GARRINGTON

MARKET REVIEW

Winter 2018

UNCOVERING OPPORTUNITIES IN A SLOW MARKET IS CHALLENGING AND REWARDING

"As the market ebbs, opportunities arise for those with the means and the motivation to seek them out. History has shown us on numerous occasions that high value London property takes the knocks first but frequently bounces back fast." **Jonathan Hopper – Managing Director**

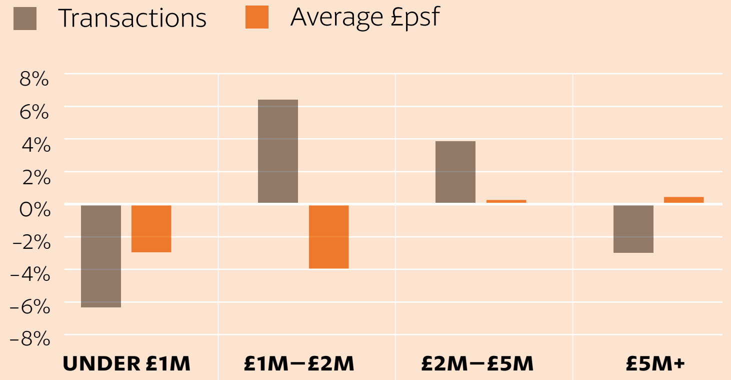
GRAB OPPORTUNITIES WHILST STOCK LASTS IN PRIME LONDON

It has not been a year for the faint-hearted in prime London with slow progress on Brexit negotiations and a damp squib of a snap election adding to the torpor in a market still reeling from the last round of stamp duty reforms. All things considered, pricing held up remarkably well, proving yet again that the capital's market responds as much to global trends as domestic ones. It was also a relief to end the year on a positive note, with a UK/EU deal that would allow talks on trade agreements to begin in earnest.

The number of sales in 2017 was broadly in line with 2016 – low but no lower. Prices fell in some central areas, particularly from asking prices that many had long considered unsustainable, but there was also some slippage in the prices paid for high value homes, which made eye-catching headlines for the mainstream press.

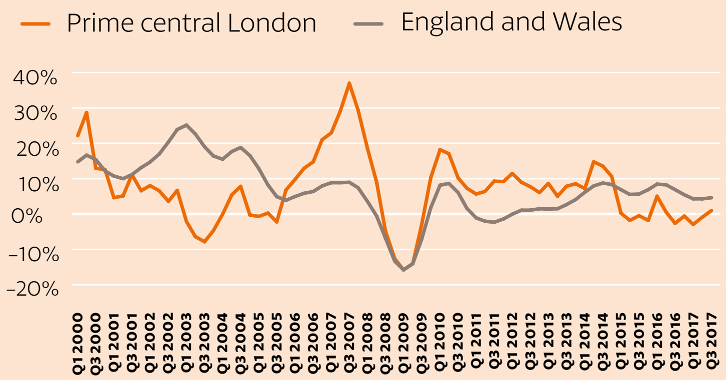
Most in the property world will be happy to close the door on 2017, but as ever, in a cyclical market like property, as the market ebbs, opportunities arise for those with the means and the motivation to seek them out. History has shown us on numerous occasions that high value London property takes the knocks first but frequently bounces back fast.

A ROUND UP OF 2017



Source: Garrington Research using LonRes data, year to November

FIRST TO DIVE, FIRST TO THRIVE?



Source: Garrington Research using LonRes (£psf) and Land Registry (average sales price)

