

## **Residential**

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### **Headlines**

- Tax - we are entering a high-tax environment. Most significant price restraint is likely to be in the South East and Prime Central London; however we think that the impact will be marginal because buyers will see houses for owner occupation as a tax shelter.
- We anticipate Sterling will remain weak and therefore support continued inward investment from European and Asian buyers.
- Land values will remain depressed. Most house builder refinancing has been dedicated to balance sheet repair and funds for development / construction. SPV project finance for development will only be available from private equity sources, the returns required will contrive to depress land values.
- We expect to see more stressed stock especially in the sub-£20 million (released to the market as the main property lending banks get to grips with their portfolios and manage assets more proactively).
- Government legislation - green agenda will continue to add to the cost burden on development land.
- HIPS - white elephant, has no value added for either vendor or purchaser, should be scrapped.

### **1. LONDON & SE LAND MARKET**

- We feel that there will be an increase in receivership disposals during the first 2 quarters of 2010 as banks and receivers react to the recent transaction evidence from July - December 2009.

- 2010 will be characterised by numerous frustrated cash-backed purchasers who were unsuccessful in acquiring sites during the back-end of 2009 - those who were unsuccessful are either subscribers to the double-dip theory, or simply remained overly cautious. In the short term they could be proved right, but the buyers who successfully bought land had their sights on land banking for 2011 and ahead.
- Most 2009 land sales have reached or exceeded the sellers' expectations.
- It follows that the first quarter of 2010 could be a prime selling time - there are many would-be buyers with unfinished business wanting to benefit from the debt-starved climate.
- Paradoxically, if too many sites do come forward, or secondary / poorly located sites try to cash-in on the improved sentiment, success is not guaranteed. London's *renaissance* has been founded upon a flight to quality locations.
- Registered Social Landlords could return as buyers to the land market - they now have access to the transactional data which was not evident at the beginning of 2009 - and they can feel more confident of the receipts that will be generated from private sale and shared ownership sales.
- Housing sites rather than apartment sites have been highly sought after during 2009 - many will want to land bank *marginal viability* apartment sites in 2010 while the construction funding markets remain tight, or closed.
- Nationally, land prices will remain stable until there is clear evidence of increased transactions, i.e. justifiable more demand-led development. London and the South East has already enjoyed some recovery during 2009, and if this remains stable - early 2010 could experience some fall in land values, but 2010 is likely to end on an UP, as *Demand* clearly out-strips *Supply*.

## 2. LONDON RESIDENTIAL INVESTMENT

- The question for overseas buyers is: “is Sterling going to start a fight back?” If it does, interest in London Property Markets may be more limited.
- Developers and house builders no longer need to heavily discount standing stock.
- Continued flight to quality within London - Zones 1 & 2.
- The big issue will be limited stock in the new build market and limited new starts, we are unlikely to see big bulk off-plan investment deals until the return of the developers (as opposed to the House builders).
- Developers are going to have to find a way of gaining development funding from the banks, be this by forward seeing the affordable housing and some of the private sale units (30% to 50%).
- The return of mortgage product to the investment markets is going to be limited.

### **3. LONDON ESTATE AGENCY & LETTINGS**

#### Canary Wharf & South East London

- Sales to continue steadily growing, by those whose mortgages are typically 65% or less of LTV. People in this category are taking full advantage of what is perceived to be the bottom of the market.
- Number of first-time buyers increasing slowly as new mortgage products release in the second half of 2010.
- Reluctant landlords reducing in numbers as a more viable market opens for sales. With strong demand remaining for rented property for some time, rents and yields will start to increase due to the lack of available stock.

- Professional / mid-level UK investors will return to the market in the light of increased yields.

#### Prime central London

- Small stock increase leading up to election, prices will hold up.
- If / when interest rates rise, more stock will come to the market, although PCL is less affected by interest rate rises than other areas.
- More stock/higher interest rates and tax after election will mean no price increases and possibly reductions.
- A weak Sterling will continue to benefit the market.
- The rental market is to remain stable and may benefit from a weaker sales market in the second half.

#### **4. NORTHERN VIEW**

- 2009 has been the year of the Lettings Agent. As the price of property continued to fall, first-time buyers found themselves wary of a market that they were not able to buy in, even if they wanted to. Forced to rent, they boosted the rental market to highs never seen before.
- Sales and lettings - overall there is a shortage of stock in both sectors. Sales picked up in the second half of 2009. We predict more sales stock will come into the market in the New Year.
- It is a brave person who says we are nearly out of the quagmire, but the Northern markets are quirky markets in which to trade. There is a real potential that in the coming 12-24 months we will see a lack of residential stock, and with developers changing their sidelined residential schemes to office or retail-led we could see further supply issues in time. Rather than a

country-wide market-led increase, prices could rise locally due to the lack of stock and with price rises comes the confidence to build more.

- Land market - still very quiet with very few transactions taking place. However there are a few signs of recovery. Smaller sites in better locations are selling and some of the larger house builders are now looking at larger sites but often on deferred terms. Finance still an issue.
- We doubt there will be any significant residential development launched in the coming 12 months, which is wrong - as this is the intelligent and informed thing to do.
- Investment - Some interest in bulk purchases. Yields of 8% + required. People are buying income and the focus is therefore on yields rather than capital value

## **5. SOUTHERN VIEW**

- Land market - Increasing transactional levels. Provision of affordable housing will remain almost impossible without impacting adversely on the schemes' viability. Without recognition of this fact by LAs, development will be held back.
- Hard sales & rental market - CML predict only £150 billion to be lent in 2010. If this is fact, the figure is historically low and will hold back any form of house price inflation. Rental demand will remain strong as First Time Buyers find it increasingly difficult to get on the property ladder.
- Investment market - Outside of London this will remain weak.

