Christmas 2015 Newsletter

TEMPLE FIELD PROPERTY

"Snakes and Ladders"

Many of us like to play an old fashioned board game at Christmas. Apart from Monopoly, the team at Temple Field Property enjoy a good old fashioned game of Snakes and Ladders.

Bloated with Turkey and Christmas cheer, a peculiar change of personality overcomes each player as we attempt to defeat our nearest and dearest with the throw of dice.

Not displaying much goodwill to any others we hope our own throw lands on board number 28, giving us an enormous uplift to number 84, and that the mother-in-law, who has been complaining again that Brussels sprouts don't taste as good as they used to, lands on board number 87, thereby suffering the humiliation of going back to number 24.

With continued speculation and uncertainly as to the outlook for house prices in 2016 and beyond, we look at the principal variables at play in the London residential market and consider whether they represent a ‘snake’ or a ‘ladder’ for 2016.

By way of background, Land Registry figures confirmed in their most recent release that London property prices rose by 10.6% from October 2014 to October 2015. Consensus from the major residential firms is that London house prices will rise by between 5% and 7% in 2016 and the same again in 2017.

Supply and demand

There is no getting away from the fact that we have and are likely to continue to have, a chronic shortage of housing in London. With the Capital's population expected to hit 11m by 2050 from the present 8.6m (Mayors Report July 2014), that represents a massive 27% growth.

Yes Government recognises the problem, but despite many policies to stimulate new build and many bold statements that ways will be found for new supply to meet demand, there is nothing convincing to say that this can be achieved and certainly not achieved in the foreseeable future. On the demand side we must not forget the international aspect and perception of London as a safe haven. It seems not only domestic investors but now very many international investors see a brick in a London property as a store of wealth in the way a bar of gold used to be considered. An enormously varied and growing economy, world class universities and schools, fantastic infrastructure and a great place to live as well as work, all combine to boost demand and worsen the imbalance with supply.

Verdict for 2016 and beyond: LADDER

Market Liquidity

The theory of Unintended Consequences certainly seems to afflict George Osborne when he meddles in the residential property market. Take a look at Stamp Duty – by changing the old slab structure and increasing rates at the more expensive end of the market, he has worsened rather than improved matters by slowing the number of transactions to glacial proportions. Less tax receipts; more activity at the lower priced end of the market – making matters worse for first time buyers, and finally creating a vicious cycle whereby home owners cannot move as there is so little stock available, so they stay put and thereby exacerbate the problem. With an additional 3% stamp duty on buy to let and second homes from April next year it is difficult to see how this can do anything but reduce liquidity further. More on this later.

Verdict for 2016 and beyond: SNAKE

Affordability

With the average London home now costing a record eight times average salary, many are rightly asking the question: is property no longer affordable and will prices therefore fall? Affordability is of course a relationship between house prices and three principal factors – wage growth, interest rates and lending rates, these three factors of course being interrelated.

2015 was the first year in six when the UK showed real wage growth i.e. wages growing faster than inflation, and in London, with its very buoyant economy, the situation was more marked. With the spectacular and diverse growth of the London economy there are few who do not see real wage growth continuing.

Turning to interest rates, we are all aware that they are at an historic low and time and time again we hear the Bank of England postponing any rise. Although impossible to implement, we do of course need two different interest rates to be set – one for London and one for the rest of the UK. Whilst London is booming the rest of the UK is not and as a result the Bank of England are very wary of choking off any ripple growth we are seeing outside of London.

Finally lending rates are in tune with interest rates and there are a plethora of relatively cheap variable and fixed deals available, meaning borrowers with rising wages are able to borrow large sums to finance their purchase and this has and is likely to continue to fuel house price growth.

Verdict for 2016 - LADDER

Rental growth

The Office for National Statistics (ONS), tells us that rents in London have seen almost twice the level of growth as across the rest of the country over the past ten years. While rents in London have risen by 33% over that period, they have grown by 17% across the rest of England.

Savills forecast that in the next five years rents in Central London might grow by an additional 21.5%. This is clearly inflation busting and attractive to investors considering entering the market and reflective of the continued demand / supply imbalance and wage growth mentioned earlier. As mentioned previously, higher rental income supports greater loan to value ratios and also makes residential property more attractive than other lower yielding investment options, thereby supporting higher prices.

Verdict for 2016 - LADDER

Taxation of landlords

George Osborne has definitely decided to play the role of Scrooge rather than

Father Christmas when it comes to this season's buy to let play. Not satisfied with restricting loan interest relief to 20% by 2020 and extinguishing wear and tear allowance, he then decided to add 3% stamp duty for buy to let and second home owners.

Much of this is 'playing to the gallery' given so much recent negative press about the buy to let market. Buy to let investing is not without risk and performs an essential role in providing private rentable accommodation to many who wish to have the flexibility to rent.

Any policy which potentially reduces the supply available will inevitably lead to higher rents and thereby perpetuate interest in the sector and leave the tenant market facing higher costs and thereby postpone even further the time when first time buyers can get on the ladder. Here at Temple Field we have seen many recent instructions to acquire property before the new stamp duty comes into force in April 2016.

What happens beyond April 2016 is difficult to read, however with rents predicted to grow strongly it is hard to see the market coming to a grinding halt, but rather prices may temporarily adjust to accommodate the higher purchase costs which are in any event deductible at the point of sale. If only a 3% increase in costs deters an individual from investing into the most vibrant and compelling residential market in the world, then one has to ask, should they perhaps consider an alternative investment class?

Verdict for 2016 - SNAKE then LADDER

From all the team here at Temple Field it just remains for us to wish you and your family a healthy and happy Christmas and a prosperous 2016.

If you have any questions relating to residential property investment in London please do not hesitate to contact one of us by email on the addresses listed below.

Kindest regards

Dominic, Ben and Claire

Senior team Ben Temple, Claire Norwood and Dominic Field

Ben Temple
Office: 0044 2071 831420
Mobile: 0044 7930 347573
Email: ben@templefieldproperty.com

Dominic Field
Office: 0044 2071 831420
Mobile: 0044 7718 806366
Email: dominic@templefieldproperty.com

Claire Norwood
Office: 0044 2071 831420
Mobile: 0044 7879 605033
Email: claire@templefieldproperty.com

Temple Field Overview

Temple Field was formed in January 2014. We provide an experienced independent residential purchasing service for those looking for investments in London. We also offer project management and asset management services. For a full background to our services and experience please take a look at our website: www.templefieldproperty.com.

With kindest regards,

Temple Field

Risk warning

Misrepresentation Act 1967 – Temple Field Property Search Ltd give notice that: this presentation and all descriptions, dimensions, reference to condition, properties and necessary permissions for use and occupation and other details, are unless otherwise stated indicative only. Any intending purchasers or tenants should not rely on statements or representations as statements of fact or as warranties, but must satisfy themselves by inspection or otherwise as to the correctness of each of them.

This presentation is produced in good faith and set out as a general guide only and does not constitute part of any offer or contract, nor advice and recommendations. No person in the employment of Temple Field Property Search Ltd has any authority to make or give representation or warranty in relation to properties mentioned. All prices and rents are quoted exclusive of VAT unless otherwise stated. April 2014.

Risk Warning; please be aware that past performance is no indicator of future performance and that property prices can fall as well as rise. Borrowing can also amplify any losses and independent financial advice should always be sought from a registered Independent Financial Adviser.

Share Tweet Forward

Copyright © 2015 Temple Field Property Limited, All rights reserved.

unsubscribe from this list update subscription preferences

MailChimp