SALES MARKET

Following a positive start to 2020 with sales volumes and levels of new instructions up year-on-year COVID-19 created a seismic shock wave as activity across the housing market halted. When the market reopened on 13th May the positive sentiment from a release of pent-up demand was immediate and has been sustained.

The majority (92%) of London buyers who had been searching pre lockdown still intend to purchase, two-thirds actively looking to buy as soon as they find the right home or sell their existing property[1]. Across prime London, Savills reported a 32% increase in new buyer registrations in June compared to the average in the ten weeks pre-lockdown, with new instructions in June up 30% year-on-year according to LonRes.

Knight Frank report the number of offers agreed across prime London below £1 million since May 13th is 41% higher than the five-year average, with offers agreed for properties priced £5 million plus rising by 10%. LonRes assert achieved prices in Q2 were just 0.5% lower than during Q1 2020, with vendors holding steady on prices. Price reductions of 8.9% are on par with Q1 (8.6%) and lower than during 2019. Savills predict prime London prices will be just 2% lower year-on-year in 2020 before returning to growth in 2021.

The current unknown is whether market activity will continue over the longer term, due to the wider economic impact of COVID-19. The announcement of the removal of stamp duty up to £500,000 will benefit house buyers and investors alike. Overseas purchasers will be buoyed by the easing of travel restrictions and the relative value of sterling still offers discounts against many currencies. London is still considered a safe haven for investment, and according to research by Savills, at 13.9% the cost of buying, holding and selling property in the UK[2] is less expensive than other global cities including Vancouver, New York and Hong Kong. London remains appealing.

[1] Dataloft Homemover Survey conducted 13-23 May 2020

[2] based on a $2 million (£1.6 million) or $10 million (£8 million) investment

FISCAL POLICY

The summer statement on July 8, from Chancellor Rishi Sunak, promised more government incentives aimed at supporting businesses and jobs. Many prospective buyers will make an instant saving thanks to the abolition of stamp duty taxation on the first £500,000 of a property purchase. An investor buyer will continue to pay the 3% surcharge but will save up to £15,000[3].

The Treasury has also announced that buyers of additional homes on or after 1 January 2017 who have been prevented by "exceptional circumstances" from selling, may still be eligible for a refund on their 3% surcharge. To date £1.1 billion of additional tax has been refunded since the start of 2017[4].

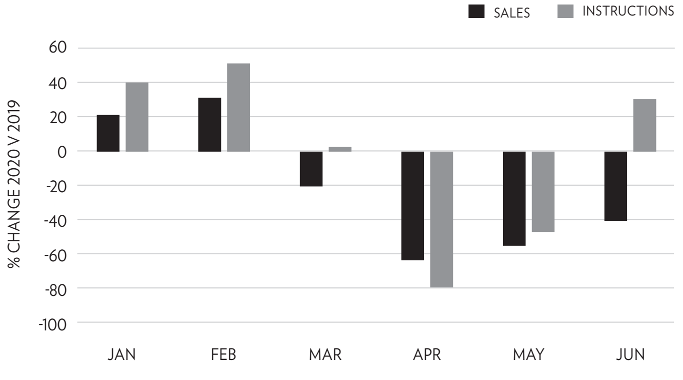
[3] based on SDLT rates until 8 July 2020 for a property selling for £499,999

[4] 1 January 2017-31 March 2020, HMRC data released April 2020.

ECONOMIC BACKDROP

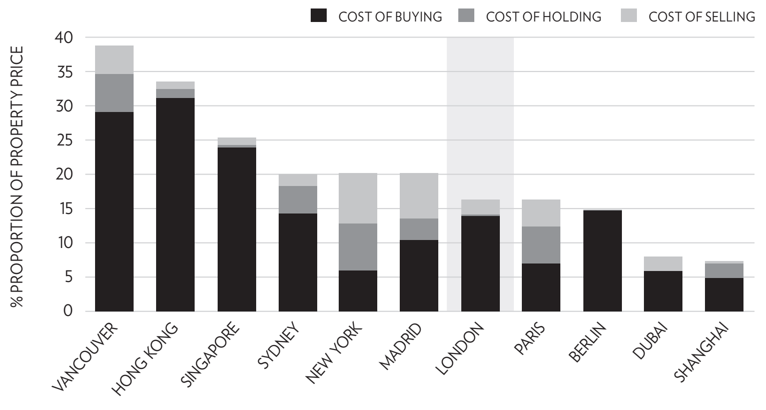
There is no denying the shock to the economy of the COVID-19 pandemic. The UK economy contracted by 20.4% in April, rebounding by just 1.8% in May, and the fall across 2020 will undoubtedly be of record levels. Outlooks for 2021 are caveated on whether economists predict a V, U, L or even W-shaped recovery curve. Activity levels across the UK's construction, manufacturing and service industries improved in June according to the results of the latest IHS/Market sentiment surveys with UK consumer confidence, as measured by the GfK, rising 9 points in July, as lockdown restrictions eased. Inflation, 0.6% in June, is significantly below the government's 2% target and there is little expectation of any change in the base rate of interest, currently just 0.1%, in the foreseeable future.