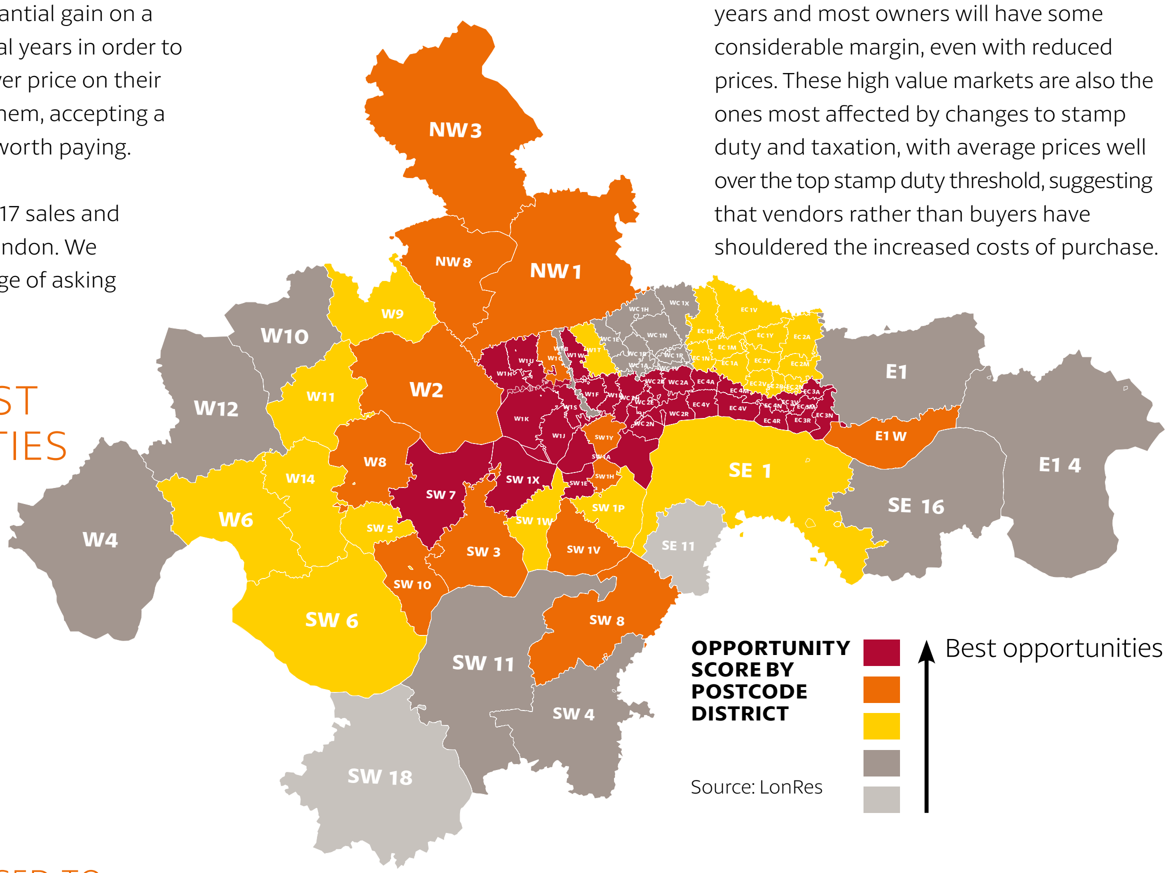
Prime London's £1 billion January sale

Almost £1 billion has been knocked off the asking prices of homes currently on sale across prime London. That is an average of £223,000 per property, or, put another way, an average discount of 9% on all properties that have been reduced. Under these circumstances, many owners simply withdraw from the market and wait for prices to recover – which means stock levels fall very low. However, there are always owners who have a reason to sell and in any event, some wish to crystallise a substantial gain on a property owned for several years in order to take advantage of the lower price on their next-step purchase. For them, accepting a price reduction is a price worth paying.

We analysed prices for 2017 sales and current listings in Inner London. We calculated what percentage of asking price had been achieved on sale and looked at the scale of any discount to asking price for properties currently on the market, as well as the length of time that properties had been available. We used the results to create a scoring system, where the higher the discount, the higher the score and then applied the scores to areas of London using postcodes as the geographical unit. In the best January sale style, we also devised a 'Opportunity Rating'.

The areas of Inner London with the highest 'Opportunity Ratings' were in core central prime markets. Mayfair and South Kensington both returned high scores, along with Marylebone, Victoria and The City. Surprisingly, the north bank of the river seemed to offer more opportunity than the south bank – although we suspect that a finer grained analysis would flag up the river frontage on the South Bank too. The high value markets have all experienced strong growth in recent years and most owners will have some considerable margin, even with reduced prices. These high value markets are also the ones most affected by changes to stamp duty and taxation, with average prices well over the top stamp duty threshold, suggesting that vendors rather than buyers have shouldered the increased costs of purchase.

