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GARRINGTON

MARKET REVIEW

Summer 2017

WHAT HAPPENS TO THE PROPERTY MARKET FOLLOWING AN ELECTION?

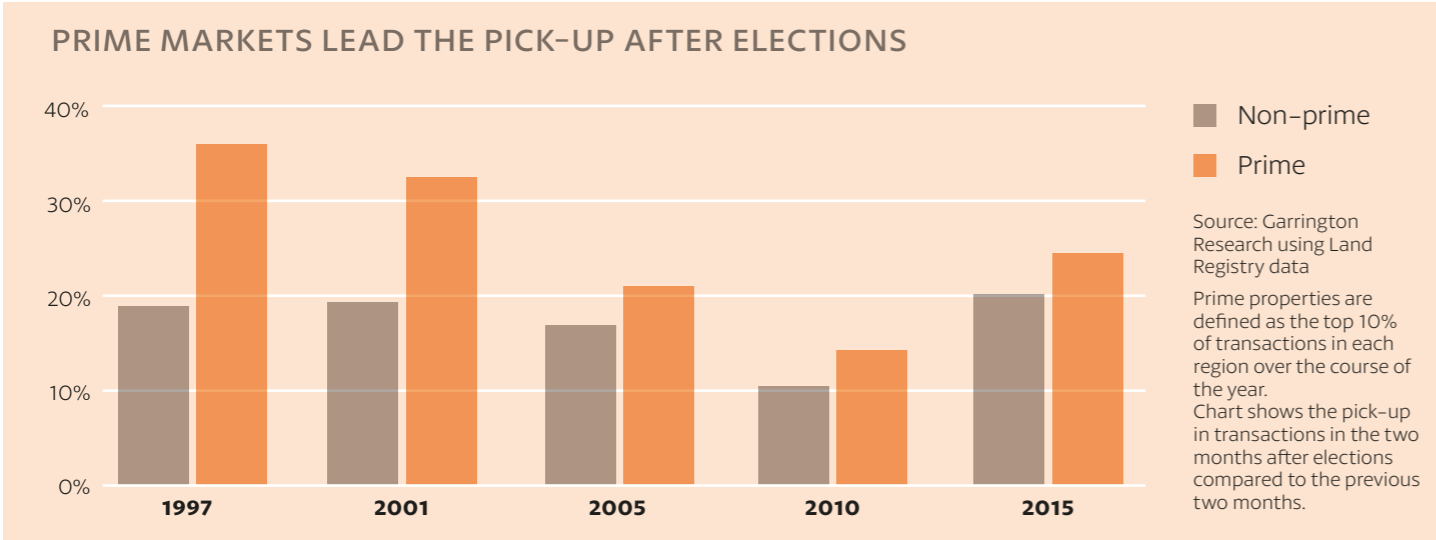
“As talks begin to wrest UK sovereignty from the EU, there is no doubting the economic and political challenges that lie ahead. Recent national events have left markets shaken, but housing market drivers such as growing families, marriage, promotion and relocation tend to ride economic cycles, giving the market resilience.” **Jonathan Hopper – Managing Director**



ELECTION FEVER FAVOURS PRIME PROPERTY

Analysis across England and Wales shows that in election years transactions pick up by an average 18% in the two month period after elections, compared to the two months leading to the vote. This is 4.7 percentage points more than in non-election years. The effect has historically been even more pronounced for prime properties. Across the country, we have calculated that prime property transactions increased by an average of 26% in the two months after the last five elections, compared to a 17% rise in non-prime properties.

We have not had a minority government since 1974 and it is possible that the market will not react in the same way as it has after previous elections. Transaction levels could remain more subdued than in previous years, while uncertainty prevails. That said, the minority government elected in 1974 managed to hold power for a full five years. Once the dust settles, should the Conservatives do the same, this will mean an extended timetable for the Government to focus on and negotiate the complex Brexit agreements as, in theory, there will not be another election until at least 2021.



PRIME LONDON MARKET

State of the prime London market

A month after the election, and a review of the central London market suggests that the shock result has had some adverse effect on the market. On an annual basis, latest data from LonRes shows that prices per square foot in June were 3.8% lower than a year earlier. However, a similar and immediate dip occurred following the Brexit vote.

