GOLDEN VENN

MARKET REPORT
Q1 2017

SALES MARKET

The first quarter of 2017 has seen markets stabilise across much of the prime London housing market. Transactions remain steady while the rate of price falls has slowed.

According to the UK House Price Index, the rate of annual price growth across London in February was 3.7%, down from 13.1% a year ago, and although Knight Frank assert that annual price growth across prime central London was -6.4% in the year to March, rates of price falls are easing. Savills indicate that prices fell by an average of just 0.3% across prime London areas during Q1 2017, compared to a fall of 2.2% during Q4 2016, with prices now 6.6% lower than their peak in 2014. In outer prime areas rates of fall remain slightly higher at 2.7% during Q1 2017, not dissimilar to the -2.4% witnessed during Q4 2016.

Alongside stabilising prices, stock levels remain low, while buyer activity has shown signs of an uptick. Knight Frank report that the number of properties under offer in February 2017 was 22% higher than in February 2016, with viewings up 25% and new buyers rising by 4%. Transaction levels for properties over £1 million in March 2017 were at their highest level since March 2016 (LonRes).

Even across the ultra-prime (£10 million plus) market, there appears to be a more balanced picture. Knight Frank report that more £20 million plus sales were conducted in Q1 2017 than since Q1 2014, while Savills note that the price fall across this market during Q1 2017 was just 0.8%, compared to a drop of 4.8% in Q4 2016.

International buyers remain affected by the changes to SDLT and capital gains tax over the last two years, adding to their caution in taking advantage of sterling's depreciation since the Referendum vote. Despite a rally in sterling after the news of a snap general election, sterling remains over 13% lower against the dollar and 10% lower against the Euro* offering opportunities for overseas purchasers.

FISCAL POLICY

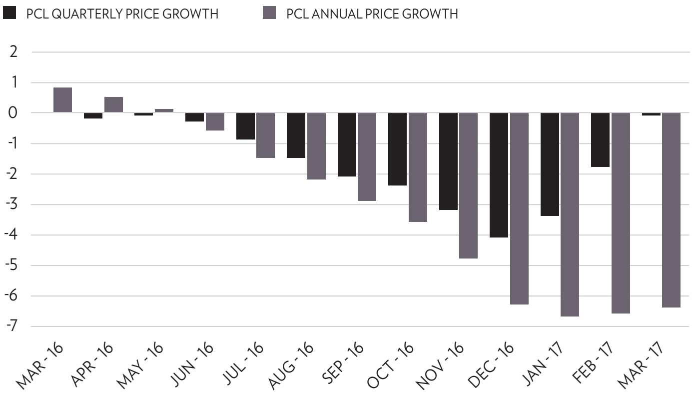
It was widely expected that from 6th April 2017, new legislation would remove tax advantages for non-domiciled long-term residents of the UK and those holding UK properties in non-UK companies or partnerships, known as 'enveloping'. Both the foreign and UK assets of those domiciled in the UK for 15 out of the last 20 years would fall within the scope of UK inheritance tax, while inheritance tax of 40% would be levied on residential property held via off-shore companies and trusts.

However, the Government has just announced that the sections of the new Finance Bill introducing these changes have been dropped. It is likely the proposals will return after the general election on 8th June.

ECONOMIC BACKDROP

Forecast growth across the UK economy over 2017 has been revised upwards to 2% by both the Office for Budget Responsibility and the International Monetary Fund as growth and spending have proved resilient in the aftermath of the EU referendum vote. At the start of the year growth forecasts were 1.4% and 1.5% respectively. Employment levels across the UK are at their highest ever levels although the Office for National Statistics report that annual wage growth has slowed to 2.3%, the same rate as inflation.