WHERE TO FIND THE BEST OPPORTUNITIES



Source: LonRes

COMPONENTS USED TO CALCULATE THE OPPORTUNITY SCORE

AREA	SOLD IN 2017 % asking price achieved	CURRENTLY AVAILABLE Average % discount already applied	CURRENTLY AVAILABLE % of properties on market more than 6 months	CURRENTLY AVAILABLE Average reduction in asking price already applied
St James's / Victoria	88.2%	-14.1%	77.5%	-£765,919
Mayfair	88.4%	-11.4%	59.3%	-£628,866
Soho / Covent Garden	89.3%	-10.3%	61.0%	-£270,643
Knightsbridge	88.6%	-12.1%	51.9%	-£927,188
Marylebone	90.1%	-10.2%	51.9%	-£247,813
South Kensington	89.4%	-10.3%	45.4%	-£374,036
Temple / City / Aldgate	90.0%	-10.5%	59.0%	-£126,729

Source: LonRes

Barriers to home ownership ever higher

A combination of house price inflation and punitive stamp duty rates for high value homes means that the upfront capital required to buy a home has soared in many parts of the UK, while earnings (and consumer prices) have changed very little. Borrowing rates might still be at an all-time low, but it is not much help to buyers who cannot raise enough capital to fund the deposit or the tax. We looked back a decade to compare upfront costs, then and now.

A STEP TOO FAR FOR OWNERS MOVING UP THE LADDER

We analysed a typical step up the property ladder from a 3-bed semi to a 4-bed detached house by region. We calculated how much capital the buyer would need to accumulate in order to make the move today compared with ten years ago. We took account of the deposit, stamp duty and agents' fees. The sheer size of the cash sum needed today has made that step up too high for many to climb, persuading them to 'make do rather than move up'. That, in turn, is causing reduced liquidity throughout the property chain, from bottom to top, as fewer homes find their way back onto the market at all levels. In high value areas of the country, the issue is greatly exacerbated by stamp duty costs but the knock-on effect is felt across all markets.

	2008	2018	Difference
GREATER LONDON	£131,232	£294,922	124.7%
SOUTH EAST	£130,264	£191,249	46.8%
EAST	£109,814	£142,761	30.0%
ENGLAND AND WALES	**£90,821**	**£109,793**	**20.9%**
EAST MIDLANDS	£64,292	£75,512	17.5%
SOUTH WEST	£115,134	£133,760	16.2%
YORKSHIRE & HUMBER	£65,469	£72,512	10.8%
WEST MIDLANDS	£80,180	£86,996	8.5%
NORTH WEST	£72,793	£75,265	3.4%
WALES	£68,384	£62,621	-8.4%
NORTH EAST	£62,583	£55,518	-11.3%

KEY 2008
2018
Difference

Source: Land Registry, UK Finance, HMRC

Giant steps for prime markets

The value of a prime property varies enormously by region. We analysed the top 10% of sale prices in each region and found that the average had risen by 49% in the past decade from £363,000 to £540,000 nationally. We analysed the value of prime property by region and the contrasts are stark.

Assuming that the deposit paid is consistent with the market as a whole, then, coupled with the associated stamp duty costs, today's buyers will need to find £55,000 more than they did ten years ago. If earnings had risen in line with house prices, that would not be an issue.

The problem is, inevitably, most acute in London. A prime property (top 10%) in London is over £1.1 million. An average buyer of prime property in London would need to find £280,000 more cash than the buyer of a prime home in 2008.

