Research Bulletin

Summer 2016

Brexit came as a shock, but life goes on.

The vote to leave the European Union was a huge shock to the markets. Currency and stock markets rallied on the day before the vote and the bookmakers had a Remain result priced in as almost a certainty. The final count was 52 per cent to leave the EU against 48 per cent to remain. That's closer than the Scottish referendum but a turnout of 72 per cent was more engaging of voters than the General Election turnout of 66 per cent.

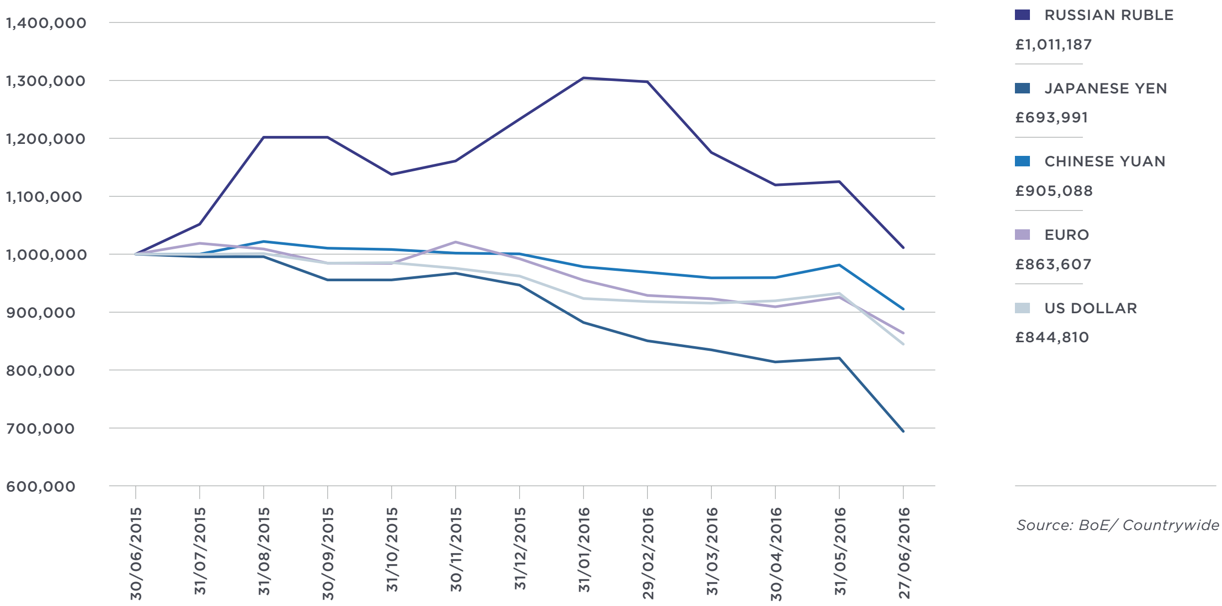
Currency and stock markets sank rapidly on the news. While they have recovered somewhat there is still huge volatility. But we still have to answer the question of what will be the likely impact of this historic decision on the UK economy and housing markets. The honest answer is that it's far too soon to know. Financial and stock markets are still volatile and with David Cameron's resignation as Prime Minister and uncertainty as to who his replacement will be together with turmoil in the leadership of the opposition party, there is political instability to throw into the mix too.

What can we say? Clearly there are risks ahead, but people will still need to move home for personal and practical reasons. Those looking to buy and sell now or who are already in the pipeline will already have taken the possibility of Brexit into account, and early indications suggest that they are happy to continue with their move. In the first few weeks there was no change in the rate of clients withdrawing from deals across the UK as a whole. And for overseas buyers the fall in Sterling gives the added bonus of a less expensive London buy, even without any Sterling price negotiation.

The fall in Sterling against major currencies makes buying a property in the UK much more affordable. For example the cost of a million pound purchase in US dollar terms has fallen by more than £150, 000 to £845,000. In Japanese Yen terms the price falls to under £700,000.

EQUIVALENT PRICE OF A MILLION £ HOME IN LOCAL CURRENCY

(JUN 2015 = £1,000,000)



Source: BoE/ Countrywide Research

Most economists predict that leaving the EU will slow the UK's economy, and that will probably have implications for the markets, but it's not necessarily all gloom. Unlike the major crash in the early 1990s, caused by a big hike in interest rates, the Bank of England is unlikely to raise rates rapidly even if there is a big increase in inflation caused by more expensive imports. Even if the bank has to raise rates to support the currency, 50 per cent of mortgage holders are on a fixed rate, compared with 35 per cent 2 years ago, so the market is unlikely to be affected by distressed sales.

