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PROPERTY GURUS

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PROPERTY TIMES
W11 Q4 2022 ISSUE

Welcome to the Q4 2022 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.

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UNCERTAINTY INCREASES BUT OPPORTUNITY EXISTS

Uncertainty continues, caution is growing, the W11 property market continues to be thin. Priced carefully, property is attracting interest and receiving sensible offers; the market is operating but all is price sensitive, even the best in class may be included in this now…in spite of (and partly because of) new political leadership, the UK's finances are under global scrutiny and pressure. UK bonds rose above those of the eurozone debt-victims Greece and Italy and the Bank of England has had to step in with an intervention purchase package of £65 billion of government debt. Recession appears to be looming and fears appear to be growing, exacerbated by the government's recent unbudgeted "fiscal event", which, after a turbulent week in the financial markets, the government is having cause to re-consider.

PANDEMIC, WAR & POLITICS

Over the year - Q1 to Q3 2022 – we've seen a relentless series of significant factors, the pandemic continued, then came the war in Ukraine with the consequent energy, food and supply crisis.

Lockdowns continue in China and other countries, winter is arriving in the West and Covid numbers may begin to rise; the Ukraine has successfully countered and is pushing for as much land recovery prior to winter halting major movements, but Russia's threat and global impact continues…

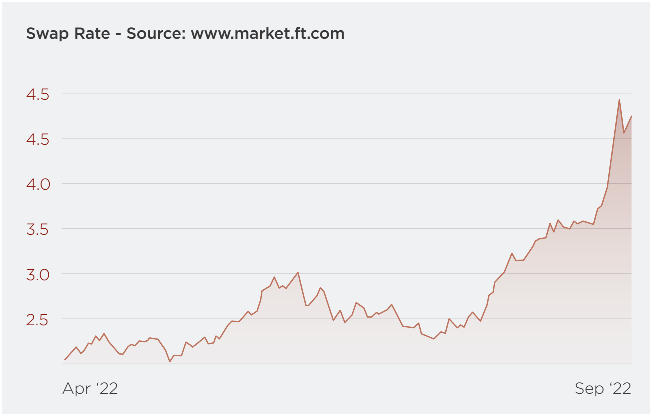
UK under pressure – a change in leadership in the UK government brought a raft of radical initiatives in their autumn mini-budget in September. The measures sought to move the dial in GDP growth but were unbudgeted by the Office for Budget Responsibility… and on top of existing uncertainty in the UK economy from Brexit, the pandemic and the Ukraine war and facing UK inflationary pressures, the Bank of England increased the base rate of interest from 1.75% to 2.25% on the 22nd September.

The effects of the mini-budget/fiscal event were to bring the UK in to the global financial world's spotlight. The markets reacted with concern to unfunded moves by the UK government adding to what it deemed as being unsustainably large demands on a growing national debt. The International Monetary Fund made the unusual step of voicing its concern on the policies of a G7 country. The Bank of England's government bond purchase was deemed a necessary stabilising step but it continues to face having to tread a difficult path of needing to increase interest rates to counter inflation and be seen to take controlling measures, a consequence of which will cause severe financial pain to the country's mortgage holders whose loan costs are rising at a rate not experienced for over 20 years.

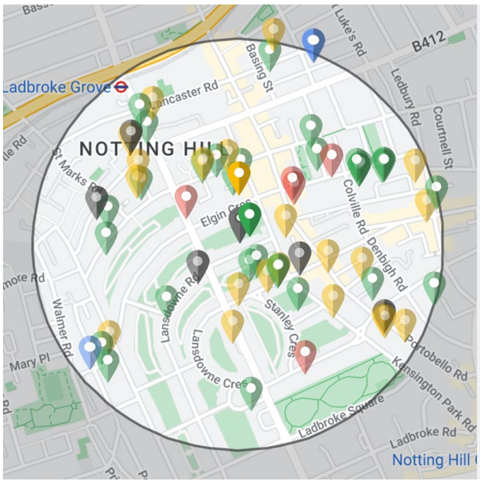
MORTGAGE RATES

Cost of borrowing has risen sharply.

Rates charged by mortgage providers are reliant upon prices set in the markets which are governed broadly upon the markets' outlook of the UK economy. Mortgage providers offering fixed rate loans gain protection from fluctuations in the market going against them by agreeing a swap with another institution with variable rate funds. As shown in the graph below, the cost of these swaps has increased over this year, the ten year swap rate being 1.262% in September 2021 rising to the current 4.73% – a rise over the year of over 300%.



Since the mini-budget, concerns grow that the UK government's leadership is at odds with the BoE, its radical plans are too much for what are already seen as being profoundly uncertain conditions. The markets reacted adversely and, pertinent to UK property owners, mortgage providers withdrew some fixed rate borrowing offers facing a rush from concerned borrowers. The market remains highly sensitive to and watchful of the government's plans.What the new leadership saw as ambitious plans for the UK economy had the result of increasing uncertainty at a time when investors, property owners among many others are seeking stability and fiscal responsibility.