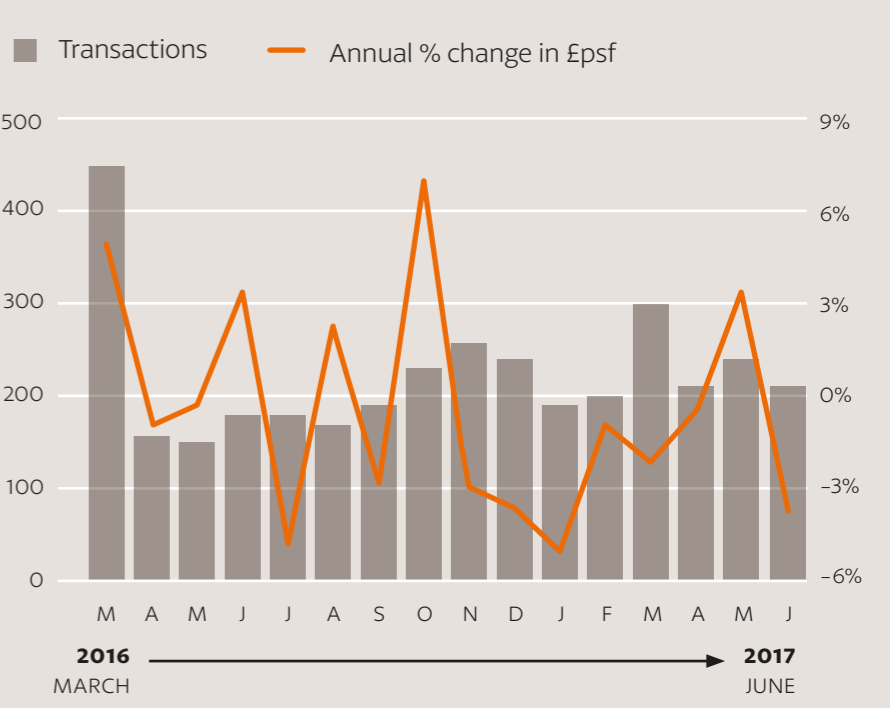
Will history repeat itself?

History tells us that, when election results bring certainty and clarity, the market rebounds quickly. In the prime boroughs of Kensington and Chelsea and Westminster, transaction levels picked up by an average of 16% after the elections between 1997 and 2005. By comparison, in non-election years since 1997, sales increased by just 5% over the same months.

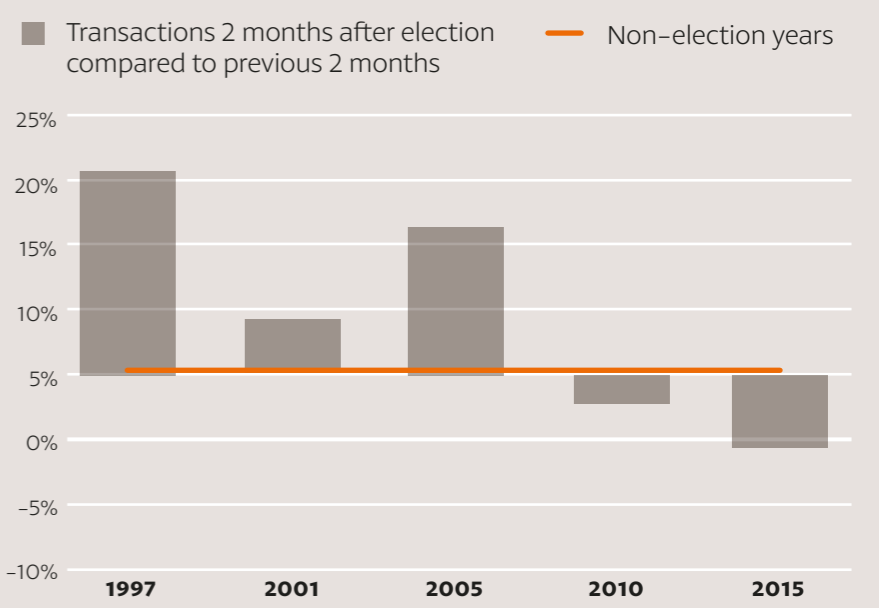
However, when the result comes as more of a surprise the market can take a little while to reflect and adjust. In 2010, sales rates fell after David Cameron formed his coalition government as the markets endured further uncertainty. Just two years ago, after the 2015 election, rather than picking up as many expected, transaction levels remained subdued. At this time the full effect of stamp duty changes made at the end of 2014, which disproportionately affected prime properties, became more apparent.

