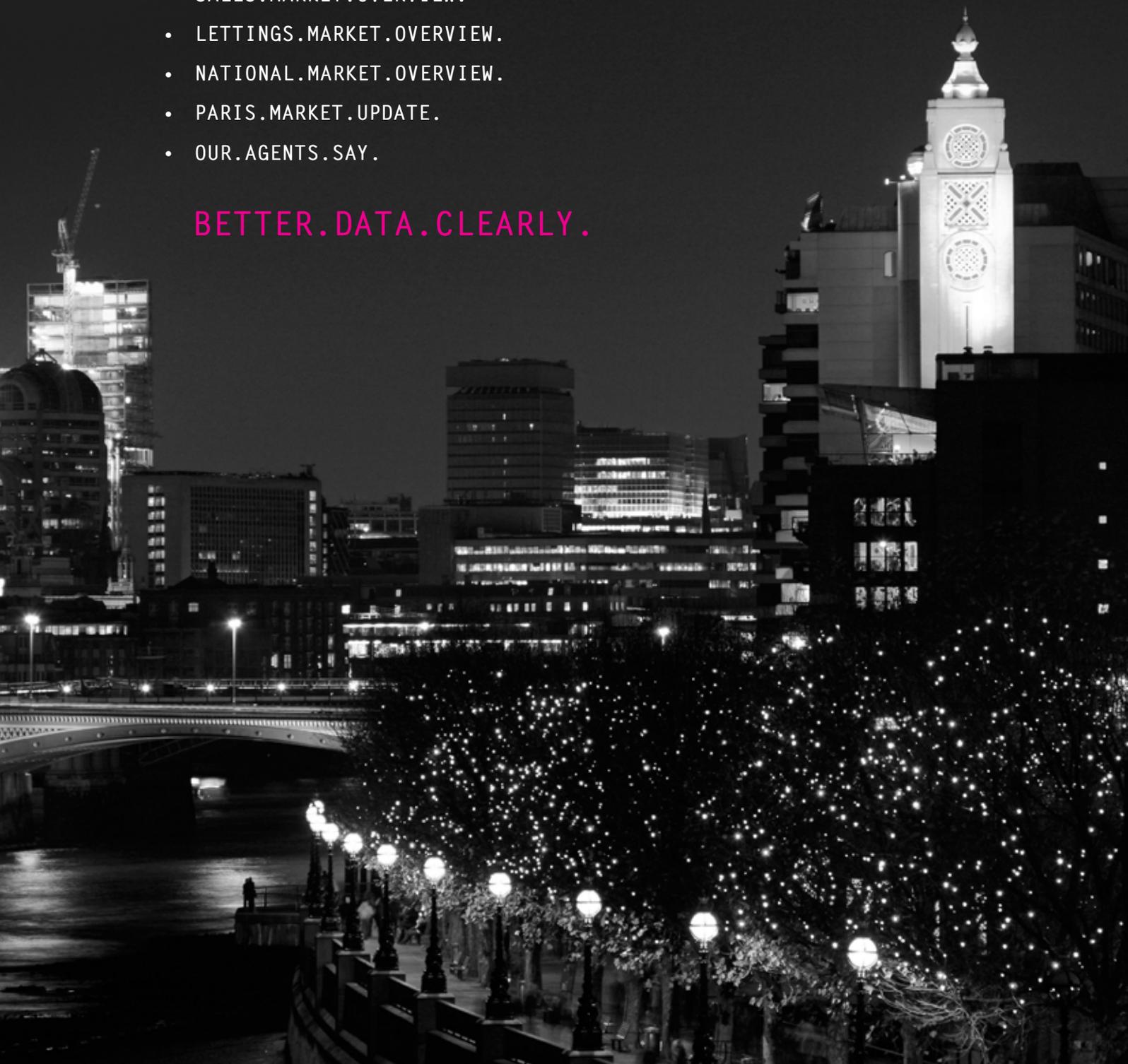


LON  
RES

RESIDENTIAL.  
REVIEW.  
WINTER 2017.

- OPENING THOUGHTS
- MAPPING.PRIME.LONDON.
- SALES.MARKET.OVERVIEW.
- LETTINGS.MARKET.OVERVIEW.
- NATIONAL.MARKET.OVERVIEW.
- PARIS.MARKET.UPDATE.
- OUR.AGENTS.SAY.

BETTER.DATA.CLEARLY.



# OPENING THOUGHTS...

There is always hope that a new year will bring positive change to one's own personal circumstances and aspirations. However some things just don't change:

**1. Plus ça change** prize for more of the same goes to Christine Lagarde who was found guilty of negligence in a French court. You would have thought this to be a pretty serious indictment but the courts decided it didn't merit any punishment and the IMF also decided that her actions didn't merit any sanctions. Having got the UK's growth forecasts completely wrong last year they have now revised their downbeat assessment upwards.

**2. Crime does pay** prize must go to the US government where the top 10 fines meted out to banks for various crimes and misdemeanours since the financial crisis total \$76.24bn. While some of this is fed back to the victims it is clear that there can be little appetite for wholesale reform of the banking sector while these huge fines are levied.

**3. Crime doesn't pay** prize must go to Volkswagen, who were caught in an emissions rigging scandal and have now set aside \$19.4bn to cover all costs. This does not appear to curtail the employee benefits which include an in-house butcher providing more than seven million sausages a year to its workers. It would be fair to say that crime also doesn't pay for agents who are not AML registered and do not have a robust AML policy.