ACTIVITY LEVELS SHOWING IMPROVEMENT AS RESTRICTIONS EASE



Source: Dataloft, LonRes

ASSOCIATED COST OF BUYING, HOLDING AND SELLING A $10 MILLION PROPERTY AS AN INTERNATIONAL BUYER



Source: Savills, 2020

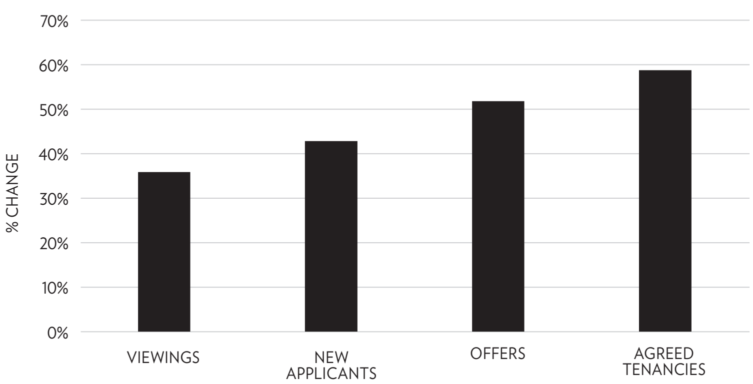
RENTAL MARKET

Just under a quarter (24%) of leases in London expired between April and June compared to nearly a third (32%) across the UK, cushioning the London market to some degree during the height of the COVID-19 pandemic (Dataloft Rental Market Analytics). The number of new lets agreed across prime London in April and May was 80% lower than the same period a year ago as corporate lets all but disappeared as travel halted. Knight Frank report new instructions across prime London in April and May consistently above the same period last year, with 2,000 properties brought to the market across prime central and prime London during June (LonRes).

Since the market reopened there has been a steady rise in activity, particularly in the lower (less than £500 per week) and higher (£3000+) markets. The number of new prospective tenants registering was up by over a third on the five year average every week in June according to Knight Frank, with both Knight Frank and Chestertons reporting a surge in viewing numbers.

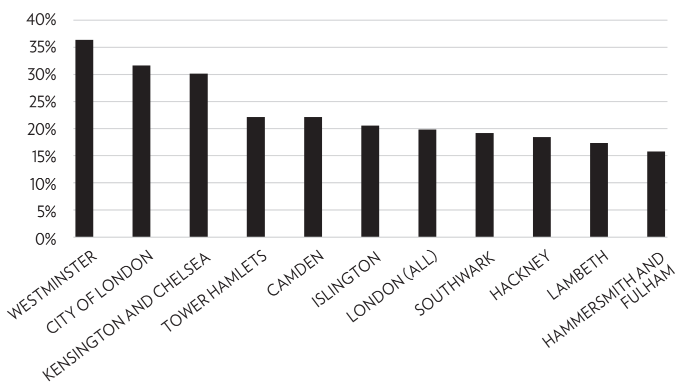
Prime markets were flooded with unlet stock from the short term market while there was no business or holiday travel. That inevitably put downward pressure on prices. Average rents are 4.6% lower across prime London this June compared to a year ago (Knight Frank) and while demand is returning, rents will remain attractive in the near term, with landlords keen to let properties ahead of the autumn. July to September is traditionally the busiest rental period in London, and more normality should be restored as borders are now open. The impact of COVID-19 on student numbers in the new academic year, particularly those from overseas, is as yet unknown. Like all global cities, London will keenly anticipate the return of business and leisure travellers as the economy reopens.

ACTIVITY LEVELS SHOWING IMPROVEMENT AS RESTRICTIONS EASE



Source: Chestertons (2020, comparison June 2020 v May 2020)

OVERSEAS STUDENTS AS PROPORTION OF STUDENT RENTAL MARKET IN INNER LONDON BOROUGHS



Source: Datafloft Rental Market Analytics

GOLDEN VENN PERSPECTIVE

Following the reopening of the prime London market in May we saw an upsurge in buyer enquiries and viewings, a result of pent up demand. However, a realignment of price expectations between sellers and buyers is still required, especially at the higher end of the market. Nevertheless, offers agreed in the price bracket below £1 million are significantly higher than the five-year average.

This market is likely to be boosted by the welcome removal of Stamp Duty Land Tax on property up to £500,000 until March 2021. This intervention provides fresh impetus for buyers and investors to act now.

Notwithstanding ongoing COVID-19 related uncertainty, Golden Venn is seeing a prime London residential market once more asserting its resilience. In terms of global positioning London stands firm, comparing favourably to other 'safe haven' cities such as New York and Vancouver regarding the cost of buying, holding and selling property.

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.

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