

London's lifestyle zones

Residential
market update

Autumn 2017



Kinleigh Folkard & Hayward

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The London housing market remains highly price sensitive, but there are signs that the market may be turning a corner in Luxury London and City Living zones.

All eyes on the centre

Price sensitivity remains key across the Luxury London and City Living markets, although there are signs that prices are stabilising. While the average price per square foot of properties sold at the start of the year was 2%-3% down on the first three months of 2016, during the last quarter prices have nudged marginally upwards. The average achieved price per square foot is 1.1% higher in Luxury London and 1.4% across City Living than a year ago, when confidence had been severely dented by the shock of the Brexit vote. While sales volumes remain muted, levels of new instructions are up quarter on quarter and year on year, with transactions between July and September at their highest level since the first quarter of 2016.

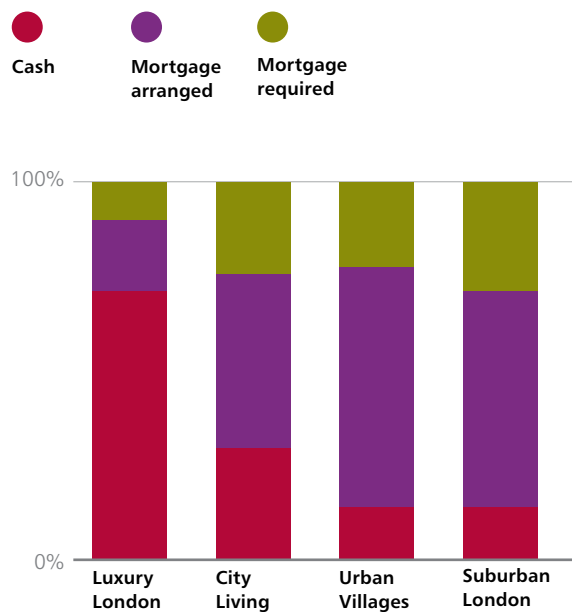
More stable than anticipated

While Brexit continues to dominate the headlines and the exact nature of the UK's future relationship with Europe remains far from clear, the UK economy appears to have held its own over Q3. The economy grew by 0.4% in the three months to the end of September, in line with average quarterly growth over the last three years, equating to a solid annual growth of 1.5%. Alongside this London has retained, and indeed, extended its lead as the world's global financial centre according to the latest edition of the Global Financial Centres Index (Z/Yen).

A ripple of a rise

The Bank of England's decision to raise interest rates to 0.5%, the first rise since July 2007, has unsurprisingly made headlines, however in the short term many homeowners will be unaffected by the change. Across London's Urban Villages and Suburban London close to three quarters of purchasers will either purchase in cash or already have a mortgage arranged, while over 90% of loans in 2017 to date for new purchase or re-mortgage have been on fixed rate deals. Data from UK finance also indicates that, at the start of 2017, 92% of mortgages still outstanding had been stress-tested for an interest rate of at least 3% above their current rate, including 84% of standard variable rate loans, all part of the affordability measures introduced as part of the government's 2014 mortgage market review.

Significant number of buyers immune to an interest rate rise



Source: dataloft/KFH (based on prospective buyers who disclosed their mortgage status in Q3 2017)

2.5%

Annual house price growth London

Source: dataloft/UK HPI (September 2017)

+4.1%

Uplift in sales volumes across Luxury London and City Living Q3 2017 versus Q3 2016

Source: dataloft/LonRes

94%

% of mortgages arranged in August 2017 on fixed rate deals

Source: dataloft/UK Finance (October, 2017), for new purchase

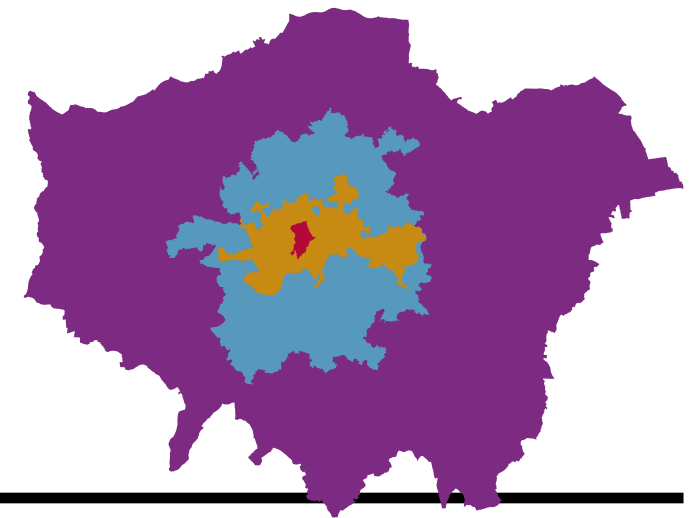
2.31%

Average interest rate for a two-year fixed rate mortgage, 90% LTV (Loan to Value)