**4. Didn't see that coming\*** award must go to... drum roll... Donald Trump. \*Except Vladimir Putin who has been accused of state-sponsored cyber terrorism relating to the election by the current administration. Accordingly, 35 diplomats have been expelled from the United States. What impact this will have on the London market is still uncertain, but London's safe haven status may well come to the fore again.

Tax has come to the forefront of the Exchequer's mind in the last year, and rather than deal with

## ROUND UP: THREE PRIME AREAS



difficult decisions, the policy of government has been to go for stamp duty (SDLT) and second homes tax. As a consequence, transaction volumes have been curtailed in London and many developers are being forced to offer incentives to get people to buy their properties. Second homes tax makes investing in London a much longer-term decision. In the last issue I mentioned the additional levies levied by authorities in Vancouver on overseas purchasers. As a postscript, those buyers have now gone elsewhere.

The inequality in tax is not just about property but should be levied on those huge multinational corporations who shift their tax liabilities around the world to avoid paying their fair share, while citing that they pay all taxes due. Maybe government is equally to blame but it is not difficult to understand that if you make a sale in the UK then that is where the tax should be paid.

Globalisation continues to be a concept that flummoxes many companies who believe that sheer physical presence will drive the consumer to their door. Does the corporate brand presume that local knowledge and experience is no longer a prerequisite for the buying/selling public? Does that same brand also presume that a smaller entity will not have a global reach and ability to react quickly to a changing market?

Today's consumer is looking to cut costs, and where better than to challenge estate agents fees. This is a major USP in the rise of the online agent, and whilst a few far-sighted firms

are embracing the product, in its present guise, it is a long way from being the success that is currently being touted and a service which, alone, may not work. The customer knows that they get what they pay for, and a full service estate agency service with experienced agents is unlikely to be found for £679 or even £999.

Finally, here at LonRes we have upgraded ResData to allow you to create customised area overviews, with up-to-date statistics and analysis, which is neatly packaged to include your own logo and heading. The success of the initial ResData offering meant that this improvement was a logical step up for our subscribers. With ResCheck we continue to ensure all our subscribers comply with rules on anti-money laundering and to assist HMRC in better understanding how estate agency works.

I wish you all a healthy New Year and hope very much that transaction volumes increase in 2017.



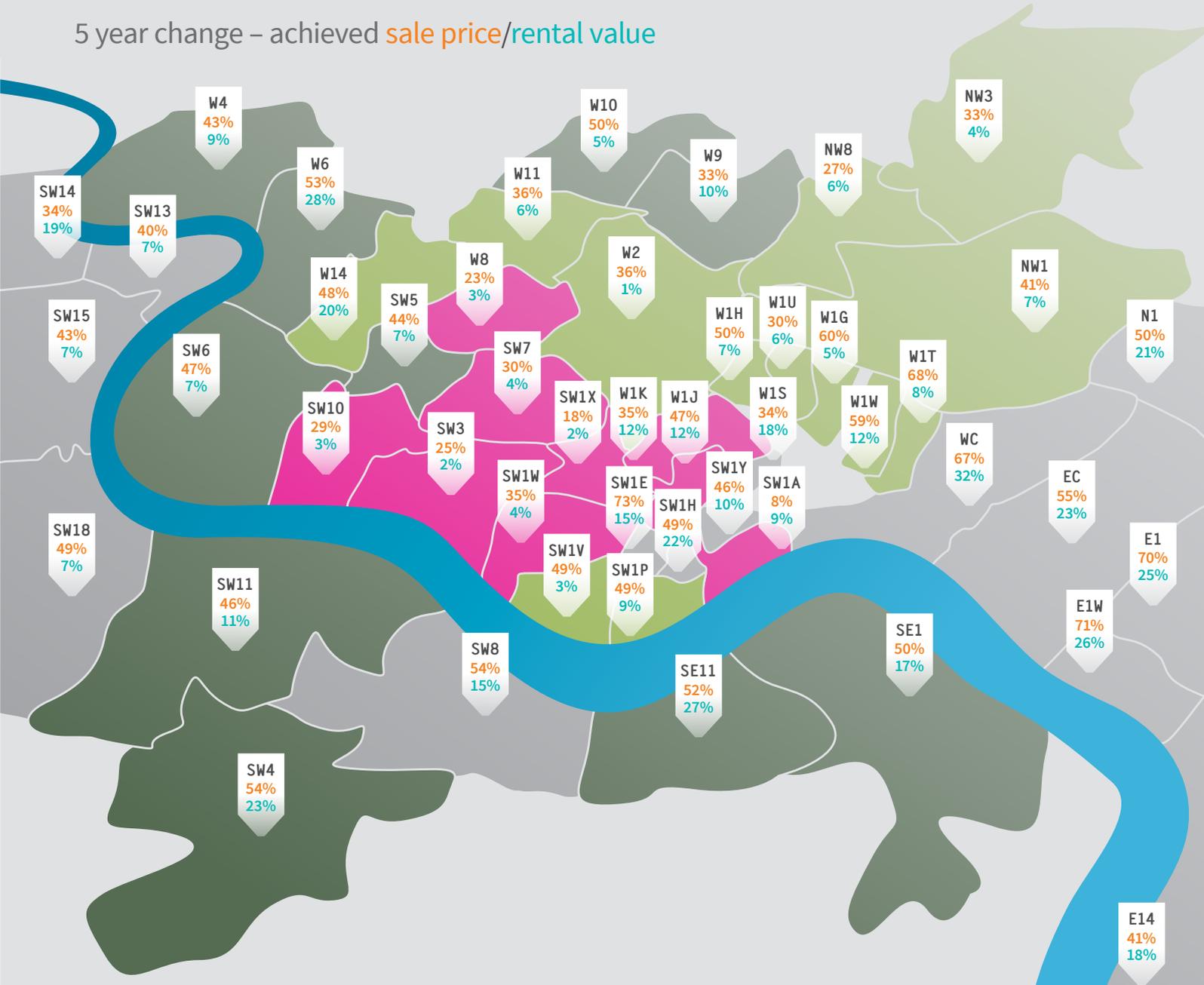
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# MAPPING. PRIME.LONDON.

