Market Insight

2016 in Review and 2017 Outlook

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Local & National reach through a network of London & Regional offices

2016 SALES IN REVIEW

2016 saw the London property market rise overall in value while the prime markets experienced continued reaction to increased taxation and uncertainty.

Over the course of the year the Greater London market appreciated in value with latest Land Registry figures recording an increase of 3.7% (Jan 16 – Oct 16) and an annual change of 7% (Oct 15 – Oct 16).

Despite steady price appreciation, the Capital has slowed in momentum compared with England - annual growth in October 2016 between the two regions has not been so closely aligned since 2009.

The year witnessed a number of events which dampened market activity, from the additional 3% Stamp Duty on second property acquisitions introduced in March, concern surrounding June's EU Referendum, the ongoing hesitancy over the higher Stamp Duty levels for property worth over £1,000,000 and America's presidential election in November.

We have therefore seen more expensive properties in the market evidence below average price increases, and in some cases, fall marginally in value. The more peripheral, lower-value markets continue in stable momentum, realising further gains in average prices and responding to continued strong domestic demand aided by the very low interest rate environment.

2016 LETTINGS IN REVIEW

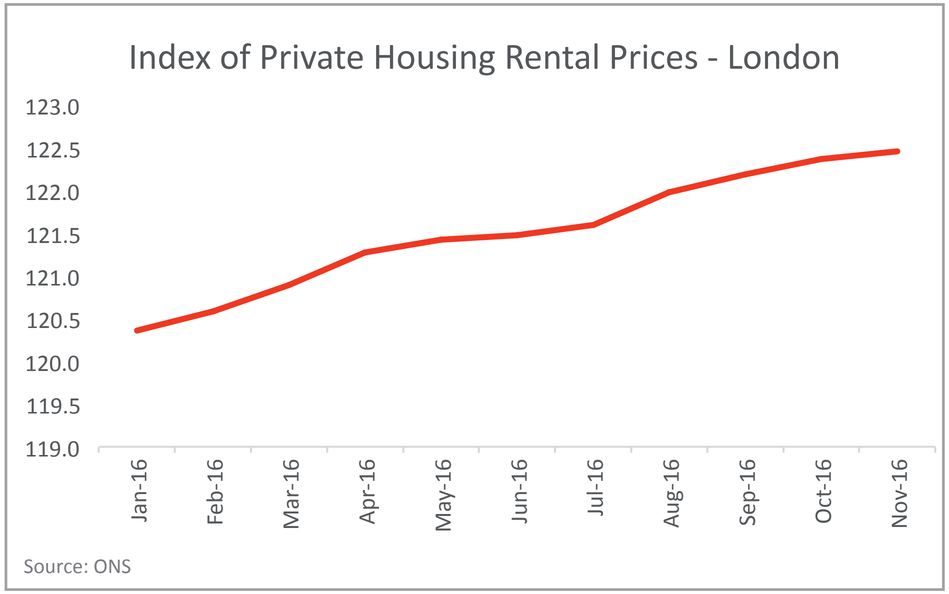
Unlike previous asymmetrical movements between the rental and sales market, both have acted similarly, but for different reasons.

In a comparable pattern to the sales market, the price for rental properties continues to appreciate on average, increasing 1.7% according to the latest data from the Office for National Statistics (Jan 16 – Nov 16), while the top-end of the lettings market has typically not seen such growth.

The appreciation in the London market is predominantly in response to rising tenant demand. Across our London network we have seen the number of tenants looking to rent increase 2% in 2016 compared with 2015.

