Property Sales Market - Prices Rise by 4 Percent in 2014

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After a busy start to the year, the market slowed down in Q2 as demand levelled off and properties stayed for longer on the market. There was a growing sense that homes had become â€˜too expensiveâ€™ and the feeling was reinforced by press headlines. But two segments of the market bucked these trends. demand for entry-level one-bed apartments continued to outstrip supply so that it will be no easier to buy a pied-a-terre in Central london in 2015 than it was in 2014. the other segment to buck the trend was docklands, where demand strengthened, as buyers looked to east london to deliver value for money, although plentiful supply kept a lid on price increases.

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Over the whole year, property prices rose by an average of around 4% in 2014 across City, Midtown and docklands. there was significantly better performance from one bedroom than two bed flats and stronger growth in the Central london areas than in docklands. the price differential between City and Midtown is now very narrow but docklands still operates at a significant discount to central and west london. (see table 3).

Growth was restrained compared with previous years and, by the end of Q3 2014, it had all but petered out. a slowdown should not come as a surprise after a sustained period of growth that began in 2009. indeed it is as we predicted in our year-end report, 2013. it is always the case that markets need time to absorb new price levels and this time, with a General election looming, we expect sales activity to remain subdued until the summer of 2015 when certainty will return to the markets.

The blended average price for a one bed flat reached Â£520,000 for the first time in 2014, adding Â£34,000 or 7% to its value in a year. (see table 4). although there was never a significant resistance to stamp duty in this part of the market, the erasure of the distinct tax threshold at Â£500,000 will now enable prices to edge up further in the sub-Â£1 million price bracket.

Residential property markets generally stall in the lead up to a General election. it is a response to uncertainty. Buyers and sellers both delay decisions until they know more about the tone of the government and direction of future policy.

For most of 2014, there were fewer overseas buyers in london, fewer rental investors and fewer high-end buyers. While none of these groups has disappeared from the market altogether, a reduction in all three affects sales rates at the margins and weakens any upward pressure on prices.

Given the pace of price growth in Central london since 2008 it is not surprising that investment buyers, whether of UK or overseas origin, have receded from the market. since 2008, the average price of a 1 bed flat in City has risen by 86% and both Midtown and docklands have experienced increases of around 65%. (table 5). during this period rents hardly changed. Quite simply, prices have risen to a level at which returns on investment are less attractive than other parts of the UK property market.

Demand for Central london residential property may have softened in 2014 but it did not become a â€˜buyerâ€™s marketâ€™. While there are fewer investors buying, there is no evidence of owners becoming forced sellers. Very few owners are exposed to loan rates and, as long as the UK and london economy remain strong, most are sitting comfortably and see residential property in the capital, as a secure long-term investment.

In fact, the slowdown in activity is frustrating to prospective purchasers for whom it remains difficult to secure suitable properties. There is no doubt that the intense competition between prospective buyers waned during 2014. Price reductions began to appear in Q4 2014 and they attracted headlines. it is worth noting that, in our experience, a price reduction rarely resulted in a fast sale, suggesting that most of these properties were over-priced at the outset and that the reduction is merely resetting them to their correct (or more realistic) market level. the sense that vendors had become overoptimistic, which we flagged up in our last report, was reinforced by data from Hometrack in the autumn, which found that sellers in london were achieving the lowest percentage of their asking price since June 2013.

The visible outcome of the old sdlt system was that the price of a one bed flat continued to edge upwards in 2014 towards Â£750,000 in Midtown, while demand for two bed apartments, priced at over Â£1 million, weakened. We expect this pattern to be reinforced by the new system and concerns over the introduction of a new mansion tax at above Â£2 million.

Council tax is a different matter. there seems to be wide acceptance that council tax rates levied in Central london are

disproportionately low compared to other parts of the UK. a recent study by Westminster City Council on the prime residential market recommended the introduction of three new council tax bands at Â£2 million to Â£5 million, Â£5 million to Â£15 million and over Â£15 million. and we can see merit in revisions to the council tax bands being addressed following the General election even by the parties that have not committed to a mansion tax.

2014 BUYER PROFILES

Buyers from the UK dominated our markets in 2014, accounting for almost 70% of sales. to put that figure in context, they made up only 54% in the first half of 2013 and 61% in 2013 as a whole. Other european buyers also increased their share by a small margin but the really big shift was in the proportion of asian nationals, which dropped from 17% of sales in 2013 to just 7% in 2014.

In our experience, asian buyers tend to have a shorter-term outlook on their investment than a typical UK buyer. it means that they are more prone to profit-taking after a period of rapid price growth and as income returns decline.

We expect a small spike in properties put up for sale in Q1 2015, in advance of the april deadline for the new Capital Gains tax liability on overseas owners. the tax rate has not yet been confirmed, but 28% seems most likely, to bring them in line with UK taxpayers. For investors who had in any event intended to crystallise profits, april will become an artificial decision point, although we still expect most owners to retain their investments in which case they incur no tax until such time as they choose to sell.

There is no shortage of UK investors interested in one and two bed apartments, which have typically been acquired by asian investors in previous years and UK buyers are also comfortable with second hand stock. as long as a property is not over-priced, there is every reason to expect it to find a willing buyer.

The UK still represents a safe haven for capital to citizens of other european countries, especially as the eurozone economy continues to struggle and london is an attractive city in which to make or develop a career. Buyers from europe accounted for 16% of all sales in 2014, up from 14% in 2013.

There were more owner occupiers in 2014 â€“ 50% compared with 47% in 2013, and a corresponding decline in buy to let purchasers, which made up only 28% of the market in 2014 down from 33% in 2013. The number of owner occupiers has been rising since mid 2013 and in the first half of that year they accounted for only 40% of sales.

It seems that prices in Central london have begun to outstrip the means of many investors. even when the percentage of price required for a deposit remains constant, the capital sum needed upfront becomes unaffordable for a large number of investors who have turned their attention to lower priced suburban locations. in our experience, we lose the majority of buy to let investors at prices of over Â£700,000 and the number of opportunities to secure properties in the range of Â£500,000 to Â£700,000 has declined in Midtown and City. in docklands there remains a reasonable supply of properties priced at under Â£700,000, and that encouraged a strong sales market in east london in 2014.

In a related trend, we have noticed that more buyers are taking out loans with higher loan to value ratios â€“ and that probably reflects the growing influence of owner-occupiers rather than investors. in 19% of sales, the buyer had taken a loan for 75% of the purchase price in 2014, compared with only 13% in 2013 and 9% in H1 2013.

That said, the number of 100% cash buyers has also risen, from 37% in 2013 to 46% in 2014 and overall, this remains a market dominated by buyers who do not depend on borrowing large sums. almost 60% of buyers borrow less than half the purchase price.

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