5 year change – achieved **sale price**/**rental value**



W10

29%  
9%

POSTCODE

Achieved sale price – 5 year change  
Achieved rental value – 5 year change



PCL



Prime London



Prime Fringe

## RES DATA



LonRes publishes a range of area-specific analysis on the sales and lettings market via ResData. Subscribers have immediate access to this rich research facility and can build and download reports directly from the LonRes system.

# SALES. MARKET.OVERVIEW.

2016 was undoubtedly a difficult year for the prime London property market. Having had to contend with further increases in transaction costs, and political change at home and abroad, many buyers chose to wait it out.

By the end of the year, the precipitous drop in prices, which some predicted post-referendum, failed to materialise, and price falls and post-referendum currency fluctuations started to make central London attractive once more.

Following a slow spring and summer market, the autumn saw an increase in activity across central London. Both prime central and prime London saw transaction volumes increase. In Q2 2016 prime central London saw 51% fewer transactions than the same period in 2015, however by Q4 volumes were just 11% lower. Similarly in prime London transactions recovered from 43% down in Q2, to 19% in Q4. Prime fringe was the only market not to see a significant change in transactions compared with 2015, here

volumes in the fourth quarter remained 32% down on last year.

The fourth quarter also saw prices increase, following three consecutive quarterly falls. In prime central London achieved prices rose by an average of 2.8% in the fourth quarter, compared with the previous three months. Similarly prime London and prime fringe prices also rose, up 2.6% and 2.8% respectively. However, increases in achieved prices in the fourth quarter were not enough to counter falls earlier in the year. In prime central London, achieved prices are now 3% lower than they were in Q4 2015 and 6% off peak levels (2014).

The market over £5 million, which had the steepest price falls as the market slowed, saw activity increase in the fourth quarter. The number of properties sold in the fourth quarter increased by 29% compared with the same period a year ago and achieved prices, while still 12% below their 2014 peak, rose by 1% in the fourth quarter compared with the previous three months.

### Vendor expectations still too high?

Buyers remain confident in negotiating on price. Across our three prime areas prospective purchasers negotiated an average of 9.3% off initial asking prices, up from 5.8% a year ago. Indeed, vendors have increasingly needed to

reduce their asking prices in order to secure a buyer. In the fourth quarter, almost half (49%) of properties sold had been reduced in price before finding a buyer.

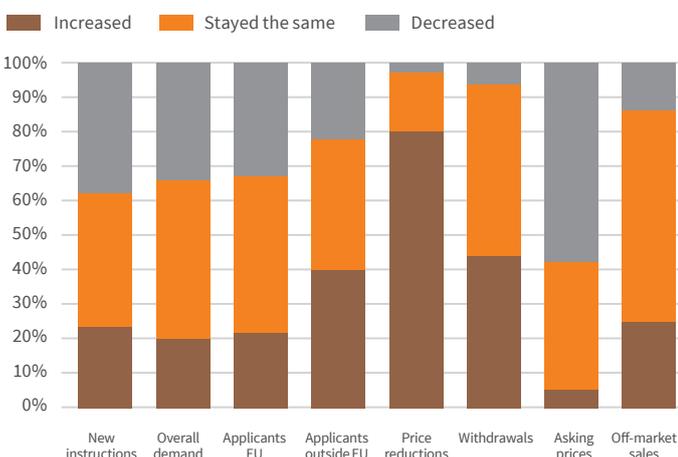
### Stock levels remain steady

Despite fewer sales compared with the same period a year ago, lower volumes of new stock reaching the market since April has acted as a buffer to further price falls. This is in contrast to the lettings market, where increases in stock, coupled with landlords keen to avoid lengthy void periods, has resulted in rents falling. Indeed, at the end of the fourth quarter there were just 2% more properties on the market in prime central London, 10% more in prime London and 8% more in prime fringe compared with the same period last year.