ADDITIONAL CASH REQUIRED TO BUY A PRIME PROPERTY COMPARED TO 10 YEARS AGO

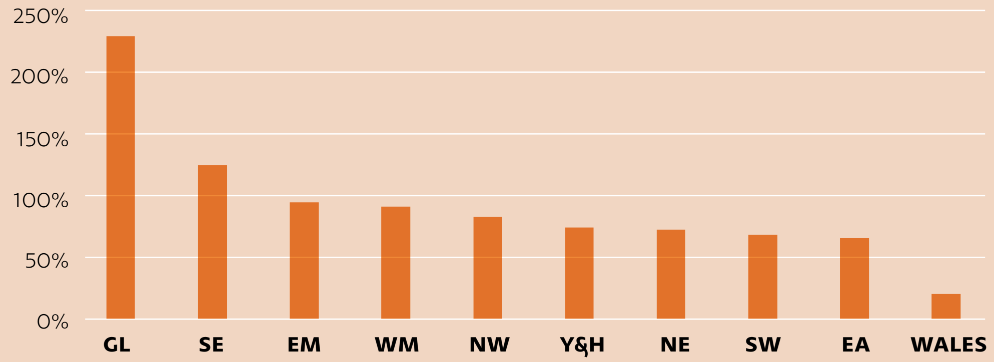
GREATER LONDON	£279,750
SOUTH EAST	£100,881
EAST	£67,083
ENGLAND AND WALES	**£55,063**
SOUTH WEST	£41,944
YORKSHIRE & HUMBERSIDE	£26,736
NORTH WEST	£25,759
WEST MIDLANDS	£25,601
EAST MIDLANDS	£24,432
WALES	£12,722
NORTH EAST	£3,307

Source: Land Registry, UK Finance, HMRC

FIRST TIME BUYERS

First time buyers require 64% more cash to access the housing market now than they did 10 years ago. Even allowing for the abolition of stamp duty for the majority of purchasers, the deposit alone pushes the requirement to just under £25,000. Removals, surveys, mortgage fees and solicitors' bills add to the cost.

PERCENTAGE CHANGE IN CASH REQUIRED BY FIRST TIME BUYERS ACCESSING THE MARKET NOW VERSUS 10 YEARS AGO



Source: Garrington Research using UK Finance, Land Registry,

Costs incurred by first time buyers to cover deposit and stamp duty. Based on UK Finance data for average FTB deposit and advance and stamp duty rates at January 2008 and January 2018.

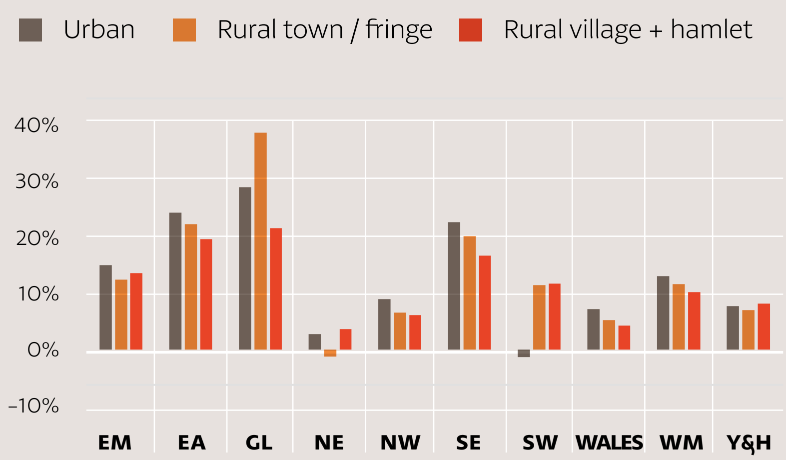
Rural idyll or city smart?

Even in a slow market some places continue to deliver sustained outperformance, often reflecting cultural change, infrastructure investment or regeneration. Crossrail, for instance, created value along its route, an art gallery raised prices in Margate and regeneration has revived the culture of stylish city living in many UK cities. We decided to explore the extent to which urban residential markets had outperformed rural areas in the two decades since Michael Heseltine's Urban Task Force was set up with a vision of urban renaissance. We were surprised by some of our findings.

London, Manchester and Birmingham all have thriving city-centre housing markets, using brownfield land and often re-using heritage buildings. Young and old have been drawn to the convenience and vitality of an urban lifestyle. But, while the data shows a clear rise in urban values for these cities, there were plenty of rural hotspots too – so what makes the difference? One thing these key cities have in common is strong, dynamic governance at local level and an elected mayor with the power to influence.

