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inspired property investment

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THE UK FOREVER BLOWING BUBBLES

It is true to say the British people are fixated with property. We always have been and my guess we always will be. As we live on a TV diet of ‘Location, location’ ‘Homes Under the Hammer’ ‘Changing Rooms’ ‘Grand Designs’ etc. etc. etc. we fascinate and deliberate over house prices and how to improve our lives through property ownership. Since the 1960’s this has served the British people pretty well. There have been a few nasty episodes, particularly in the mid 1970’s and late 1980’s/early 1990’s but on the whole property owners have generally come out winners.

Margaret Thatcher knew this as well as any when she introduced the right to buy scheme for council properties in the mid 1980’s. The Conservative arm of this coalition Government also recognises this underlying aspiration within the British psyche and have set about artificially stimulating what had been a fairly moribund domestic housing market since the money started to dry up in 2007.

The talk is therefore all about housing bubbles. Just as we felt UK house prices were quietly adjusting to reach ‘normal levels’ of affordability, George Osborne has stepped in to state that 90% mortgages are a sign of a mature and advanced economy. Not stopping there, he has created two Help to Buy schemes that enable those without the necessary 10% deposit to ask the Government (taxpayer) to either loan or guarantee the difference as follows;

Help to Buy Equity Loan (phase I)

- Available on new build homes only
- You’ll only need to secure up to a 75% mortgage from a bank or building society
- The Government will lend you up to 20% of the property value through an equity loan which can be repaid at any time or on the sale of your home
- In England, this equity loan is interest free for the first five years
- Available on house purchases up to £600,000 in England and up to £400,000 in Scotland.

Help to Buy Mortgage Guarantee (phase 2)

- Available on new build homes and existing homes
- You’ll need to secure up to 95% mortgage from a participating mortgage lender
- The lender can now offer this higher loan to value mortgage as the Government will provide your lender with a guarantee of up to 15% of the property value
- Available on house purchases up to £600,000 in England, Scotland and Wales.

In principle any constructive measure to stimulate house building is to be welcomed. The UK has suffered from a severe annual undersupply of new housing stock for nearly a generation. However I have to question whether the Government has approached this from the right end. Simply helping buyers to borrow means more debt, the fundamental problem of this era. Better to look at tax breaks or tax holidays for house builders within the areas of greatest need or, more obviously, address head on the NIMBY objectors who frustrate and undermine the planning process. It might just be possible to see the logic for a scheme such as this in areas like the North East of England where property prices, in nominal terms, are over 30% off their peak in some parts and the market in a state of absolute stagnation. But setting the price limit to include sections of the reasonably buoyant South East of England would seem sheer folly, an absolute gift for the house builders of course who are the primary force behind these measures and who remain focused on the relatively affluent south. For reference, the average UK house price is currently around £175,000 and in the greater London area £360,000. However most people tend to look at the market in terms of what is actually trading and Rightmove's figures (the largest on line database) show that the average asking price in the UK is £252,218 and for London £544,223.

By introducing the above, the Chancellor expects to kick start the UK housing market which will then lead to a turnaround in construction with an ensuing boom in DIY and furniture sales and therefore a big boost in consumer spending following which he will no doubt reap huge political capital.

So far his plan appears to be working. In the last quarter house prices nationally have risen 3.2%. Construction is up 18% year on year. Mortgage lending is up 32% on last year. This is coming on the back of surprising growth figures over the last two quarters and a renewed sense of optimism in the UK both from the private and corporate sectors. All of which has meant a boost in the polls with YouGov's most recent poll putting both Labour and Conservatives neck and neck.

Some, a very few mind you, think Osborne has been a genius and believe this sort of market interference is the panacea needed to get the UK economy motoring. Others, worry about such stimulus measures and all the newly printed money in circulation and what will happen when QE ends and real interest rates return that reflect the true economy. Gordon Brown laughably said he would abolish boom and bust, only to oversee the most spectacular of examples. Osborne would appear to be accepting and open to its inevitable return. Perhaps his delusion is in believing he can somehow manage its severity and impact.

PRIME CENTRAL LONDON IN NO NEED OF HELP

The cash keeps coming in and the inevitable question on everyone's lips is 'when will it stop'. As stop it must at some point. At this moment in time it really is hard to see when the end will be. Extreme supply shortages simply cannot match the demand which continues to grow. Talking earlier with one South Kensington agent, he lamented on how he worries whether there will be any properties at all for him to sell in years ahead as this unprecedented influx of foreigners are buying with long term intentions to hold for the next generation(s). This contrasts noticeably with the aptly christened Nappy Valley (the area around Wandsworth & Clapham) where values have increased sharply but there is healthy volume as families grow, disperse and downsize and the normal drivers and dynamics of a housing market play their part. This part of London has also become increasingly international with French, Italian and Spanish buyers entering the fray, but these buyers tend to be principle home owners as opposed to 2nd, 3rd or 4th homeowners so prevalent in the prime areas.

