London's lifestyle zones

Residential market update

Autumn 2018

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Enduring uncertainty over Brexit continues to linger across the housing market of London's Lifestyle Zones. Deal negotiations hit the headlines daily and the market is waiting.

London on the global stage

no1	Best Business environment[1]
no1	City in which to work[2]
no1	City for students[3]
no2	Financial centre[1]
no2	Global influence[4]
no2	Most visited city[5]

Source: [1] GfK, [2] Total Jobs and Boston Consulting Group, [3] QS Best Student Cities [4] AT Kearney (2018), [5] Mastercard (2018) Global Destinations Cities Index

Positives amid the challenges

Conditions across London's Lifestyle Zones have proved challenging since the Referendum vote over two years ago. However, although average sales prices across the Capital are marginally lower than a year ago, and the time taken to sell a property has gradually eased upwards, conditions especially in Luxury and City areas are looking more positive, with prices, stock levels and sales volumes tentatively on the rise.

Deals to be done

Despite two rises in the interest rate over the past year, rates for borrowers remain historically low, with little change expected as economists predict no further adjustment to the base rate until 2019. Wage growth is rising, while the rate of inflation eased back in September and business confidence rose. All positive news for domestic purchasers and for those taking a long-term view; there remains a window of opportunity to purchase quality properties at a discount with little or no competition. For overseas investors, sterling is 12%[6] lower against both the Euro and the US dollar than prior to the referendum vote. Those purchasing a £1 million property today as a second home, compared to on the 23rd June 2016 will benefit in monetary terms by the equivalent of over €167,000 or $189,000. With the Budget announcement of a proposed additional 1% tax on non-resident buyers, now may well be a good time to act.

A mainstay for the international elite

Despite the subdued market, real estate is the pre-eminent indicator of wealth for High Net Worth Individuals (those with investable assets of +$1 million), with research indicating that for over three-quarters an emotional connection to a place, purchasing a 'house' to call a 'home', is paramount[7]. An emotional tie ranks as number one priority for 37% of HNWIs, far above price (9%) or value (21%). Here the prestige, educational and cultural attractiveness of London endures undiminished; the Capital continuing to feature highly in numerous global rankings. Despite Brexit, London lies just two points behind New York (out of a possible 1000), as the world's leading global financial centre, and is named in the top 15 global cities whose influence is liable to rise over the coming years[8]. London remains a global force to be reckoned with.

[6]Bank of England, 9th November 2018 versus 23rd June 2016
[7]Luxury Portfolio International/YouGov (2018) [8]GfK (2018)

-0.3%

Annual house price growth London

Source: UK HPI, November 2018 (relating to September 2018)

2.22%

Average mortgage interest rate October 2018, down from 2.36% a year ago

Source: Bank of England, based on 90% LTV, 2 year fixed rate

7.0%

Uplift in property sales across Luxury London and City Living Zones

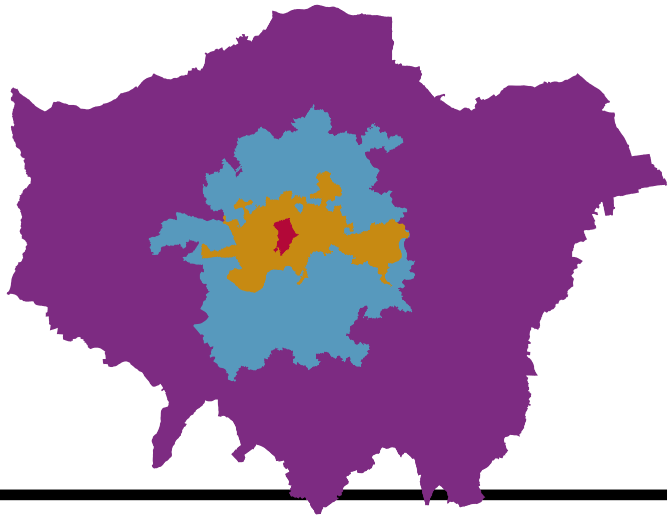
Source: KFH (Number of sales Q1–Q3 2018 versus Q1–Q3 2017)

£3.6bn

Residential stamp duty receipts across London 2017/18, up 6.6% despite a 6% fall in sales volumes

