

London's lifestyle zones

Residential
market update

Summer 2017



Kinleigh Folkard & Hayward

kfh.co.uk

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London – a resilient capital in testing times. The London housing market remains challenging but there are positive signals in some segments of the market of raised activity levels and sales volumes.

Weathering the storm

Since the end of 2014, the London housing market has reacted to change after change – stamp duty taxation, general and mayoral elections, the EU referendum, and uncertainty in the financial sector and currency markets. It is hard to know what is the new 'norm' for the market, and any comparison of current activity with previous years is fraught with the need for caveats and exclusions. That said, some of the key market indicators suggest that the market is heading for a period of relative calm over coming months.

Sale completions outstrip long term trends

In the areas covered by our London Lifestyle Zone offices, sale completions were up by 16.5% in the period April to June compared to the first quarter of this year. Although sales always pick up in Q2, this year is particularly encouraging, because it outstrips the average equivalent increase over the last decade, of 12.5%.

This above-average growth in transactions suggests that the market has recovered some of the confidence that was so badly dented by the decision to leave the EU. Our offices have also experienced an increase in new buyer enquiries. The average price of a home sold in London in Q2 2017 remains slightly higher (3%) than a year earlier, according to the UK HPI. However, it would be wrong to conclude that house prices are rising, our analysis shows that annual price growth is slowing and indeed falling in some areas.

Price sensitivity remains crucial

Our analysis of 'buyer motivation' is based on the reasons given by buyers for their decision to move house. We noted a distinct increase in the number of buyers relocating from more central areas to Urban Villages and Suburban London, in order to 'trade up'. Almost a third of buyers in these areas are selling up and moving to more expensive homes. This means that, while sellers may be under pressure to reduce their asking price, they should be able to reap the benefits with the price of their purchase.

Challenges in central areas

Market conditions in Luxury Living and City Living remain more challenging but there are signs of improvement. Stock and activity levels are low but new buyer enquiries in these areas over the last quarter are substantially higher than in the same period last year and levels of new instructions are also at their highest level since the start of 2016. The combination of rising enquiries and new properties on the market suggest that the market could be emerging from its lowest ebb and that is supported by evidence that the price falls experienced over the last year are moderating.

£628,467

Average sale price across London Lifestyle Zones, Q2 2017

Source: Land Registry

16.5%

Uplift in sales from Q1 to Q2 completed across London Lifestyle Zones

Source: dataloft/Land Registry

8.7%

Increase in new buyer enquiries London Q1 2017 – Q2 2017

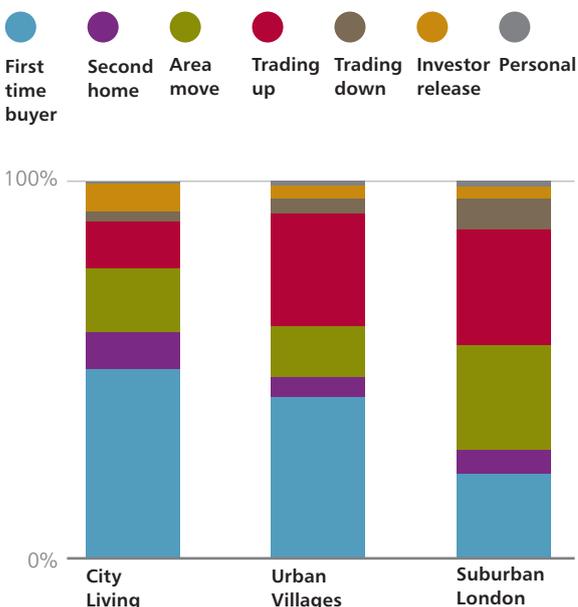
Source: dataloft/KFH (2017)

58 days

Average time taken for a property to sell across London July 2017

Source: Rightmove (2017)

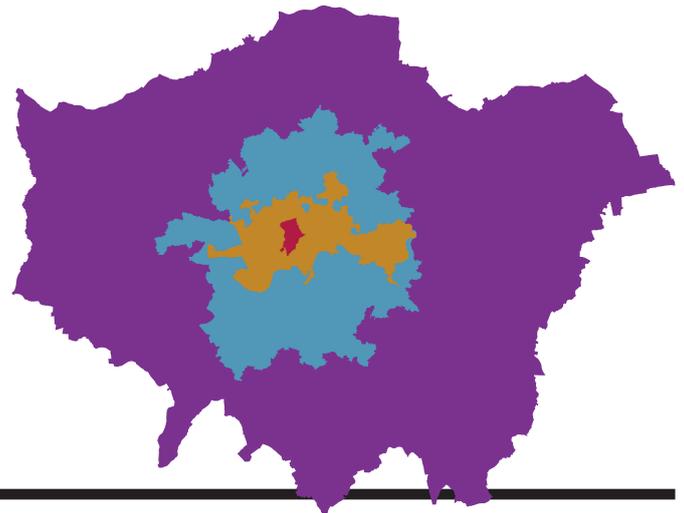
Buyer motivations for purchase



Source: dataloft/KFH (Q2 2017)

