PROPERTY TIMES

W11 Q3 2023

YOUhome
PROPERTY EXPERTS

Welcome to the Q3 2023 edition of the YOUhome Property Times, an expert view on local property trends in W11. In this edition we look at 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.

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 widespread than previously understood. Uncertainty pervaded and the W11 property market saw lower volumes of property coming on to the market.

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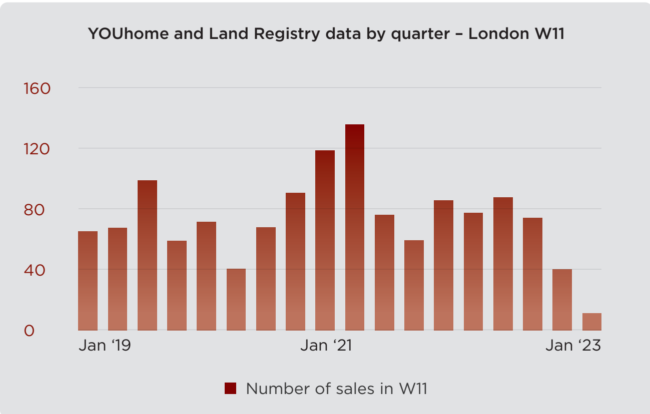
Where we are now and what we face for the immediate and medium term - inflation, higher interest rates and a "sell and rent for free" option (see page 3) - the hard grind and tough decisions ahead.

The property market is coping with the change of high borrowing costs but it's important to note that high borrowing 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 W11 (shown quarterly below) the uncertainty that this creates is reducing the volume of transactions.



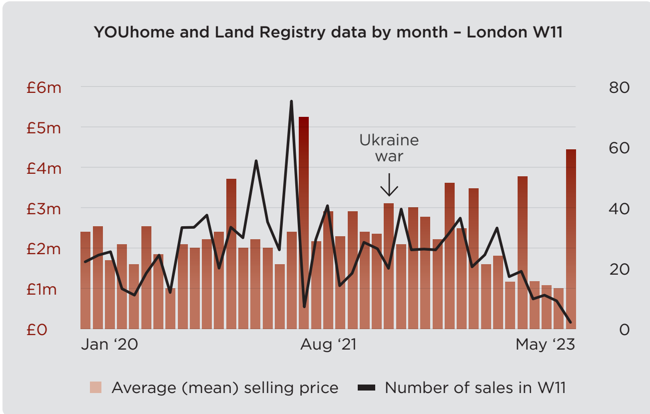
Largely this is down to the UK's battle with inflation and the tool used to counter it, interest rates.

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 back on again 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.

Over this period, W11 properties sold (monthly sales shown by black line below) have seen a steady tail off, not sudden...since inflation started rising in February 2021, interest rates have steadily ticked up and mortgages have become more expensive.



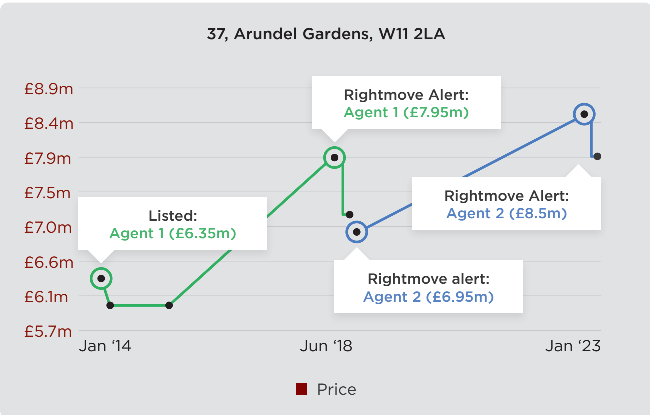
Greedflation? The UK saw a sharper inflationary rise compared to the Eurozone due to combined energy shock and a tight labour market. Compared to the Eurozone, UK consumers use short term energy contracts whereas France/Spain/Portugal are used to long term energy contracts; consumers in long term contracts 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 the 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%.

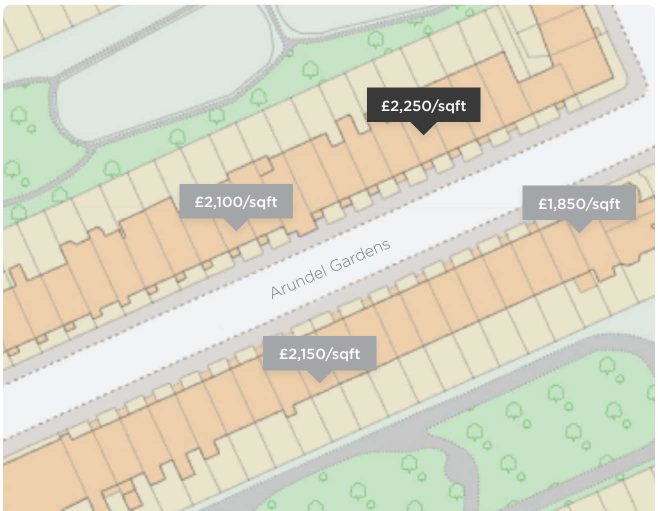
Prolonged pain - The significance of this is that whilst the BoE was first of the advanced economies' central banks to react to inflation, the UK's inflation surge is taking the longest to reduce and as a result, the BoE is likely to be the last of the central banks to have to continue with a regime 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 another 0.5% to 5% in June…economists are projecting rates to peak at around 7%.

