

# RESEARCH & FORECASTING UK RESIDENTIAL DATA SHOT | AUGUST 2011



## MARKET COMMENTARY:

The London residential market continues to heat up. Rental levels are rising due to the increasing number of people who are unable to afford mortgage prices being forced to rent. The Department of Communities and Local Government reported recently that one in six homes in the UK is privately rented.

House prices in London have increased to pre-financial crisis levels, leading to rapid growth in rental values across the capital. Rents in London have reached a high point of £1,000 pcm in central prime areas of the city.

Foreign buyers, institutional investors, commercial property companies, developers and private buyers are all seeking to cash in on the high level of demand in the market. London has a stable and liquid housing market, making it especially attractive to foreign buyers who are caught up in sovereign debt issues. London's luxury prime residential market is particularly attractive to many high net worth individuals. At One Hyde Park, a luxury penthouse apartment has let for £55,000 per week. Estate agents are seeing strong activity in the central prime market for both sales and lettings.

Institutional investors are also beginning to take note of the London residential market. Orion Capital Management, a leading hedge fund, bought 1 acre of prime residential land in Chelsea for £85m. It plans to build a £300m luxury residential complex with planning permission for six flats, a duplex penthouse and two villas.

REITs such as British Land and Land Securities have made headway into the residential market by taking advantage of recent planning changes allowing easier change of use for disused offices to be redeveloped into urban residential offerings.

Developers such as Berkeley Group and Barratt Homes are attracting great interest from institutional investors through their own residential rental portfolios.

Private individuals keen to take advantage of the high demand for rented property are getting extra help through the buy to let mortgage market. The Bank of England reported in the latest Trends in Lending report that lending criteria for this type of mortgage has eased in the last year. According to the BoE, indications are that lending will increase in buy to let mortgages in the short term.

The London residential market offers more opportunities for investors, developers and landlords than in any other part of the UK. Whether this good fortune will continue, remains to be seen next year when interest rates may come under pressure.

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INDICATOR	LATEST DATA			COLLIERS INTERNATIONAL COMMENT
	MAY	JUNE	JULY	
Nationwide House Price Growth	0.3%	0.0%	0.2%	Sluggish demand for homes, combined with a slow rise in the supply of available properties, has contributed to relatively stable property prices.
Halifax House Price Growth	0.4%	1.5%	0.3%	Halifax reported that the pattern of stable conditions in the housing market is expected to continue over the rest of 2011 with little change in either house prices or sales. They believe that continued low interest rates and a slowly improving economy should help to support housing demand despite pressures from weak earnings growth, relatively high inflation and higher taxes.
Rightmove Asking Price Growth	1.3%	0.6%	-1.6%	Rightmove believes that the impact of any renewed financial turmoil is likely to be limited because prices are already at the bottom of the cycle with low transaction levels. Rightmove has warned that there are still risks on the downside: increases in unemployment could stretch lender patience; sovereign debt concerns could hit willingness to lend and freeze credit markets again.
CLG House Price Growth	-0.8%	0.6%		The Communities and Local Government Housing Price Growth index indicates that average house prices decreased in eight of the nine English regions over the year to June 2011. The largest decrease was in the North West (-5.1%) while the smallest was in the East (-0.2%). London registered an annual house price increase (1.5%).
Bank of England Mortgage Approval Rates	46,418	48,421		There has been little change in housing market activity with the number of mortgage approvals increasing 4% between May and June to 48,421. Despite this encouraging rise, the industry-wide number of approvals remains within the range of 45,000-50,000 per month, where it has been since the beginning of 2010.
Bank of England Base Rate	0.5%	0.5%	0.5%	According to MPC minutes from the beginning of August, any decisions on increasing the Bank Rate have been pushed further into the future. Index swap statistics indicated that no change was expected for at least a year.
Bank of England Average Rate on Two Year Fix (75% LTV)	3.51%	3.36%	3.14%	The BoE reports that, looking forward, lenders in the Credit Conditions Survey expected the availability of secured credit to households to remain unchanged in 2011 Q3; however, availability to borrowers with high LTV ratios was expected to increase further.
RICS Price Expectations Survey	-28	-26	-22	The RICS reported that 22% more surveyors recorded falling house prices. However, the price falls were marginal around 0-2%.
RICS Sales to Stock Ratio	20.4%	21.2%	20.2%	According to the RICS, the sales to stock ratio fell to 20.2% as housing stock increased while the number of housing sales decreased.
ONS Housing Rent Inflation (% y/y)	2.2%	2.3%	3.0%	For the first time since March 2009, housing rent inflation reached 3.0%; this is a 30% increase on the previous month. The increase is a reflection on the strong rental market as many would be house buyers are forced to rent due to current lending and supply conditions.
HMRC Property Transactions	71,000	68,000	65,000	HMRC property transactions continue to track falling housing prices in the wider market.