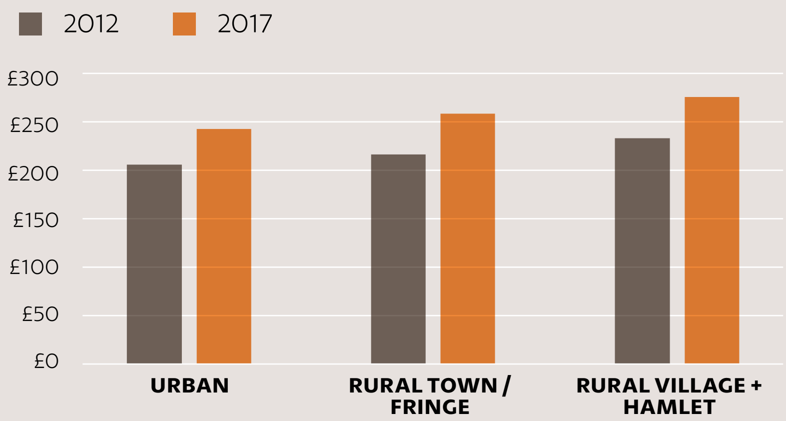
London's dominance in the UK economy is reflected in the growth of housing markets across the South East. Much Government policy has been focussed on trying to reset the balance, with initiatives such as metro mayors, the Northern Powerhouse and the recent Industrial Strategy. Our data might point to some early indications of success in redistributing some of the economic growth enjoyed by London/the South East to other parts of the UK.

CHANGE IN AVERAGE £PSF BETWEEN 2012 AND 2017 FOR URBAN/RURAL AREAS



Source: Garrington Research, using Land Registry and DCLG

AVERAGE PRICE PER SQUARE FOOT OUTSIDE OF LONDON



Source: Garrington Research, using Land Registry and DCLG

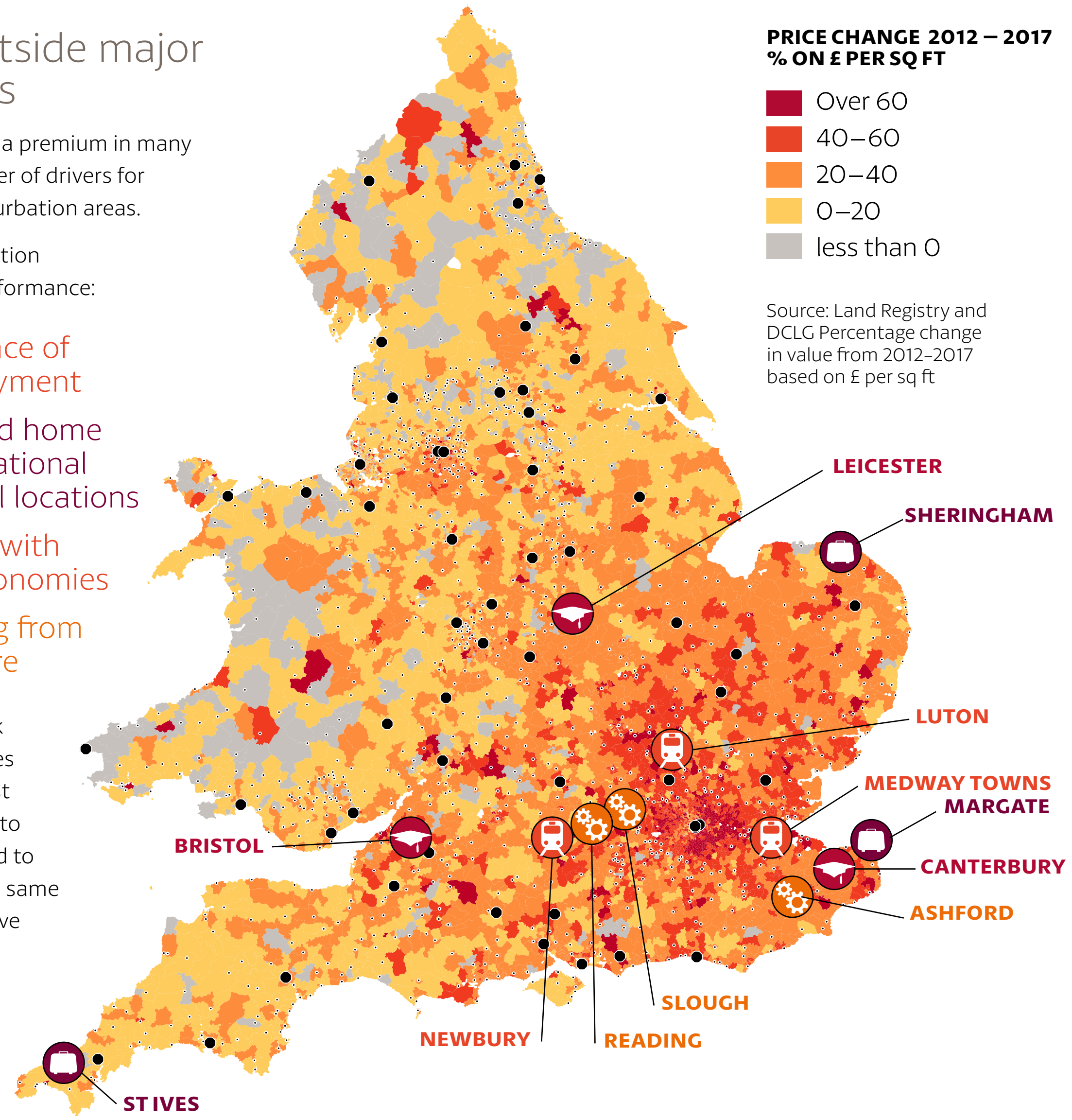
Driving growth outside major metropolitan areas