While the election of a minority government did not deliver the certainty that the market desired, many believe that the prime London market will not be significantly knocked back by the result. Buyers and vendors in prime central London have lived with uncertainty for over two years and the market has adjusted to slower conditions. A long sequence from Stamp Duty reforms in December 2014, via the 2015 election, 2016 Brexit vote and subsequent triggering of Article 50 and tax changes, have all taken their toll on the prime market. The prime central London market has proven time and time again to be resilient and, while it is not immune to wider economic factors, the fundamentals underpinning the capital remain compelling.

TRANSACTIONS AND ANNUAL PRICE CHANGE IN PRIME CENTRAL LONDON



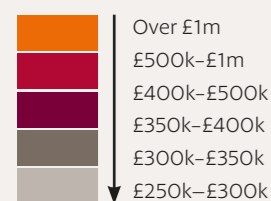
ELECTION EFFECT IN PRIME CENTRAL LONDON



THE PRIME MARKET ACROSS ENGLAND AND WALES

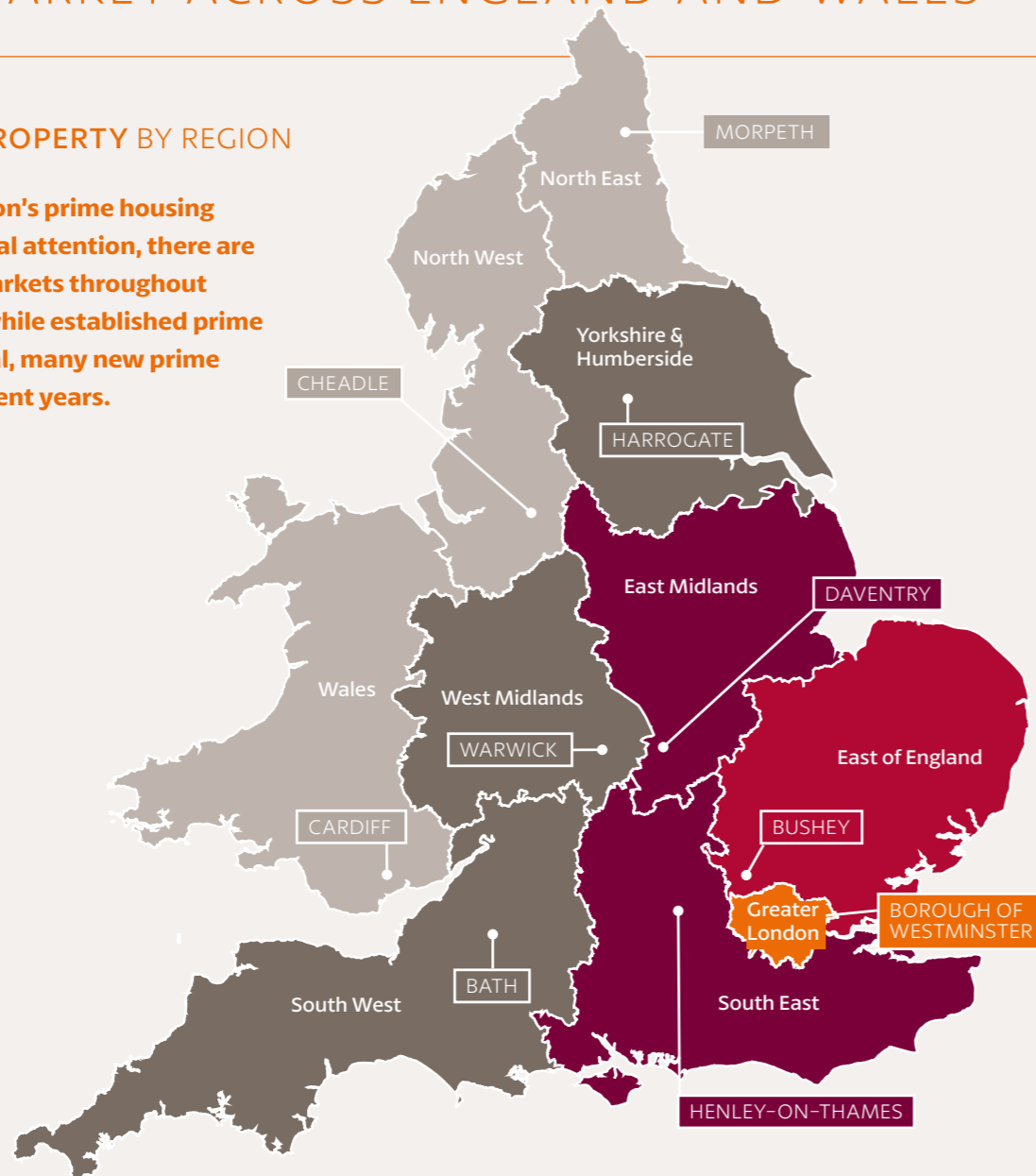
THE VALUE OF PRIME PROPERTY BY REGION

While the sheer scale of London's prime housing market means it attracts global attention, there are strongly performing prime markets throughout England and Wales. Indeed, while established prime areas have an enduring appeal, many new prime hotspots have emerged in recent years.



Strongest performing town/city in region

Source: dataloft/Land Registry; based on the top 10% of sales



Prime thresholds

To get a full understanding of the prime markets across the country and to identify the new prime star areas, we have looked beyond the obvious postcodes and analysed the top 10% of sales in each region in 2016. From this, we have calculated the regional Prime Threshold – the value over which prime sales lie. On average, across England and Wales, the Prime Threshold was £503,000, though there are clearly huge regional variations. In London, the Prime Threshold in 2016 was just under £1 million while in the North East, it was a mere £266,000, underlying the stark differences in regional prices.