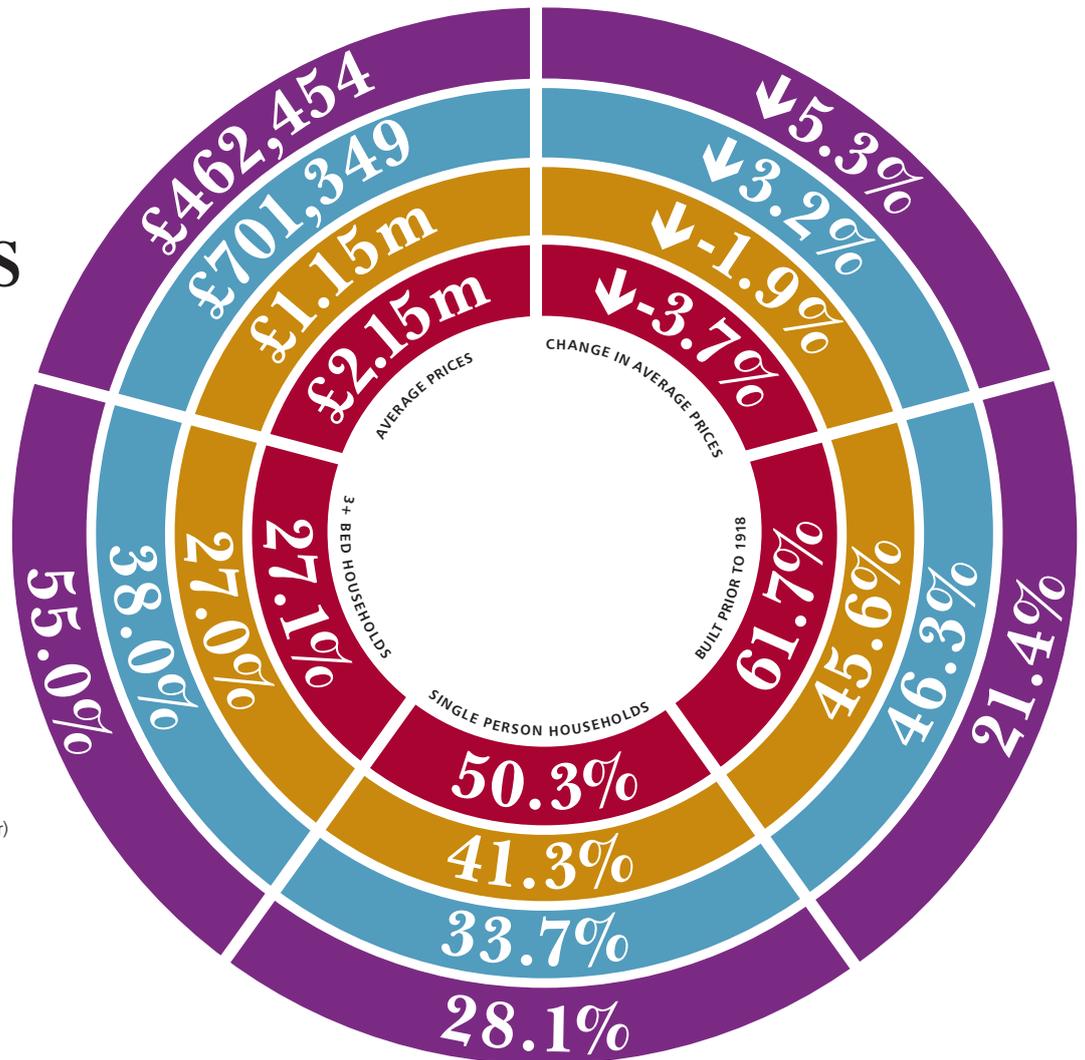
There are close to 3.6 million households living in London¹, and with new build completions across the capital at a five year high², we examine the household characteristics of our London lifestyle zones.

