Spring 2015

Kinleigh Folkard & Hayward: Property market analysis

Welcome to our spring market report, where we discuss the latest issues affecting the London sales and lettings markets in all of the areas in which we operate.

Stamp duty reform
In December, the old stamp duty 'slab' system was replaced by new rules in which buyers pay stamp duty on the proportion of the property's sale value within certain thresholds. We look at how the new system is affecting buyers, the majority of whom are making significant savings.

Taxing high value homes
We look at the implications of Labour's proposed Mansion Tax and discuss how revaluing council tax bands might be a more appropriate solution.

Sales market analysis
We discuss the increase in values across London over the last year and how the return of a more stable market is benefitting buyers.

Lettings market analysis
With increased demand and a shortage of stock in the lettings market, we analyse how the greater levels of competition amongst tenants is affecting the market.

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

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

It is not unusual for an election year to distort levels of activity within the housing market. Indeed, 2015 has, so far, seen the usual slowing of buyer activity as prospective purchasers wait to see what the result of the election will mean for them. However, those choosing to buy before the anticipated post-election surge are finding there are good deals to be had. Compared with the early part of 2014, when buyer appetite far outstripped supply, we have now seen a return to more 'normal' and balanced market conditions.

Investment in new infrastructure projects continues. Alongside Crossrail, plans are afoot for a second City crossing. Crossrail 2, running through central London from suburban Surrey in the south, to the Hertfordshire commuter belt in the north, is due to go to public consultation in the autumn. An extension of the Bakerloo line is also being proposed, linking the area to the south east of the city with the wider London underground network.

The more buoyant market outside of the core central London postcodes is perhaps unsurprising considering the additional costs now associated with higher value homes. Increases in stamp duty and uncertainty over property taxes at the upper end mean many potential buyers are holding back in order to understand the ramifications post-election.

Stamp Duty Reform

Until 1997, the stamp duty system was very simple, with a charge of 1% for all properties sold over £60,000. After 1997 the 'slab' system was introduced, where properties are taxed at different rates depending on their value. This created significant increases in the levels of tax charged and the value band thresholds created controversy.

While this 'slab' system was much criticised, the shake-up of Stamp Duty Land Tax (SDLT) in December caught the property market by surprise. Replacing the old 'slab' system, the new rules now in place mean buyers pay stamp duty on a proportion of the property's sale value within different thresholds rather than a percentage of the total price paid under the old regime.

While the majority of properties sold over £937,500 now pay a higher rate, these account for a relatively small proportion of sales, even in London. Indeed, for the majority of London buyers, the savings on SDLT are significant. In Islington, the average property value is £664,267. Under the old SDLT regime buyers would have paid over £26,000 in stamp duty; the new system saves them almost £3,500.

The vast majority of our buyers will now have a lower stamp duty cost when purchasing their property. So far this year, 97% of properties sold by our South East London offices and 92% of the South West offices would have had lower stamp duty charges under the new regime. Even those branches which fall within our North West Central group, encompassing some of the highest priced London addresses, saw just 17% of buyers pay more stamp duty.

Across our London branches, those who bought in the first three months of the year saved over £4.3 million in stamp duty compared with the total amount that would have been charged under the previous system.

NB: A higher rate of 15% applies to non-exempt properties held within company structures.

92%

The percentage of buyers at KFH who paid less SDLT under the new system.
(Source: KFH, Q1 2015)

£4,250

The amount saved in SDLT on the average priced KFH London property.
(Source: KFH, Q1 2015)

Taxing high value properties

While the coalition recently introduced a higher stamp duty burden for more expensive homes, both Labour and the Liberal Democrats are proposing additional taxes to target high value properties. Labour favour a mansion tax, where an annual charge will be levied on properties worth over £2 million. While this is expected to apply to just 0.5% of UK homes, the majority are located within London.

The Liberal Democrats, having initially supported a mansion tax, are now proposing an extension to council tax. Under the proposals, properties within the highest council tax band would be liable for an extra levy if they are now worth more than £2 million.

In England, there are currently eight council tax bands, based on the value of properties in 1991. These range from Band A (homes valued at up to £40,000) to Band H (over £320,000). This means that all homes worth more than £320,000 in 1991 pay the same council tax in their local authority area, regardless of what they are worth now.

The property market has clearly changed considerably since 1991 and this top threshold of £320,000 is very out-dated. Across England and Wales just 0.7% of properties sold in 1995 (the closest year to 1991 where data is available) were £320,000 or more. However, now, 22% of properties nationally, and 60% of homes in London sell for more than £320,000.

There is little information on how properties would be valued for both council tax purposes and mansion tax. Previous plans for council tax re-valuation have been abandoned due to the complexity and cost of valuing all properties. What level of house price growth should be applied to Band H properties to ascertain which ones would be worth more than £2 million now?

Applying national house price growth rates to Band H properties suggests a £320,000 property in 1991 would now be worth £1.37 million (accounting for 44% of homes sold in Kensington & Chelsea last year). However, if a more local growth rate is applied over the same period, the results could differ dramatically. For example, in Kensington & Chelsea a £320,000 property in 1991 would now be worth more than £2.36 million (accounting for 24% of homes sold in Kensington & Chelsea last year).

£250 per month

The proposed Labour mansion tax on homes valued between £2m and £3m. (Labour Party, 2015)

2.2%

The number of properties in London which were sold for £2million and above in London in the last 12 months. (Land Registry, February 2015)

Sales market analysis

According to the Land Registry, average values across London increased by 11.3% in the last 12 months and it remained the best performing region in the country.