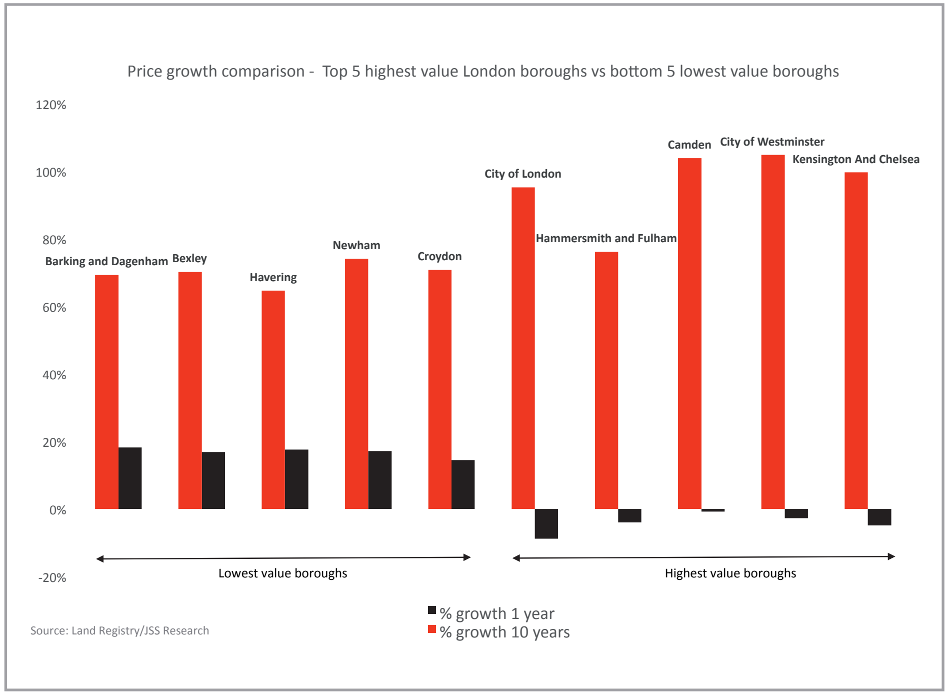
Conversely, most prime areas have seen an increase in supply of properties on the market which has led to some downward pressure on rents.

We have witnessed a greater supply of property to rent in central London as more vendors turn to the lettings market amid dampened demand from buyers. This increase in supply, along with some reduction in demand from financial sector tenants, has resulted in many landlords having to lower asking prices to achieve a let and minimise void periods.



LONDON'S HIGHEST AND LOWEST VALUE BOROUGHS

The graph below displays the five highest and five lowest value London boroughs (as per average price in Oct 16). It lists the price growth for each over a one and ten year period.



As previously commented, the lower value areas are experiencing strong price growth where the higher value areas are seeing some marginal decline. However, when viewing longer-term performance, over the past 10 years the higher value boroughs have seen stronger appreciation, with the majority doubling in value.

2017 OUTLOOK

The London property market in 2017 is likely to sustain the trends seen over 2016, but will be somewhat bolstered by reduced uncertainty.

With demand for residential property across Greater London remaining above the level of supply, the outlook for 2017 is a continuing increase in average house prices and rents. As 2016 demonstrated, however, growth will be strongest for the mid to lower value properties with high end values and rents being affected by weak demand. We see this as an important period for adjustment which will support future price stability for the market as a whole.

The market for sales is likely to see a small increase in transaction volumes as serious vendors adjust asking prices to ease the burden of higher Stamp Duty levels and a degree of pent-up demand should feed through to the market which will translate into an increase in the number of sales, providing more realistic asking prices are set.

For rental property, it is likely that the top-end of the market will remain subject to greater supply with depressed demand resulting in little to no price growth for many areas. Some Prime Central London rents may reduce to meet demand but values in London as a whole should continue to slowly appreciate given continued demand feeding through from the bottom of the market.

Activity in both markets will reflect the national and Capital's economic position and sentiment over leaving the EU. Post Referendum the market did not go into freefall as some predicted and demand is likely to improve should a Brexit plan become clear, with Article 50 expected to be triggered by the end of March. The most commonly used word Brexit became relegated by the word uncertainty but despite the negative effect on the market, record prices were still achieved during 2016 for the some of the more sought after properties among our London network and we anticipate competitive interest for well-presented and realistically priced properties in 2017.

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