### Outlook for 2017

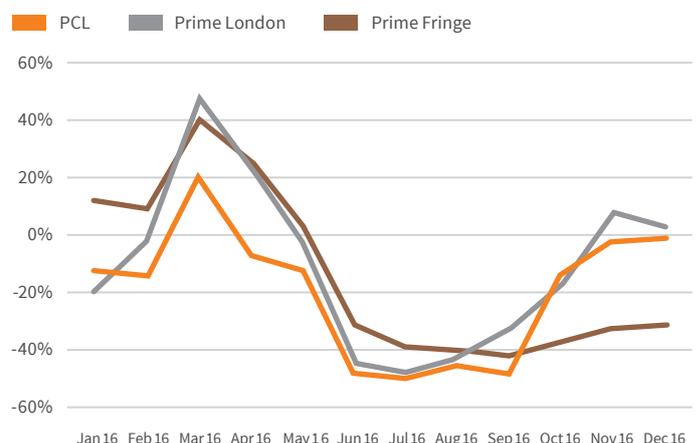
Consensus forecasts on the outlook for prices in prime central London this year, is for little or no growth in achieved prices. Our latest LonRes survey suggests agents are a little more pessimistic, with 64% of those surveyed expecting prices to fall this year, compared with just 13% expecting a rise. However, the outlook for transactions, arguably more important to the ongoing success of the prime housing market, remains slightly more positive. Our survey suggests 32% of respondents are expecting an increase in transactions this year.

## Results of LonRes Q4 2016 Agent Survey – change over last 3 months



Source: LonRes Q4 2016 agent survey

## Annual change in total value of properties sold

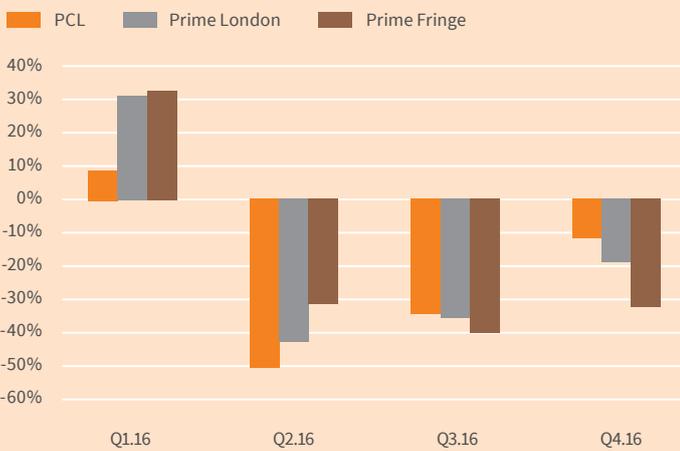


Source: LonRes



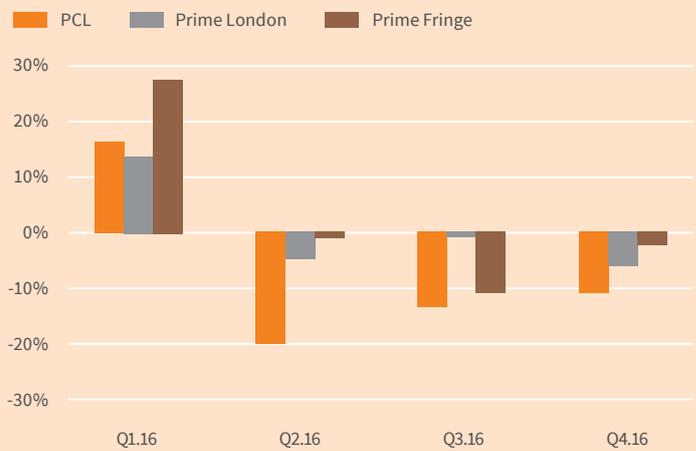
## KEY MARKET TRENDS IN SALES

### Annual change in transactions



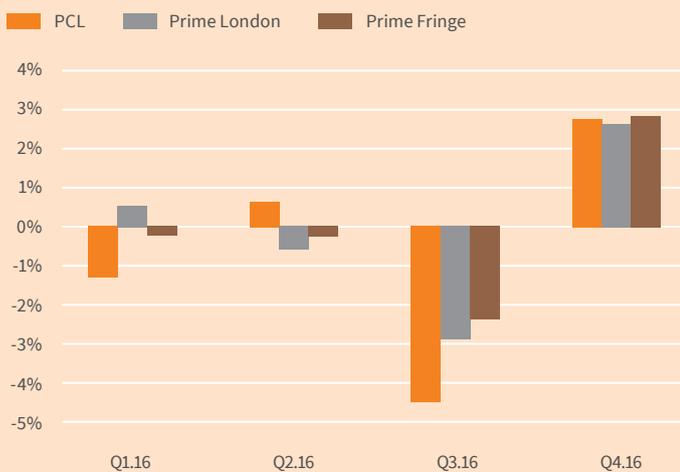
Source: LonRes

### Annual change in new instructions



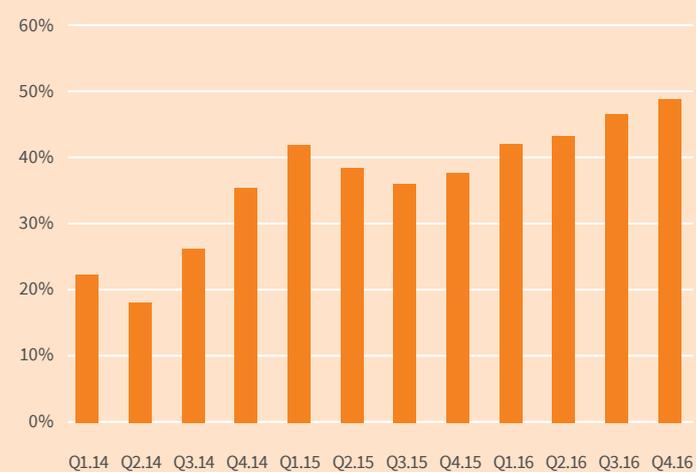
Source: LonRes

### Quarterly change in achieved prices



Source: LonRes

### % of properties reduced in price before sale



Source: LonRes - three prime areas

Prime Central London includes properties within the following postcodes: SW1X, SW1W, SW1A, SW3, SW7, SW10, W1K, W1J, W8  
 Prime London includes properties within: NW1, NW3, NW8, SW1P, SW1V, W1T, W1H, W1U, W1G, W1W, W2, W11, W14,  
 Prime Fringe includes: SE1, SE11, SW4, SW5, SW6, SW11, W4, W6, W9, W10