Unlike the 2008 financial crash, banks and mortgage lenders are in a much more secure position thanks to the rules put in place under the Prudential Regulation Authority. As a result, they are able to withstand greater stress and uncertainty in the market. The severe credit crunch experienced then seems unlikely to be repeated now.

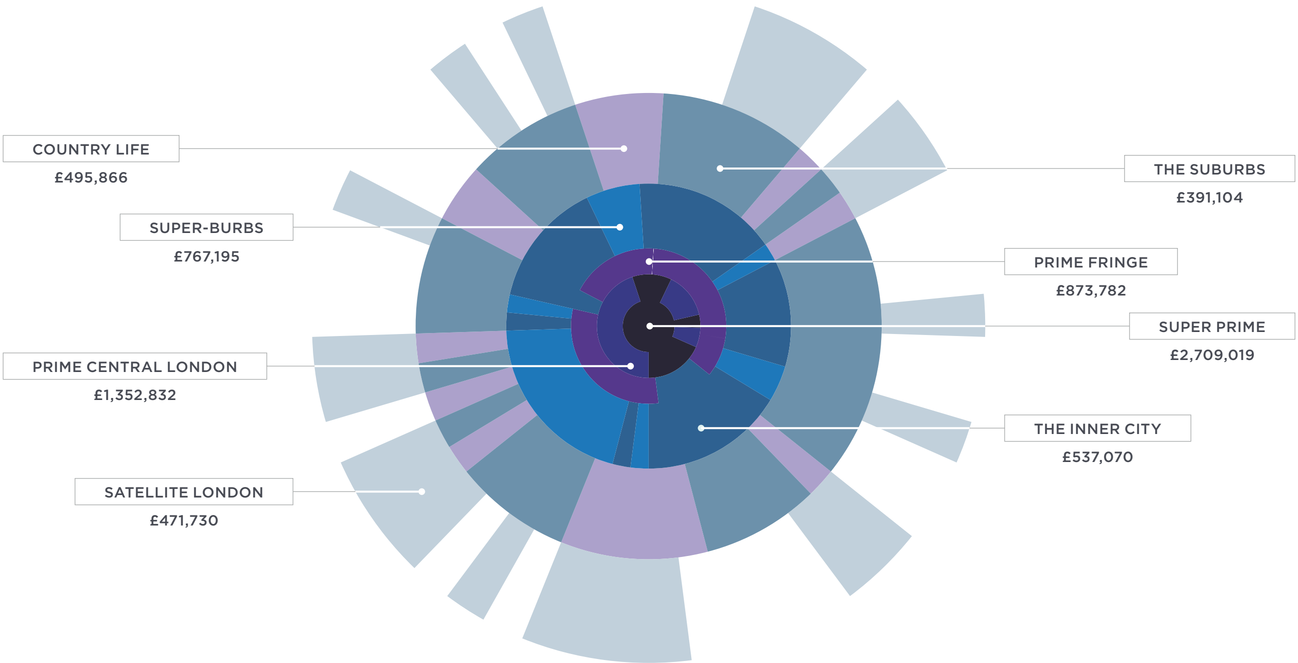
Undoubtedly, uncertainty will have some effect on markets, but over time that will dissipate as the details of the UK's exit from the EU becomes clearer. And, it is in everyone's interest to make that exit as smooth and painless as possible.

Neighbourhood Watch

Central London sellers have been having a tough time as of late. The market is still adjusting to a punitive tax regime, a tail-off in international demand and global economic troubles, meaning that while prices have dropped back in some places, the total cost of doing a deal has never been higher.

