OBBARD

NEWSLETTER MAY 2018

Welcome to a new format

For those of you kind enough to want to read my missives, you will notice a new, more stylised format. For those of you that are new to this, welcome and I hope you find these informative.

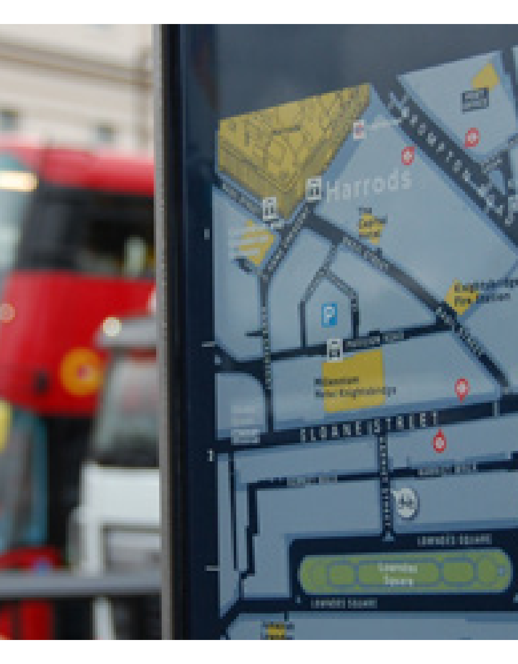
I will continue to do my best to present an objective, unspun, hyperbole-free comment on the fortunes, trials, tribulations and opportunities that the prime London market offers. For a few years now, I have found myself discussing politics more often than the usual drivers and influences behind a mature market such as this. I suspect this will continue as we become ever more entrenched in the heat of battle when it comes to Brexit, Corbyn, Trump's new world order etc.

In order to try to cut down on the waffle and avoid repetition (the biggest challenge when writing regularly about a market that can remain in a consistent state for months leading to years) I have decided to highlight stories or anecdotes that I feel to be relevant, interesting and informative in the hope of providing more context to the market in general.

NEWS FROM THE FRONT

Rental demand surges in prime London as supply levels drop

We are seeing the first signs for some considerable time that rents may be starting to rise, with several large agencies noting that tenant demand is increasing fast in prime London, while the supply of rental properties is reducing. Foxtons, who have more offices on the ground than most, reported the number of people searching for rental accommodation in London "increased significantly" across the capital in the final quarter of 2017. LonRes data just released showed a substantial 23% drop in listings in March this year compared to the same time last year.



Number of super-prime renters up by a third last year

A record number of properties were rented out at £5,000-plus a week in London last year. Knight Frank said its "super prime" lettings rose 34% to 137, from 102 in 2016. Britons and Americans each accounted for a fifth of tenancies, followed by Russians, the French and Chinese. If £5,000pw sounds a lot, it was dwarfed by a widely reported search requirement in March for a north London property at a budget of £50,000 per week. We have been doing our bit with two £11,000pw rentals in the first quarter of 2018.

PCL sales market turning the corner?

LonRes data (covering the 6 most central London boroughs) has thrown up signs of an interesting reversal of fortunes in the prime sales market.

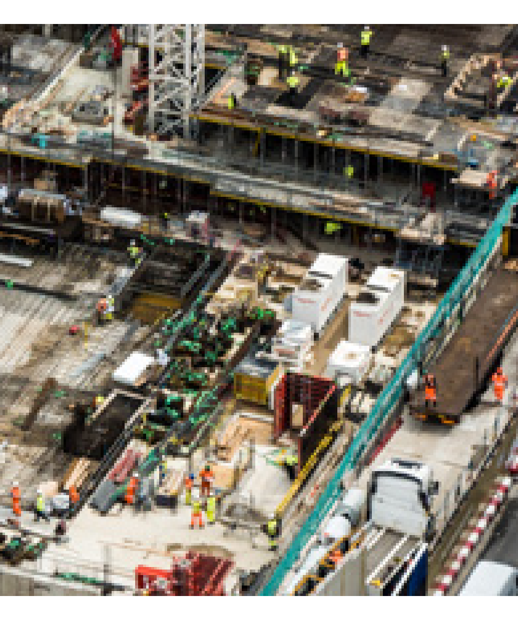
Sales above £2m over the past 12 months have seen a 3% increase in transaction volumes. More surprising perhaps is an 8% increase over £5m. Overall prices have shown a 3.2% increase in Q1 compared to the same period last year. Meanwhile, sales under £2m have seen their average achieved price fall by 5.8% over the same timeframe.