Source: dataloft/Bank of England, (November 2017)

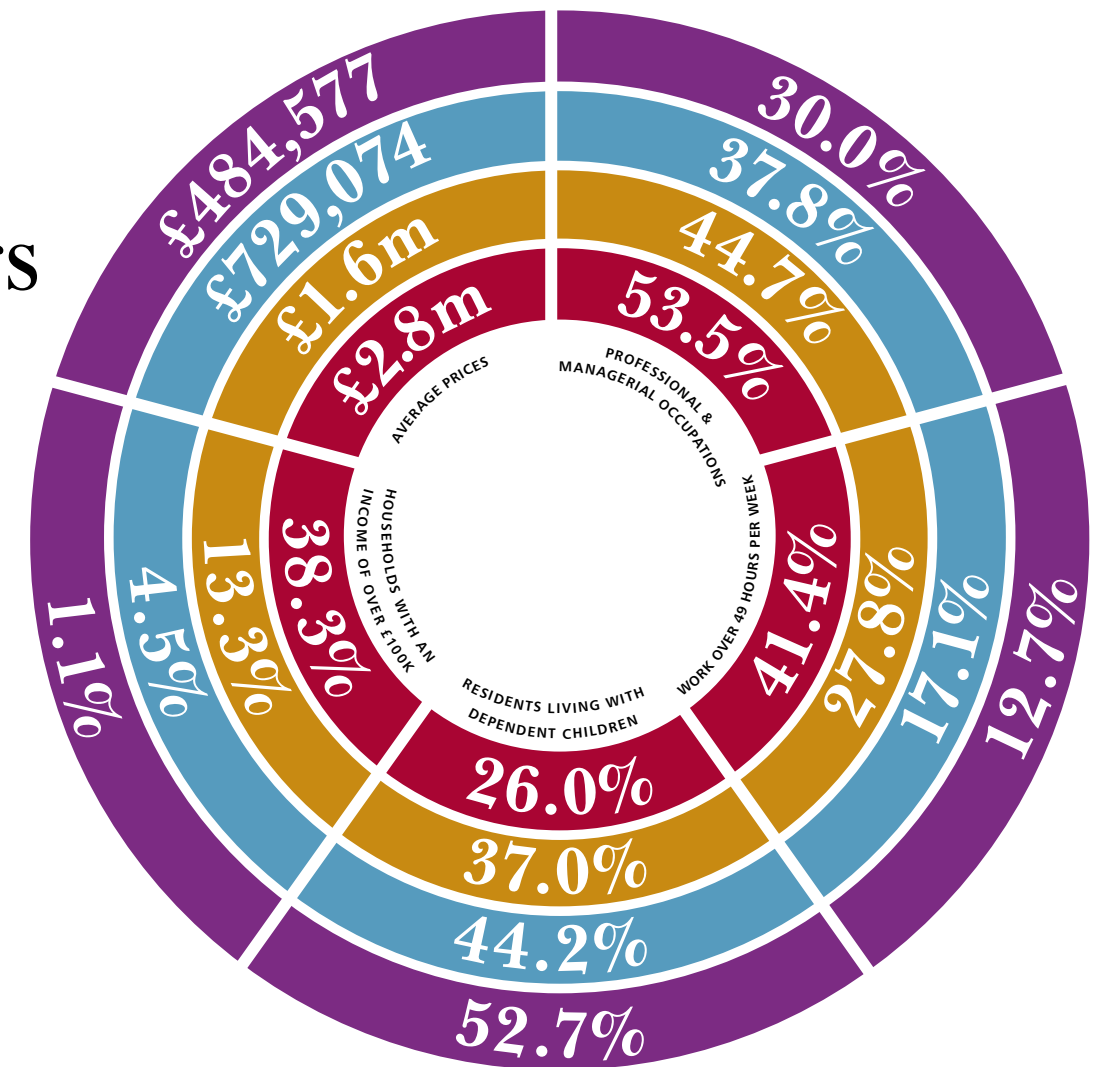
The population of London is forecast to grow by over 20% in the next twenty years, with an additional 1.8 million inhabitants by 2039¹. Here we examine the characteristics of the population within London lifestyle zones.

