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Investment Outlook for London Residential Property in 2015 - Temple Field Property

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With thoughts turning to Christmas and the New Year, boutique London search agency Temple Field Property has delivered its investment outlook for London Residential Property in 2015.

Temple Field holds firm to the view that the investment fundamentals are unchanged and that medium to long-term prospects for the London market remain strong. Acknowledging that the market has cooled after years of stellar growth, Temple Field Chief Executive Officer, Dominic Field, cites five key reasons investors should mull this opportunity over the festive season.

Significant commitment to investment in Infrastructure: the policy commitment to a number of ambitious infrastructure improvements, as well as the highly visible delivery of existing projects, is transforming the London landscape - and with it the accessibility and efficiency, and therefore desirability of what has become the 'Capital of the World.' "London", says Field "is receiving a generation of regeneration over a five-year period."

Crossrail, which is scheduled to carry its first passengers in 2018, will be the first of several transport revolutions, making London – with its highly skilled and international workforce – "increasingly attractive to global business." Those boarding at Heathrow T123 will be able to reach Paddington in just 23 minutes, and Canary Wharf in a further 17 minutes. (Crossrail 2, a North/South route, is now in consultation).

International investment in London Residential Property set to boom: despite considerable investment in recent years, international buyers own just 6%* of the London market. With large swathes of the World becoming wealthier and London seen as a safe political and economic haven, Temple Field believes many more will look to London Residential Property as an investment, notwithstanding potential provisions to tax overseas investors on gains. (* Source: Jones Lang LaSalle, 'International Investment in London Residential', March 2014)

“London has emerged as the World’s pre-eminent choice as a destination for long-term investment in Residential Property”, says Field.

“Inflows of foreign capital are strong, and far from seeing a peak in overseas investment, it is likely” says Field, “that we are observing the tip of the iceberg, the last five years representing simply the start of significant international ownership of our Capital. Restricted supply, allied to enormous demand, will for generations continue to put significant upward pressure on prices.”

Temple Field has enjoyed unprecedented interest in the acquisition of Residential Property in the Capital from wealthy Hong Kong Chinese in recent months, despite prevailing UK political concerns. “London is receiving unrivalled, unimaginable investment from around the World” says Field, “and with a yield three to four times that available on similar investments at home, interest in the London residential scene amongst wealthy Hong Kong Chinese is reaching new highs, notably in period property, rather than off-plan or new developments.”

Investment fundamentals remain strong, despite political backdrop: the Election and proposed Mansion Tax have made for an uncertain market, “but none of the fundamentals of supply and demand have changed. The changes to Stamp Duty announced in the Autumn Statement are” says Field, “a positive move - and London remains a highly desirable place to live, and in which to invest.”

On Stamp Duty specifically

“By altering the fixed banding, and significantly raising the rate for more expensive purchases, it correctly places a greater burden on those more capable of paying it. Many of those to benefit most from house price inflation have been Londoners with more expensive properties, and it is they who will now be contributing most of the increased revenue projected from the changes announced. Unlike the proposed Mansion Tax, the Conservative provisions correctly continue to reference Stamp Duty to a discretionary decision to transact property (for the most part), rather than placing a random and indiscriminate burden on only the perceived wealthy. Any criticism of the announced changes is mostly pure electioneering, and they are not based on rational criticism of the tax.

“It has yet to be seen whether these changes will impact or slow the market at the more expensive end. We believe asking and achieved prices will be adjusted to account for the increased burden, thereby reducing the speed of capital growth in this segment of the market.

Transaction volumes at the lower end of the market are likely to increase once the uncertainty of the Election is out of the way. Surprisingly, total transaction volumes in London are down in 2014 relative to 2013, and this reflects the continuing lack of supply in the housing market; despite phenomenal demand more properties could not be transacted. They are simply not available, and this supply and demand conundrum will continue to cause prices to rise over the medium term."

Pension reforms set to boost demand: the changes to the pension rules, effective from April 2015, will only increase demand for Residential Property investment, according to Field.

"People will, for the first time, be able to avoid income drawdown and invest some or all of their pension pots to create retirement income, and with the yield on certain properties comparing favourably with that available on other asset classes, and the potential for capital upside strong, additional monies are set to flow into the Residential Property market."

Population set to boom: from a low of 6.1 million in the early 90s, the population of Greater London tops 8 million today, with many predicting growth to more than 10 million by 2020; that will present all manner of challenges, but also opportunities, for those setting policy, and those already living in, working in and commuting into the Capital. As Field says, "More people, more jobs and more demand for Residential Property, in a market with restricted supply, can only drive prices one way."

Outlook and opportunity

Temple Field predicts minimal growth in London Residential Property in the run up to the General Election, but is expecting the market to bounce back quickly and strongly thereafter, as it has with previous elections. "We expect the uncertainty to remain only until the end of the second quarter next year" says Field, "when the Election will have been decided." The firm anticipates some growth over the course of the second half of the year, and believes the Capital represents a good buying opportunity at this time for the well-advised purchaser.

"London has reached a tipping point", says Field, "and it is difficult to see how a reversal of attention and investment over the medium to long-term will take place, not least as investment is coming from such a diverse and affluent set of global institutions and individuals, each looking for a safe haven for their capital - some a location to educate, others a springboard to the rest of Europe." The dominance of London compared with the rest of the UK has never been wider, latest data from the Centre for Economics and Business Research forecasting that London prices will rise by as much as 54% by 2020.

One strategy Field advocates for those interested in an investment in London Residential Property is buying on the edge of pockets of expensive new build. "Here we can achieve excellent value and find affordable properties; we are buying two bedroom flats for clients at £550,000-£600,000, with comparable properties less than 10 minutes' walk away selling for more than £1,000,000."