PROPERTY GURUS

Use the camera on your smartphone to scan this code and find out more about YOUhome's track record

PROPERTY TIMES
W11 Q1 2023 ISSUE

Welcome to the Q1 2023 edition of the YOUhome Property Times, an expert view on local property trends in W11. 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 Notting Hill residential property market currently and ongoing.

Brought to you by YOUhome Property Gurus - expert, personal property advisors.

A WORKING "NORM" OVER-SHADOWED BY CAUTION

A fragile stability exists, caution and uncertainty predominate - the W11 property market has returned to a working "norm" over-shadowed by caution. Priced carefully, property is attracting interest and receiving sensible offers; the market is operating but across the board is even more price sensitive than ever, at every price point. Best-in-class owners cannot rely on being able to "write their own ticket" – but can still test the market at a strong level.

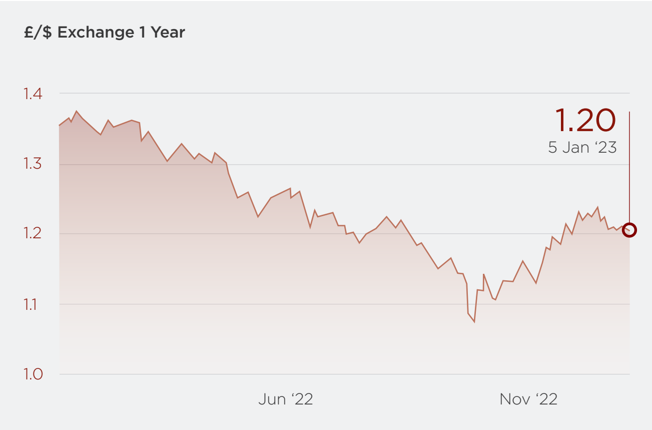
Stability exists with higher finance costs but there are many factors that can return the markets to the turmoil of Q4 2022. Lessons can be learned from other mature and sophisticated markets (e.g. Sweden) experiencing property price corrections as a result of interest rate rises and a greater proportion of variable rate mortgages and shorter term fixed rate mortgages so the property price impact of increased mortgage costs can be seen earlier.

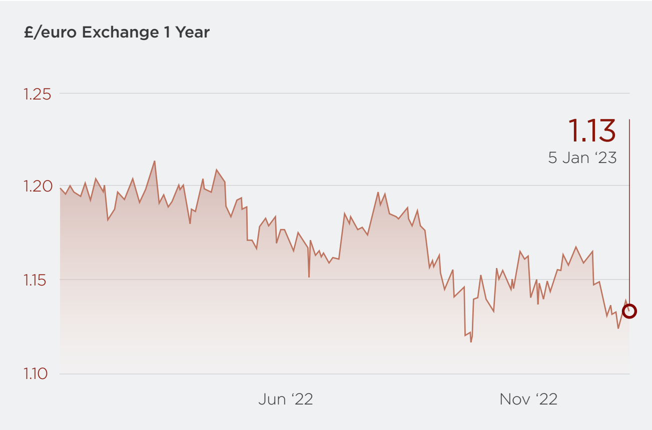
Receding pandemic, war continuing, inflation and cost of living increasing, geo political instability increasing...

Receding Pandemic – the UK's daily referral to the R value for infection rates has recently been dropped and covid appears largely to be being "lived with". It is still having a profound impact on China with impacts to manufacturing and world supply chains. China is now over-run with cases following its U-turn from a long-held zero covid policy using strictly imposed lockdowns across the country. There is expectation that China's economic activity will bounce back quite swiftly.

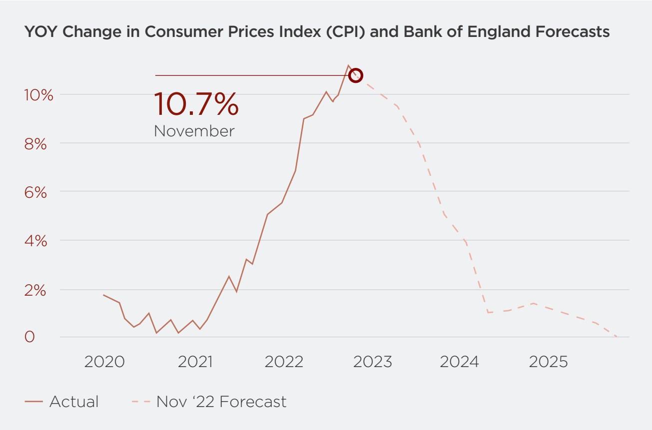
War in the Ukraine – winter has brought a stalemate, both sides entrenched with no apparent path to peace other than a full Russian retreat which currently looks unlikely.

Costs, inflation and recession – after the price spikes caused by the war in Ukraine, global oil and wholesale gas prices have fallen sharply. The pound has started what appears to be a recovery against the dollar... averting for the moment at least the feared £:$ parity. However, the pound has fared less well against the euro with the result that the significant imports from the continent are still more expensive than they were before September 2022.