A NEW & MASSIVELY HELPFUL PROPERTY MARKET DATA RESOURCE IS LAUNCHED

www.mypropertymarket.co.uk

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 filters to enable all to be relevant to each property.

This resource is free to air with property exchange information additionally available to YOUhome clients.

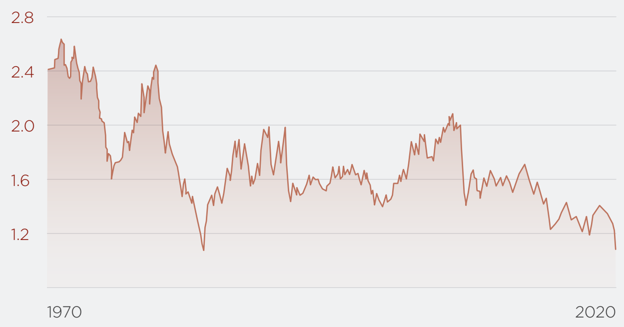
FOREIGN EXCHANGE RATES - $-BASED BUYERS SEE OPPORTUNITY

Perceived fiscal responsibility attracts investors and the turmoil in the UK has appeared to have been in stark contrast to the performance of the world's financial "peg", its "safe haven", the US dollar.

The US dollar has also performed well against other countries' currencies. Only 24 have outperformed it since the start of the year. However, the pound has fallen more than 20% against the dollar this year alone, putting it among the 20 worst performing currencies. The euro has also fallen against the dollar, by 15% over the same period - the two currencies had the same value this year for the first time in over two decades. The pound is down against the euro over the same period.

We have to remember that it is not only UK creating its own uncertainties but also the US is not reliant on Russian energy supplies that helps it appear safer for investors' funds but it is projected that the pound will continue to be deemed as weak by international financial markets as it faces continued "strong headwinds".

Pound Dollar Exchange Rate - Source: www.macrotrends.net



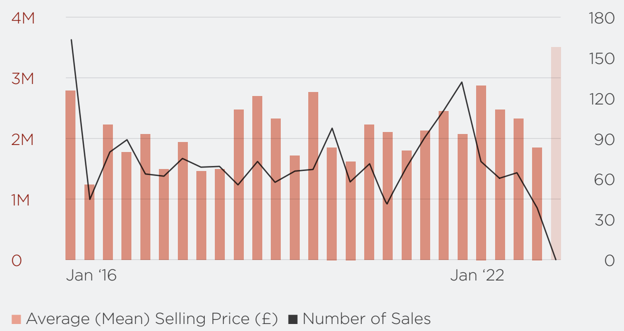
WHAT WE'RE SEEING, HEARING & FEELING ON THE GROUND IN W11

The impact on the W11 market appears to us to be continued uncertainty and caution, people staying put unless they absolutely need to or strongly want to move.

Q2 saw the number of properties sold in W11 equal to that of the earlier historic low in 1995...38 properties sold in W11 in Q3.

With the government's Stamp Duty reduction we may see more transactions but these are likely to take place in the smaller value lot sizes but gains made due to Stamp Duty reasons will be swamped by increased interest rates and mortgage payments and a reduced number of mortgage offers available and potentially tightened lending criteria

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



NB: Data for most recent quarter is incomplete.

IN AMONGST THE GLOOM THERE MAY BE GLIMMERS OF LIGHT

Brought about by:

Central London's buyer base continues to expand due to the long-established position, lifestyle and education on offer and further enhanced by the removal of the cap on bankers' bonuses imposed by the EU - this enables unimpeded higher remuneration and will, it is hoped by the UK government, attract new wealthy talent and more financial services business.

At the same time, again via September's mini-budget, the threshold after which Stamp Duty is payable has been raised, a higher number of people can, it is hoped by the UK government, afford to buy. In the immediate term this is unlikely to bring about price pressure/increases in central London in our view.

The world is opening up slowly from Covid lockdown and beneficiaries of the energy crisis who are unaffected by sanctions, such as those from middle eastern oil/gas-supplying countries, are returning to the UK as property buyers. US buyers (and many financial services industries that pay in US dollars) are seeing significant value in the UK and Notting Hill has in the past proven popular to US buyers and this is likely to continue.

A VERY RECENT RECORD SALE

The result in the immediate and short term – is that best in class will continue to attract premium offers and sell off-market...a recent example, an end of terrace four bedroomed Elgin Crescent house and garden with off-street parking and direct access to communal gardens had held the street record high price per square foot achieved at £3,300psf since it was last sold in 2014. The property, largely unchanged since 2014 was marketed quietly for sale, had competing bids and achieved in excess of £4,250psf which we believe sets a new record for £ per square foot sales achieved in this, one of the most popular Notting Hill addresses.

THE VIEW FROM HERE - BEGINNING OF Q4

Positives:

The market continues to function well, when sellers bring their property to the market and if it is carefully priced, properly presented and promoted it is selling.