This compares to two years ago, when the £2m+ market was bearing the brunt of the market downturn and posted average annual falls of 5.5%, compared with growth of 4.4% for those below £2m.

Greater London market weakens

House prices in Greater London declined by 3.2% in the first three months of the year according to a report by Halifax and IHS Markit. On an annual basis, Greater London saw a 3.8% reduction, the sharpest fall since 2011.

The RICS reported that sales prices were coming in below asking prices for properties valued above £1m, but noted that sales prices were either at the same level or slightly above asking prices for properties marketed at £500,000 or less.



Significant increase in planning consents granted

A report from the Home Builders Federation (HBF) and construction data firm Glenigan, reported that there were 351,169 planning permissions granted for houses across England in 2017, a 21% increase on 2016. This is the largest total since the HBF and Glenigan started tracking the data in 2006. With approx. 250,000 new homes needed per annum the long running structural issue of under supply may be easing.

London new build shows significant downturn

A recent report on the new build sector has shown a significant slow down in both transactions and new starts in London. Transactions over the past 3 months are down 14% on the previous year and new-build starts fell by 25% in 2017 compared to 2016. Seven out of eleven central London boroughs saw planning applications drop substantially with boroughs like Westminster and Wandsworth showing falls of around 40%.

Central London office lettings robust

JLL reported that 2.3m sq ft of office space was let in central London in the first three months of the year. This is up 14% on the same period in 2017 and 5% up on the 10-year average for the first quarter. CBRE says London's West End has seen the strongest start to a year since 2012 and occupiers are currently seeking over 9m sq ft of offices in the capital. Brexit what Brexit?

MARKET COMMENT

Given the huge differences in performance between the various pricing points in the market (bottom end relatively firm, very top end substantially weakened, although showing some recovery), there are wildly different views on where prices stand today relative to their peak. We put the high at September 2014 with prices on average off close to 15% from that high. This average however disguises significant variations within the various sectors, with greater falls on £10m + property and some gains on values at £1m or less. A consensus of views is reached more easily when discussing transaction volumes. It has been the huge drop off in volumes that has characterised the previous 2-3 years. As transaction volumes hopefully start to build, the other observation one might make, and is discussed ad nauseum amongst agents, is the time that each purchaser takes to make a decision. With such a backdrop of uncertainty, buyers are taking the time to educate themselves and typically take over 6 months to a year looking around before making a decision. Despite the advantage buyers may feel they have, the lack of quality stock remains a frustration and therefore once buyers have a good feel for pricing, options and availability, more often than not prices are agreed within 5% of the quoted price. It has to be said that many properties start off asking ambitious prices but once they are sensibly adjusted the results are achieved.

OBSERVATION OF THE MONTH

We don't hate new build at all. We just hate seeing massive premiums paid and buyers taken advantage of. We have acted for clients who have specified 'only new build' and in fairness mostly things have gone ok. However, it seems more issues are arising as we hear others discuss their experiences and so I thought a few of the issues we have come across might act as a warning. For reasons of self-preservation I won't name the developments but the following are examples of high end schemes and the issues that buyers have very little protection against:

SCHEME 1

Completed around 26 months ago (18 months behind schedule). Tenant moved straight in paying £4,750pw. Tenant has left due to all the endless issues culminating in the whole development having to have its bathrooms refitted this year.