Over the last five years, the national average Prime Threshold has risen from £408,000 to £503,000, an increase of 23%. The Prime Thresholds in Greater London and the East have risen by the highest margin at 30%.

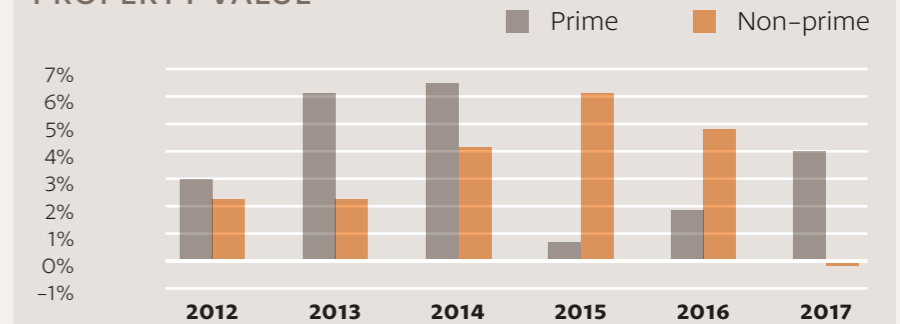
PRIME THRESHOLDS BY REGION	2011	2016	% CHANGE
East Midlands	£265,000	£321,000	21%
East of England	£392,000	£510,000	30%
Greater London	£737,500	£960,000	30%
North East	£235,000	£265,450	13%
North West	£265,000	£305,000	15%
South East	£485,000	£593,000	22%
South West	£372,000	£430,968	16%
Wales	£250,000	£287,000	15%
West Midlands	£292,000	£349,000	20%
Yorkshire & Humberside	£262,500	£305,000	16%
All England & Wales	£408,000	£503,000	23%

THE PRIME MARKET ACROSS ENGLAND AND WALES

Changing prime locations

The change to stamp duty at the end of 2014 resulted in higher purchasing costs for the more expensive properties. Correspondingly, growth in the value of prime property slowed over 2015 and 2016. There are signs in 2017 that prime properties are beginning to outperform non-prime. In the year to date prime properties have sold for 4% more than they did in 2016, compared to non-prime properties which have remained static. In some cases, buyers have absorbed the additional costs, but, it has also encouraged buyers to look outside of the traditional prime market locations.

ANNUAL GROWTH IN PRIME AND NON-PRIME PROPERTY VALUE



Source: Garrington Research using Land Registry data, showing annual change in average sales prices of properties below and above the national Prime Threshold.