# LETTINGS. MARKET.OVERVIEW.

Uncertainty surrounding the potential for house price growth in the short to medium term, and the ramifications of the UK's extraction from the European Union, have undoubtedly benefitted the lettings market over sales.

However, increases in stock, which we observed were building earlier in the year, has put pressure on achieved rental values.

In contrast to the slow start to the year, the number of properties let in the fourth quarter increased across all three of our prime areas. Volumes let increased by 8% in prime central London and by 23% in prime fringe.

Increased activity was evident across all price bands, however, the upper end of the prime rental market saw the most significant increases.

Buying costs and expectations of limited capital growth in the short to medium term have meant some prospective buyers have been venturing into the rental market this year. Indeed, the number of properties let at £3,000 per week or more increased by 19% compared with the same period last year, with prime central London seeing an increase of 28%.

### Rising stock levels

In the fourth quarter, changes in the number of properties let was more closely aligned with levels of new instructions. However, increased volumes reaching the market earlier in the year increased the number of properties on the market to let. At the end of 2016 there were 11% more properties listed in prime central London and 30% more across prime London and prime fringe compared to the same point a year earlier.

There are a few reasons behind these increases in stock. As well as reluctant landlords choosing to rent rather than sell, in certain pockets of London, a number of new developments have completed this year. With a high proportion of units bought by investors, post-completion we are seeing more new build properties reach the rental market.

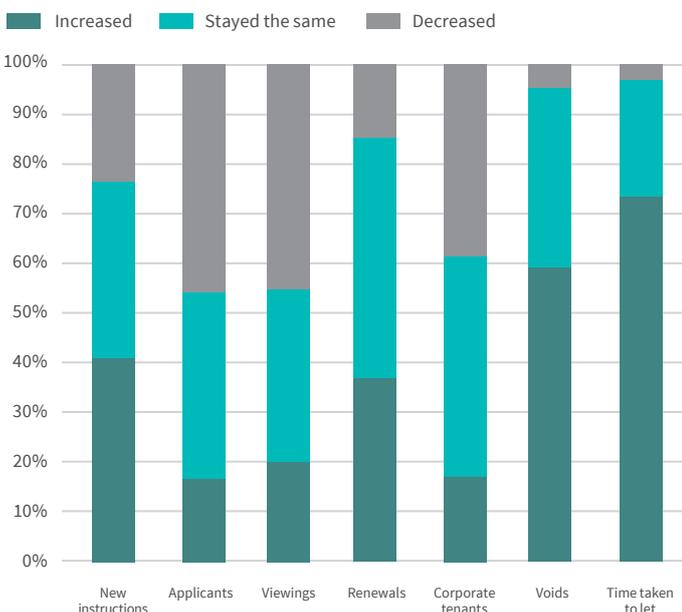
In addition, the introduction in April of the new 3% stamp duty levy for additional properties concentrated buy-to-let purchasing activity into a small window in February and March. These properties, which began to filter into the rental market in late spring and summer, added further to stock levels. However, it is worth noting that lower levels of buy-to-let activity since April mean that we are now starting to see these properties being absorbed into the market.

### Impact on achieved rents

Despite healthy volumes of new lets agreed, increases in on-market properties has buoyed prospective tenants, who now feel more able to negotiate. In the fourth quarter tenants across our three areas paid, on average, 7.8% less than the initial asking price, up from 5.8% a year ago.

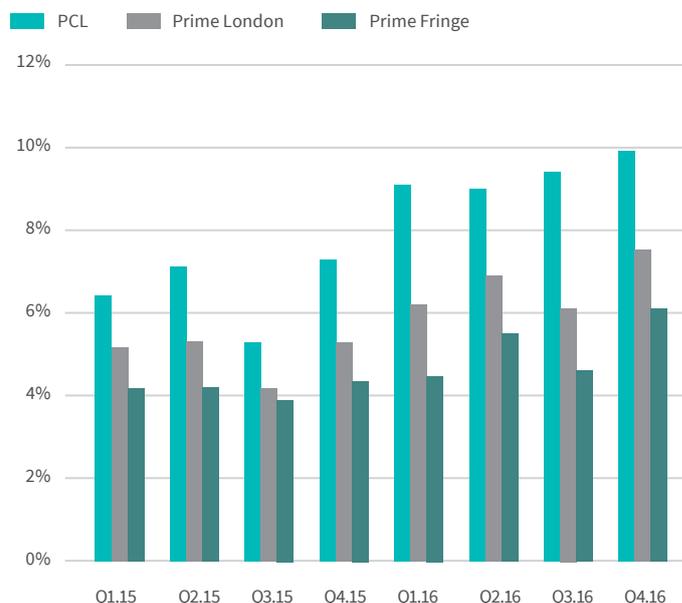
With tenants negotiating harder, achieved rental values in prime central London fell in the fourth quarter, down 3.3% compared Q4 2015. Prime London saw an increase of 2.9%, due in part to a drop in achieved rental values in the fourth quarter last year. Prime fringe markets saw a marginal increase of 0.4% over the same period.

