Spring 2014

Kinleigh Folkard & Hayward: Property market analysis

Welcome to our spring market report, which aims to discuss the London sales, lettings and mortgage markets in all of the areas in which we operate.

Sales market analysis
We look at how unprecedented levels of demand alongside a shortage of supply and strong economic conditions are affecting the London property market.

Lettings market analysis
After a few years of fairly stable activity, we discuss how the lettings side of our business has also seen an extremely positive start to 2014.

Regional market analysis
We delve into more detail looking at what is happening across our regions in North West and Central London, South West London and South East London.

Mortgage market analysis
While restrictions on mortgages have eased recently and there has been a noticeable increase in approved lending, we discuss the upcoming Mortgage Market Review and how more challenging conditions for borrowers may be introduced.

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

The strongest market conditions since before the financial crisis are being reported across our London network of 50 branches, with unprecedented levels of demand for properties since the start of 2014. Favourable mortgage conditions, with a 35% increase in loans available over 2013, along with the ongoing (and recently extended) Help to Buy scheme are encouraging UK buyer activity and we have witnessed a substantial rise in domestic activity this year.

Both buy to let investors and first time buyer numbers are rising (accounting for 10% and 43% of our registered buyers respectively so far in 2014). According to the Bank of England, mortgage approvals also reached their highest level for six years in January 2014. Positive economic conditions prevail, which continue to boost confidence. The Office of Budget Responsibility now expects the UK economy to grow by 2.7% over 2014 (up from 2.4% forecast back in December 2013). The Centre for Economics and Business Research anticipates 3.8% growth in the London economy over the year.

Sales market analysis

In the sales market, parts of London are still attracting high numbers of overseas buyers, encouraged by the perceived financial and political security of the London market as an investment choice, along with its education, business environment, health and leisure provision. The lack of supply, which has been a key feature of the market in recent years is starting to ease as vendors become more confident about market conditions. In March, Rightmove reported an 8.7% increase in properties marketed across the country compared to the same period the previous year.

Meanwhile, across the KFH network, instructions are up by 26% compared to this time last year. This rise in instructions is helping to rebalance the market, although demand is still outstripping supply for the most desirable properties. Some sellers are still struggling to source a forward property purchase, which is restricting movement across parts of the market. While rising demand is boosting transaction levels, in 2013 they remained 28% below the peak year of 2007.

Lettings market analysis

The last 18 to 24 months have been fairly stable in the London rental market, with low levels of activity and a growing surplus of stock. However, the second half of 2013 saw the market begin to pick up and 2014 has started strongly across London. We have seen a substantial rise in activity, with the number of new tenants registering in the first weeks of 2014 up 20.5% on the beginning of 2013.

At the same time, some landlords have been enticed by the premiums that can be achieved for properties and are starting to capitalise on the rising sales market. In particular, 'accidental landlords' who were unable to sell during the downturn are now considering selling, which is reducing the level of rental stock available and increasing competition for rental properties.

While rental properties are generating lots of interest and multiple offers, tenants are increasingly savvy about price and are not prepared to pay over the odds. As such, rental values remain static. Landlords should bear this in mind when setting their prices and need to keep their properties in excellent condition in order to drive values.

26%

Increase in instructions compared to this time last year (KFH April 2014)

13.8%

The average annual increase in property prices in London (Land Registry February 2014)

3.8%

Growth in the London economy in 2014 (CEBR April 2014)

Regional market analysis

North West and Central London (NWC)

The buoyant start to 2014 has seen huge demand for properties, up 82% on the start of 2013. In the first weeks of 2014, we have taken on nine prospective buyers for every new property instruction. We have been inundated by cash rich buy-to-let-investors, as well as first time buyers making the most of Help to Buy and mortgage availability. Both are particularly active in Hammersmith, Chiswick, West Hampstead, Highgate and Muswell Hill and are mostly looking for properties under £500,000. Indeed, these sales accounted for 16% of all transactions across North West and Central London in the last six months.

In the rental market, we have seen a pick up in corporate demand at the start of 2014, with tenants typically preferring longer term lets of three to five years. We also have good demand on our books from families, often those who have sold a property and are considering their next move. While many of our areas still have good availability of stock, the family market of West Hampstead is currently experiencing a stock shortage, which might support rental price growth over 2014.

South West London (SW)

According to the Land Registry, the Boroughs of Lambeth and Wandsworth are currently reporting some of the highest rates of house price growth across the country (annual growth of 16.4% and 17.6% respectively). Appealing to a wide range of buyers, demand is outstripping supply, with seven buyers registering for every new property instructed in the first three months of 2014. While Brixton was 2013's star performer, we anticipate Tooting, with its hospital, strong transport connections and vibrant community to see rising demand over 2014, supporting further price growth outperformance.

While rental values have fallen slightly in South West London compared to a year ago, demand levels are building from a diverse tenant base. Families are attracted by the good schools in Putney, Battersea and Clapham, while professionals and sharers generate strong demand for flats in Earlsfield, Tooting and Raynes Park.