International buyers, particularly buyers from the US and Middle East (US$ and oil economies) are finding value and returning to the central London property market.

The number of property buyers in central London is continuing to expand – recently further strengthened by the raised Stamp Duty threshold and the removal of the bonus cap. 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 gradual return of international buyers and in particular the strength of the US Dollar compared to Sterling.

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Negatives:

The UK's financial position, the resultant increase in loan prices, the consequent uncertainty, 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 arriving and the effects of the war are likely to continue materially impacting the West – this will affect the W11 market in the medium term.

Energy prices continuing to climb, in spite of the government cap, are correlated to downturns in prime central London house prices.

Domestic economic tightening – rising 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 will not be positive for property values. We are seeing people question bringing their property to market and whether to buy.

WE SELL MORE THAN 90% OF ALL THE PROPERTIES WE ARE INSTRUCTED ON

Part of the reason for this is that each of us at YOUhome provides a one to one, managed service from start to finish, we work hard to find solutions to issues if and when they arise. We have built up an extensive network of leading experts to draw upon to help advise owners and buyers alike.

One of these is leading tax advisers Blick Rothenberg. Here we have asked their CEO, Nimesh Shah, briefly to set out a property/ Capital Gains Tax (CGT) summary. If you would like further information on any of this, please contact Nimesh Shah at Blick Rothenberg by calling +44 (0)20 7544 8746, or via email:

nimesh.shah@blickrothenberg.com

WHAT'S IN A CAPITAL GAIN?

The last Labour chancellor, Alistair Darling, overhauled the CGT regime in 2008 by abolishing indexation and taper relief and introducing a flat rate of capital gains of 18%. Up until the 2008/09 tax year, CGT was aligned to income tax (if that sounds familiar from more recent speculation).

During the 2010s, the flat rate system faced constant political tinkering, and we now have five rates of CGT that could apply, ranging from 0% to 28%. Your actual CGT rate depends on whether you are basic rate or higher/additional rate taxpayer, the asset you are selling (as residential property and carried interest suffer a 8% CGT surcharge) and whether there are any specific reliefs applying.

Despite all the government interference, CGT raises very little – at £15 billion per annum, which is around 2% of the UK's total tax receipts.

WHAT DOES THE FUTURE HOLD?

As mentioned at the start of this article, successive recent governments have looked to reform the CGT regime; given the present political direction, it appears highly unlikely that there will be any changes to CGT for the remainder of this parliament. However, a future progressive chancellor will want to modernise CGT, which could go as far as abolishing it completely, together with inheritance tax, and replacing both with a wealth tax.

PLAN TO GET IT RIGHT, AVOID GETTING IT WRONG

There are lots of ways to reduce CGT – some simple actions for everyone, and specific opportunities depending on your circumstances. Sensible planning actions can mitigate the CGT impact leaving more for reinvestment.

Your annual **capital gains exemption** of £12,300 (for 2022/23) – it can't be carried back or forward or transferred to someone else (such as your spouse) so you should plan it use it every year.

You can **transfer assets to your spouse or civil partner** to effectively double the capital gains annual exemption which could be worth up to £3,444.

Capital losses can be offset against capital gains arising in the same tax year, and any excess losses can be carried forward indefinitely.

You need to make a specific claim for capital losses (commonly through a self-assessment tax return) and there is a four-year time limit - capital losses relating to the 2018/19 tax year need to be claimed by 5 April 2023, after which such claims would not be allowable.

Principal private residence ('PPR') relief is one of the most valuable and commonly used reliefs in the UK tax system (and most people will not realise they are claiming it). The capital gain on the sale of your main residence, if occupied throughout your period of ownership, is completely relieved from CGT.

If there have been periods where you haven't occupied the property as your home, relief can still be available in the following circumstances –

- If the property has been your only or main residence at some point during your ownership (however short the time period), the last nine months of ownership are always treated as occupation for PPR relief;
- Any period of absence, up to a maximum 3-year period (and can be made up of separate periods but capped at 3 years);
- An unlimited period of absence, if you go to work overseas for reason of employment (not self-employment); and
- Where you are prevented from living in the property due to working elsewhere (either employed or self-employed) up to a maximum 4-year period (and can be made up of separate periods but capped at 4 years)

If you sell a residential property realising a taxable capital gain, you now need to **report and pay any associated CGT within 60 days of sale** – this a relatively new requirement and HMRC will issue penalties for not meeting the deadlines.

Up until 5 April 2015, non-UK residents were not subject to UK CGT on the sale of UK residential property; **in 2019, the scope of UK CGT was extended to cover disposals of all UK land**. Non-UK residents may also have to pay tax in their home country, and that country should generally allow a tax credit for any tax paid in the UK (but the local provisions should be checked).

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**

George Hartley, Client Services Consultant
Call **07498 073410**
Email **george.hartley@youhome.co.uk**

Laurence Lai
COO & Head of London Sales

Adrian Black
Founder & CEO

Call **020 7908 9280,** Email **ldn@youhome.co.uk**, Online **www.youhome.co.uk**

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