## LonRes Survey Results – change over last three months



Source: LonRes Q4 2016 agent survey

## Average discount achieved on initial asking rents



Source: LonRes



## KEY MARKET TRENDS IN LETTINGS

### Annual change in new instructions



Source: LonRes

### Q4 2016 results from the LonRes Prime London Lettings Index

	All Property	Prime Central London	Prime London	Prime Fringe
Quarterly change in achieved rents		1.1%	-1.7%	2.7%
Annual change in achieved rents		-3.3%	2.9%	0.4%

Source: LonRes Prime London Lettings Index

### Annual change in properties let



Source: LonRes

### Quarterly and annual change in LonRes Prime Lettings Index – flats



Source: LonRes Prime London Lettings Index

Prime Central London includes properties within the following postcodes: SW1X, SW1W, SW1A, SW3, SW7, SW10, W1K, W1J, W8

Prime London includes properties within: NW1, NW3, NW8, SW1P, SW1V, W1T, W1H, W1U, W1G, W1W, W2, W11, W14,

Prime Fringe includes: SE1, SE11, SW4, SW5, SW6, SW11, W4, W6, W9, W10

# NATIONAL. MARKET.OVERVIEW.



£216,674

average UK house price (ONS)



£481,648

average London house price (ONS)



45%

of loans for house purchase in November went to first-time buyers (CML)



289,011

new homes granted permission in England in year to September 2016 (HBF)

November's Autumn Statement passed without amendments to stamp duty rates, which many, in London at least, were hoping for. The Chancellor did announce plans to abolish lettings agent fees to tenants, and pledged continued commitment to increasing volumes of UK housebuilding. Various initiatives and funding structures are being proposed to deliver more homes, with greater clarity expected as part of the delayed Housing White Paper due imminently.

## Prices

Nationally house prices in November were 6.7% higher than they were a year ago, having increased by 1.1% since October. London was the third highest performing region, behind the East of England and South East, prices here having risen by an average of 8.2% over the last 12 months. While prices rose, transaction volumes have slowed since April. The number of homes sold in the three months to November was down 8.6% in the last three months, compared with the same period a year ago.

## Mortgage lending

Activity within the lending market increased in recent months. According to the Council of Mortgage Lenders (CML) buyers borrowed £11bn for house purchases in November, 5% higher than the previous month and 2% up on the same month a year earlier. Strong interest from first-time buyers support these increases in lending. Those buying their first home borrowed £4.7 billion in November, 4% higher than in October and 9% more than in November 2015. Home movers borrowed more than first-timers at £6.7bn, but the amount fell by 5% compared with the same month last year.

Buy-to-let lending saw the most significant falls, in both loans agreed and amount borrowed. The latest figures from the CML show the number of buy-to-let loans (excluding re-mortgaging) fell by 33% compared with figures a year earlier. In November, buy-to-let mortgages

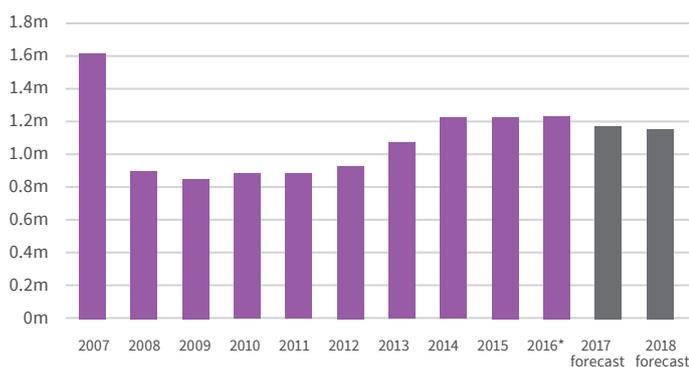
accounted for just 10% of total loans for house purchase, down from an average of 15% in 2015.

## Outlook

In December, the CML downgraded their UK transaction forecasts for 2017. Uncertainty surrounding the EU referendum, alongside changes to taxation, cited as the main reasons behind their more pessimistic outlook. Activity in the buy-to-let market is expected to be more subdued through to 2018, as the market is faced with higher purchase costs and changes to tax relief on mortgage interest from April.

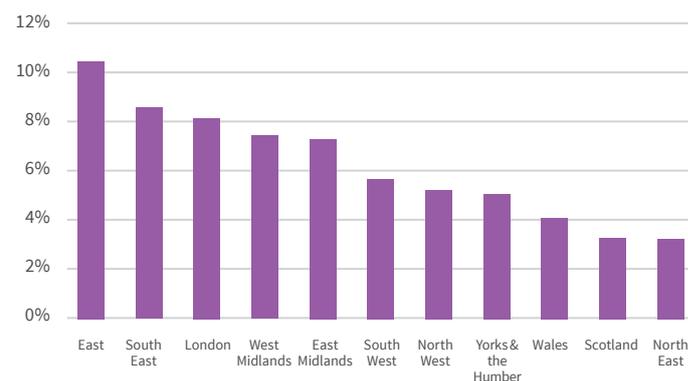
The latest house price forecasts suggest that, for the next two years at least, prices will continue to increase nationally, albeit at a lower rate than in 2016. The RICS are forecasting price growth of 3% this year (following their 6% forecast for 2016), with other forecasters expecting growth of between 1% and 4% by the year end.