STRONGEST GROWING PRIME MARKETS BETWEEN 2011 AND 2016 (OUTSIDE LONDON) BY REGION

RANKING	TOWN/CITY/LB	GOVERNMENT OFFICE REGION	GROWTH OF PRIME MARKET	LOCAL PRIME THRESHOLD PREMIUM
1	Bushey	East of England	21.1%	26.3%
2	Morpeth	North East	9.7%	29.2%
3	Warwick	West Midlands	10.9%	15.9%
4	Henley-on-Thames	South East	14.7%	12.8%
=5	Wokingham	South East	7.9%	21.1%
=5	Cheadle	North West	8.8%	17.9%
7	Bath	South West	9.5%	13.6%
8	Watford	East of England	6.9%	19.8%
9	Wimborne	South West	10.7%	7.5%
10	Sale	North West	5.9%	20.2%
11	Daventry	East Midlands	7.3%	10.8%
12	Cambridge	East of England	6.6%	14.1%
13	Kenilworth	West Midlands	6.7%	9.2%
=14	Winchester	South East	5.5%	12.4%
=14	Maidenhead	South East	6.7%	8.7%

Emerging prime stars

Towns and cities across England and Wales have been assessed to determine the growth in their prime markets over the last five years. This analysis takes into account the relative growth in price and numbers of prime homes in an area, benchmarked against regional trends.

The league table of locations outside of London reveals a number of new, emerging prime markets. These are areas which are not traditionally viewed as prime, but have seen their prime markets grow strongly in the last five years, both in terms of value and scale. Bushey in the East of England was revealed to have the strongest growing prime market of the last five years outside London. Improved transport infrastructure along with close accessibility to London have boosted the appeal of the area.

Similarly, Watford in the Home Counties had previously been overlooked by prime buyers but a raft of new prime developments, improved major new transport infrastructure along with revamped leisure facilities has increased demand from prime purchasers.

ANALYSIS METHODOLOGY

The Prime Threshold is defined as the minimum price for the top 10% of transactions in an area. To be included in the analysis, towns, cities and London Boroughs were required to have a minimum of 150 transactions in 2016 that were above the regional Prime Threshold. Only towns, cities and London Boroughs which had a local Prime Threshold which was above the regional Prime Threshold in 2016 were included.

Areas were ranked according to:

- 1 How much more the local Prime Threshold had risen over and above the change in the regional Prime Threshold between 2011 and 2016 (Local Prime Threshold Premium)
 - 2 The growth in size of the prime market, calculated by comparing the proportion of sales in an area which were over the regional Prime Threshold in 2016 to the proportion of sales which were over the regional Prime Threshold in 2011
- An average of the scores was calculated in order to rank the strongest growing local markets.

HOLIDAY HOMES AS A PRIME INVESTMENT



Rise in 'staycations' fuels holiday home investment

With mortgage interest tax relief being repealed for owners of buy-to-let properties, the holiday home let market is gaining attention as a valid alternative investment opportunity. As well as being able to take advantage of more favourable tax considerations, owners of holiday lets are able to command higher yields while also enjoying the opportunities to use the accommodation for themselves and their families. Rental values that can be achieved can be much higher than the weekly rental that could be collected on a standard buy-to-let, although higher voids and management costs should be considered before investing in the sector.

With the increase in 'staycations' since the 2009 downturn, the UK's domestic holiday rental market is growing. Research undertaken by Mintel shows a 20% increase in the volume of domestic holidays in a rental property over the past five years, with a further 6.2% increase expected by 2018. Furthermore, according to a report by the London School of Economics (LSE) for Home Away, owners of holiday rental properties in the UK are now receiving annual gross income of around £950 million. Around a quarter of this went to holiday home owners in London, with an estimated £225 million. The estimated gross annual income in Cornwall was £50 million and in North Yorkshire the total was £30 million.

HOLIDAY HOME HOTSPOTS TOP 15 LOCALITIES FOR HOLIDAY HOMES

In the most recent Census, 165,095 residents were recorded as having a second address that they used as a holiday home in England and Wales. The district with the highest concentration was, perhaps unsurprisingly, Cornwall, accounting for 6.2%. The Snowdonia area of North Wales is the second most popular destination for holiday homes, followed by North Norfolk and the Lake District.



