MARKET REPORT
Q3 2018

SALES MARKET

Annual house price growth across the UK has remained broadly stable, between 3.2% and 3.4% in the four months to August, according to the UKHPI. Across London, prices remain marginally lower (-0.2%) than a year ago, while prices across the prime central London market continue to falter as the Brexit deadline looms ever closer. Rhetoric from both sides in recent weeks has swung between positive and deadlock and it remains to be seen if transition agreements can, and will, be agreed.

According to data from both Knight Frank and LonRes, sales volumes across prime London in the first nine months of the year are some 9% lower than during the same period in 2017. However, this disguises significant nuances across the market. Sales between £1-£3 million have fallen by over 20%, while transactions between £3-£5 million and £5-£10 million show a year-on-year improvement. On the market deals for properties over £10 million are at the same level as a year ago. Those purchasing in 2018 will undoubtedly have benefitted from currency fluctuations and price readjustment. Average prices per square foot across prime London are currently 4.7% lower than a year ago according to LonRes, while Savills forecast prices will have fallen by 5% over the course of 2018.

However, Knight Frank assert there is clear pent-up demand across the market. The number of new prospective buyers across prime central London rose 11% in August compared to the year previously, while Savills argue the uncertainty over Brexit has done little to alter the fundamentals of why people want to live and work in London. A recent poll of global High Net Worth Individuals (those with investable assets of +$1 million) by Luxury Portfolio International found the highest proportion of HNWIs view real estate as the most obvious indicator of wealth, with 38% anticipating purchasing over the next three years, compared to only 23% who are considering selling. While there is little to suggest prices will rebound anytime soon, Savills anticipate compound growth of 12.4% across the prime London markets by 2023, with prices forecast to jump significantly once a formal full agreement for Brexit is in place – currently 1st January 2021 when the post-Brexit transition period is currently due to end.

FISCAL POLICY

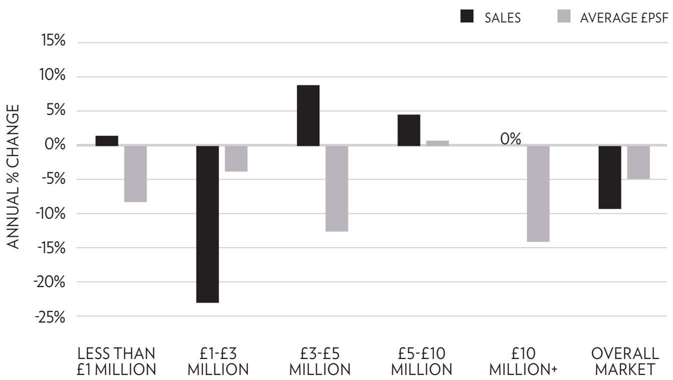
The Treasury netted £3.63 billion in SDLT across London in the financial year 2017/18, up 6.6% on 2016/17, despite a fall of 6% in sales volumes. Over a quarter (27%) of London sales were subject to the additional 3% Higher Rate for Additional Dwellings (HRAD) tax. However, with sales volumes remaining muted the Office for Budget Responsibility predict total receipts for 2018 will be 9% lower than forecast.

Foreign buyers are set to incur an additional 3% levy on residential property purchases, over and above all other charges, under plans unveiled by the Government. The proposed charge would apply to both individual and corporate buyers if they are not registered to pay tax in the UK. It is estimated that 44% of all UK foreign owned real estate is located within Greater London.

ECONOMIC BACKDROP

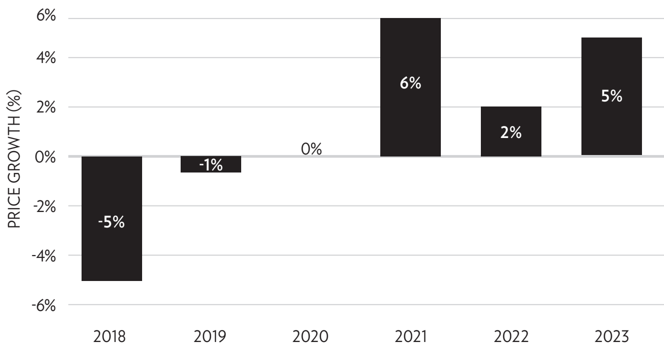
The UK economy grew by 0.7% in the three months to August, continuing its rebound from the spring, according to figures released by the Office for National Statistics. Over the same period wages rose by 3.1%, their fastest level in nearly a decade and outpacing inflation (2.5%). While interest rates rose to 0.75% in August, economists are predicting no further rise until mid-2019 and lending rates to remain low, which is positive news for households. However, the Office for Budget Responsibility and EY ITEM Club both forecast GDP growth for 2018 of just 1.3%, its lowest level since the global financial crisis, warning it could fall further if transition terms for Brexit are not agreed.