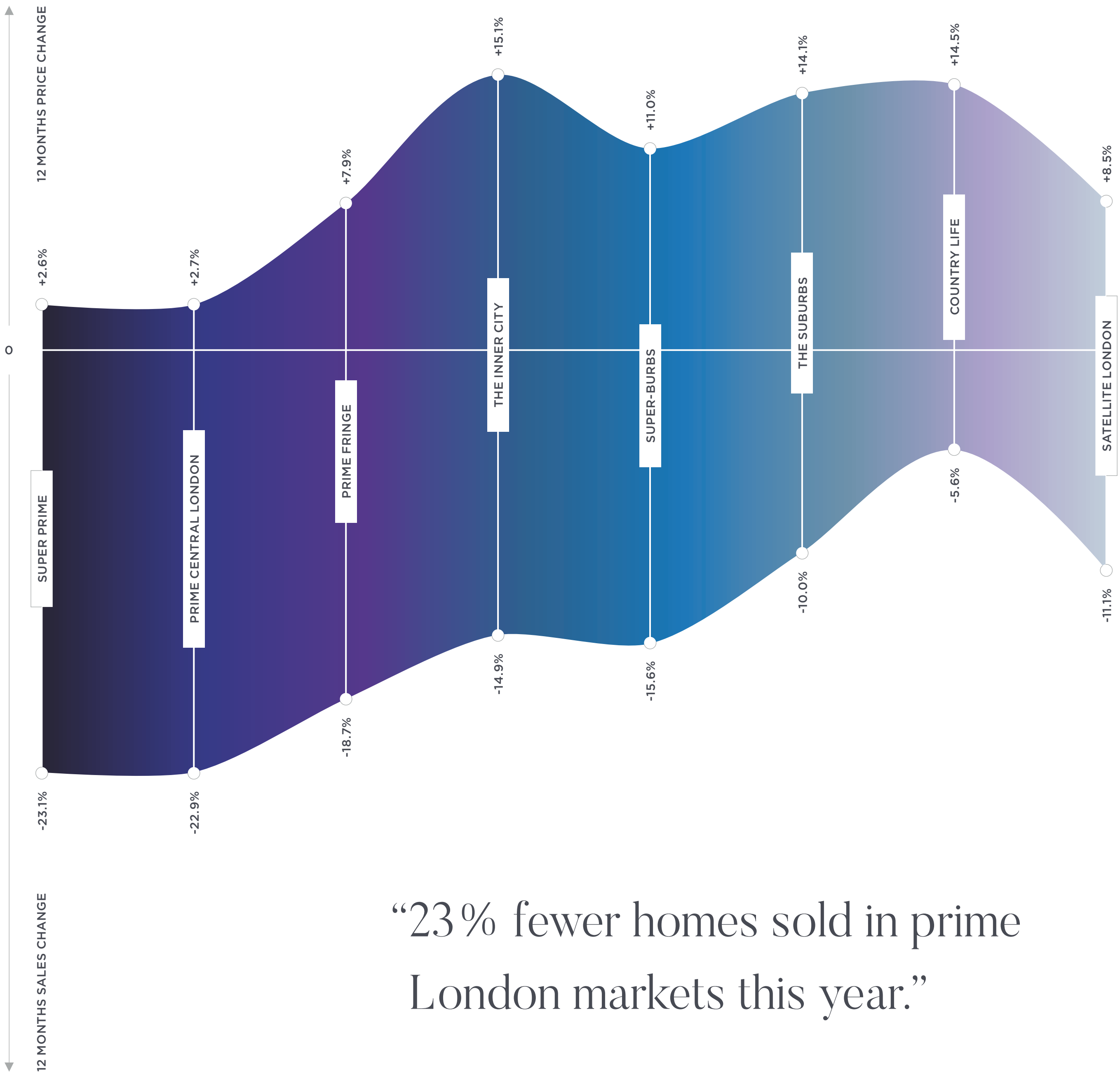
AVERAGE SALES PRICE IN AND AROUND LONDON

Source: Land Registry and Countrywide



These conditions play out in the latest sales figures which show 23% fewer homes sold in prime London markets this year compared to last.

While buyers are increasingly price sensitive, deals are still being done. For sellers right across prime London, getting the right balance between testing the market while at the same time still offering value for money, has never been more important. Markets in cheaper prime fringe locations like Hammersmith to the West and Wapping to the East are busiest. Here prices have risen more slowly, higher stamp duty rates have had a smaller impact and areas have increasingly been able to trade on an improving reputation and the prospect of future growth.

