Black Brick

Finding perfect properties

Market Update

March 2010

In this month's market update

- Continued strength in prime central London prices in stark contrast to wider UK residential property.
- Bad weather and increase in supply hits broader market – but prices for prime property in several 'hot' central London postcodes return to peak levels.
- However, continued weakness of sterling means prices in many other currencies still 20%+ off peak. International investors are an ever more influential force as the longterm investment case for this unique, niche asset class continues to find favour.
- A continued lack of supply and a high proportion of cash-rich buyers continue to be supportive factors – at Black Brick we therefore remain cautiously optimistic about prospects for prime central London for the months ahead.

Wider UK property market feels the chill

For the first time in many months the wider UK housing market paused for breath in February as the cold weather, the end of stamp duty relief and a greater number of properties for sale combined to put downward pressure on residential house prices.

Halifax reported a 1.5% decline in prices in February after seven consecutive monthly gains, highlighting the increase in the stock of properties available for sale as a key driver of the drop. Meanwhile Nationwide reported prices falling 1.0% for the month – the first monthly drop since April 2009. However, the annual rate of house price inflation rose according to Nationwide. Nationwide's chief economist said that "*it is difficult to gauge how much of the drop in housing activity is attributable to one-off factors and therefore whether February's fall in prices is just a temporary blip or the start of a new trend.*"

Prime central London remains buoyant…

The latest mortgage lending figures from the British Bankers' Association also show signs of a cooling in the wider UK housing market after the government's temporary relief on stamp duty came to an end. Gross mortgage lending fell 26.6% in January from December and the number of mortgages approved fell 23.1%. More positively, recent data from the Bank of England show average mortgage rates falling as liquidity in money markets improves.

Elsewhere the Royal Institute of Chartered Surveyors' widely-watched survey – historically an accurate guide to future house price moves – also showed significant signs of weakness for the first time in many months. The net balance of surveyors reporting rising prices over the last three months remained in positive territory, but dropped sharply to 17% from the previous month's 31%. On a regional basis London continued to show the strongest and most resilient price action, with a net 62% reporting rising prices in the UK capital. Other details in the RICS report worthy of note included an increase in new instructions.

At Black Brick we have repeatedly urged a sense of caution amidst the almost universally positive housing market data and media coverage of the past nine months. After such strength, a pause for breath – particularly given the weather – was perhaps inevitable. But just as we did not believe that the strong gains would last in perpetuity, we are also reluctant to read too much into one month's figures, particularly when a period of extremely inclement weather may well have materially influenced the outcome.

Prime central London market still in rude health

From our perspective what has been made abundantly clear in the last month – if it were not evident already – is the continued support for prime central London property as an asset class in its own right. While a host of measures showed the wider UK's residential property suffering a setback in February, prices in prime central London continued to be very well supported. Indeed, according to Knight Frank, prices in central London rose 3.2% in February, the strongest rate of growth in a single month since August 2007.

Camilla Dell, Black Brick Managing Partner, says: "*What differentiates this rally in prime central London property prices from previous peaks is how discerning it is. Despite the strength of the rises in a number of sought after enclaves, we do not believe that we are anywhere near 'bubble' territory. Price falls in prime central London property during the credit crunch provided an extremely attractive entry point. Much of the subsequent rally has been driven by astute overseas investors, buoyed by an additional currency advantage, exploiting that pricing anomaly for long-term gain.*"

Return to peak prices in some areas

For the right property in the right area, such as Kensington, Mayfair and Knightsbridge, competition is extremely fierce and in several recent cases we have seen prices in sterling terms back to peak levels. Importantly, prices in other currencies remain as much as 20% below peak levels and still look extremely attractive on a long-term basis. But there remains a clear difference between competition and pricing for the very best examples in each prime price bracket and for secondary properties that do not tick every box.

Knight Frank recently estimated that 45% of properties in the £2m+ bracket had gone to non-UK buyers in the twelve months to the end of February. At Black Brick we believe that the number is significantly higher than 45% over the last three months. International investors continue to see the long-term attractions of prime central London, buoyed in no small part by the significant boost provided by the on-going weakness of the pound.

Prime rental market rebounding

For current and prospective investor landlords there is also good news as the rental market has strengthened significantly in the last few months. Many of the so-called 'reluctant landlords' of a year ago have been able to sell their properties into the rally – resulting in a sharp drop in available stock to rent. And while in absolute terms yields do not look *prima facie* that attractive, rental prices are finally rising as supply diminishes and demand strengthens.

We also believe that there are a number of secular supports to the prime central London rental market, not least prospective domestic buyers being forced to rent due to affordability issues and London's position as a major international business centre supporting corporate demand. A recent survey by internet property website Rightmove revealed 61% of respondents who expected to rent in the coming year were renting because they could not afford a home. Given the recent rises in house prices, this position looks unlikely to change while a steady improvement in corporate profitability is another key reason why rental demand is strengthening and void periods are minimal.

Weak pound a positive – but far from only supportive factor

Looking forward, while the imminent UK general election may present a headwind to property price gains in the broader UK residential property market we do not believe it poses a significant threat to the principal drivers of prime property in the UK capital. If anything, a hung parliament, in which no party has a clear majority to put through the necessary fiscal austerity measures, is likely to prompt further weakness in sterling. This may only serve to increase the attractions of prime central London to overseas investors.

Meanwhile supply may have increased in the wider market but the severe shortage that has helped underpin prime London prices since the turn in April last year remains very much in place. There is some evidence that developers are returning but with financing for property projects extremely hard to come by – and with those able to finance the build still some years from completion – the imbalance between demand and supply appears well entrenched for the foreseeable future. Taken in tandem with a large proportion of cash buyers it is not hard to see why prime central London property prices remain so well supported. Given the volume of genuine inquiries from our own diverse international client base, it is not a situation we see changing significantly in the coming months. Only a dramatic reversal in fortunes rise in for the pound seems likely to curb overseas investors' demand for prime central London property. We are clearly not currency investors but nonetheless would ascribe a low possibility to this outturn.

Crucially, we believe there are other secular supports to prices aside from currency. With the outlook for other so-called 'duration' assets, such as long-dated government bonds, clouded by the prospect of rising inflationary pressures and by a formidable issue schedule as western governments attempt to restore their impoverished finances, our impression is that investors are increasingly seeking the attractions of something simpler, tangible and more transparent where supply is limited. Prime central London property certainly ticks those boxes.

We’re ready when you are.
We would be delighted to hear from you to discuss your own property requirements and how we may be able to assist you. Should you wish to arrange for a non obligatory consultation, please contact us:

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