Autumn 2014

Kinleigh Folkard & Hayward: Property market analysis

Welcome to our autumn market report, which gives an overview of the London sales, lettings and mortgage markets in all of the areas in which we operate.

Sales market analysis
As levels of demand and new properties reaching the market have become more balanced, we look at what this means for buyers and sellers in London.

Lettings market analysis
After a busy summer, we discuss how high levels of demand and a relative shortage of stock is affecting the lettings market.

Regional market analysis
An indepth look at what is happening across our regions in North West and Central London, South West London and South East London.

Mortgage market analysis
With competition amongst lenders intensifying, we discuss the state of the mortgage market and look at opportunities for buyers keen to purchase or remortgage in the coming months.

The housing market and economic forces
– Lee Watts, Managing Director

The London housing market remains in good health, with the level of new stock reaching the market now more closely aligned with the number of prospective buyers. Greater competition between mortgage lenders means there are currently some attractive deals available, with competitive rates on longer term fixed rate mortgages going some way to allay fears of interest rate rises in the short to medium term.

The latest government figures show that the UK economy is now 2.7% larger than the pre-recession peak, with the Bank of England forecasting that the economy will grow by 3.5% this year. In London, employment has increased by 3.7% over the last 12 months, with a recent survey by The Boston Consulting Group naming London as the most popular city in the world to work in.

Alongside growth in GDP and employment, there are a number of large projects underway across the Capital. Crossrail, Europe's largest construction project is due to complete in 2018 and will bring an additional 1.5 million people within a 45 minute commute of central London. In addition to Crossrail, other infrastructure projects and large scale new developments are creating new residential areas within the Capital, changing prices and re-drawing the borders of what would have previously not been considered prime areas.

All of this bodes well for the London property market, however with the election scheduled for May next year, it remains to be seen what measures, if any, might be introduced by the new Government, to curb excessive property price growth.

Sales market analysis

The London property market has seen phenomenal growth in prices in the last 12 months. According to the Land Registry, values have risen by 21.6% since August 2013, with some boroughs, including Hammersmith and Fulham and Lambeth seeing prices increase by over 25%.

With demand far outstripping supply in the early part of the year, there was a danger that prices might rise at an unsustainable rate. However, over recent months we have seen the market begin to stabilise with levels of demand and supply now far more balanced.

From May onwards, Rightmove reported a fall in asking prices across London for three consecutive months, as sellers reduced their prices to reflect market conditions. Combined with greater levels of stock, prospective buyers now have a greater choice of properties available and less pressure to purchase.

Those who were put off by the rapidly rising market earlier in the year are now returning. In the last three months, the number of new instructions has risen by 22%, with the number of viewings up 17% on the same period a year ago.

Lettings market analysis

The London rental market has had a busy summer, with the number of tenants registering between July and September rising 11% on the same period a year ago. Unlike the sales market, where stock levels have increased, the rental market has seen an imbalance between the number of registered tenants and the volume of new properties reaching the market. This has impacted on levels of stock, with the number of properties available across our London office network down 34% on last year.

Despite a shortage of stock, tenants remain price sensitive, meaning we are yet to see any significant increase in rents. However, if stock remains at current levels and demand is sustained, prices could well edge higher in the coming months. In light of this, tenants appear keen to sign longer contracts when securing a property. Our latest figures show that the average length of tenancy agreed in Quarter (Q) 3 2014 was 20 months, up from 16 months for the same period a year ago.

95.6%

The percentage of sales so far this year across Greater London made by local buyers (Department of Business, Innovation and Skills, Jan to Aug 2014)

39%

The percentage of first time buyers at KFH (KFH, Q3 2014)

36%

Increase in London house prices in the last three years (Land Registry, August 2014)

Regional market analysis

North West and Central London (NWC)

After a frenzied start to the year the market has settled, with the number of new buyers registering and levels of stock more balanced. We have seen a welcome rise in new instructions, up 22% in Q3 2014 compared with Q3 2013. With more stock available, prospective buyers now have the advantage of being able to view a number of properties before deciding to purchase.

Demand for rental properties continued to build over the summer months, with the number of registered tenants registering up 25% compared with the same period a year ago. Crouch End and West Hampstead have been particularly busy, with the number of properties let up 25% compared with the same period 12 months ago. However, stock remains scarce, with the number of properties on our books down 34% compared with the corresponding period last year.

South West London (SW)

We saw a very competitive market earlier this year with high volumes of prospective buyers chasing a far smaller amount of stock, which resulted in significant increases in the prices paid for homes in South West London. At the start of the second quarter, some homes were selling for 25% more than they would have achieved a year earlier. In recent months price growth has stabilised and the market has returned to relative normality, with the number of registered buyers and the number of properties on the market more closely aligned. Over the last three months we have seen a welcome increase in new stock, with the number of new instructions across our South West London branches rising 25% year on year.

Demand for rental properties has built over the summer. Our Earlsfield and Kingston branches have been particularly busy, with the number of properties let here in the third quarter up by more than 30% on Q3 2013. Across our South West London branches the number of new registered tenants rose 17% compared with the same period a year ago, with properties let rising by 21%. The number of tenants buying properties has risen, meaning the number of renewals fell by 10% compared with the summer.

