PROPERTY TIMES

SOUTH KENSINGTON Q3 2023

YOUhome
PROPERTY EXPERTS

Welcome to the Q3 2023 edition of the YOUhome Property Times, an expert view on local property trends in South Kensington. In this edition we look at new recent events and how they have affected the market, laying out the key influences and drivers in the South Kensingotn residential property market currently and ongoing. Brought to you by YOUhome Property Experts - expert, personal property advisors.

What happened in Q1 2023 and Q2 2023...Q1 and Q2 2023 saw a focus to provide stability after political and financial turmoil, all while the war in Ukraine continued and failures in the banking sector impacted, the effects of which were more wide-spread than previously understood. Uncertainty pervaded and the South Kensington property market saw lower volumes of property coming on to the market.

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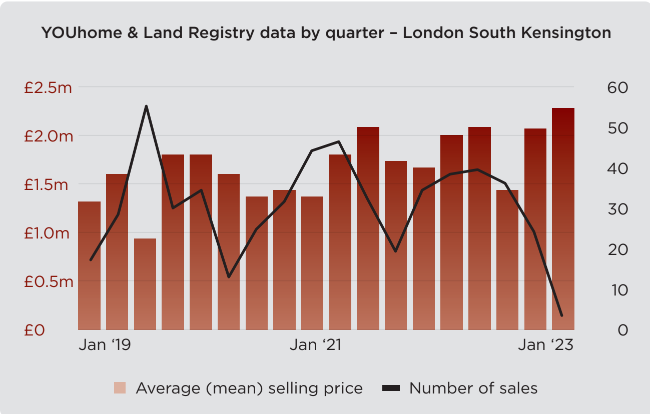
Where we are now and what we face for the immediate and medium term - Inflation, Higher Interest Rates and an interesting alternative - the hard grind and tough decisions ahead

The property market is coping with the change of high borrowing costs but it's important to note that high costs are here for the immediate and medium terms. Here we take some time to discuss why.

At the beginning of the year, Prime Minister Rishi Sunak as one of five pledges, promised to reduce inflation by half, from its peak of over 10% to 5%. At the time this seemed an easy win. Now, over halfway through the year with inflation in the UK at 8.7%, with transaction volumes slowing in South Kensington (graph below) the uncertainty that this creates is reducing the volume of transactions.



Largely this is down to the UK's battle with inflation and the tool used to counter it, interest rates.

Since the banking crisis of 2008/9 the UK/US/Eurozone has experienced low inflation ranging from 0.2% to around 2%. The pandemic saw these "advanced economies" experience a recovery in demand, consumers spent before supply caught up, prices of goods increased; turning an economy off and then on proved to be more difficult in practice. As a consequence, the UK saw a big increase in inflation from 2% in the spring of 2021 to double digits by the middle of 2022 with the US experiencing domestically-sourced inflation, shortage of workers, increase in wages, increase in prices to protect profit margins. Europe's was largely based on energy and the UK suffered a combination of both; an energy price shock and US-style worker shortages.

The timeline in the UK after a long period of low inflation saw inflation begin to grow after the pandemic with a sustained surge from March 2021 to September 2022 over the end of the UK's lockdown, with spending on goods (rather than services) and energy. This all before the Ukraine war (February 2022) peaking at 11.1% in October 2022.

In February 2022 when Russia invaded Ukraine, UK inflation stood at 6.2%, more than three times the Bank of England's "target rate" of 2%, US stood at 8.9%, Germany 5.5% and France 4.2%. The BoE had started to raise interest rates before the war up to 0.25% in December 2021 on the back of the upsurge in inflation driven by a surge in energy prices. In doing this, the BoE was ahead of the US Federal Reserve's increases in March 2022 and the European Central Bank in July 2022.

Greedflation? The UK saw a sharper inflationary rise compared to the Eurozone due to combined energy shock and a tight labour market. Compared to the Eurozone, UK consumers use short term energy contracts whereas France/Spain/Portugal are used to long term energy contracts; consumers in long term contracts are insulated from price fluctuations (the US's domestic supply of shale gas protects it from external energy shocks). At the same time UK employment has remained resilient, unemployment is close to being at a record low and because of Brexit, access to a larger labour pool and productivity that this generated in the past is now restricted...employers are seeking to keep workers, finding replacements is difficult. Some economists including those at the International Monetary Fund accuse companies of opportunistically taking advantage and increasing their profit margins "Greedflation". The result is that the UK saw surging inflation and low interest rates.