With politicians targeting the upper end of the market, growth in prime boroughs has slowed somewhat in the lead up to the General Election. This has benefitted many outlying zone two and three located areas however as buyers look to get more for their money, with boroughs including Newham and Greenwich recording the highest annual growth in prices at 19.8% and 18.8% respectively.

The majority of our buyers are paying less in stamp duty following the changes in December. This positive news, combined with a settled and competitive mortgage market and a new freedom to invest pension funds has helped fuel demand.

The return to a more stable sales market is benefitting buyers. The number of properties we are marketing this year has risen by 25% compared with the same period a year ago. There are healthy levels of demand from potential buyers, with our branches registering an average of 4.9 buyers per new instruction this year.

This is a contrast to the highly competitive market at this point last year, when a significant increase in new registered buyers and a relative scarcity of new stock reaching the market meant there was an average of 6.9 registered buyers for every new instruction.

Lettings market analysis

A buoyant London economy and rising levels of employment continue to benefit the lettings market in the Capital. Demand from corporate tenants and relocation agents, which began to build in the latter part of 2014 has continued to increase in 2015.

So far this year we have seen a 5% increase in new tenants registering compared to Q1 2014. This increase in demand has resulted in a 7.4% increase in the number of properties let in the first quarter, compared with the same period a year ago.

However, a shortage of stock is encouraging competition among renters. The number of available properties on our books has fallen by 21% compared with the same period last year. This is good news for landlords, meaning shorter void periods and more choice of prospective tenants. We are increasingly seeing multiple offers generated on the same instruction because of a lack of alternative properties available.

Despite a reduction in stock and an increase in demand from tenants however, we have yet to see any notable increases in rental values. Prospective tenants remain price sensitive, and in some cases are more likely to settle for a smaller property or look elsewhere if values are above their budget.

2.5%

The level of UK GDP growth forecast for 2015. (Source: Office for Budget Responsibilty, 2015)

60%

The percentage of KFH branches which have seen an increase in registered new tenants. (Source: KFH, Q1 2015)

Regional market analysis

North West and Central London (NWC)

Our NWC branches currently have 38% more properties on their books than at this point a year ago. Continued price growth in central London has seen many buyers looking further out to areas including Finchley, Muswell Hill and Highgate which offer large, family homes and good transport links.

The General Election has proven to be a distraction for some buyers and has contributed to a fall in demand in the first quarter. However, interest has increased month-on-month this year, with the number of viewings undertaken by our branches in March up 21% on February and 25% higher than January.

While the number of new buyers registering so far this year is lower than in Q1 2014, the volume of new registered buyers in the first quarter was still up 28% compared with the previous three months.

The lettings market has been particularly buoyant this year. The number of new tenants registering rose by 12% compared with Q1 2014 and the number of properties let increased by 21% over the same period. Indeed, our Chiswick and Ealing branches have seen new tenants registrations increase by 25% and 18% respectively.

With an increase in demand, stock levels have fallen and the number of properties available to let is currently 15% lower than at this point last year.

25%

North West and Central London had the highest number of cash buyers. (KFH, Q1 2015)

South East London (SE)

The market remains active across our South East London and North Kent branches, with 68% of properties sold in the first quarter going under offer within four weeks of marketing.

Demand from first time buyers and investors has increased, accounting for 47% of our registered buyers this year and consequently demand for lower to mid-priced properties has been exceptionally high. This demand is set to continue through the summer months.

Our branches that cover Forest Hill, Catford, Deptford and Lewisham have been particularly busy, with high demand resulting in price growth of between 1.5% and 3% per month in some areas.

So far this year we have seen a steady increase in the number of new tenants looking to rent properties in South East London, with volumes up 4% on Q1 2014.

The number of new tenants registering with our Canada Water and London Bridge branches have increased significantly this year, 26% higher than in Q1 2014. A lack of new stock reaching the market however has meant it has become more difficult to satisfy demand, particularly for smaller one and two bedroom properties.

7,374

South East London saw the highest number of prospective tenants registered. (KFH, Q1 2015)

South West London (SW)

Our SW branches have had a busy first quarter, in contrast to market conditions in 2014 where there was a chronic shortage of available properties. The first quarter of 2015 has seen the formation of chains as buyers and sellers are once again able to align their onward purchases.

Buyers are finding they are in a more favourable position, with fewer prospective purchasers competing for a wider range of properties. We currently have 34% more properties available to buy than at this point a year ago.

The £500,000 to £1 million-price bracket has been particularly busy, accounting for 45% of sales so far this year. Over half (56%) of our buyers registered so far this year have had budgets of over £500,000, up from 46% at the same point a year ago.

Demand has risen in traditionally popular locations such as Dulwich Village, Battersea and Putney as prices stabilised towards the end of 2014. First time buyers have been particularly prolific within our market this year and accounted for 41% of registered buyers. Locations such as Tooting and Raynes Park have been key areas among this market.

In contrast to the sales market, our lettings teams have witnessed competition among tenants increase, with prospective tenants having less time to make a decision. While new tenant levels remain broadly the same as Q1 2014, properties are being let incredibly quickly, leading to low levels of stock.

Our South West London branches have let 11% more properties compared to the same period last year. Tooting in particular has seen a huge spike in interest, leading to record prices being achieved as demand outpaces supply. Early interest from students is also benefitting the Kingston market, with our local branch seeing a 19% increase in new applicants registering in Q1 2015 compared with the same period last year.

4.7%

Increase in number of sales viewings undertaken by our South West London branches. (KFH, Q1 2015)

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