HOLIDAY HOMES AS A PRIME INVESTMENT

PRIME HOLIDAY HOTSPOTS Traditional	PRIME THRESHOLD	NO. PRIME SALES IN 2016 above regional prime threshold	PRIME SALES as % of all sales
1 Salcombe	£1,035,000	72	67%
2 Stow on the Wold	£625,000	15	31%
3 Southwold	£687,678	31	25%
4 Whitby	£302,700	56	10%
5 Burnham Market/Brancaster	£974,500	44	50%
6 Sandbanks	£1,320,000	20	67%
7 Rock	£1,750,000	11	79%

PRIME HOLIDAY HOTSPOTS Rising locations	GROWTH IN SIZE OF PRIME MARKET	LOCAL PRIME THRESHOLD PREMIUM
1 Morpeth	9.7%	29.2%
2 Warwick	10.9%	15.9%
3 Wimborne	10.7%	7.5%
4 Malvern	3.3%	6.2%
5 Hove	2.0%	9.3%
6 Whitley Bay	2.9%	6.6%
7 Harrogate	2.6%	6.2%
8 Beverley	2.3%	5.9%

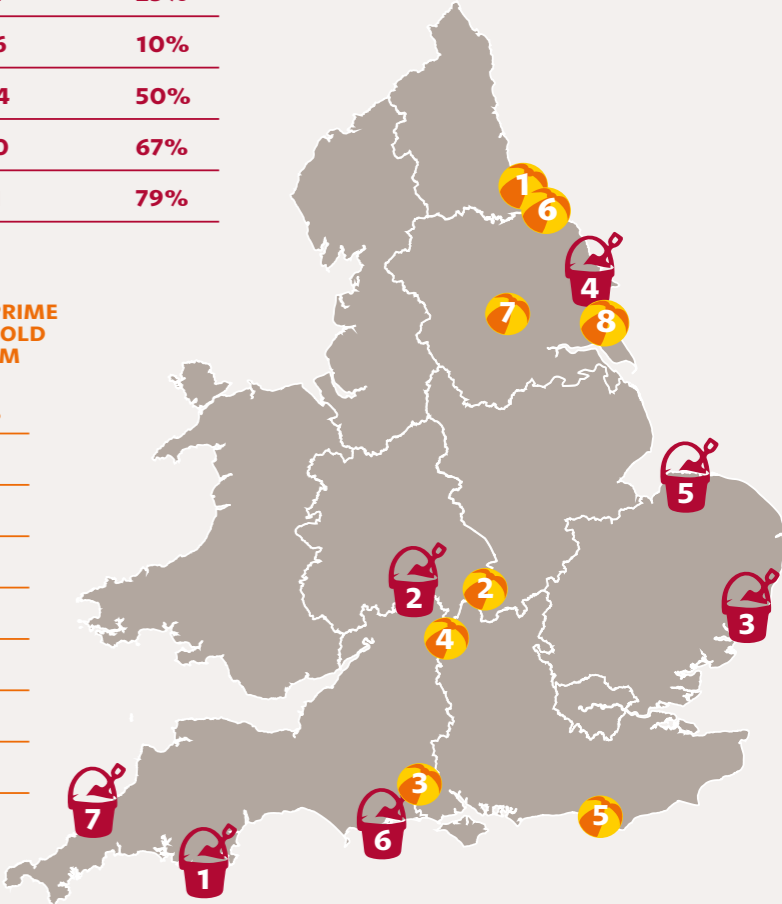
Source: Garrington Research, using Land Registry data

In addition to the traditional prime holiday locations, our analysis of prime markets has identified the areas with an above average proportion of holiday homes which have seen their prime markets grow most strongly in the last five years.

The table above is ordered in terms of the growth in the prime market between 2011 and 2016 based on the same criteria as the analysis on pages 4 and 5. Within the top ten are a number of seaside holiday locations. Perhaps more surprisingly are the

RIISING PRIME HOLIDAY HOME LOCATIONS

Across the country, there are a number of prime locations where high net worth individuals have traditionally chosen to buy their holiday homes.



other locations which are perhaps not traditionally viewed as holiday destinations but, nonetheless have an average proportion of holiday homes and a growing prime market.

Source: Census data, showing the number of England and Wales residents with a second address in the area, used as a holiday home

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HEAD OFFICE



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HOPPER**
Managing
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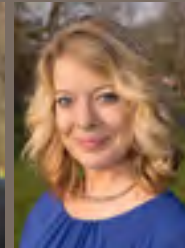
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Garrington
53 Davies Street
London
W1K 5JH

Tel +44 (0)20 7099 2773
Fax +44 (0)20 7099 2779
info@garrington.co.uk
www.garrington.co.uk