Prime Central London Market Report – November 2015

SALES:
Sales achieved in both flats & house markets.

£176mm of buying power views property in 4 days.

Prime Central London prices remain flat.

LETTINGS:
40% of our stock let in last month.

Bid / Offer on Lettings reduces from 10% to 7%.

Average time on Market down from 22 days to 19 days.

RESEARCH:
Market in SW London buoyed by Mortgage Debt.

Debt in some areas increased as much as 36%.

MMR creates cap on upward price movement.

Prime Central London Mortgage Debt levels fall.

We are selling property! After a lacklustre year, we are by no means full steam ahead but we are under way. This month, in addition to our usual market report, we are going to look at what is driving pricing in South West London and the effect of mortgage debt as an indicator and precursor to house price volatility. Some of our research may surprise!

SALES

Market participants remain focused on Stamp Duty however we believe applicants are beginning to appreciate that there is value in this market. We have sold a number of 1 and 2 bedroom flats as buy to let investments in the £800,000 to £2.4m range but we are also seeing keen interest in family homes around the £4m mark. On one particular property we have taken 44 viewings - 44 applicants with £4m to spend or a total of £176m! If you are considering selling, please do let us know – we have a lot of disappointed buyers – but these buyers are looking at sensibly priced (not cheap) property. Through The Maskells Bespoke Property Pricing Report, this particular vendor had confidence in our pricing which drew the large number of viewings. Interestingly, many buyers were unaware that offers below the asking price would be considered, and through several iterations between a number of parties, we achieved a sale 2% below the asking price. Generally we have seen very little price movement in Prime Central London over the year, but as the above demonstrates, we are beginning to see some liquidity.

LETTINGS

The last month has proven to be very busy. We rented nearly 40% of our stock and we can see that inventory levels are now down across agents by 20% month on month. We saw the best offerings (well maintained and well priced) rent in less than a week and whilst there is still a difference between asking price and achieved rental the gap narrowed to 7% down from 10% this summer. It is not the time to put rents up yet as this will slow the market down (leading to more price volatility), but it is something we will be talking to landlords about early next year. We are now taking an average of 19 days to let a property vs 22 days a the end of the summer. The types of tenants have also changed – we are seeing more corporate lets and more enquiry from the domestic market (vs last month where the vast majority were international). We are keen to take on more property to satisfy the demand we are experiencing so if your rental property is in a void period, do let us know.

MASKELLS RESEARCH.

"The effect of mortgage debt on South West London property prices".

In the height of the financial crisis, one road in SW6 saw a house sell in 2009 for over 40% less than a property of the same size did in 2007. They were 2 doors apart. The vendor, having lost his job, was desperate to repay his mortgage as he could not longer afford the monthly payments. He was a forced seller. From Q2 2013 to Q1 2015 (latest data from the Council of Mortgage Lenders) there has been an increase in mortgage debt and an increase in property prices (data from Land Registry) in South West London – We investigate this increase in leverage in the market and ask – is this a bubble?

Maskells Grows:

We are delighted to welcome Howard Elston to the Maskells Family. Howard has over 25 years experience n the Prime Central London Market, the last 15 of which were spent at Aylesford International where he specialised in high value transactions.

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Before we examine the data, please do bear in mind that (1) debt in and of itself is not a bad thing but debt coupled with a lack of liquidity in the underlying collateral is almost always problematic if you are looking to sell (2) we are in a very low interest rate environment with most mortgages taken with a fixed term and rate (some as low as 1.15% for 2 years) which then revert to SVR (Standard Variable Rate) which for Halifax is now 3.99% (Halifax Variable Rate 1). A move from fixed to SVR (amplified if rates go up) can lead to selling, as mortgage payments account for a larger percentage of the borrower's disposable income. Borrowers believe that refinancing is always available but as we saw in 2008-9 this is not always the case. Reviewing the Halifax mortgage data (Permanent Master Trust Sept. 2015 report), 47.57% of the borrowers are within the fixed period and will be moving to SVR during 2016. Proposed bank capital adequacy ratios (Basel 4), may have an impact on future lending as more capital is required to be held by banks against potential loan defaults. Prudent borrowers must bear this in mind and possibly turn to non-bank lenders for refinancing.

From Q2 2013 to Q4 2014 there was an average increase of 5.98% mortgage debt in the South West London postcodes. In the same time house prices increased an average 14.62% and flats 29.27%. These averages however can often mask areas of concern where the price increase is a direct result of increased debt: for example the average price increase in SW9 was 22% but SW9 6XX saw debt increase by 36.71% and SW9 8XX by 19.33%. The average price increase in SW2 was 19.37% but SW2 5XX saw debt increase by 15.2%. (some areas have dropped: SW3 down 4.5% and SW7 down 7.8%) Overall the data suggests that buyers have been seeking value in South West London and taken advantage of the lending on offer. The concern with this is that under the Mortgage Market Regulations (MMR), which are complex, property price increases are potentially limited by future buyers being able to comply with the regulations (which include a maximum 3x income multiple and until recently 75% loan to value ratio). However affordability is the first hurdle so as long as the rate of wage inflation is lower than rate of price increase, then there will be a regulatory cap limiting house price increases where debt is involved in the purchase.

This has been demonstrated in the debt and housing data from Q4 2014 to Q1 2015. where we saw an average increase of debt of 5.1% but a 2.44% decrease in house prices and 2.86% decrease in flat prices. The spread between asking price and achieved price on property in SW London is between 3-5% meaning that vendors were looking for a gain on 2014 prices but ended up accepting lower offers potentially as the debt available to buyers was limited by the MMR. Is the market now strangled? No – as the MMR limits on Loan to Value ratios were raised from 75% to 90% recently allowing in Q1 to Q3 2015 a further 12.42% increase in house prices and 6.97% in flat prices.

So what do we make of this data? Prime Central London carries less debt and will therefore be less price volatile than the rest of South West London. However within parts of SW London, there are clearly markets where the price increase is capped based on MMR criteria and others where there is simply too much debt (SW2 & SW9). Is this a bubble? Not necessarily: Interest only mortgages are limited so household debt balances should reduce over time, however do not expect the same price increases that SW London has experienced in the past, as any potential buyer will be restricted by their ability to borrow given the MMR criteria. Prime Central London, however, does have the potential to move higher as buyers are not reliant on debt and therefore there is not a regulatory cap in price increases.

Established in 1965, Maskells is one of the oldest independent estate agents in Prime Central London. With multi-lingual staff and a full sales and ARLA registered lettings operation, Maskells gives you access to an unrivalled depth of property expertise, experience and local knowledge. Our Agency offering and post transaction services, via concierge sister-company White Circle Collection, www.whitecirclecollection.com , provide a one-stop solution for all Prime London Property requirements.