 and the start of 2018 looks like a continuation of this trend. Average house prices rose by 4% across Scotland in 2017, with a 4% growth in transactions producing a total growth in the value of property sold north of the border to 8%.

House prices are basically rising because there is much more demand than there is supply. This is particularly evident in Edinburgh and Glasgow, where average house prices rose by 6-8% over the last year alone. The Aberdeen market is also showing signs of stabilising after a fairly traumatic couple of years following the oil price crash. This is partly due to the return of the prime and family markets in the main cities, which had been subdued for around two years after the introduction of Land & Buildings Transaction Tax (LBTT), the new Scottish form of Stamp Duty, which brought in higher rates of tax take for properties priced £333,000 and over. The apparent postponement of a second independence referendum has also appeared to settle the mid to higher ends of the market.

Demand is spilling out from the cities into the commuter hinterland, where new build development is absorbing demand in locations such as East Lothian in the East and East Dunbartonshire in the West. While the national Scottish average is seven new build homes per 1,000 households, East Lothian is now delivering more than double this at 14.4, with East Dunbartonshire at 10.5.

These excess demand conditions are also being seen in the rental market, with sharply rising rents in some parts of Scotland, especially in the Edinburgh hotspots (such as parts of the city centre, southside and western corridor), where there has been double digit rental inflation. Strong growth has also been seen in many parts of Glasgow, although rental markets in cities like Aberdeen and Dundee remain fairly subdued. The introduction of tenancy reform in Scotland in late 2017 as well as other UK-wide tax changes in the Buy-to-Let sector may act as a dampening factor going forward, but housing still remains a good value investment proposition.

Despite downside economic and political risks going forward, this picture does not look likely to change much over the next few years. Rettie & Co's current forecasts suggest house price growth in Scotland of around 19% over the next five years and rental growth of around 16% in the same timeframe.

DR JOHN BOYLE
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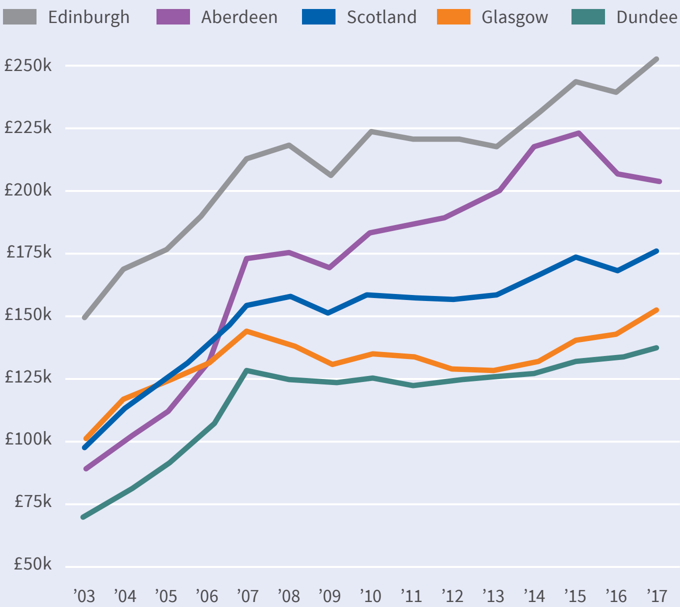
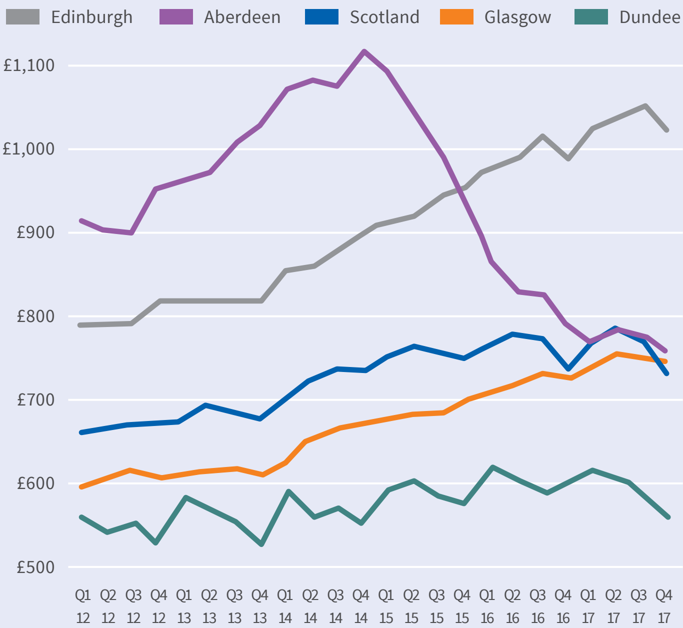
RETTIE & CO.

