Count down to May

March 2015

Last week George Osborne delivered his final budget before the election. As one commentator noted, the main surprise was that there were no surprises. This budget was an opportunity for some political posturing and a few eye catching boasts such as the county of Yorkshire creating more jobs over the past year than the whole of France and Britain being forecast to overtake Germany as the largest economy in Europe by 2030. Specifically property related however, Osborne's only significant gesture was to go further in his quest to bolster the lower end of the property market by introducing a property ISA for First Time Buyers where the Government will top up every £200 saved by £50, up to maximum £12,000 (a total contribution up to £3,000 by the Government).

Osborne has been loved and loathed in equal amounts for his artificial measures to boost the broad UK housing market while chipping away at the top end. He has played a political blinder as cheap money (through Help to Buy) and now free money (through the House Buyer ISA) are always going to be lapped up. Meanwhile, whacking up Stamp Duty rates on multi million pound properties and bringing foreign buyers more in line with taxation applied to residents was always going to play well to the gallery. Since introducing his fairly material changes starting back in early 2012, the broad UK housing market has stirred from its inertia and has recovered to around 7-8% above its previous high in 2007. Meanwhile Stamp Duty revenues from properties in excess of £2m are set to rise to 30% of the total take by the next financial year compared to 17% in 2013/2014. However, the fundamental issue of a critical undersupply of housing remains the issue of our time and thus far Osborne has been all talk and little action.

The outcome of May's election remains simply too uncertain to call. Labour and Tories have consistently polled around 32-34% over the past 6 months or more implying no outright majority for either. UKIP and the Greens both show the potential to hoover up votes with little likelihood of winning any significant number of seats, the Lib Dems appear dead but may still rise from the ashes and waiting in the wings are the Scottish Nationalists to decide our collective fate. What does look likely is another election with a desperately low turnout. Politicians really have assumed the top spot on the most hated list. With two previously well respected foreign secretaries caught in a cash for access scam in the same week and the party leaders out polling each other on the basis of whose minus approval rating is less than the others, it really is a sad state of affairs but then perhaps politicians, like debt, are global problems that aren't going to get better anytime soon.

My betes noire these days are not the usual suspects however like politicians and bankers, for whom I actually have a degree of sympathy, nor even those irritating PPI cold callers that seem to be multiplying in number, it is journalists. As I am here to write about property I will resist the temptation to rant against the all too often sensationalist, xenophobic, partisan, self destructive British media and instead give a couple of examples of what I mean;

Example 1

Last week, just prior to the budget, a story started circulating on twitter that Osborne was going to introduce Capital Gains taxes on primary homes of values over £2m. This caused a bit a stir and lots of 'surely not' reactions. When the FT online picked up on this, we were getting worried. False alarm, the journalists were getting confused with the previously announced introduction of CGT on non resident properties, previously exempt, and the clarification due to be announced that only gains after April 2015 would be taxable.

Example 2
In December last year an article appeared in the Daily Telegraph reporting that owners having bought in to the Battersea Power Station development were 'selling their flats for 40% profit'. The specific example that this entire article was based on was a flat bought for £722,000 being 'sold' for £1m. The flat in question is still on the market having seen its price reduce from £999,999 to £975,000 to £925,000 to its current quoted £865,000 with no takers. The quoted 40% is therefore down to a potential 20% before taking in to account Stamp Duty, legal costs and sales agents fees @ circa £50k (assuming a sale at £865k) which makes it around a 13% 'profit' assuming no further price reduction. Its worth pointing out this apartment is still 2 years away from being a physical reality.

Example 3
Discussed below.

There are umpteen examples of sloppy journalism where we are either informed of a housing crisis or a property boom, a borrowing bonanza or a lending lull, but for me what ties together the two examples above is the seemingly intelligent and respected papers they appeared in.

Snapshot of the market

The following is an update on a simplistic litmus test of transactions in the market over the first quarter of this year. This covers just Belgravia, Knightsbridge, Chelsea & South Kensington from one key web portal that the majority of central London agents use, recording possibly 70% of activity. There is a still a bit of this year's Q1 to go and so I have added *under offer* properties below of which maybe around 20% could be expected to have formalised before the month end.

Q1	**£750k to £2m**		**£2-£5m**		**£5m to £10m**	
	Sold	Withdrawn	Sold	Withdrawn	Sold	Withdrawn
2012	129	75	83	43	29	8
2013	136	67	93	75	32	32
2014	137	47	88	49	30	20
2015 to 20/03	103	97	51	72	13	23
	101 u/o		44 u/o		9 u/o	

For a market that is generally felt to have significantly slowed, there is clearly a healthy level of transactions taking place with an implied 'business as usual' sub £2m. The ratio of properties being withdrawn remains high relative to actual sales.

What these figures do not show is the sales activity taking place in the new build sector and this of course has been a major part of the post GFC London property boom. Generally sales data is taken from a completed purchase being registered with the Land Registry, it goes without saying that purchases off plan may then take a few years to be actually recorded. This of course is music to the developers ears as they can influence market perceptions of sales success during their marketing and build program as they control the flow of information.

Recently a high profile development in Belgravia was handed over to the buyers. It was indeed a very successful scheme having sold very swiftly on launch some 2-3 years back. At around £3,000psf plus and being large apartments, each sale was sizeable. With the sales formally completing on handover, these have recently been recorded at the land registry, the most eye catching being a £46m unit. Example 3 on my journalist niggle is a report in the Evening Standard a couple of weeks back stating that that all these apartments had just been launched and immediately sold.

Super prime still very much alive

A recent client mandate to secure a 2,500 sq ft turn key apartment with 3 beds and 3 baths with a budget of around £8m has provided an opportunity for us to review a large number of new schemes. This has taken us from the redeveloped Hempel Hotel in Bayswater to the 37th floor in One Blackfriars Tower in Southwark. Along the way we have reviewed boutique schemes in Marylebone and Soho, new builds in St Johns Wood and Chelsea and new landmarks such as One Kensington Gardens and Chelsea Barracks.

On a price per square foot, these high end developments in truly prime locations typically range from around £2,500 to £4,500psf. Quality varies considerably but the experienced developers recognise that the bar has been set very high and success will only follow when meeting buyer expectations.

There is a lot of this new supply coming on stream and I haven't even bothered to consider the incalculable number of options on the top floors of all the new riverside sites and multi phase schemes in periphery locations. What is clear however is that there is very much an active market out there. Many of the prime central schemes have achieved impressive sales to date and, unlike the mass new build sector sold so effectively in to Asia and the like, the higher value units are as successful as the lower value, in some cases more so. The other interesting phenomena is the number of buyers who are recorded as British.

London's skyline is being transformed by many new towers, most of which are to the South and East. Closer in, there are a number of boutique schemes which blend comfortably within their surroundings but it is internally where one starts to see the changes on what has gone before. This is less so in interior design but more related to 24 hour concierges, valet parking, guest meeting areas etc. We have always recognised that hotels were the key influence on how the prime residential market evolved and having seen the 'home designed like a hotel suite' concept become entrenched, we are now seeing buildings evolve with services more akin to those offered by the world's best boutique hotels.

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