MASKELLS

Agents in Prime Central London since 1965

Market Update January 2017

COMMENTARY:

A family discussion – who is right?

I live in Chelsea and my wife thinks our house is worth 10% more than I do. She has a PHD in Finance and has worked in senior roles at various city Investment Banks. She is not prone to emotional attachment to assets – and yet, she is adamant that I am wrong and she is right. I look after Maskells. Now whilst that should really be, on this topic only, the end of the conversation (akin perhaps to the folk story of the US aircraft carrier arguing right of way with a lighthouse), I know that hers is a sentiment shared by many in Prime Central London.

A patchy 1st week but things moving along nicely with more viewing and offers..

Schools in PCL returned a bit later than usual in January so the first week back was, to be honest, a concern. However from week 2, things have picked up -there is no doubt that there really is a better feel to the market now:

Our Sales viewing numbers increased 66% vs December 2016 and over 100% vs January 2016. Our Applicant registrations rose by 136% from December 2016 and over 90% vs January 2016. We have transacted 6x as many properties this month as we did January 2016. Properties are transacting 7-10% below their 2016 asking prices. Whatever sales chatter you might hear, those are the numbers and we think other agents are seeing the same.

..as 2 years of price discovery starts to pay off.

The point is really that buyers and vendors who are successfully completing transactions are those who are now on the same page as to pricing. We spent 2 years in price discovery, adding much pain to the sales business, but we are now seeing progress.

But why? And who is buying?

Who are the buyers and what is driving this? Quite simply, our buyers are telling us they got bored of waiting and needed to get on with their lives. Notwithstanding vocal protest from us and others in the industry and support from Journalists such as Anne Ashworth at The Times, there appears to be no change in SDLT in the foreseeable future (See Below). Buyers have resolved themselves to perhaps skipping a step on the housing ladder (going from a 1 bed flat to a house and taking time to save for a larger deposit) and acknowledging that home ownership now has to be longer in order to recover the stamp duty via house price inflation.

Are we attracting Prime London Buyers to Prime Central? Why are people making the jump?

The most noticeable change for us is the type of buyer emerging – these are now domestic families who have been waiting to upsize and but now desperately need the extra space. This is a good market as it is not speculative (ie they are not buying for investment alone). But why PCL? Well, lets be honest, prices in the surrounding areas have increased dramatically whilst PCL has remained quite flat. For example, Lion Houses in the Peterborough Estate transact for roughly half the price of some Chelsea houses on a £ per square foot basis but in terms of capital values, (being bigger houses) they are broadly on par. So the question is would you rather spend £3.95m on a Chipstead Street SW6 (3,600 ft) or £3.65m on a Langton Street (2,550 ft) in Chelsea. Each will have their own following but at this level, location does come into play (What are the 3 most important considerations when buying? – Location, location, location). Maybe you compromise on the full basement dig-out that a Chipstead offers because as the prices converge, you may feel that the Chelsea property offers more financial upside or because the jump from Fulham to some parts of Chelsea has never been so achievable. Who knows – but buyers are now looking at RBKC whereas in the past they would not consider it.

SDLT. If we strip out the 3% ASDLT for 2nd homes and BTL, receipts have actually fallen by £128m in the last quarter. HMRC not advertising that number…. Time for a reduction for primary home movers? We think so.

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A word of caution however for those buyers who want to wait and see – as with any market, a pricing anomaly is quickly exploited. Should the volume of transactions increase (and they have this year) vendors will be less minded to negotiate on price. This would be ill-advised given the frail state of the market and whilst my wife may eventually be right, we estimate it may be 18-24 months before she can say "I told you so!"

A Quick Note on SDLT.

HMRC is clearly delighted about their SDLT Receipts – over £1.16bn in 2016 – but there are couple of points, however, that we would like to note: We voiced concern about reducing stamp duty at the lower end of the housing market as it would cause larger than normal inflation in that price range, eventually dragging more property into the reach of the exchequer. This appears to now be the case – transaction volumes below £250K have dropped by 41% but have increased for those over £500,000 – an upwards shift in home prices producing more revenue. The largest rise in revenue was for properties between £1.5-2m which showed a 26% increase vs a 7% decline in transactions volumes. The second point, well made by The Times, is that "excluding the receipts made from the new 3 per cent tax, the Government made £128 million **LESS** in the final three months of 2016 vs 2015". HMRC should be concerned that whilst tax receipts may be up, the increase is due to a speculative market who will be impacted by higher rates and Government Policy whilst their core revenue, from families seeking to buy a home, is falling.

SALES

We highlighted our sales data on the previous page. We have taken 8 properties under offer this month – ranging from a couple of development projects to houses and flats in Chelsea. Aside from the development project which attracted 43 viewings, 9 bids and was agreed via sealed bids (all in 6 weeks), the balance of the properties were taken under offer at an average 6% off the asking price. This is interesting for us as Savill's have put the PCL price correction at -12.5% since 2014. We are a little sceptical of this figure as it is based on much reduced transaction volumes and often sales are as a result of Relocation, Divorce or Probate – all three being necessary sales rather than elective.

However, our team maintain that Vendors should be careful when considering offers – often there may only be one offer and if rejected may not be replicated for some time. Whilst we have seen an increase in activity, buyers are still a bit skittish so if you receive an offer in the ball park of the numbers we are showing here, consider it carefully.

LETTINGS

Our Average let in January 2017 was £5,633 per calendar month (pcm) vs £3,423 pcm in January 2016. We don't think however this tells the real story – all of our lets and the majority of our interest / viewings were either at the family house / flat market £3,000 per week and above or young professionals below £700 per week. This shows a big hole in the 2-3 bed flat market between £1,000 and £2,000 per week left by the continuing absence of the corporate market. The sentiment from the team is that rents on the whole in January felt balanced with no significant increase or decrease apparent. Our viewing levels are up 18% vs January 2016 and new tenancies are up 12% vs Jan 16. We would however note that stock levels remain high at just over 40% available than this time last year.