Source: HMRC

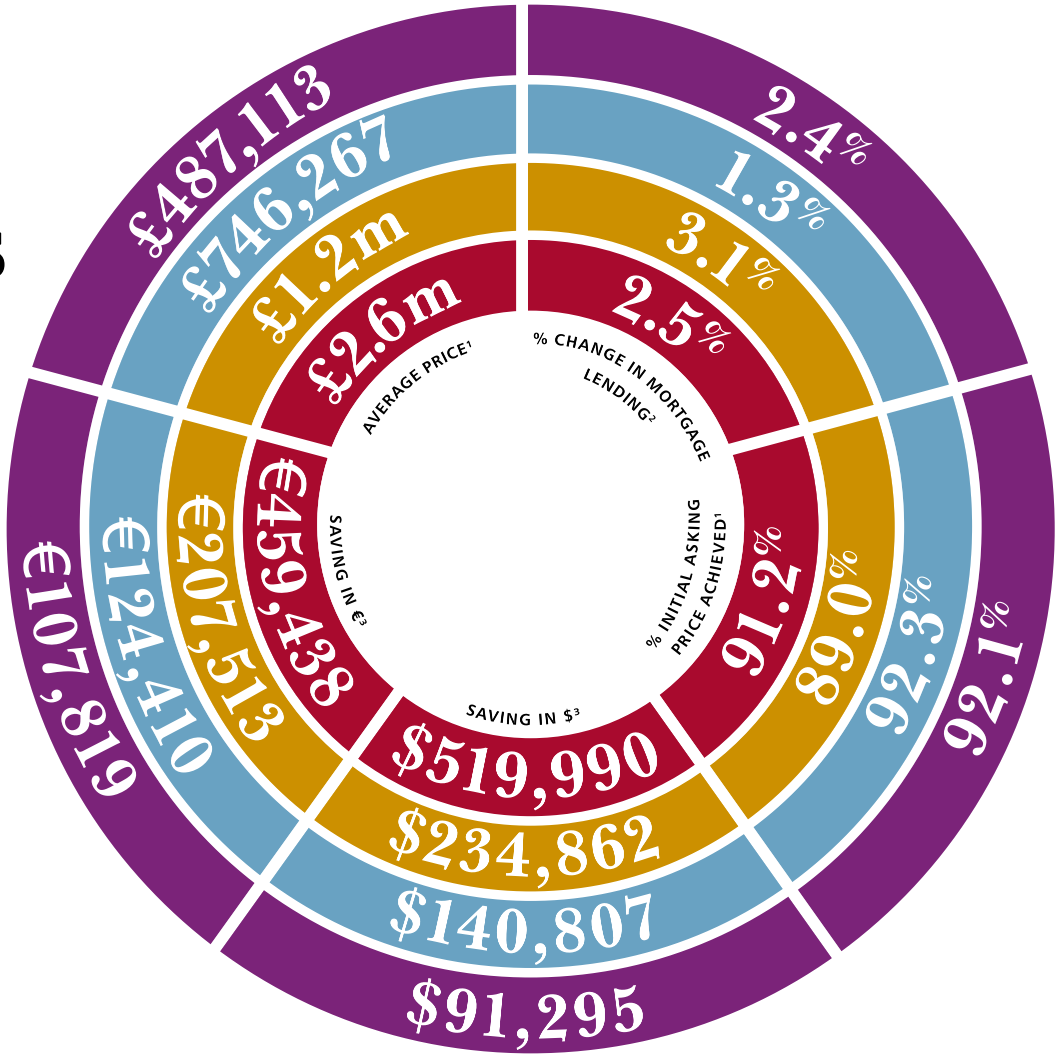
London's lifestyle zones: last chance for a deal? Autumn 2018



Prevailing conditions mean that competition for property across London's Lifestyle Zones remain slow. While price readjustment, which has typified much of the market for the last two years, is easing for both domestic and international purchasers, there remain deals to be had.

Luxury Living | City Living | Urban Villages | Suburban London

Lifestyle zone indicators



Source: **dataloft**, Land Registry, KFH, Bank of England, [1]Q3 2018, [2]Based on data Q1 2018 v Q1 2017, [3]Saving based on currency fluctuations. Refers to current average priced property purchased 9th November 2018 compared to 23rd June 2016, includes SDLT costs and 3% HRAD tax.

