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Market Commentary June 2009

So what is really happening in the London residential property market?

There has been a lot of speculation in the press that we have now reached the bottom of the market and now house prices are bouncing back, but is this really the case, and is this the case for all types of residential property?

If you ask most estate agents they will be the first to tell you that we are in the preliminary stages of a recovery and now is the time to buy, but not everyone agrees with this, however buyers can be quite sided to the opinions of the estate agent, and so are more confused than ever about what is really happening.

To understand the future, we should look to the past. Last year saw quite a dramatic fall in property prices. Most reported indices indicate that house prices fell from the peak of the market by about 20%, however in prime parts of London transactions were working towards a drop of nearly 30-35% by December – not for all properties, but more as a general trend. The indices mainly used by the media are produced by mortgage companies, and with the drying up of credit, the base of data on which they calculate their indices was not as proportionate as it had been in 2007 or before. Mortgage approvals had fallen to such low levels, that critics of these indices rightly point out that they weren't representative of what was really happening in the market.

As it became more and more apparent that house prices were going to fall in the early months of 2008, some of the larger estate agents, sometimes privately, predicted falls of up to 45-50%. Capital economics also predicted such dramatic falls, and they were one of the first people to predict that the market had peaked. Many couldn't fathom that this was possible, particularly in London, but as we all know prices started to weaken and fall, and it spread from the lower segments of the market, into the prime market before finally taking on the super prime.

Those buying in 2008 in prime parts of London were buying in cash, and cash was king. Cash offered vendors the hope of a quick exchange, and a way out of the market – therefore discounts were made available for cash. If the market was to fall by up to 45% then some people believed it was better to sell out before this happened. Some buyers got the best deals last year. Interest rates were higher, and some people had to sell. There were so few buyers in the market that people could put forward offers that couldn't be bettered, no matter how low they were. As Warren Buffett once remarked, the time to buy is when there is least competition or as he put it “Be greedy when others are fearful” - last year was the year when no one wanted to buy.

Even the super rich and the super prime were effected, and even when the press were saying that they weren't I heard stories of some of the best purchasing deals – one of which was a house that was under offer for over £100m in a private transaction. This transaction fell through on the day of exchange as the buyers pulled out – the next day the vendors were asking for 40% less. Another purchaser offered four vendors 70% of the asking prices in houses worth over £2m for a 48-hour exchange – three accepted. Whether those asking prices were realistic is another matter.

Even this year the Evening Standard reported a house in Lennox Square, Chelsea, that had started life on the market on the market for £40m. The vendor initially turned down offers of £33-34m. It finally sold for under £20m.

Those deals were few and far between as a lot of vendors held out, however this year more buyers have returned to the market and those types of purchases are not so possible in most sectors of the market as vendors have more options. Prices have therefore strengthened. Not so much risen, but the opportunity for great purchasing deals has diminished, and therefore a level has been set. Residential property valuation last year was difficult as comparables were limited and all over the place. This year comparables are more correlated.

Most people who wanted to, or needed to buy last year decided to hold on until this year. Therefore the accumulation of buyers, and the season fluctuation of market activity around this time of year, means that there are more buyers and events like sealed bids and gazundering are reported. It is also reported by potential buyers that there is a lack of decent properties and this is because fewer people have to sell.

For those who can get mortgages, there are decent rates as long as you have a decent deposit, but interest rates at the moment are low, and when the base rate is increased, this will change matters.

However London is a popular destination, and property in the prime areas is better placed than most to survive further economic upset. But even in these prime areas it is important to only be buying the good quality assets, if they can be found at the right price, as these good quality assets will be the first to benefit from a rising market. It is the lower quality assets that are more susceptible to further price falls should there be further economic unrest round the corner. Therefore it is okay to buy, just buy well.