The recent improvements in Sterling's strength have brought good news from the Office for National Statistics with the Consumer Prices Index falling to 10.7% in November 2022, down from 11.1% in October with predictions that October would be the month in which inflation peaked with market expectation that this continues for the next two years before bottoming out in 2025.



This, combined with the Bank of England's work to continue to battle inflation with an increase to base rates in December 2022 to 3.5% has meant that the financial markets appear to have settled, albeit with the acceptance that the era of low cost borrowing is now over and we are returning to a real interest rate environment (i.e. above inflation) where longer term interest rate value expectations are greater than longer term inflation rate value expectations.

The effect over all to UK economic growth has been that it was positive in 2022 but with this growth taking place largely in the first part of the year. The UK economy looks to be contracting and is not alone, the IMF has over this weekend announced that a third of the global economies will be in recession this year, including half of the EU.

After a period of comparative stability there are potential dangers ahead. One being the secondary inflationary effect to the UK of further cost rises for the public as businesses look to pass on cost increases they are experiencing. The UK is facing a raft of public sector pay demands and strikes. As discussed in our last issue, the UK government is under heightened scrutiny. Its ability to cope with this and all that it faces will directly impact the country, its economy and well-being, all this in winter months when heating and energy costs are at their highest; a volatile mix when stability and predictability are much needed. The present leadership team needs to show its Conservative Party that it has the winning formula ahead of the next election, due no later than January 2025. Conservative MPs are carefully monitoring every step and its recent antics show it to be capable of ditching one team for another, almost regardless of the effects to the UK and its economy over-all, however the closer the election the less likely the Conservatives are likely to risk such seismic changes.

In the first polls of 2023 the Labour Party command a 20 point lead over the Conservatives (but with a majority preferring leadership by Sunak over Starmer). Labour have been careful not to set out their stall too early. Polls will be more closely followed as time ticks down to the next general election and Labour's wealth and housing tax and non-domicile tax policies will become more present as feeders into the property price forecast debate.

The impact on the UK property market – caution and higher cost of borrowing – The Bank of England increased its base rate by a further 0.5% in December 2022 adding to the sharp and jolting rise in base rate linked borrowing for home owners from broadly 1.5% in August 2022 to over 5% now, albeit and thankfully longer term fixed borrowing rates have fallen back from their peak.

UK 10 Year Swap

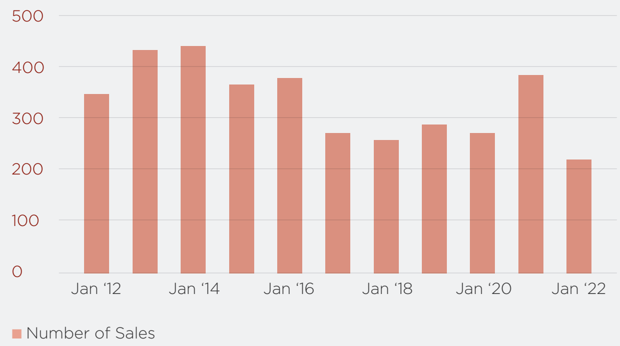
Uncertainty and caution continue but the market has regained a little confidence reflected in healthier pre-Christmas activity after the shock from the Fiscal Event

After a year like 2022 any expectations of growth in 2023 have been replaced by an adoption of severe caution. The hastily assembled new Prime Minister and Chancellor team appear to have established a fragile stability following the turmoil after September's Fiscal Event. The effect of this stability has been a return to a working property market, lenders have returned fully, albeit charging higher mortgage interest rates and buyers have largely continued or returned and these higher costs have been priced in. Immediately after the Fiscal Event the market effectively froze, perhaps in astonishment at the fiscal financing mistakes made. After the freeze, buyers re-emerged and, in the latter stages of the year particularly we saw a period of engaged viewers offering and agreeing purchases where properties had been sensibly priced.

In the immediate and medium term in the UK, in the face of talk of recession, higher costs of borrowing, cost of living/inflation reaching new heights and geo political uncertainty it is likely that property owners are going to be cautious in coming to the market and buyers will be reluctant to compete strongly in what they see is a fragile/falling market. Now more than any recent time, pricing and market positioning has to be looked at carefully. Even best in class properties, although substantially advantaged, now appear to need to be included in this.

This in turn will mean that property sales prices in W11 are likely to stay flat at best in the year. We anticipate a low volume of sales in W11 due to the mounting caution, similar to if not even lower than 2022. Property sales in W11 stood at 218 up to the latest records dating 21st November, compared with 381 sold in 2021 as shown in figure 1 below.