## UK historic transaction volumes and forecasts



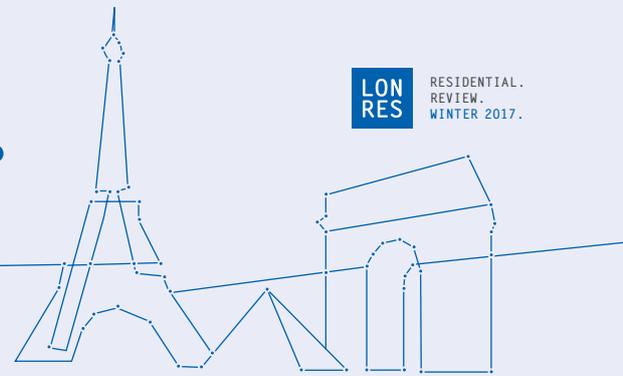
Source: CML. \*2016 figure is an estimate

## Annual change in achieved prices



Source: Land Registry

# PARIS.MARKET. UPDATE.



In recent years Paris, like London, has seen a raft of new legislation and changes to taxation which are impacting buyers and owners of residential property in the city. However, in contrast to London, the market in Paris saw prices falls from 2012 to 2015, a period when London's prime postcodes experienced some of their most significant increases.

Changes to legislation are impacting investor purchasers in both cities. In London, alongside an additional 3% stamp duty bill, from April we will see the gradual phasing out of tax relief on mortgage interest payment from buy-to-let investors. In Paris, investors must contend with various purchase and annual ownership taxes, as well as rules giving tenants more power over landlords than in London.

In addition to the 1989 Tenancy Act, more recently, the Loi ALUR, introduced in March 2014, has given further powers to tenants, in essence meaning tenants can insist that landlords continue to rent a property to them for up to three years following notice to terminate a contract (or up to six years if the property is owned by a company). These factors obviously impact the fluidity of residential property as an asset class, and in addition to rent caps and other taxes now in place across Paris, means that investors now have to think more carefully as to whether this type of investment suits their requirements. Ironically, this has led to fewer rental properties reaching the market, with landlords using websites such as AirBnB to circumnavigate the 1989 Act and Loi ALUR legislation.

### Transactions increase

Despite pressure of investors and second homes owners and fears that the upcoming French election would impact activity, more competitive asking prices and low mortgage rates have encouraged more buyers to transact. Nationally 2016 saw the number of properties sold across France increase by 11% on 2015 figures.

In Paris the number of properties sold rose by 14% compared with 2015. Increases in

activity were most pronounced for smaller properties, with studio and one bedroom flats seeing an increase in sales of 33% in 2016 compared with 2015. In contrast, sales of properties with two or more bedrooms increased by just 2% year-on-year.

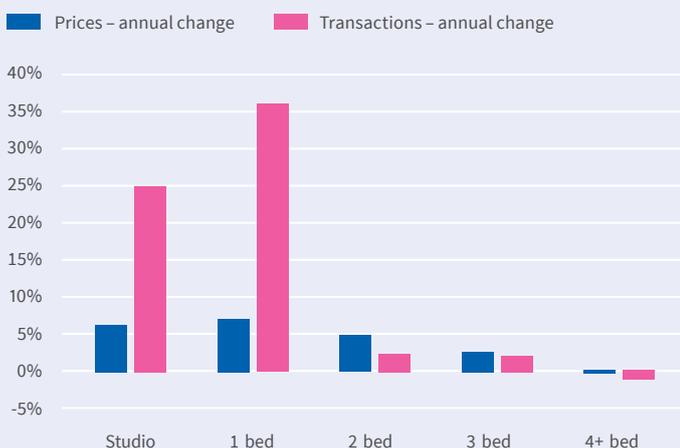
### Prices rise

According to INSEE figures, average house prices across France increased by 1.8% Q3 2016, compared with the same period a year earlier, and are now at their highest since Q3 2013. Prices, which at the start of 2016 were 7.2% off 2011 peak levels, are now just 4.5% lower.

Similarly, in Paris prices rose last year. Vendors have become more realistic with their asking prices, with more competitive pricing from the outset meaning homes sold in Paris over the last three months achieved an average of 98% of asking price, up from 97% a year ago and 94% in 2013.

Across Paris, prices per square metre last year were 4.8% higher than in 2015 and within 3.2% of the peak of the market in 2011. Smaller properties saw the most significant increases in achieved prices, with one bedroom flats seeing a 6.8% annual increase, compared with growth of less than 0.1% for properties with four or more bedrooms.