In fact, rural properties command a premium in many parts of the UK. There are a number of drivers for markets outside of the major conurbation areas.

Our research highlighted four location characteristics that create outperformance:

- Commuter distance of centres of employment
- Tourism or second home destinations in national parks and coastal locations
- University towns with dynamic local economies
- Places benefitting from new infrastructure

The prospect of a renewed rail link between Cambridge, Milton Keynes and Oxford will undoubtedly boost values along its route in the years to come. All of these place types tend to have strong rental markets for the same reasons and are therefore attractive to investors. Indeed, rural need not be a disadvantage, it is inaccessibility which blights economic development.

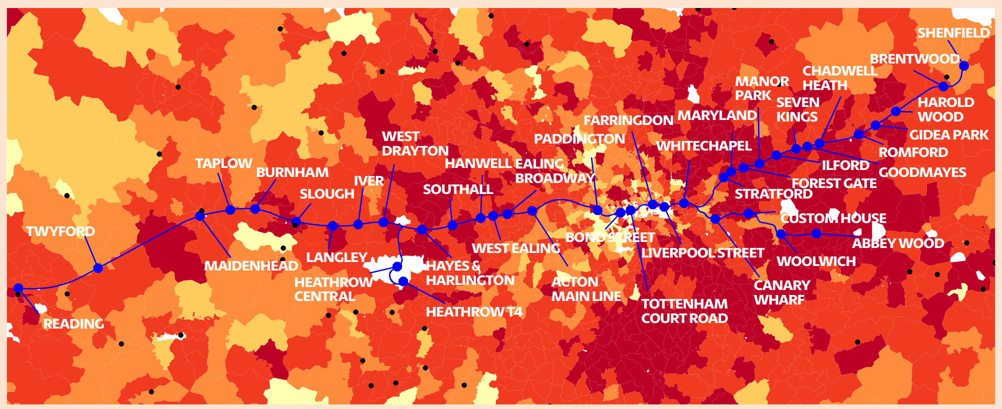


Source: Land Registry and DCLG Percentage change in value from 2012-2017 based on £ per sq ft

CROSSRAIL

The new Elizabeth line linking Reading and London Paddington will be fully operational by December 2019 but the surge in house prices along its route has already been significant, highlighting the huge benefits of infrastructure improvements, opening up and connecting new areas.

Source: Land Registry and DCLG Percentage change in value from 2012-2017 based on £ per sq ft



2012 - 2017 % £PSF CHANGE, CROSSRAIL ROUTE

Over 60 | 40–60 | 25–40 | 10–25 | less than 10

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