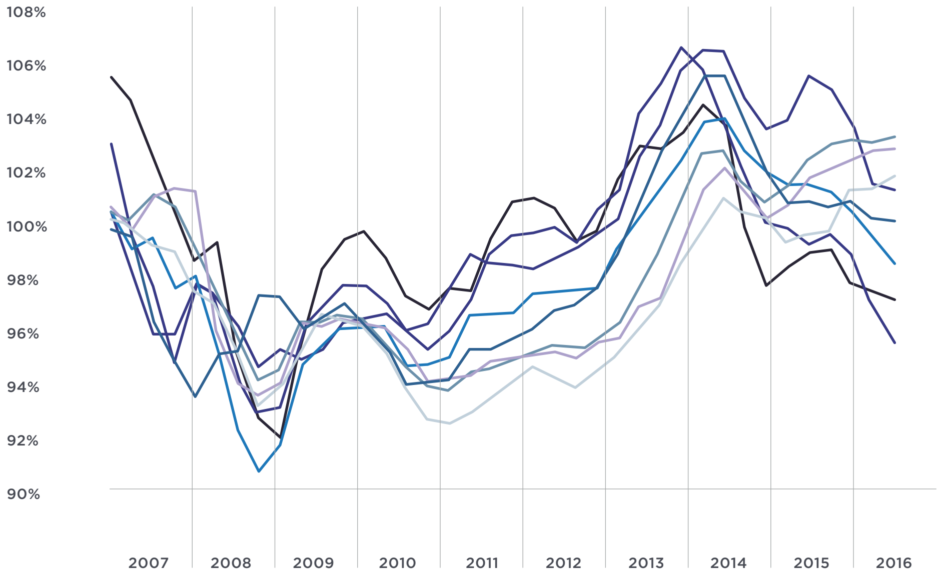


> "23% fewer homes sold in prime London markets this year."

LONDON ZONE	AVERAGE PRICE	12 MONTH PRICE CHANGE	12 MONTH SALES CHANGE
SUPER PRIME	£2,709,019	2.6%	-23.1%
PRIME CENTRAL LONDON	£1,352,832	2.7%	-22.9%
PRIME FRINGE	£873,782	7.9%	-18.7%
THE INNER CITY	£537,070	15.1%	-14.9%
SUPER-BURBS	£767,195	11.0%	-15.6%
THE SUBURBS	£391,104	14.1%	-10.0%
COUNTRY LIFE	£495,866	14.5%	-5.6%
SATELLITE LONDON	£471,730	8.5%	-11.1%

Source: Land Registry and Countrywide

INITIAL ASKING PRICE TO BE ACHIEVED



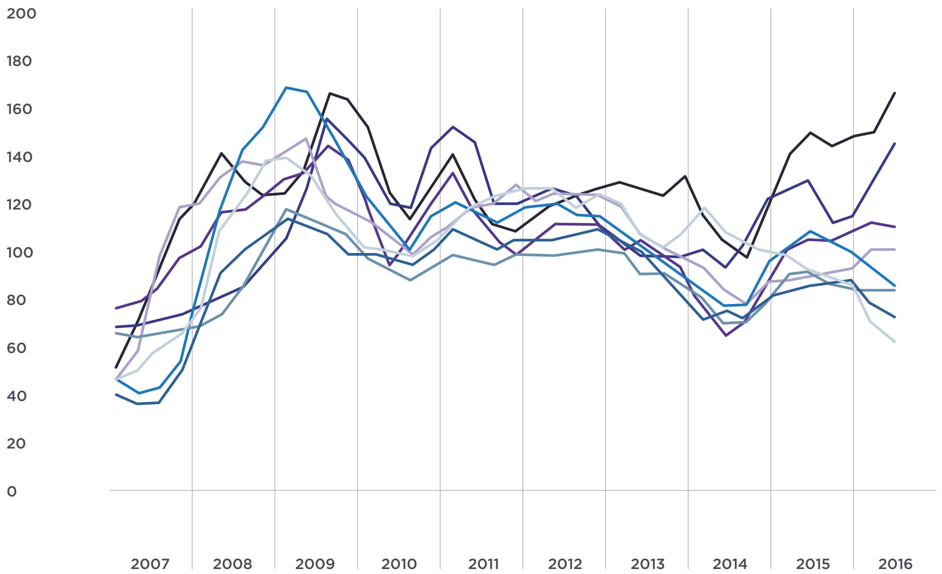
	Q2, 2016	CHANGE ON LAST YEAR
SUPER PRIME	96.9%	-1.7%
PRIME CENTRAL LONDON	95.4%	-3.6%
PRIME FRINGE	101.0%	-4.3%
THE INNER CITY	99.8%	-0.8%
SUPER-BURBS	98.3%	-2.9%
THE SUBURBS	102.9%	+0.8%
COUNTRY LIFE	102.5%	+1.1%
SATELLITE LONDON	101.4%	+2.1%