South East London (SE)

We are seeing high levels of buyer activity from those looking to get onto the ladder before prices rise too far. As such, buyers are increasingly looking to areas such as Forest Hill, East Dulwich and Peckham, where average property prices are some 38% cheaper than nearby Battersea and Clapham. However, these areas are also seeing some of London's highest price growth, with average sales prices rising by more than 20% in the last year according to our figures.

South East London has seen some pick up in average rents in the past year although tenants are still expecting to negotiate on price. Surrey Quays is popular with City workers, Streatham, London Bridge and Crystal Palace appeal to professionals and Dulwich, Blackheath and Beckenham are generating family demand. In addition, the regeneration of Elephant and Castle is leading to a rise in demand in this area.

19.8%

North West and Central London has the highest proportion of cash buyers in 2014 (KFH April 2014)

46.3%

South West London has the highest proportion of first time buyers in 2014 (KFH April 2014)

18.2%

South East London has the highest proportion of buyers trading up or down in 2014 (KFH April 2014)

Regional market monitor

We have compared the below key market indicators in each region to show whether there has been an increase or decrease from December 2013 to February 2014 compared to the same period the previous year.

	House prices	Instructions	Registered buyers	Average rents
NWC	↑18.9%	↑36%	↑78%	↑1.9%
SW	↑8.8%	↑23%	↑40%	↓-2.9%
SE	↑13%	↑17%	↑46%	↑4.6%

Source: Land Registry / Lonres / KFH (April 2014).

Mortgage market analysis

After the financial crisis, the mortgage market has been under much scrutiny and decreased levels of lending have undoubtedly played a big role in the significant fall in housing market transactions. At KFH, 85% of our purchasers required some sort of finance product in 2013 and the availability, cost and restrictions on mortgages are therefore key considerations for buyers.

Over the last 18 months, restrictions around mortgages have eased and the level of lending has increased again, thanks in part to the Government's intervention through first the Funding for Lending scheme and more recently through Help to Buy. With banks feeling much more confident, there are far more products available than 3-4 years ago. The Mortgage Advice Bureau report an increase in available products of 37.5% in 2013 alone. As such, according to the CML, the amount of gross mortgage lending in 2013 was 23% higher than in 2009 and figures show that gross mortgage lending in February 2014 was 43% higher than the same month of 2013.

The announcement in the recent Budget that the Help to Buy scheme will be extended for new properties until 2020 will be welcome news for home buyers. However, the potential for interest rate rises and the upcoming Mortgage Market Review changes could impact buyers' choices or options going forward.

The Mortgage Market Review (MMR)

New rules recently introduced in the Mortgage Market Review (MMR) which took effect from the 26th of April 2014, may make it more expensive and harder to secure a loan. Borrowers will have to satisfy lenders through more stringent affordability checks and will have to have a credible repayment strategy for interest-only loans. In addition, borrowers must receive professional advice through qualified advisors.

With all of the supporting documents and checks required, the sales process looks set to get longer, and in some cases, a mortgage may be refused. However, increased regulation of the mortgage market is a good thing to encourage more stability in the sector and to help prevent another housing or economic crisis.

Finally, income protection has become a much more important part of any property purchase as buyers have realised that it could take just a few missed payments to lose a family home and more buyers than ever are now considering protection against their biggest asset. We would encourage buyers currently active in the market place to take heed of lessons learnt. We've chosen to partner exclusively with Legal & General to provide insurance products.

55%

The increase in lending to first time buyers in January 2014 compared to January 2013 (KFH April 2014)

76,947

The number of mortgage approvals in January 2014 which is 42% higher than a year ago (Bank of England April 2014)

89%

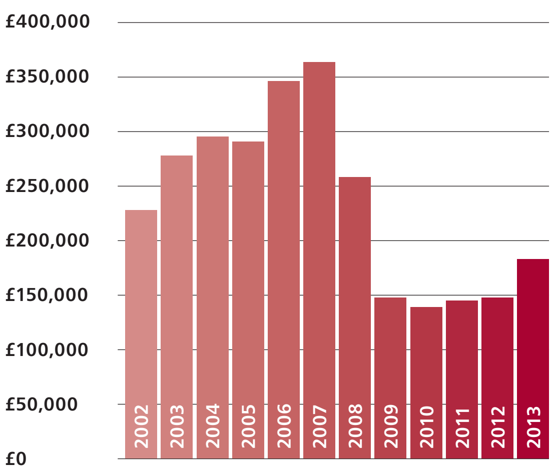
The percentage of all mortgage applications with our brokers which go through to completion (KFH April 2014)

Interest rate rises

Interest rates have been at the historic low rate of 0.5% now for five years. As the economy improves there is increased discussion on when rates will start to rise with most expecting the first increases within the year. The Governor of the Bank of England has suggested that, while rate increases would be gradual, they could reach 3% by 2017.

This uncertainty has encouraged people to switch to fixed rate deals on increasingly longer terms. In fact, about 90% of the mortgage business at KFH now involves fixed rates with the majority of our clients looking to lock into five year deals, helping home owners to budget and plan for the future. However, the costs of fixed rate mortgages are beginning to rise. The Mortgage Advice Bureau report the cost of a five year fixed deal rising by 0.06% between January and February 2014.

Annual gross mortgage lending £m



Source: Bank of England, April 2014

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