SCHEME 2

Exchanged contracts in March 2017. Completion expected Sept/Oct 2017. The main contractor on this project was Carillion who spectacularly collapsed in January this year and a new contractor appointed. Latest confirmed completion date is 'end May 2018' which is surprisingly more or less in line with best estimates prior to Carillion's collapse.

SCHEME 3

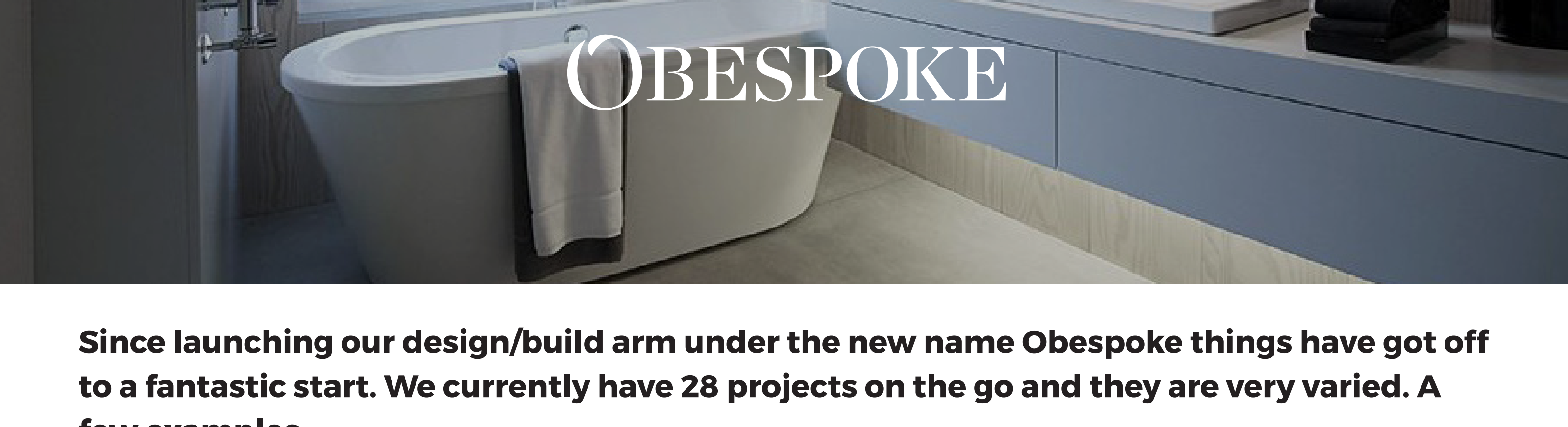
Marketing material quoted service charge was estimated at £8.91psf at time of purchase last summer. Handover is imminent and service charges are now estimated at £10.74psf (20.5% increase with inflation running at 2.5%!)

SCHEME 4

A very high profile development completed around 7 years ago. To date the lessees collectively have paid out over £400,000 in legal costs as they pursue the original contractors for a fundamental flaw that has yet to be rectified.

There is something to be said for buying in to a building that has been standing for over 100 years!

OUR NEWS



Since launching our design/build arm under the new name Obespoke things have got off to a fantastic start. We currently have 28 projects on the go and they are very varied. A few examples:

- A house on Cadogan Street is due to complete and be let
- A country house near Henley, Oxfordshire is about to get under way
- Our big £50m + Holland Park scheme continues as the scope of works grows.
- This week we complete a 1st & 2nd floor maisonette on Eaton Place
- We are to be appointed on a house in SW10 for a very high profile client in the music industry (can't say who unfortunately!!)
- Having acquired a cracking flat on Lennox Gardens for clients, works will be getting underway imminently.
- We are starting work on a penthouse in Holland Park which will be project number 11 for one of our portfolio clients
- The refurbishment of a house in Battersea has taken us across the river
- A couple of clients' rental investments, one on Cadogan Square and one in Kensington, are being remodelled for their own use

If you would like more information about our recent and current projects, do get in touch on +44 (020) 3858 0349 www.obespoke.co.uk

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