Chestertons Residential Observer

CHESTERTONS

Chestertons' review of the 2014 property market and our expectations for 2015.
In addition to this we would like to wish all our readers a Happy New Year!

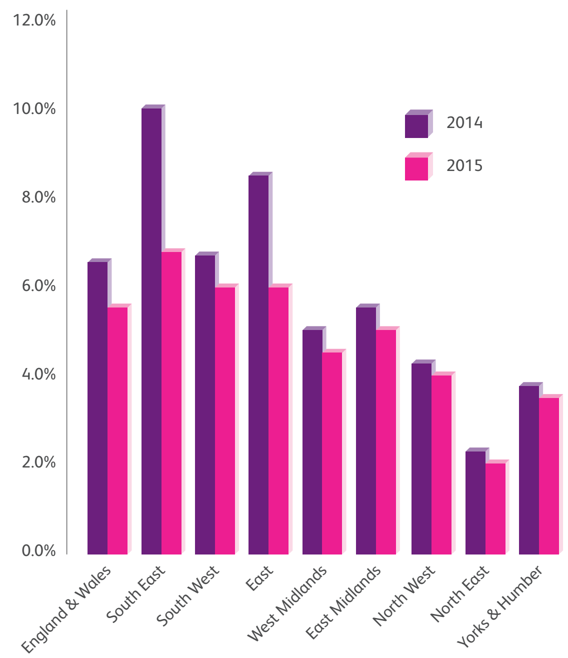

Figure 1: National & regional house price growth: 2014 & 2015
Source: Land Registry & Chestertons Research

Figure 2: London house price growth: 2014 & 2015
Source: Land Registry & Chestertons Research

House prices

2014

– Average national house price growth rose throughout the year before peaking in August at 8.3% but should still end the year around 6%-7% higher than at the end of 2013.

– The wider London market went from strength to strength as the year progressed although autumn heralded the beginning of a slowdown. This was relative, however, as average prices still rose by 17.4% in the calendar year to November and should record double digit growth for the year as a whole even allowing for the usual seasonal dip in December.

– The Prime London market galloped away in the first quarter only to stall during Q2, and subsequently experienced a downturn in both transaction numbers and prices in the latter half of the year.

2015

– After a strong 2014, national house price growth will moderate in 2015 although underlying conditions are sufficiently robust to suggest that a crash is highly unlikely. External downside risk notwithstanding, we forecast average prices will rise by 5.5% over the year.

– In London, the imbalance between supply and demand suggests house prices will continue to rise in 2015. However, we do not believe the current rate of price growth is sustainable and the tighter mortgage environment will also act as a brake on prices which we forecast will slow to 6.5% next year.

– The prime market direction, less reliant on mortgages, will be determined over the coming year principally by tax issues (Mansion Tax and the new SDLT rates), the attitude of foreign buyers and sellers and investor confidence.

– Prime values are likely to flatten up until the election after which if the Conservatives win, we expect average prime values to settle back into growth mode with growth of 3.5% over the year. However, the market could remain subdued for some time under a Labour or Labour-led coalition administration.

Figure 3: London private rental value growth

Source: Homelet & Chestertons Research

Rental values

2014

- The private rented sector (PRS) continued to expand, driven largely by "forced renters", and mirrored the sales market with regard to supply and demand imbalance and increasing affordability issues, especially within London. National rents increased comfortably above inflation, while prime London rents stabilised and rose in some submarkets from the summer onwards as supply and demand became more balanced.
- Investor appetite for residential property remained firm as reflected in the increased volume and value of buy-to-let lending. There was also increased activity from a variety of corporate investors, including institutions, private equity funds and property companies, especially in London.

2015

- With London's population growing at a rate of around 100,000 per annum and affordability worsening in the sales market, there will be further increases in demand for rented accommodation. Supply is unlikely to increase significantly which means there will be further upwards pressure on rents which we forecast will rise by 5% over the year.
- The prime rental market will continue to see supply and demand become better aligned and we forecast rental growth of 3.0%. A major uncertainty is whether landlords will pass on their mansion tax burden to tenants if Labour comes to power in May.

2014 **£207bn**

2015 **£200bn**

Figure 4: National gross mortgage lending

Source: Council of Mortgage Lenders & Chestertons Research

2014 **0.50%**

2015 **0.75%**

Figure 5: Bank Rate

Source: Bank of England & Chestertons Research

Mortgage market

2014

- Despite mixed messages from the Bank of England and the introduction of the Mortgage Market Review and other restrictive regulatory measures, mortgage lending rose, Bank Rate remained unchanged, while high street interest rates on fixed term deals came down even further as lenders competed for new business.
- Nonetheless, affordability worsened due to the steady rise in property values. Halifax reported national mortgage repayments as a percentage of income worsened from 27.9% in Q1 to 29.5% in Q3.

2015

- The low inflation outlook, slower economic growth and the spectre of deflation have reduced the likelihood of a rate hike until well into 2015 and any increases will likely be incremental. However, lending volumes are likely to be lower as the effects of the tighter regulatory environment take more hold and affordability remains an issue for many buyers.

	2014	2015
SDLT £125,000-£937,500)		
SDLT (>£937,500-£1m)		
SDLT (>£1m-£1.125m)		
SDLT (>£1.125m)		
ATED		
CGT (for non-residents)	n/a	
Mansion Tax	n/a	?

Figure 6: UK property taxes
Source: HMRC & Chestertons Research

Tax & regulatory

2014

– Tax was high on the agenda and included reform of the Stamp Duty Land Tax (SDLT) system and proposed changes to inheritance tax on property trusts, increases in the Annual Tax on Enveloped Dwellings (ATED) and confirmation of the details of the Capital Gains Tax on non-resident owners of UK residential property. The threat of a Mansion Tax also remains, depending on the outcome of the General Election.

2015

– There will be positive and negative tax related issues depending on which segment of the market you are in. While the sub-£1m market will for the most part benefit from the SDLT reform, the £1m-plus market (with the exception of the >£1m-£1.125m bracket) will face a higher tax burden. The higher end will also be worse off with regard to ATED and, if Labour wins the election, Mansion Tax. Non-resident owners will additionally be liable to capital gains tax on disposal of UK residential property from 6th April – although at least this will not be applied to gains accrued before this date.

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