MASKELLS

Estate Agents in Prime Central London since 1965

Riding Unicorns and Other Stories - Maskells Market Update January 2019.

COMMENTARY:

Unicorns in Westminster? - Beth Rigby Fan Club!

On Tuesday night, the Brady Amendment to Withdrawal Agreement was carried seeking the removal of the Irish Backstop in favor of "alternative arrangements". When interviewing Chris Grayling post the vote, Beth Rigby – Deputy Political Editor at Sky News - received news that the EU would not consent to re-negotiating the Withdrawal Agreement – and then asked Mr. Grayling "Is Mrs. May riding a Unicorn to Brussels?" (this was just before the interview with Boris Johnson which was widely reported).

Government Unicorns again – in any event all tactics being used to secure a deal – but is it too little too late?

Notwithstanding my young daughter getting very excited at the prospects of the Prime Minister actually having a Unicorn, Ms. Rigby hit the nail on the head – The Tories appear overly optimistic by what can be achieved. Supporting this were two articles in today's Times newspaper – one by Simon Nixon who compares the Brexit shambles as akin the failed Fyre Festival and the other – the lead article – which denotes actions by the Government that some might consider to be a shameful display of Pork Barrell politics. It does raise the question as to whether the Government is acting in the best interests of the country or rather in the best interests of the party.

Brexit effect starting to bite leading to fewer enquiries.

In any event, the sad truth is that we are beginning to see the effect of Brexit – only yesterday Barclays obtained permission from the High Court to move E190bn of Assets to Dublin (note, not Sterling Assets according to the High Court docs so no currency transactions involved) and - in smaller measure but of more importance to our market - we are beginning to see less enquiry which I will address a bit later.

We have been on high alert for 18 months but seen turnover increase in both sales and lettings. Our market poll helps guide us for 2019.

Maskells has been on high alert as to the effects of Brexit now for more than 18 months – like many responsible firms, we have been reserving cash – whilst still increasing our turnover in both sales and lettings and investing in our respective teams. Maybe we have been too pessimistic (and our Team is excellent) but we wanted to be in a strong financial position going into 2019. To get a flavor of how our clients are feeling at the moment (and therefore where should be focusing), we put out a poll via social media which asked a number of questions. The questions and answers are below:

<u>What are your thoughts on the Economy in the next 24 Months:</u>
Concerned: 84.85% Positive: 14.89%; No Difference: 4.26%

Results:

<u>Do you expect Interest Rates to Increase in 2019?</u>
Yes: 70.21% No: 29.79%

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<u>What do you think will happen to Central London Housing Market in the next 12 Months?</u>
-10%: 19.15% ***-5%:***12.77% *No Change*: 20.21% *+5%:* 12.77 *+10%:* 8.51%

<u>Are you considering a move over the next 12 months?</u>
Yes (Remain in London) 36.56% *Yes (Leave London)* 13.98% *No*: 49.46%

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COMMENTARY:

The Economy, Interest Rates and Falling Housing Market are concerns but 50% are looking to move home which is encouraging.

The balance of the questions were to do with our Marketing. However, our takeaway from this is that the majority are concerned about the economy, expect interest rates to increase and see property prices falling further. Interestingly, however is that roughly 50% will seek to do something – ie. move. Whilst Brexit is a serious concern, the fact that so many respondents want to do something suggests that we will see movement in the property market (of both people and prices).

We are fully aware that Volumes are down 24% year on year (lonres.com Dec 2018) and we expect this to fall more as we head towards 29th March, but this element of our poll is encouraging.

Volumes are down but we are ready to call the bottom of the Market for PCL as March May 2019 unless Article 50 Extended

We have resisted calling the bottom of the market but we are going to stick our necks out a bit here and call it from Mid-March to Mid-May. We don't see a huge reduction in prices between now and then (the market average being 11% according to Lonres.com in Greater London.) We do think that as we gain greater clarity as to what Brexit might look like, confidence will return, and we will see a gradual rise in prices. A No-deal will weaken Sterling making property look cheap to overseas buyers. If we have a deal, then again, we see confidence rebuilding. If we revoke Article 50 (a very long shot now), maybe we can borrow Mrs May's Unicorn for the daily commute and life would be wonderful, but this is unlikely. Our worst case scenario for the property market would be an extension of Article 50 in which case uncertainty will remain. In any event our "bottom" period is about 8 weeks as this covers School Holidays and a couple of weeks thereafter before buyers realistically have the time to make offers.

To Do List: Refinance or lock in Fixed Rate Mortgage. Mortgage Rate war provides cheap financing – oh and a 100% LTV Guarantor Mortgage….

Nevertheless, there is something home-owners can do: In light of the concern our clients have shown over interest rates, now may be the time to re-finance? According to data from UK Finance, home-movers seeking mortgages were down 8.4% December 2018 and First Time buyers seeking mortgages were also down by 4.5% in the same period. Our Broker contacts tell us that rates are a touch over 1% and longer terms are available and that there is currently a mini-mortgage war as there is too much funding available, given the reduction in movement above. Re-financing, particularly from an SVR into a fixed rate may be a sensible strategy to pursue. We have also noted (OMG) the arrival of a new 100% LTV mortgage from Lloyds – with guarantor required – and will be writing about that shortly.

Sluggish Start to 2019 for Lettings but delighted to have won British Property Awards Gold for Lettings after Sales.

Earlier, I mentioned Lettings: We have seen a fairly sluggish start to 2019 with 35% fewer new lets this month vs January 2018. Nevertheless, we have grown our lettings team (now one of the largest for any Prime Central London Independent) with new sales staff, as we seek to continue to increase our market share and the services we offer. We are also very proud to announce that we have won the British Property Awards for Best Letting Agent in SW3 and they gave us the nice banner overleaf to go with our award for Sales.

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The average calendar month rent for January has remained constant however at just over £2,300 per month in January 2019 vs January 2018 (lower value lets typical of the January market as young professionals or students not families generally move at this time of year). Crucially, we believe some Tenants, who may need to move, are resisting entering into new Tenancy Agreements at this time as it may lock them in for a minimum 12 month period. If you are a European national, even this may be too long right now. We anticipate this may be the story for the next few weeks whilst we play out the final stages of the Withdrawal Agreement negotiations with the EU. On the flipside, if you already have a tenant in place, we are seeing average tenancy lengths increase as a result of the wait and see approach.

So in summary – UK Politics is a mess. Clients are concerned, and we see the pricing in the Sales market not doing a great deal until Mid-May at which point we expect it to start rising. However If people are looking to move (rent or buy) now may be the best time to do it. Prime Central London prices do not look cheap but by way of example (according to land Registry), property prices in Kensington & Chelsea are now as they were in June 2014 and they went up 5% within 5 months to November 2014. Time to take inspiration from the Sage of Omaha (again…)

COMMENTARY:

Slow Market as Tenants opt not to renew into annual Agreements. Does make length of Tenancies appear longer but current conditions are exceptional.

Again we look to the Sage of Omaha for Guidance – maybe now is the time to act before prices tick up?

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