CROWN MAYFAIR

PROPERTY SPECIALISTS

Crown Mayfair Market Review – Q1 / Spring Budget

Overview

Although the London property market may not offer the same sorts and scales of opportunities seen in recent 'golden' years, Prime Central London's status as a safe-haven remains and very few locations in the world offer greater long term financial security. With the Spring Budget containing both positives and negatives for the UK property industry, the market itself remains relatively flat; price adjustments still coming into effect and the Brexit decisions scheduled for June causing many to wait with baited breath.

Market consensus is showing that the stubborn price expectation gap between vendors and buyers is narrowing further, reinforced by tax deadlines and new rate impositions. In a market now receiving more quality stock, an increased number of motivated but discerning buyers and an environment rather less favourable for over ambitious vendors, asking price reductions are becoming more prevalent. We, along with much of the industry, expect to see asking prices reaching more achievable levels by the start of 2017. As the tax adjustments become accommodated for, there is an expected increase in opportunistic buyers to a market that will have essentially been flat for two years.

Overseas Investment in London

Core overseas markets have been affected by various domestic issues including commodity price fluctuations, taxation and exchange controls, which in turn has affected capital outflows into overseas assets. The strength of the pound against other major currencies has also been one of many contributing factors to the capital's market slowdown and has played a part in the emerging disparity between the new homes and re-sale markets.

The payment structures of new build properties have helped mitigate the exchange impacts of the strong pound, the lower, staggered financial commitments allowing for currency market corrections and more attractive structuring. In turn, this has highlighted a disparagement between investment into new build and existing property where such payment structures aren't in place. Given the inflated pricing of existing stock due to lower supply levels, parts of the re-sell market have been stymied by unrealistic pricing, with only those specifically looking for period stock choosing this route over new builds.

Prime and Super Prime Markets

The imposition of new Stamp Duty rates as well as recent April deadlines and ATED have impacted throughout London's various property sectors. However the greatest impacts can be seen to have been felt in the £2m-£5m+ and super prime brackets. With associated costs rising significantly with the introduction of the additional 3% SDLT for '2nd' homes, many buyers have been dissuaded from rushing into purchases and even more so in the £10m+ bracket where pricing bears more weight. Knight Frank reported super prime sales fell by over a third in 2015. However we have personally seen the super prime bracket maintain buoyancy, unlike the £2m-£5m bracket where interest and transactions have fallen significantly.

We have also observed the extent of distorted valuations in the super prime market. Vanity pricing along with hefty development margins and sales with planning permissions have resulted in many properties bearing considerably top heavy asking prices. In the past quarter, we have encountered numerous cases where extensive planning permissions have been granted and this in turn has been factored into sale prices well above market value; with the works themselves either still to be undertaken or worse, unfinished.

Consequently, many of these properties have remained on the market for some time, buyers less inclined to pay inflated premiums where more often than not, the permissions aren't in line with their own personal wants and needs. However as seen elsewhere, reinforced by increased associated costs, negotiations have started to favour buyers, with vendors more amicable to competitive offers more in line with current market conditions.

Commercial

With residential property being the target for many of the government's recent tax amendments, interest in commercial property from private clients has risen significantly; higher yields and tax breaks luring an increasing number of investors. In 2015 alone, UK student accommodation received £5bn of investment, up from £1bn in 2011, highlighting appetite for alternative real estate investments. Prime London retail and office are also receiving strong rental and capital growth forecasts. The reform of stamp duty on commercial properties has come into effect meaning buyers will now pay 0% on the first £150,000, 2% on the next £100,000 and 5% on £250,000 and above. To elaborate, a £10,000,000 commercial purchase will incur SDLT of £489,500, whereas the residential liability would be in excess of £1,100,000.

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