

## Prime Central London Market Report – October 2015

### **SALES:**

Renewed buying interest but in certain price ranges only.

Indexes can distort property price appreciation – ask for a Maskells bespoke report.

European Buyers nervous of domestic market and looking at London Property as a safe haven investment.

SDLT receipts down but countered by increase in receipts from ATED.

### **LETTINGS:**

Increased number of applicants within price bands.

Stock levels still high so no increase in rental prices.

Do childcare costs reduce rental budget? Our applicants cite this as a major cost reducing their rental budget.

Cash-flow is King: Be aware of Void Periods.

The start of the new School term has signalled a healthy increase in applicants for both Sales and Lettings, albeit within certain price bands. We examine which types of property are benefiting from this interest, and if prices are moving as a result of this.

### **SALES**

In our last report we commented that sales volumes in Prime Central London have dropped by 27% year on year for the £2mm to £10mm market and 39% year on year for the £5mm to £10mm market. We are happy to report that over the last month we have seen a resurgence in applicants for flats up to £3mm and houses up to £5mm. The demand for flats has been in no small part due to European buy to let investors seeking to protect their capital against what they perceive to be ongoing problems within Europe (exacerbated by many governments accepting large numbers of refugees which buyers believe will lead to a potential increase in taxes to cover increased social benefits costs). Investors also appreciate an asset where they can achieve running yields around 2.8% and capital gains of approximately 5% per annum.

Houses up to £5mm have also attracted European buyers, particularly families who are relocating to London. At £5mm the SDLT is 10.2% vs 7% under the old system and therefore “acceptable” according to our applicants. In terms of new instructions, we have taken on more over the last 4 weeks than over the last 4 months. Accurate pricing however is key to ensuring a receptive market – If the price is too high, applicants will not view and the property will languish. The Maskells Bespoke Property Pricing Report has helped vendors instructing us to understand the value of their home vs perceived values generated by headline index increases as reported in the press. Please do contact us if you would like an explanation of how the indexes work and why they generate price expectations which may not accurately reflect the market price of your property. Please do remember that stock levels are high when considering pricing. Higher value properties (£5mm+) are attracting interest but from an audience who, conscious that there are not many buyers in the market, remain price sensitive.

A recent article in the FT claimed that Knightsbridge was losing its allure and that house sales were down 43%. Upon further investigation, we discovered that this was based on the SW1X postcode only and only took into account 29 properties sold this year vs 51 last year. Knightsbridge is in fact much larger than SW1X (including part of SW7 and parts of SW3) and whilst sales are down, we are now seeing an increase in enquiry for the area. The allure, driven by independent shops, local schools, ease of access to the West End, City and Heathrow and not forgetting Harrods, remains.

We also mentioned in our last report that we expected stamp revenues to fall. In the HMRC Tax and NIC receipt breakdown provided by the National Statistics (22<sup>nd</sup> September) we can see an 8% decline in stamp duty receipts for the 6 months April to August 2015 vs the same period in 2014. This in our view demonstrates that whilst the volume of high value properties transactions has fallen, the single digit percentage loss in revenue will not force a government change of heart on the SDLT rate, particularly as the tax raised by ATED has helped offset some of those losses.

## Maskells Grows:



We are delighted to welcome Merton Croisdale-Appleby to the Maskells Family. Merton spent 15 years with John D Wood Chelsea and South Kensington and brings a wealth of knowledge and experience to the Team.

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## SALES:



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ATED receipts have increased and are £151mm from April to August 2015 vs £102mm in the same period in 2014 offsetting £49mm of SDLT losses for the period. Whilst ATED receipts tend to be at their highest at the start of the financial year, The busy period for the property market (September through December) is about to start. We look forward to seeing the results for that quarter in due course and our expected increase in volume for this period will help certainly go towards reducing the SDLT shortfall for this financial year. The total revenues (ATED and SDLT) are £4,456mm for the 6 months to August 2105 vs £4,785mm for the same period last year, a combined drop of just under 7%.

There has been a great deal of discussion on SDLT, however whilst volumes may be down, London remains competitive in its property taxes on the world stage. Savvy buyers are recognising this and are starting to show offers.

## LETTINGS

As with the Sales Market, the lettings market has also picked up, particularly the £500-£750 per week market for young professionals and overseas students, and the sub £2000 market for family houses and, as per the sales market, mainly from European families relocating to London. From our data, 80% of our current applicants are from overseas, with a large proportion coming from France. The market remains reasonably well stocked which allows applicants to make offers which are being accepted. Overall landlords who present their properties well (clean and well maintained) and who are prepared to accept an at the market rent (which may be different to asking price), have found a renewed sense of liquidity in the Lettings market. Due to good stock levels there is no pressure on rental prices and we have not seen an increase in prices in the last month.

Higher value rental properties (£2,000+) are struggling to find tenants as families are tending to divert more funds to other areas. Our applicants have highlighted childcare which is becoming increasingly expensive, as one example of an expense which is taking away funds from the rental budget. A nanny earning £12 an hour net for an 11 hours day will earn £46,000, which includes £15,000 in taxes which are not tax deductible, thereby costing the employer £70,000 Gross. This represents £1,200 a month which could otherwise be spent, for example, on renting a larger property.

Void Periods. Holding out for asking price rents is a natural mind-set: an agent may have overstretched to gain an instruction giving confidence that the market could weather the price or the property may have achieved a price in a previous rental period which a landlord is seeking to replicate. This is a dangerous approach in today's market.

Like any market, property prices are not static and are affected by a variety of factors including but not limited to wage inflation, interest rates, stock levels and seasonal adjustments and as such landlords have to be nimble.

They have to remember that a £750 a week rent for a higher rate tax payer is equivalent to £55,000 gross and tenants are credit checked for affordability to generally 3x that amount. If the offer you receive is £50 per week less than you wanted please remember that waiting another month would cost you £3,250 in lost rent vs £2,600 in accepting the lower offer on an annual basis. For the higher value properties, £2000 a week is £185,000 gross and accepting an £1,800 offer would cost you £10,400 a year vs £17,300 you would lose by keeping the property empty for another month. Void Periods generate no income and as everyone knows, cash flow is king.

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](http://www.whitecirclecollection.com), provide a one-stop solution for all Prime London Property requirements.