

Prime London Residential Market Remains Resilient In The Face Of Recession

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At a time when most economies around the world are either slowing down or in recession, one segment of the global economy continues to enjoy healthy growth: luxury brands.

According to Millward Brown's™ BrandZ's Top 100 Most Valuable Global Brands 2012 ranking, the aggregate value of the world's™ most powerful brands grew by just 0.4 per cent over the past year compared to that of luxury brands which increased by 15 per cent.

While the prime London residential market is not categorised as a luxury brand, the properties themselves are certainly regarded as highly prized luxury assets, which has helped the sector to weather the economic storm considerably better than the mainstream housing market.

Sales market

The distractions of the Queen's™ Diamond Jubilee, the Olympic Games and the wettest April to June period on record (possibly to include July when official statistics are published) all added to the drag effect on the housing market of an economy suffering from three successive quarters of contraction. It is not surprising, therefore, that the prime London residential property market appears to be pausing for breath.

Given the unfavourable market conditions, transaction volumes have held up encouragingly well in the first half of the year, although April and June numbers were noticeably down on last year and August is also proving to be a quiet month. Chesterton Humberts exchanges in the year to end-June were only 0.6 per cent lower than in the corresponding period in 2011, but Q2 exchanges were 6.4 per cent lower than in Q2 2011.

We have, however, seen a widening of the gap between buyer and seller expectations over the past quarter. Properties that tick all of the boxes will sell as quickly as the legal and financial checks will allow and can still achieve a premium. However, deals are generally taking longer to conclude and if vendors wish to achieve a quick sale, a realistic value needs to be agreed with the agent otherwise a price reduction is often required. Negotiations involving properties valued at around the £2m threshold have become particularly sensitive since the Budget tax changes.

Nonetheless, the Chesterton Humberts's™ Prime London Capital Values Index recorded an increase of 1.1 per cent in Q2. This performance is due to the double impact of limited supply – although stock levels increased during the second quarter – and sustained demand, in large part from overseas buyers. The predictions by some commentators of a collapse in the prime London market seem unlikely as long as overseas purchasers retain their appetite. We are optimistic about market prospects for the second half of 2012 and, barring the emergence of an economic meltdown, we forecast growth of 6.5 per cent for 2012 as a whole and a slight uptick in 2013 to 7 per cent.

Lettings Market

The prime London rental market appears to be following a similar path to that of its sales's™ counterpart. Having experienced a buoyant first quarter, market conditions have cooled with stock levels having risen, tenant demand softened and achieved rents fallen marginally.

High rental levels and a weak employment market have made tenants less willing / able to commit to contracts, which has coincided with more properties being brought to the market either by landlords seeking to increase portfolios or by new market entrants. The re-alignment of the supply and demand ratio more in favour of tenants has impacted on rental growth which was already showing increasing signs of slowing. The Chesterton Humberts's™ Prime London Residential Rental Index recorded a small drop (-0.5 per cent) in rental values in Q2 compared to Q1.

Corporate tenants remain the mainstay of prime London lettings demand, although demand from this source has flattened and relocation budgets have been reduced. Many tenants are delaying moving until after the Olympics when rent negotiations should settle back into a more normal pattern based on longer-term sustainability rather than short term gain. The end of summer should bring the usual boost from the student market, with overseas HE students now an established key component of prime lettings demand due to their typically generous budgets and their willingness to pay annual rent in advance.

The Chesterton Humberts Prime London Residential Yield Monitor showed gross yields moved in over the quarter to stand at 4.2 per cent at the end of June compared to 4.4 per cent at the end of March, while the equivalent figure for prime central London was 3.4 per cent. It is possible to achieve higher yields on properties acquired purely for investment: for example, we are aware of new developments in Islington achieving 5.5 per cent gross and in Surrey

Quays between 5.1 per cent and 5.7 per cent gross.

We believe the slowing in market activity and slight softening of rents marks a temporary phase of re-adjustment following a period of strong growth. The broader demand dynamics of the London lettings market "according to the Greater London Authority, the private rented sector accounts for over half of all household moves in London each year" and the constrained situation in the sales market suggest the existence of a solid underlying tenant base. Once stock levels have settled we expect a return to a pattern of steady rental growth in the order of 3 per cent-4 per cent per annum in 2013 and 2014.

By Nick Barnes

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