The BoE appeared slow to react to this surge. At the end of the Furlough Scheme in September 2021 the BoE expected an increase in layoffs which would slow down the economy naturally in Autumn 2021 but unemployment rates didn't rise and the UK's labour shortage continues; UK's inflation rate as a consequence remains high at 8.7% (May 2023) when the US's level fell quickly from 6.1% in December 2022 to 2.7% in May 2023 and Germany is down from 9.6% to 6.3% and France sits currently at 6%.

Prolonged pain - The significance of this is that whilst the BoE was first of the advanced economies' central banks to react to inflation, the UK's inflation surge is taking the longest to reduce and as a result, the BoE is likely to be the last of the central banks to have to continue with a regime of tightening. The relevance to property is that inflation control takes the form of interest rate rises. Rises in interest rates have meant that the 1.3 million households (of a total of just under 7m mortgage holders) renewing their mortgage this year face a significant increase; the cost of some people's repayments could treble after the BoE increased the base to 5.25% in August. Economists are projecting rates to peak at around 6%.

Yet in the face of these painful events, people currently are continuing to spend and the property market remains active, with success being found across the board.

Prime examples – The caveat to this is that it is intrinsically linked to considered advice & accurate market position. Having floundered with a variety of high-street agents, the team at YOUhome successfully found a buyer for this superb duplex on Cornwall Gardens. Initially launched pre-Pandemic, by using our in-house data, industry leading presentation & promotion, we dramatically increased buyer engagement, bringing competing offers and ultimately a 2 week exchange of contracts.

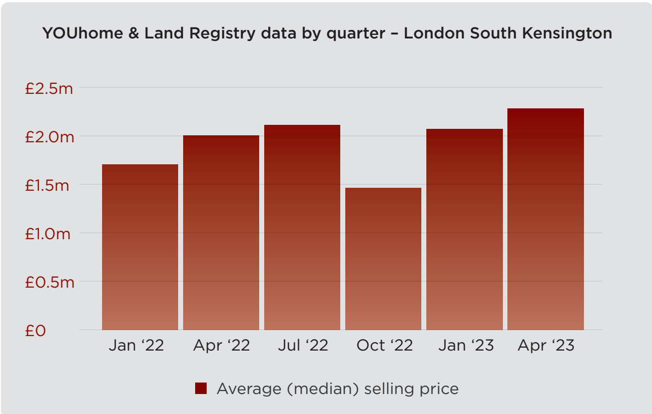
Is there a premium for a 'Turn-key' property? - Since the start of 2022 and the commencement of the war in Ukraine, the inflation on raw materials has pushed up prices across the board, and within the sphere of property this initially caused a sudden scarcity in the

Cornwall Gardens, SW7

£3,450,000 – 4 beds

availability of certain building materials. Whilst access and availability has now returned to relatively normal levels, the knock-on effect is cost - in some instances as much as a 40% increase. When combined with interest rate rises, the prospect of buying a "doer-upper" had become both a cost and risk deterrent for a not insignificant proportion of the buyer pool. For both buyers requiring finance and those in a cash position, the option of a fully renovated 'turn-key' property is an increasingly attractive proposition, despite the inevitable premium on the price tag. This, in part, has also been a factor in the relative buoyancy of values in South Kensington and the surrounding area.

With transaction levels sliding as seen earlier, over the course of '22 and into '23 this far, median selling prices have remained far stronger in comparison - trending upward since the shock autumn '22 budget.

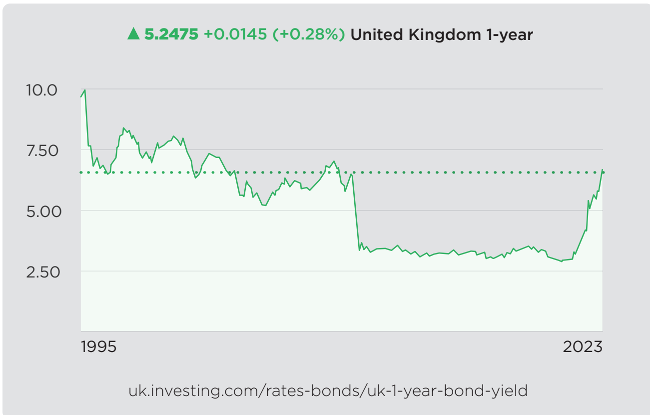


Land Registry data can only give us values, but when combined with a buyer pool where nearly 70% are using cash, and that current preference for modernised stock, one can see how this tracks and an interesting metric to follow going forward.

Whilst there will always be a demand for completely un-modernised stock, those properties in need of more than just a coat of paint have remained on the market for substantially longer, often with multiple reductions in price before a sale is achieved. As with anything, it comes back to strategy. This does not necessarily mean factoring in an anticipated budget (a task requiring far too much subjectivity), more taking heed of the comparable evidence available, and making sure the best methods of presentation & promotion are used in order to maximise return.