Fig 1. YOUhome and Land Registry Data by Year – London W11



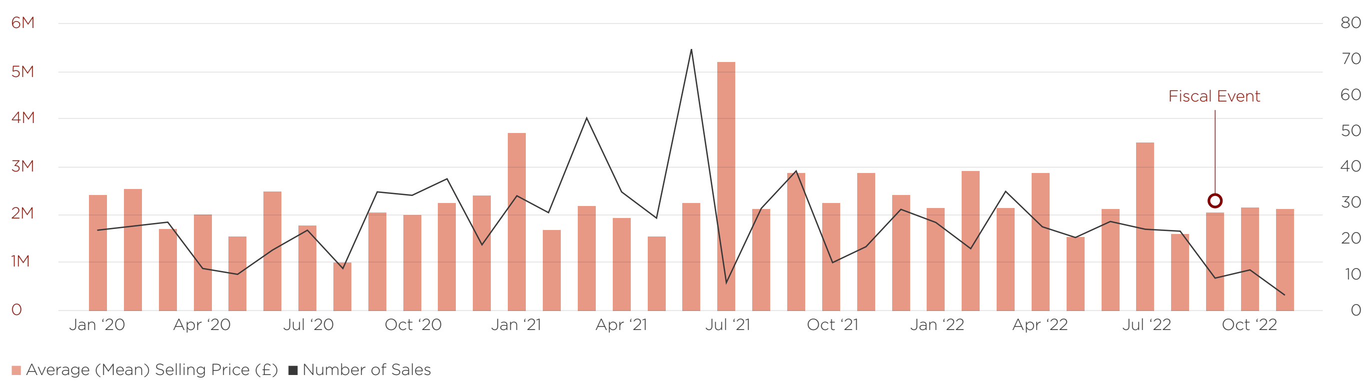
The higher total in 2021 compared with earlier years was largely a result of pent-up demand from the lock down period and the Stamp Duty holiday which ended in September 2021. Of the 218 W11 properties sold in 2022 just under 10% were over £5m in value, in 2021 12% were over £5m in value in W11, 70% of the 218 were flats rather than houses.

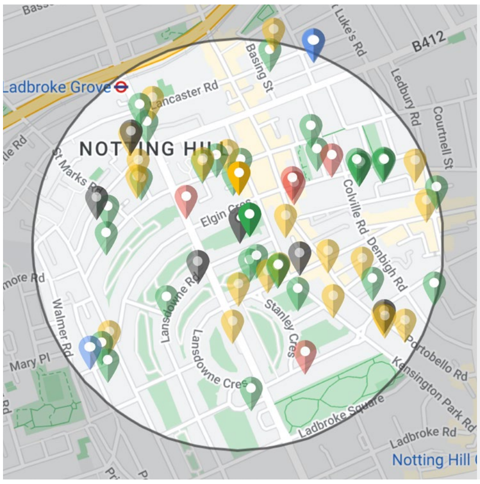
WHAT WE'RE SEEING, HEARING AND FEELING ON THE GROUND IN W11

As the graphs below show, the impact on the W11 market appears to us to be continued uncertainty and caution resulting in low volumes of transactions (the black line). Similar to the recent last quarters, people are tending to stay put unless they absolutely need to or strongly want to move.

There is no clear trend in buyers other than the large majority tend to live in the area already, know the area well and are looking to move for more or less space. At the time of writing there appears to be a schism between owners' and buyers' expectations and this can be bridged and a sensible transaction brokered with careful advice and analysis.

Fig 1. YOUhome and Land Registry Data by Year – London W11





MY PROPERTY
MARKET

A New & Massively Helpful Property Market Data Resource Is Launched

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. Visit: **www.mypropertymarket.co.uk**

THE VIEW FROM HERE - BEGINNING OF Q1 2023

Positives:

Comparative stability and predictability mean the market has returned to function (albeit with increased financing costs). When sellers bring their property to the market and if it is properly presented, promoted and carefully priced / positioned in the market it will sell.

For W11 property owners the small number of strong best in class prices being achieved will affect values all around and this is set to continue, aided by the return of international buyers.

There is a higher than average proportion of cash buyers in W11 and whilst this has its advantages in terms of speed and certainty, these buyers know the value of this.

Negatives:

Global instability, threat of recession, continued uncertainty, the UK's financial position, the resultant increase in loan prices, the increasing cost of living will all reduce the number of transactions taking place in W11 and across all of central London in the immediate term.

Winter's onset and the effects of the war are likely to continue materially impacting the western world – this will affect the W11 market in the medium term.

Whilst energy prices are reducing, comparatively high energy prices are correlated to downturns in prime central London house prices.

Domestic economic tightening – inflation and interest rates. Buyers in W11 are comparatively wealthy; a higher proportion than normal will use cash. Higher interest rates will not be positive for property values. We Are seeing people question bringing their property to market and whether to buy at this stage.

At YOUhome it's expert and personal

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 lived in Notting Hill for over 50 years, raised families locally and, combined, have sold over a thousand properties. Please do contact us with any questions you may have, I/we can be reached on either **07780 497188** or **0207 908 9282**.

Jerry Epton (MRICS), W11 Property Guru
Call **07780 497188**
Email **jerry.epton@youhome.co.uk**

Laurence Lai

Adrian Black

Bibi Moayedi
Call **07388 130306**
Email **bibi.moayedi@youhome.co.uk**