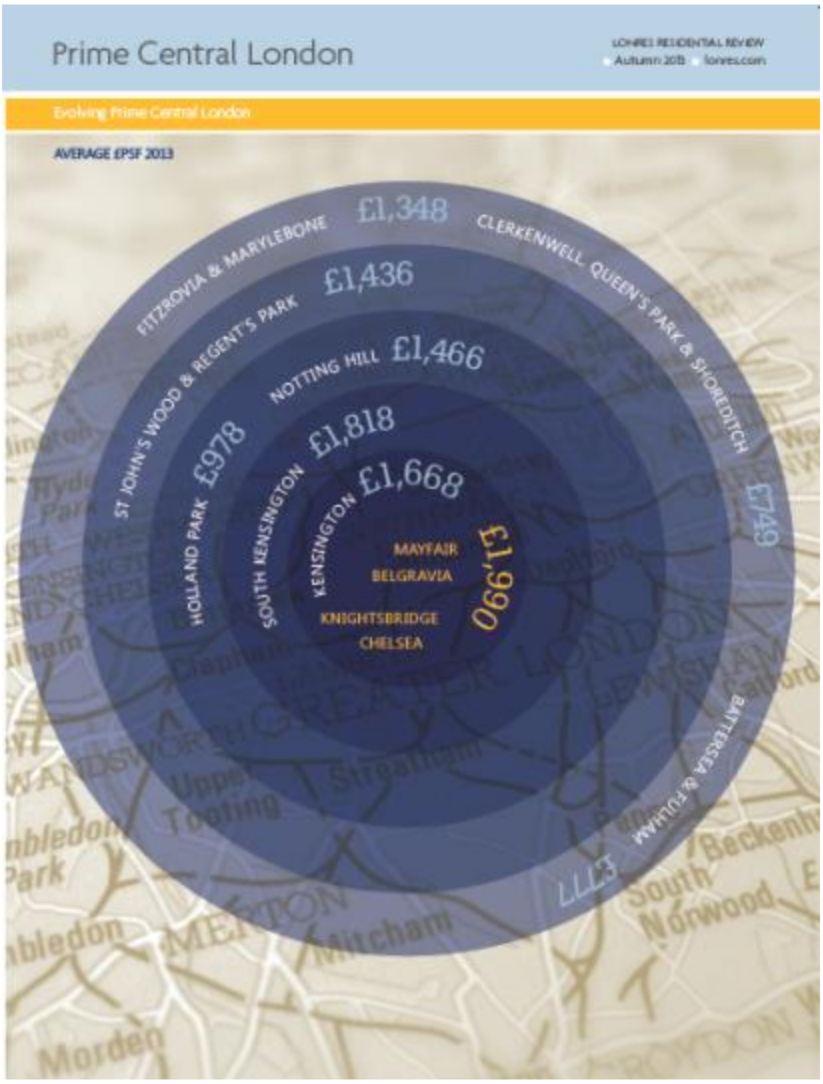
As arguably the only truly Global City, London is enjoying a perfect storm at present. As the capital city driving a long awaited recovery (together with the South East accounting for 48% of UK GDP) the domestic market is in good health. As a European capital city offering opportunity, a flexible labour market and relatively low tax , it is attracting the bright and the good from many parts of the Eurozone looking to make London their home. Finally, in a world of massive political, economic and social uncertainty, owning a piece of London real estate is proving to be a goal or aspiration from all quarters of the world for those seeking wealth preservation for today and the future.

FINDING VALUE IN A SELLER'S MARKET

'Two is the new one' is how one solicitor put it the other day as he noted how we are becoming increasingly used to £2,000 per square foot as a new norm at the top end of the market. Anyone who knows London at all will quickly point out that price per square foot can be a hugely misleading means of assessing value. The variance within just a particular building can be as much as 100%. We recently advised on a classic period building of 6 flats all in medium to tired condition in Cornwall Gardens, South Kensington where we provided a conservative opinion on value. The following demonstrates well how the values vary so significantly (note there is no lift in the building);

Floor	Sq ft	Value	Price psf
Basement	1,311	£1,150,000	£875psf
Ground	1,012	£1,350,000	£1,300psf
First	1,006	£1,650,000	£1,650psf
Second	718	£975,000	£1,350psf
Third	658	£795,000	£1,200psf
4th & 5th	900	£825,000	£900

The following is a useful price map of central London produced by LonRes which is an agent only subscription site which records probably the most up to date and accurate market intelligence for the London residential market ;



Source LonRes/Dataloft

When dealing with averages, one has to remember the imbalance of the poor & mediocre over the good. The Cornwall Gardens property again illustrates this with the 1st floor being the premium floor, the ground and 2nd floors being good property and the remaining three all being significantly compromised. The average in the building is therefore approx. £1,200psf.

On the graph above Holland Park clearly stands out as an anomaly. Having ourselves achieved over £2,200psf on a 2nd floor (no lift) which we developed and sold in 2011 and recently had a one bed 675 sq ft flat valued at £1.25m, we know this does not relate to the Holland Park most of us think of. I assume this refers mostly to the postcode of W14 which encompasses much of the area around Olympia and the area to the east of the West Cross Route which has a high density of council estates.

What this chart does accurately show is that Mayfair, Belgravia, Knightsbridge, Chelsea and South Kensington are recognisable as the premier players in the super prime market. Kensington, Notting Hill, St Johns Wood come next with the newcomer which has fast emerged over the past 10 years of Marylebone/Fitzrovia. The highest prices achieved on a price psf are consistently to be found in Knightsbridge, Mayfair & Belgravia where certain buildings or addresses have now consistently achieved up to, or in some cases exceeding, 4,000psf.

As ever, there are huge variations within these areas and one just needs to look at the enormous premiums being asked, and achieved, on the many new schemes in areas like Battersea/Nine Elms which make the averages shown in this graph look like they refer to another era.

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