Average achieved prices in Scotland's major cities



Source: Rettie & Co

Average monthly rent in Scotland's major cities 2012–2017



Source: Rettie & Co

MAPPING. PRIME. LONDON.

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Average £ per square foot – sold and let last 12 months

Key

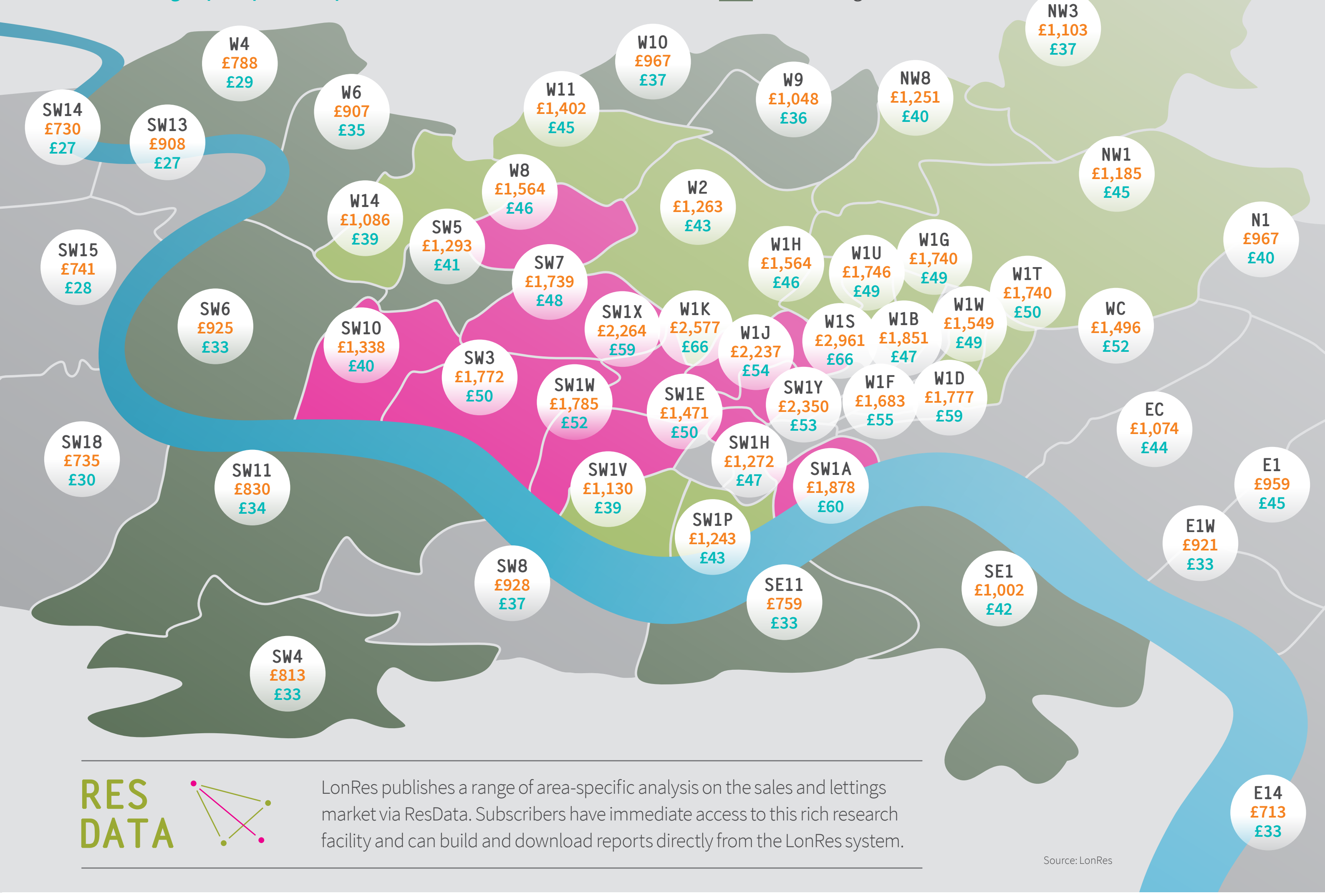
£ Average £ per square foot - sold last 12 months

£ Average £ per square foot per annum - let last 12 months

PCL

Prime London

Prime Fringe



RES DATA

LonRes publishes a range of area-specific analysis on the sales and lettings market via ResData. Subscribers have immediate access to this rich research facility and can build and download reports directly from the LonRes system.

Source: LonRes

GET. IN. TOUCH.

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