¹GLA (2017), ²DCLG (2017)



- Luxury Living
- City Living
- Urban Villages
- Suburban London

Lifestyle zone indicators



- ↑ Trending upwards (since last quarter)
- ↓ Trending downwards (since last quarter)

Source: dataloft/Land Registry/ Census/LonRes, KFH Local Market Data

Average prices

Price sensitivity remains a key feature of the current housing market, with little change in average house prices.

Overall market
£628,467

Change in average prices

While overall average prices show an annual rise, growth is slowing. In the Luxury and City zones prices have fallen below those seen last year.

Overall LLZ
4.2%

Built prior to 1918

More than one in every three properties across London is more than 100 years old, rising to over 60% in Luxury Living areas.

Overall London
35.1%

Single person households

Half of all households across Luxury Living are occupied by just one person, compared to just over a quarter across Suburban London.

Overall London
31.6%

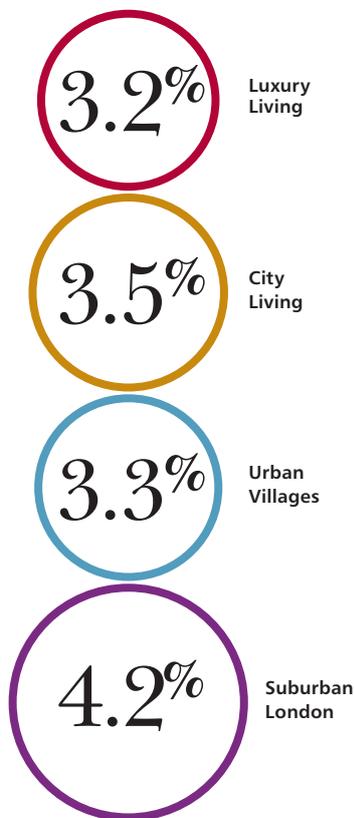
3+ bed households

Across England and Wales over 60% of households boast 3 or more bedrooms; in London the figure is less than half.

Overall London
46.6%

More than one in four homes in the capital are privately rented, equivalent to over 955,000 households. After a period of growth and rising prices this market is now more in balance, positive for both tenants and landlords alike.

Gross yields



Source: dataloft/ publicly available rental prices on 2 bedroom properties

Affordability places hold on values

Across London, rents for new tenancies fell by 2.6% in the year to June according to Hometrack, while Rightmove report average asking rents across the capital were 3.2% lower during April to June than in the same period last year. Stretched affordability and slower jobs growth have undoubtedly impacted demand, with landlords keen to avoid void periods and guarantee security of income.

A corner turned in central markets

Across Luxury Living and City Living areas average rental prices are over 5% down on last year. However, evidence suggests that falls in rental values here are easing. More than one in every four residents across Luxury Living works in the financial sector (one in six across City Living areas) and thus the uncertainty over the impact of Brexit is felt keenly here. The news that the EU is seeking to take a more conciliatory approach to the location of euro clearing operations will be welcomed by landlords.

Education, Education, Education

Summer is the busiest rental period of the year across much of our market, thanks to the importance of education. Many families seek to move prior to the start of the academic year, while thousands enter graduate jobs at the start of September. London is also consistently ranked as one of the top global cities in which to study. Home to 37 higher education establishments, over 361,000 students are registered to study across London each year¹, creating a significant seasonal influx of demand into the rental market.

¹HESA student intake academic year 2015/2016 (2017)

Investor activity

The restrictions of income tax relief on mortgage interest plus additional stamp duty taxation and tighter mortgage regulations have caused a significant reduction in buy-to-let lending activity. Investment in the capital will continue to be dominated by cash investors, and remortgage lending activity. Yields across the capital remain between 3% and 4%, with demand ensuring void periods are kept to a minimum.

Average monthly rents

£4,740

Luxury Living

£3,260

City Living

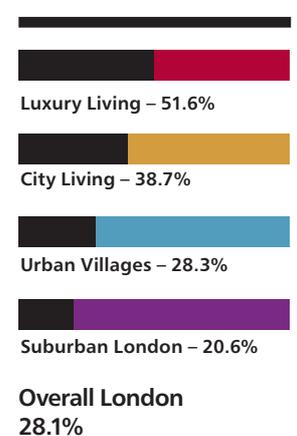
£2,036

Urban Villages

£1,438

Suburban London

Proportion of households who privately rent



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