Initial Asking Price to be Achieved

In the tougher prime and super prime markets the asking price has been cut on 38% of homes for sale, moving eight percent up from last year's 30%. While higher stamp duty bills generated by the move from the slab to slice stamp duty structure in late 2014 were evenly shared between buyers and vendors, the additional stamp duty bill payable on second home purchases from April is firmly being shouldered by vendors.

London's cheapest markets have remained the strongest. Parts of the Capital where average prices are under half a million have continued to see double digit price growth and sales agreed well over asking price as the market continues its upwards trajectory. In the second quarter of 2016, 18% of vendors had increased their asking price before accepting an offer, unchanged on last year.

DAYS TO SELL



	Q2, 2016	CHANGE ON LAST YEAR
SUPER PRIME	170	+21
PRIME CENTRAL LONDON	140	+31
PRIME FRINGE	115	+6
THE INNER CITY	76	-13
SUPER-BURBS	90	-17
THE SUBURBS	88	-2
COUNTRY LIFE	105	+9
SATELLITE LONDON	66	-24

Days to Sell

Most of Prime London has seen a jump in the number of homes coming onto the market, alongside a corresponding increase in the amount of time to sell. While the nature of prime markets means deals usually take longer to piece together, the pace of the market is back at 2009 levels. Increasingly deals are being done 'off market', with homes marketed discreetly to a select pool of buyers away from the public spotlight.

Outside Zone Two, which accounts for around 70% of all London sales, stock remains at a premium. Vendors have found themselves in an increasingly strong position, with those in the commuter belt setting and getting ever more ambitious asking prices. The average home outside prime areas sells in 79 days, five times faster than the same time last year.

Source: Countrywide

Flat Packed

Walk down the average London street and it's hard not to notice the sheer amount of building work going on. Lofts are being converted and basements dug out to make use of every last square foot of space on offer.

In the last three years there has been a 23% increase in London households applying for planning permission to extend, with some inner London planning departments seeing their workloads almost double. London has never been so good at creating more space.

London's prime neighbourhoods have been the epicentre of the building boom. While swathes of Central London sit alongside the Champs-Elysees and Fifth Avenue in terms of global appeal, a near doubling of house prices over the last five years has given rise to a steady increase in the number of trophy residencies. These large, luxurious homes are almost exclusively located on the finest streets in London's West End and are bought by the super rich from both home and abroad.

Given that Prime Central London is for the most part Georgian, with natural boundaries often defined by 1960s, 1930s or even Victorian infill, the number of homes with truly global appeal is finite. As the Capital has further established its status as a world city over the last decade, demand for luxury homes has increased. London's response has been two-fold where average prices can reach up to £1,000 sq ft. Places like Paddington and Fulham are now being seen as prime, a stretch even a decade ago. Secondly, developers have set about remodelling housing stock to create bigger homes with global appeal.

London's De-Conversion

Over the last five years 290 homes have been created in prime central London through the de-conversion of flats back into single residences, around 40% more than in the previous five years. In most cases these are big houses which were converted from family homes into flats in the 1960s. Around two thirds of conversions are done by developers, with a view to making a profit.

Prime Central London is one of the few areas of the Capital where the pound per square foot values can be higher in a larger single dwelling than in three or four smaller flats. A third of conversions are done by existing owners living in former houses, buying up the other flats as and when they come up for sale with a view to eventually converting the whole block back to a single home.