## Year-on-year change in prices and sales volumes - Paris



Source: Databiens - 2016 price per square metre compared to 2015

## Annual change in achieved prices - Paris and central London



Source: LonRes/ Databiens

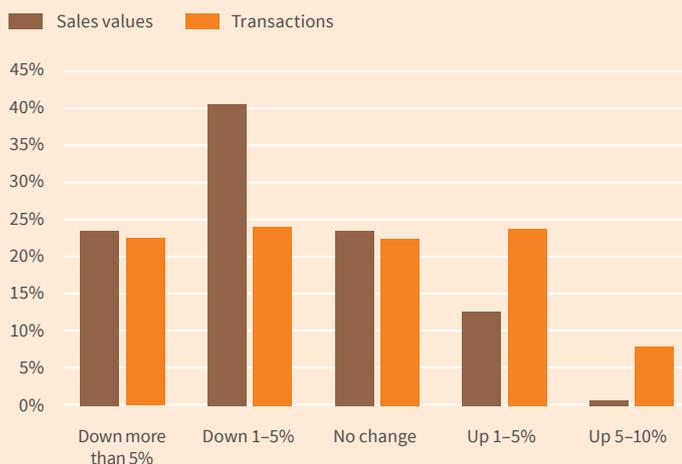
# OUR . AGENTS . SAY .

As part of our quarterly agent survey we asked our subscribers what their expectations were for their market over the next 12 months

## SURVEY RESULTS: SALES



What will happen to achieved prices and transactions over the next 12 months?



Source: LonRes Q4 2016 agent survey

Sales – Expectations for 2017



Source: LonRes Q4 2016 agent survey

“

Q4 2016 showed a marked improvement on Q2 and Q3, including very good sales figures in November and December, but there was still a great deal of caution from buyers and sellers.

Alistair Heather – Associate Partner  
Strutt & Parker Notting Hill

*Extension of a year of adjustment. Transactions have happened where prices have reflected fair value. We've seen zero tolerance for overpricing. High demand for newly renovated, minimum appetite for projects.*

Jake Russell – Director  
Russell Simpson Chelsea

*A late rush at the end of the year due, in part, to increased buyer interest and also an increasing motivation from sellers to "get on" rather than hang on hoping for a sale without real proof it may happen. An increase in acceptance that prices have softened has helped.*

Duncan Petrie – Head of Mews Sales  
Savills

*We have seen an increase in confidence especially at the higher end of the market (£10m plus) but this is solely dependent on realistic pricing and good value for money being demonstrated. Cash is king right now and there are definitely some good opportunities to be had if you can perform.*

Alan Rosenthal – Principal  
Alan Rosenthal Mayfair

”

## SURVEY RESULTS: LETTINGS



“

*Difficult, but business to be done. Applicants seem to understand they are in a market with a lot of options and therefore landlords need to be more competitive to appeal to them.*

Jordan Caskie – Lettings Negotiator  
Knight Frank Hampstead

*Prices are down. Tenants are more demanding. Low spec and properties in poor condition are more difficult to rent. High spec properties even at higher prices are still letting well.*

Antonia Dunn – Negotiator  
Carter Jonas Wandsworth

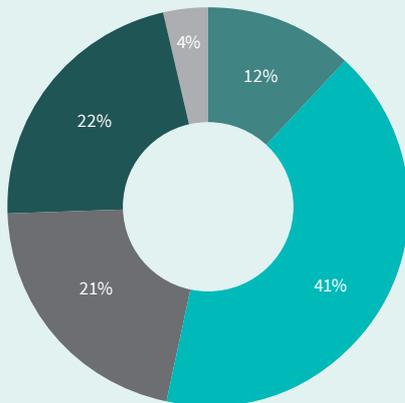
*We have found that there is too much choice on the market resulting in a lack of urgency from applicants, which is frustratingly slowing the market down.*

Darcy Evans – Lettings Consultant  
Moretons Westminster & Pimlico

”

What will happen to achieved rental values over the next 12 months?

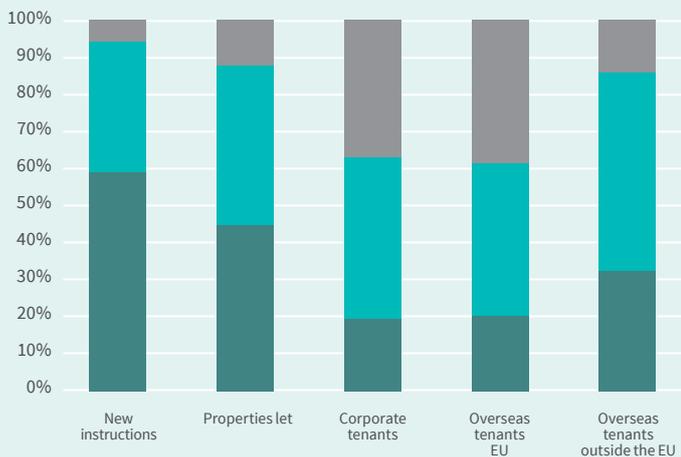
Down more than 5%   Down 1–5%   No change   Up 1–5%   Up 5–10%



Source: LonRes Q4 2016 agent survey

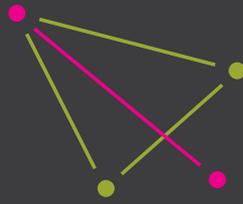
### Lettings – Expectations for 2017

Increase   Stay the same   Decrease



Source: LonRes Q4 2016 agent survey

# RES DATA



## A SECRET WEAPON FOR LONRES SUBSCRIBERS

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Build customised reports with ResData

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Using live LonRes data, these reports will:

- ✓ Attract and secure new business
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- ✓ Hone your local market knowledge
- ✓ Add compelling content to your marketing collateral
- ✓ Build on the strength of your brand identity
- ✓ Gain advantage in a competitive market

## GET. IN. TOUCH.



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