Yet in the face of these painful events, people currently are continuing to spend and the property market remains active; whilst these are outliers in terms of size and £ per square foot rate achieved, W11 has seen large turn-key houses on Clarendon Road and Ladbroke Terrace sell for around asking of £33m (£5,069/sqft) and £45m (£3,137/sqft) respectively.

People continue to buy, broadly 30% using finance/mortgages. A turn-key 3,810sqft maisonette on Arundel Gardens, in good condition but with the lower ground under separate ownership and not available for sale, had been on the market for nine years at a range of prices with a number of agents….



Its sale achieved close to the highest price achieved on the road, selling at £7.75m (£2,034/sqft) in June 2023 (the high being 16 Arundel Gardens £2,250/sqft in 2017).



16, Arundel Gardens, W11 2LA

Terraced, Freehold

Sale Date	Price Paid	Change	Floor Area Price
07/02/2017	£10,000,000	▲ 12.62% pa	£2,250/sqft

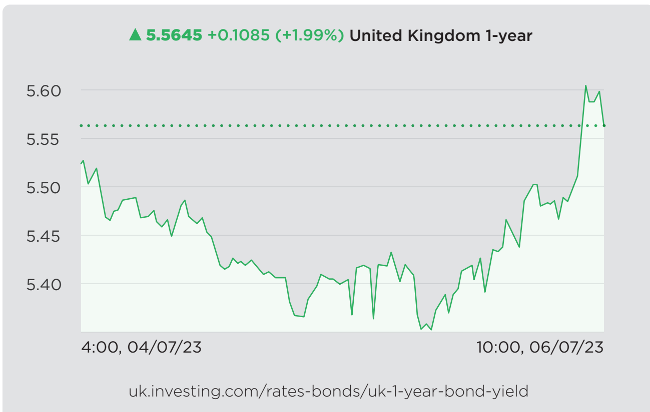
Economists put this continued activity/resilience down to households having post-pandemic excess savings still, the number of users of variable rate mortgages is down from 40% to 15% of mortgage users and so a larger proportion are protected from interest rate fluctuations until they have to refinance. **Key also is that many appear to value their home more post-lockdown, an example, people working from home value space at home for an office, people appear to be comfortable making greater sacrifices to keep up their mortgage payments.**

As discussed, over 350,000 households face refinancing at significantly higher rates every coming quarter. Plans to provide mortgage relief have been rejected on the grounds that it would be counterproductive (i.e., keep inflation and interest rates high), rather, it's likely that numbers taking interest-only mortgages will increase.

Economists project that this period of high inflation and interest rates is with us for at least another year, they say that while the UK economy remains resilient to higher rates, there appears to have been a lag in effects of this tightening regime but that they will bite and the country will enter into a recession….this may well do the job of bringing inflation (and interest rates) down quicker but the pain involved for many is likely to be significant. The Labour Party, believing that they have a realistic chance of being in government in 2025 are likely to be hoping that the tough steps will have been taken before they come into power.

An alternative for home owners is now available, owners can sell and effectively rent for free…with interest rates for years being so low, property owners have sought a secure alternative to invest into once they sell. Historically, investing in secure and liquid UK Gilts, i.e., lending to the UK government, yielded just 1.5% per annum this time last year. Now the yield is higher than 5.5% per annum.

More use, more value…greater flexibility is now available…property owners can now sell, invest the proceeds in secure and liquid UK Gilts and their annual yield of over 5.5% more than pays for rent paid in the period. From this position, they can watch the market and buy at a later stage, when they're ready. The rental period would be seen as a means to an end to secure the ideal, long-term home and be ready and in the best position to achieve this, i.e., liquid, with no chain, fully informed of the market, clear about what is wanted and willing and ready to act swiftly to secure it.



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 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. Important not to be overly influenced by outliers, however.

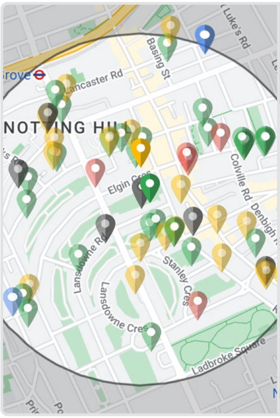
There is a higher-than-average proportion of cash buyers in W11 and whilst this has its advantages in terms of speed and certainty, these buyers know the value of this and the market will be affected by the section of the market using finance.

NEGATIVES

Domestic economic tightening – inflation and interest rates. Buyers in W11 are comparatively wealthy, a high proportion will use mortgage finance, whilst not immediately impacting W11 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 W11 market in the medium term.

High inflation, energy cost shocks 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

Jerry Epton (MRICS), W11 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 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 can be reached directly on 07780 497188."*

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