¹Office for National Statistics



Legend: Luxury Living (Red), City Living (Yellow), Urban Villages (Blue), Suburban London (Purple)

Lifestyle zone indicators

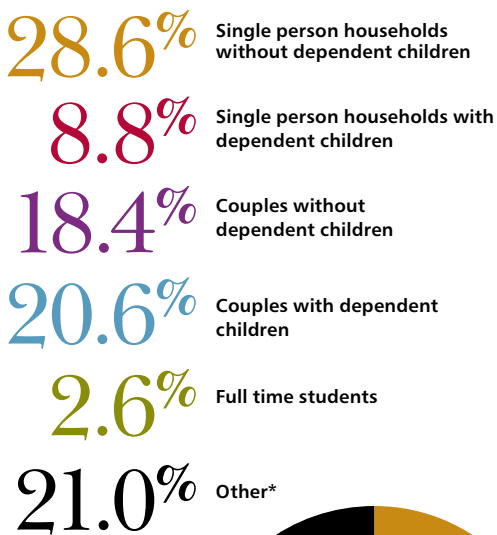


Source: dataloft/Land Registry, Census, CAMEO

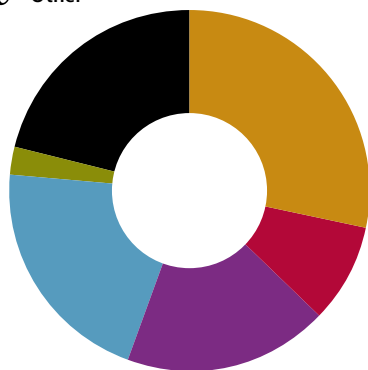
Average prices	Professional and managerial occupations	Work over 49 hours per week	Dependent children	Household income over £100k
With buyers cautious, properties on average taking longer to sell and little change in prices, realistic pricing is paramount. Overall market £625,249	Across London over one third of residents are employed in professional and managerial occupations, rising to over half in Luxury London. Overall London 34.1%	Over 40% of those who live in Luxury London work over 49 hours per week, compared to just 12.7% of those in Suburban London. Overall London 15.9%	Over half of residents across suburban London live in a household with dependent children, in Luxury London this is just over a quarter. Overall London 48.7%	One in twenty household incomes across London are over £100k, rising to over one in ten in City Living and one in three across our Luxury London zone. Overall London 5.1%

Average rents across the capital rose by just 0.9% in the year to September but with tenant demand stable while levels of new supply fall this may well start to place upward pressure on prices.

Profile of London's private rented sector



Source: dataloft/ Census (2011)
*includes multi-person households including unrelated adults sharing, multi-family households and households of one family and other unrelated adults.



Shortage of supply puts pressure on prices

Across London, new rental listings were down 3.7% between July and September compared to the same period last year, while average asking rents were at their lowest level since 2013, according to Rightmove. Across Luxury Living and City Living rental values have stabilised, being just 1.2% lower than Q3 2016, compared to a 5% annual fall at the start of the year, while average rental values across Urban Villages and Suburban London remain stable. Falling stock levels and stable demand, suggest that prices may begin to rise over the coming months.

Peak rental season

July through to September is traditionally the busiest period for the rental market across the capital and 2017 exceeded expectations. The number of properties let across Luxury London and City Living was up 4.2% on the same period last year and 11% up on 2015. Activity was buoyant across all sectors of the market, including prime lets. More properties were let with rental values of over £5,000 per week, than in any quarter in the last five years.

Institutional investment and build to rent

Despite significant changes for buy-to-let investors there is no evidence to suggest an exodus of private landlords from the capital's rental market, however there is increasing interest from institutional investors in the build-to-rent market. Across London close to 10,500 build-to-rent units have been completed over the last few years, and around 12,000 units are under construction with an additional 27,000 units in the planning pipeline¹. With future demand for rental properties set to increase, the build-to-rent sector is likely to be a trend of the future.

¹British Property Federation

Average monthly rents

£4,534

Luxury Living

£3,119

City Living

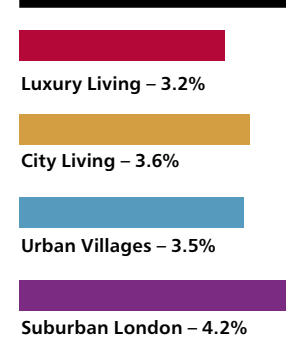
£2,123

Urban Villages

£1,462

Suburban London

Yields



Source: dataloft/ publicly available rental prices on 2 bedroom properties

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