Supply vs. demand - With stock still in relatively short supply, there is a real opportunity for sellers to secure a buyer. However, this supply vs. demand is often misconstrued, and manipulated as leverage for agents to bolster stock lists by overvaluing in order to increase market share. Whilst perhaps a cynical perspective, the fact remains that 67% of property in South Kensington has been on the market for over 3 months, and 45% for 6 months +. Further evidence to this is that 50% have been reduced in price at least once, not accounting for those let/withdrawn from the marketplace. When put into the context of a marketplace where transactions levels in South Kensington have been on the way down since the start of the year, the danger of playing catch up is very real. On the current trajectory there are 4 further rates rises predicted over the coming months, and (as previously mentioned) certain parts of the industry warning of a rise to as much as 6% next year in order to curb inflation. Sitting on the market at an instruction winning price for that period of time as opposed to a selling price will only have a negative effect on the eventual figure.

Moving on - In discussion with clients over recent months there has been a growing concern, when either upsizing or downsizing, what the next step will be. Much as the advice to clients looking to sell would be to err towards a chain free purchaser, the same naturally applies to any onward search – a liquid position provides a stronger base, look to sell before you buy. More often than not this means entering the world of rentals, often daunting as an avenue unused for a number of years, but most crucially an additional expense on top of the fees already associated with a sale. How then can these costs be mitigated, and a chain-free position be optimally achieved?



With proceeds of sale in hand, and an eye to the markets, there are some active approaches to this. Yielding just under 1.8% in July 2022, UK 1 year gilt bonds are currently yielding around 5.2%. These are truly historic figures, with yields having been nearer that 1-2% level since the end of Tony Blair's time at Number 10 – over 14 years. That 5% return could have the potential to, in part, mitigate the cost of a short term rental option, creating a position of liquidity & speed when heading back into the marketplace.

THE VIEW FROM HERE - BEGINNING OF Q3 2023

POSITIVES

Property owners have a secure and comparatively high yielding option that enables them to sell now and be ready for their ideal property.

The fragile stability from earlier this year continues with some measure of predictability meaning that the market is functioning. When sellers bring their property to the market and if it is properly presented and promoted and carefully priced / positioned in the market it will sell.

For South Kensington property owners the small number of strong best in class prices being achieved will affect values all around and this is set to continue. Important not to be overly influenced by outliers, however.

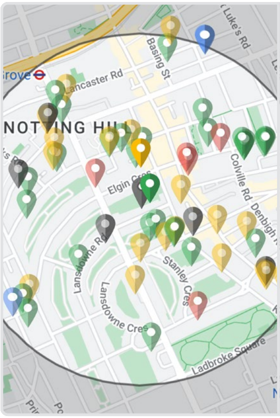
There is a higher than average proportion of cash buyers in South Kensington, and whilst this has its advantages in terms of speed and certainty, these buyers know the value of this and the market will be affected by the section of the market using finance.

NEGATIVES

Domestic economic tightening – inflation and interest rates. Buyers in South Kensington are comparatively wealthy, a high proportion will use mortgage finance, whilst not immediately impacting South Kensington buyers, higher interest rates are not positive for property values. We are seeing people question bringing their property to market and whether to buy at this stage.

Geopolitical uncertainty, sparring super-powers, the effects of the war in Ukraine, are likely to continue materially impacting the West – this will affect the South Kensington market in the medium term.

High inflation, energy costs and high interest rates are correlated to downturns in Prime Central London house prices, and continue to dampen buyer enthusiasm.



A new and massively helpful property market data resource is launched by YOUhome. It has always been key but now more than ever it is vital for owners to know where their property sits in the market. The portals, Rightmove, Zoopla etc. are for property buyers. We have developed a way for property owners regularly to assess the value of their property by drawing together and processing information on properties sold, on the market and exchanged, with many filters to enable drill-down and build the most relevant comparable market picture. This resource is free to air with property exchange information additionally available to YOUhome clients.

Use the camera on your smartphone to scan this code, or visit: **mypropertymarket.co.uk**

MY PROPERTY MARKET by YOUhome PROPERTY EXPERTS

YOUhome - Unique local market insight, expert advice and personal service

Henry Synge (MNAEA), South Kensington Property Expert: *"This local property update, expert commentary and access to leading specialist advice is just part of the excellent agency service we provide. We have collectively worked in South Kensington & RBKC as a whole for 60 years and, combined, have sold over a thousand properties. Please do contact us with any questions you may have."*

Find out more about us at **youhome.co.uk**

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