Average prices

Prices are more stable, especially across Luxury and City Living areas.

Overall London
£647,984

% change in mortgage lending

Across all zones, the value of mortgage lending has increased compared to the same period a year ago.

Overall London
2.7%

% asking prices achieved

At present properties are selling in the region of 91% of initial asking price, down from 96% pre-referendum.

Overall London
91.2%

Discount $

A £2.6 million second property would cost an investor over half a million US$ less to purchase than pre-referendum.

Overall London
$122,030

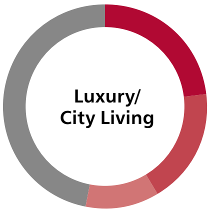
Discount €

The value of sterling remains lower against the Euro than pre the referendum, resulting in savings for prospective purchasers.

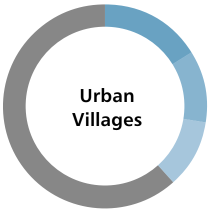
Overall London
€107,819

Despite rental price growth slowing, the consensus is that growth in average rents will outpace the sales market over the coming year.

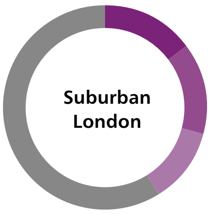
Top professions of tenants vary by lifestyle zone



23.3% Financial and Banking
18.3% Professional*
11.5% Tech and ICT



16.2% Professional*
11.3% Media, Broadcasting, Advertising
11.0% Creative Industies



14.9% Retail
14.5% Construction
11.9% Professional*

Source: Dataloft Rental Market Analytics, tenancies started over the past 12 months

*Legal, accounting, architect

[1] UK Finance, (Q1–Q3 2018 compared to the same period in 2017 and 2015)

Under pressure

Similar to the sales market, the annual rate of rental growth across the UK is slowing. Average rents rose by 0.9% in the year to September, down from 1.5% a year previously. Across London, for the sixth consecutive month, average rents are marginally lower than a year ago. However, with levels of buy-to-let investment faltering under the weight of taxation changes, available stock is lower than a year ago across London's Lifestyle Zones and the pressure on pricing is building. Commentator consensus is that rental values will rise faster than their sales counterparts over the coming year.

Investment slides

The number of properties purchased with cash across the Capital fell by close to a third in the first half of 2018 compared to a year previously. Nationally, the number of buy-to-let mortgages agreed for new home purchases has also tumbled, down 14% to date in 2018[1], and 43% lower than the height of the market in 2015[1]. Additional taxation on second homes, changes to mortgage tax relief and the wear and tear allowance, along with the anticipated impact of the Tenant Fee Bill have all quelled interest in the market, especially from accidental landlords. Just one in thirteen buyers cited 'buy-to-let' as their reason for purchase across Luxury London and City Living Zones in Q3 2018, down from one in eight buyers back in the second quarter of 2016.

Commercial Kudos

For those with a portfolio of properties, gross yields, especially in swathes of London's Villages and Suburban London remain attractive. Research by Precise Mortgages indicates that over one third (38%) of landlords who have bought property this year have done so through a limited company. This allows the offsetting of mortgage tax relief, although there are extra responsibilities. Proposed changes to lettings tax relief are liable to have minimal impact on commercial landlords, however for accidental landlords it is yet another hurdle.

Average monthly rents

£4,451
Luxury Living

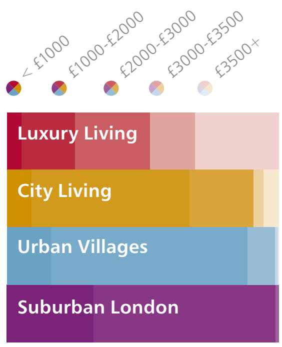
£2,895
City Living

£2,291
Urban Villages

£1,481
Suburban London

Sources: LonRes, Zoopla

Distribution of rent by price band



Sources: Available data on rental values of 2-bedroom properties. Dataloft Rental Market Analytics, based on monthly rents for tenancies agreed (Q4 2017 to Q3 2018)

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