THE PRIME LONDON SALES MARKET 2018



Source: dataloft/LonRes, Prime London sales Q1-Q3 2018 v Q1-Q3 2017, £psf Q3 2018 v Q3 2017

COMPOUND GROWTH OF 12.4% IN PRIME PROPERTY VALUES BY 2023



Source: dataloft/Savills

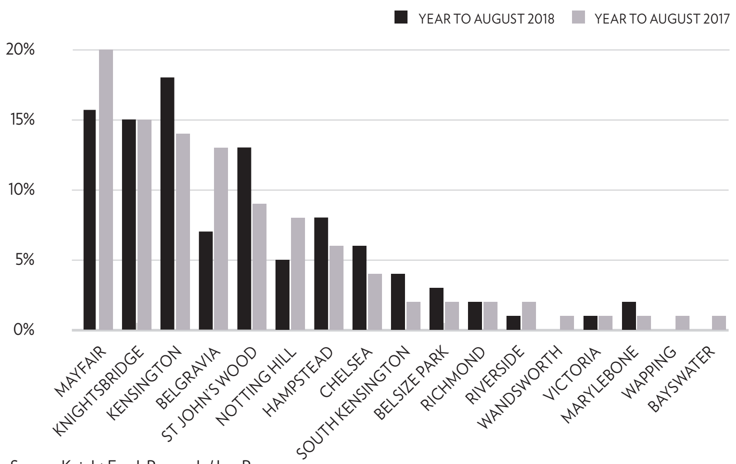
RENTAL MARKET

Annual growth in rental values across the UK remained stable at 0.9% in September, according to the official IPHRP produced by the Office for National Statistics. However, rental growth is projected to rise to 2% over the next year, and average 3.5% per annum over the next five years, according to the latest survey from the Royal Institute of Chartered Surveyors. Across London, for the fifth consecutive month, average rents remain lower than a year ago, albeit the 0.2% decline is slightly less than the 0.3% experienced in July and August. Respondents to the RICS survey anticipate little price change across the Capital over the next year, although longer term expectations are more positive. Knight Frank report annual rental growth has returned to prime central areas, with rents rising by 0.9% in September compared to a decline of 3% in the same month last year.

The interplay between supply and demand in the rental market is well known, and there are signs that supply across the Capital is tightening. Data from LonRes indicates to date in 2018 rental instructions across prime London are down by 8.8%, although as with the sales market this disguises nuances. Instructions of properties up to £1000 per week are down by 10%, while those with a rent of between £3000-£5000 are down by just 1.5%. While instructions are down for properties over £5000 per week, the super prime market (+£10000 per week) is holding steady. The prime residential stalwarts of Kensington, Mayfair and Knightsbridge remain the locations of choice for those seeking a super-prime let.

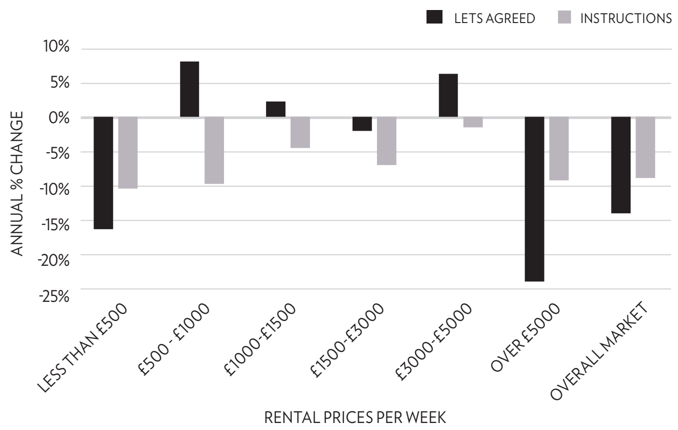
September is traditionally the busiest month in the annual calendar for lettings and 2018 is no exception. However, across the prime London market, the volume of lets agreed is down on the same month a year ago, a trend that has persisted across the market for much of the year. RICS report that tenant demand across London has staged a sustained recovery over recent months and it may well be that some are delaying the decision as to whether to rent or buy until the Brexit question is clearer.

SUPER-PRIME LETTINGS MARKET SHARE



Source: Knight Frank Research / LonRes

THE PRIME LONDON LETTINGS MARKET 2018



Source: dataloft, LonRes, Q1-Q3 2018 v Q1-Q3 2017

GOLDEN VENN PERSPECTIVE

Analysis of the prime central London market continues to provide fascinating insights into the market dynamics. Although investors in the £1-£3 million market may be adopting a 'wait and see' tactic as Brexit deadlines approach, transactions in the £3-£10 million bracket, where we see more owner-occupiers, are showing a year-on-year improvement. This gives credence to the view that London has maintained its desirability as a place to live and work.

While prices may not bounce back imminently, investors have been keeping a close watch on the London market and this, together with the inherent appeal of London, lead us to anticipate a significant price jump once a full formal agreement is in place.

The plans outlined by the Government to introduce an additional levy on foreign buyers, both individuals and corporates, may act as an additional catalyst to prompt these buyers to purchase sooner rather than later.

Golden Venn is a boutique firm specialising in advising international buyers on the acquisition of investment properties in prime central London and other major cities around the world.

Eirini Nousia
42 Brook Street
Mayfair
London W1K 5DB

+44 (0) 20 7117 6324
+44 (0) 77 8662 4376
eirini@golden-venn.com
www.golden-venn.com