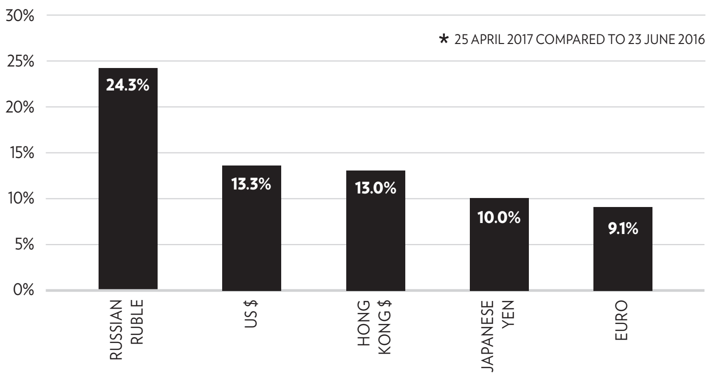
PCL PRICE GROWTH BOTTOMS OUT



Source: Knight Frank

OPPORTUNITIES REMAIN FOR OVERSEAS PURCHASERS

FALL IN VALUE OF STERLING COMPARED TO LOCAL CURRENCIES



Source: Dataloft, Bank of England

RENTAL MARKET

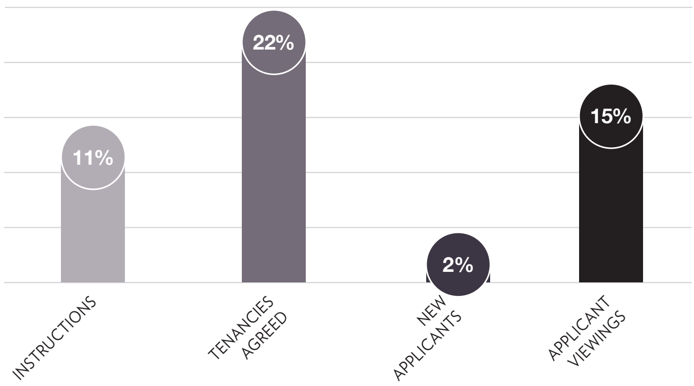
Rental values across London rose by 1.6% in the year to March, according to the Office for National Statistics Private Rental Index, while the decline across prime areas of the capital continued to ease. Knight Frank report that the annual rate of growth across prime London eased to -4.9% in March, with the quarterly rate of decline just 0.7%, the smallest quarterly decline since November 2015.

Stock levels across the rental market rose dramatically across London in 2016 as a result of buy-to-let purchases prior to the 3% second home levy in April, uncertainty over sales prices, and the impact of the EU referendum result.

However, the rate of increase of new properties coming to the prime market has slowed during Q1 2017. The Association of Residential Lettings Agents (ARLA) noted that available rental stock fell during February, with Knight Frank reporting that while there were 23% more properties available to rent across prime London this February compared to last, this is significantly lower than the 51% annual increase experienced in June 2016.

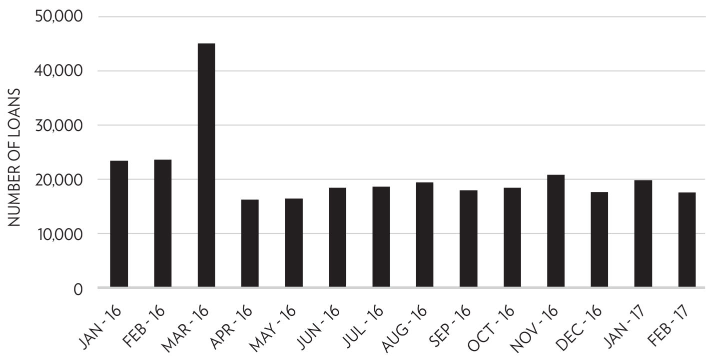
Although stock levels are easing, in part due to a significant fall in buy-to let lending, demand remains high. Across the prime central London market the number of new prospective tenants registering and the number of new lets agreed both rose in the six months to February, with the Royal Institute of Chartered Surveyors reporting that buyer demand rose for the fourth consecutive month in March. Knight Frank report that demand is particularly high at the extremes of the market. Continued high demand from students and young professionals has ensured activity below £1000 per week has remained robust and demand in the super-prime lettings market (£5000 per week) remains strong. LonRes report there were more deals agreed in this price bracket in Q1 2017 than in the latter quarter of 2016 with many choosing the option to rent while stock levels remain low and uncertainty remains across the sales market.

DEMAND ON THE RISE
YEAR ON YEAR CHANGE, SIX MONTHS TO FEBRUARY



Source: Knight Frank Research

BUY-TO-LET LENDING CONTINUES TO FALL ACROSS THE UK



Source: Dataloft, Council of Mortgage Lenders (April 2017)

GOLDEN VENN PERSPECTIVE

There are encouraging signs of stability in both the sales and rental markets in central London, despite the continued uncertainty as the UK negotiates its way through Brexit.

Although sales transaction volumes remain relatively low, interest has increased in the market as a result of the favourable climate provided by a weaker pound. While the pound recovered slightly after the announcement of the June general election, central London still provides considerable discounts for foreign buyers. The softening of prices by sellers who are starting to adjust prices downwards and to accept discounts is further improving market interest.

At Golden Venn we are still exercising caution but believe that the exchange rate advantage for most major currency buyers, together with price movement, means that now is a good time to buy. Once the outcome of the Brexit negotiations becomes clear, the market will bounce back very quickly and this pocket of opportunity may close.

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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