UK PROPERTY UPDATE - LONDON HOUSE PRICES SET TO RISE

MAY 2016

Despite some volatility in the market, house prices in Central London are predicted to rise by 5% in 2016.

UK property agents CRBE have predicted that any volatility in the Central London housing market will be short-term and that the market should stabilise by the end of 2016. Since the market experienced a seasonal slowdown in Q4 of 2015, house prices have accelerated in Q1 of 2016.

At the upper end of the market, it is anticipated that some investors may wait until the result of the Brexit vote on 23 June before re-committing to the London market. As a result, CBRE have predicted growth of 3% in 2016 in the Prime Central London market.

However, developers in the luxury market are confident that London remains a safe bet. In 2015 there were almost 18,000 sales of properties with a price per square foot of more than £1,000 and, in the planning process, there are currently 71,400 units in this price bracket.

If we also consider that between 2014 and 2015 the number of new build properties being sold at £1,000-£1,499 per square foot more than doubled, this suggests that demand at the higher end of the market remains strong.

Even with such a considerable number of high-end properties being developed, market averages suggest that demand will continue to outstrip supply. If this trend continues, house prices at the upper end should continue to grow in the medium-to-long term.

Given the UK Government's sustained attack on the buy-to-let market through SDLT rises, the Annual Tax on Enveloped Dwellings (ATED) and the abolition of mortgage interest relief, there had been fears that the London market could be set for a period of decline. Therefore, the latest forecasts from CRBE and other agents will be welcome news to London property investors.

The UK Government's motivation for increasing costs for buy-to-let investors is to provide more opportunities to private individuals to buy their own home. However, by increasing the tax liability of investors, that strategy could backfire.

Collas Crill Senior Associate, Jeff O'Boyle, commented that:

"We are already seeing signs that property investors are increasing rents to compensate for rises in property tax in the UK. If we see even a modest increase in interest rates, then further rent increases will follow.

"Higher rents will make it even more difficult for private individuals to save for a deposit to purchase their own home so, unless purchasers can obtain finance from the Bank of Mum and Dad, then the dream of home ownership will slip further and further away."