23%

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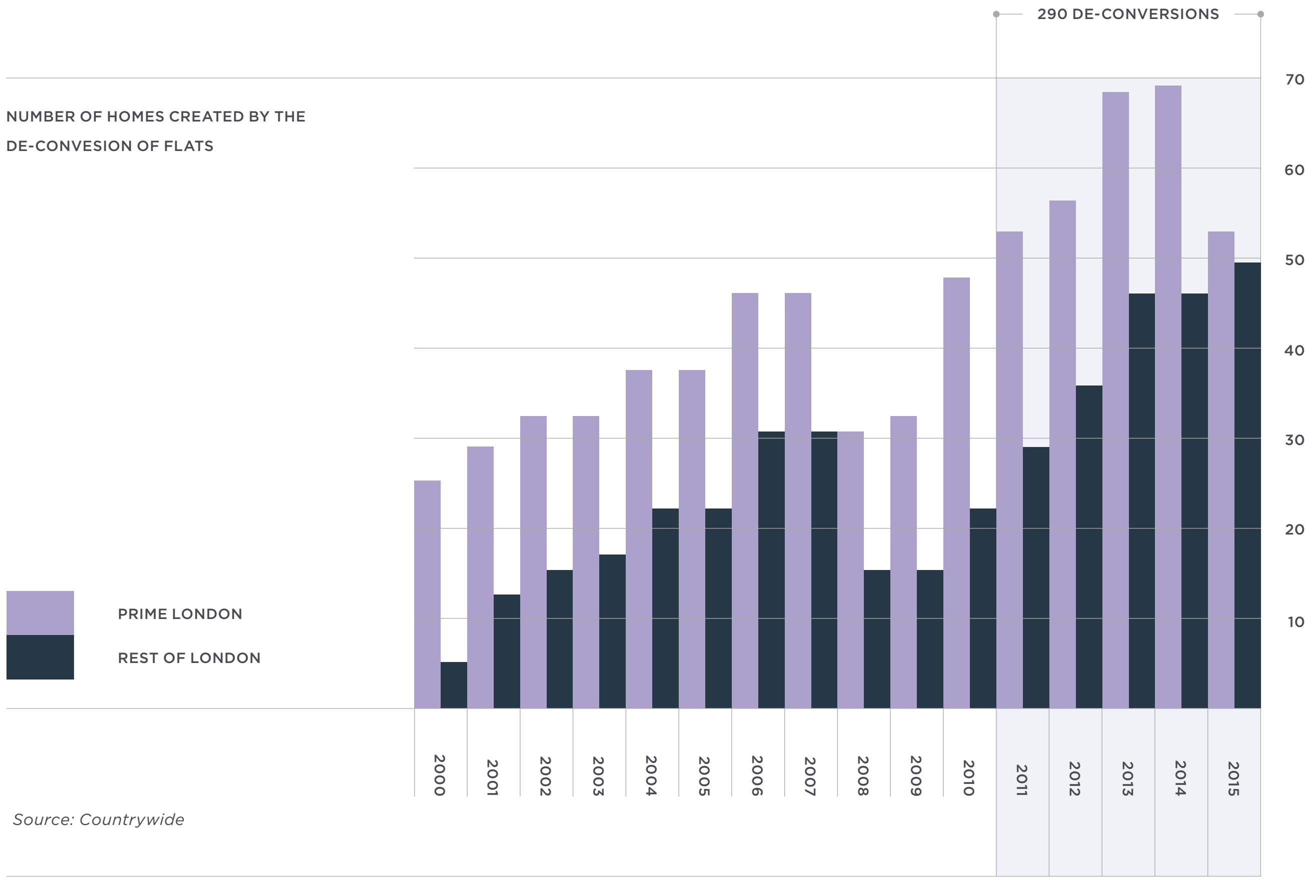
The slowdown in the prime London market has meant the number of homes converted in 2015 has fallen for the first time in eight years. Today's de-conversions are more likely than ever to be in fringe prime locations where shifting dynamics increasingly dictate that it's financially viable to convert flats back into houses. While de-conversions continue in prime locations, with more flats converted into houses than houses into flats, much of the low hanging fruit was returned back to family homes in the early noughties.

It is likely that there will be fewer de-conversions in 2016 than there were in 2015. The slowdown in Prime Central London has made it harder for developers to turn a profit, meaning a greater proportion of the conversions carried out are done by homeowners.

But as one door closes, another opens. Since 2013 there has been a 21% uplift in flats being turned back into houses in parts of north Wandsworth, Battersea and east Hackney. All are well outside traditional prime areas, but with prices close to £900 sq ft, the differential is narrowing. While even the most bullish estate agent would blush at calling Battersea or Dalston prime today, London's seemingly insatiable growth and army of busy builders suggests that one day it's not inconceivable they could be.



Source: Countrywide

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