MASKELLS

Agents in Prime Central London since 1965

Market Update September 2016

COMMENTARY:

Brexit will most likely be soft once both sides come to terms with the fact that we need each other.

Trade tables demonstrate how much we spend with the EU and why we have a trade deficit.

But economic outlook not as bad as originally feared.

Now property buyers are starting to buy but mind-set must adapt to one of long term ownership rather property as trading stock or SDLT will absorb projected capital gains.

Viewings are up and offers are being received.

Lettings had another strong month, Students for September and now looking at the professional market for October.

"Prophesy is a good line of business, but it is full of risks."
Mark Twain – Following the Equator 1894

Both Pre-and Post Brexit, I read extensively about the economic arguments behind the vote and took the view that our economy was simply not robust enough (given the twin deficits and public sector net debt) to risk an economic downturn. I voted Remain. Three months on however (and whilst I have not changed my mind), my sense is that we will end up with a soft – Brexit for the simple reason that Europe depends on us as much as we do on them for trade and this will force stability. Below is a table on the UK's top 10 export partners and our trade surplus / deficit to give you an idea why Europe will negotiate:

Trading Partner	% UK exports	UK Surplus / Deficit
USA	14.5%	$9.1bn
Germany	10.1%	($46.1bn)
Switzerland	7%	$22.5bn
China	5.9%	($33.9bn)
France	5.9%	($9.1bn)
Netherlands	5.8%	($20.3bn)
Ireland	5.5%	$6.4bn
Belgium	3.9%	($13.5bn)
Spain	2.8%	($8.2bn)
Italy	2.8%	($11.2bn)

Source: worldstopexports.com

Of our top 10 trading partners, 3 are outside the EU but of the 7 remaining, only 1 provides us with a surplus – Ireland. For the rest, we spend £108.4bn more with them than they spend with the UK. In fact, the UK buys 10% of all German cars manufactured, representing approx. 2% of German GDP. I understand the grants argument and our benefits from EU subsidies but no EU politician is going to risk losing votes because their economy shrinks, and voters lose jobs, which it will if we are blocked from trading. Dr Fox, made this argument last week and Ian Duncan-Smith over the weekend seeking a "Hard Brexit" but I think it works well for a more conciliatory approach. Why antagonise our neighbours – they will do their own analysis. Mr Verhofstadt and Mr Juncker may jostle for soundbites, but the new German government, due in 2017, has yet to weigh in on the economics.

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Nevertheless, what has this got to do with property? If the increased SDLT was the fuel, Brexit was the catalyst for the drop in housing transactions in Prime Central London. It was not Brexit however, it was the fear of what would happen afterwards coupled with buyer's psychology. It might well be that we are going to be economically stable post Brexit given the above, however people's psychology around the London Prime London Property must also adapt and we must stop blaming BREXIT. Currently property is seen by many as trading stock – it is an unregulated market which in a low income (yield) environment is seen as a good way of making money. Current rental yields in Prime Central London area are approx. 2.5-2.7% which is 10x more than you get on a deposit account, and property prices have seen unprecedented growth (50+% since 2011) across all of London, so it's easy to see the attraction. However a different approach to property, so that it is seen as a home rather than a short term investment may help people re-adjust their expectations somewhat.

The price outlook provided by Savills recently (which we for the most part agree with) for Prime Central London (2016 -9%; 2017, 0%; 2018 0%; 2019 +8%; 2020 +5%; 2021 +6.5%), suggests compound growth rate of 1.586% excluding inflation. Based on the purchase of a £2m flat with stamp duty of £153,750, you would break even after 5 years (the breakeven for a £7m home is just over 6 years). Therefore the buyers mind-set must adapt to longer ownership if they want to make money out of a property asset. We have not seen or heard of anything concrete which would suggest that Stamp Duty is going to be reduced. BUT given the average length of ownership for home-buyers in Prime Central London is just over 7 years, buyers should feel confident that the there is still value in the mid to long end of the property market and particularly given our expected international trading position post Brexit. I am sure Mark Twain would agree…

SALES:

Viewing Levels continue to increase across **ALL** price bands and we have received offers on properties, one going to best bids. Of the rest which were accepted, they were at most 6% below updated asking prices. Offers which were rejected were between 7-15% below updated asking prices. An element of price discovery remains in the market at the moment with buyers making low offers to test the waters – we do expect increased offers from them. Properties where the price has not been updated for 6 months or more are, however, missing out on this renewed momentum. Buyers are mostly domestic or ex-pat, paid in USD, the latter taking advantage of the depreciation of Sterling. There are reasonable stock levels at the moment, Maskells having reached **3rd out of 90** agents in our area for new listings last week on Rightmove.

LETTINGS:

The Lettings Team have produced a longer analysis this month which can be found on our site and attached to the newsletter but in summary, we have seen good demand over the past couple of months with the market renting out over 8,000 units in London alone. This has taken the top off the large supply that we have seen and has sent the Maskells stock level down – we have the applicants and need more stock to service the demand. In terms of prices, there was a general correction post Brexit and we are seeing Landlords agree rents approx. 5% below asking with best in class going at asking price. Last month we had a 25/ 75 mix of domestic / foreign tenants but this increased to 95% foreign this month as we saw a late flurry of overseas students. October is the month where professionals have tended to move so we expect to see more movement in the £1,000 to £2,000 market.

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