South East London (SE)

There has been a slight reduction in the number of registered buyers of around 20% quarter on quarter in South East London. This is largely as a result of seasonal fluctuations however, and at present we have eight buyers registered for every instruction which indicates a very balanced market. We have seen a shift in the motivations of our sellers with those who were price driven in the early part of the year now replaced by those motivated by lifestyle, and as a result, the quality of new instructions has improved greatly. The autumn market has proved exceptionally busy with demand for the right properties in the right roads heightened across all branches.

The strong sales market earlier this year has also had an impact on our lettings branches. Some landlords took advantage of the buoyant conditions and sold properties that would normally have been re-let, as prices headed northwards in the early part of the year. Properties available are finding tenants quickly however, with levels of stock 37% lower than at this point a year ago. The Kennington and London Bridge markets have been particularly buoyant in recent months with 19% more properties let in Q3 2014 than the same period a year previously.

22.6%

North West and Central London has the highest proportion of buyers with budgets of over £1 million (KFH, Q3 2014)

12.7%

South West London has the highest proportion of investor buyers (KFH, Q3 2014)

21%

The increase in the number of viewings undertaken by our branches in South East London (KFH, Q3 2014)

Regional market monitor

We have compared the below key market indicators for lettings in each region to show whether there has been an increase or decrease from Q3 2013 to Q3 2014.

	Regional increase in registered tenant numbers	Area with the highest increase in the number of reg. tenants	Regional increase in properties let	Area with the highest number of let properties
NWC	↑ 24.9%	Crouch End 56.8%	↑ 5.2%	Crouch End 25.0%
SW	↑ 17.4%	Raynes Park 77.3%	↑ 20.5%	Kingston 40.6%
SE	↓ -2.3%	East Dulwich 42.6%	↓ -0.4%	London Bridge 42.2%

Mortgage market analysis

Overview

A combination of tighter lending conditions introduced in April, more caution from house buyers and uncertainty about interest rates is impacting on mortgage lending levels. The Bank of England (BoE) reported that the number of mortgage approvals fell in both July and August, with the level now down 16% on January 2014. It also reported in August that although total gross lending was 15.5% higher than in August 2013, in the four months to August 2014 it had fallen well below the April 2014 peak of £18.34 billion, averaging £17.2 billion per month.

For borrowers it is not all bad news though, as the drop in mortgage approvals has stepped up competition between lenders. In September 2014, The Mortgage Advice Bureau reported that there are now a record 12,265 mortgage products available, compared to 3,158 in 2009. The Bureau also made reference to lenders introducing new six-year fixed deals at the same rates as five-year fixed deals. At KFH, we are seeing some exceptionally good mortgage rates, including a 5 year fixed rate at just below 3%.

Outlook

John Phillips, Financial Services Director, comments: "In July, The Council of Mortgage Lenders revised its UK housing market forecasts for 2014 and 2015. Gross advances are also projected to rise to £208 billion in 2014, compared to £176 billion last year. I anticipate that we'll see a steady, slow increase of funding in 2015. It is my belief that interest rates will continue to stay low, with a slight increase to the current rate of 0.5% only due in mid 2016. Borrowing money has never been cheaper, so for those who can, the next few months are a good time to agree new mortgage products."

37

The median age of a UK borrower is 35; in Greater London it is two years higher (CML, July 2014)

40.6%

Mortgage repayments as a percentage of income in Greater London (Halifax Mortgage Affordability, Q2 2014)

12,265

The number of mortgage products currently available to borrowers (Mortgage Advice Bureau, September 2014)

Landlord tax liabilities – in association with Warrener Stewart*

For any landlord letting a UK property, rental income profits are subject to income tax. A self-assessment tax return must be submitted annually to HM Revenue & Customs (HMRC). Landlord profits will then be subject to tax at a rate of 20%, 40% or 45%, depending on their total income in that tax year.

There are ways landlords can mitigate some of their tax liabilities. One way is to ensure that they have deducted all the allowable expenses from the total rental income as a landlord is only taxed on net rent. The list of allowable expenses is comprehensive and includes contents insurance, lettings agent's fees, maintenance and repairs to the property and the cost of services. For landlords with multiple properties, employing an accountant may be beneficial to ensure they are making the most effective use of their tax allowances.

HMRC has strict procedures in place. These include timelines on notifying HMRC of new sources of income and deadlines on filing tax returns. Failure to comply could lead to tough financial penalties for landlords. For example, failing to notify HMRC of taxable rental income could result in a fine of up to £3,000.

HMRC is aware of a large tax shortfall from landlords failing to register their property business. To address this problem, it has introduced the Let Property Campaign. For landlords who have failed to declare their correct rental income, the Let Property Campaign provides the opportunity to get their tax affairs in order. Reporting undisclosed income now, will mean exposure to penalties will be limited from 100% of the tax due, to a maximum of 20%.

*Warrener Stewart is a London based firm of chartered accountants whose experience spans a range of sectors including property. For further information visit www.warrenerstewart.com or call 020 7731 6163.

10%

The percentage of net annual rent on a fully furnished property which a landlord may claim in 'wear and tear' allowance. (Gov.co.uk, October 2014)

Up to £1,500

The amount a landlord can reduce their tax bill by, through installing energy saving products. (Landlord's Energy Saving Allowance, October 2014)

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