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Report highlights

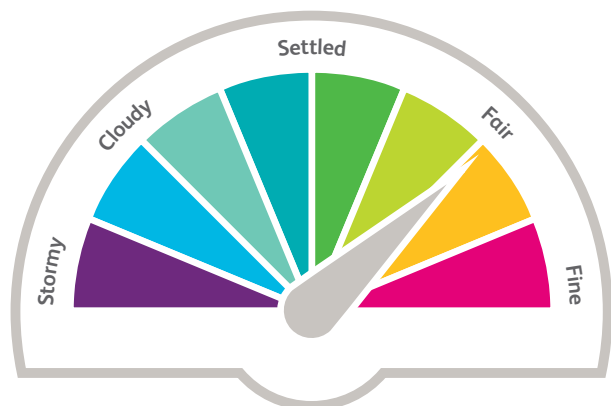
– Gross mortgage lending in June rose by 29%

- Annual house price growth in London slowed to 9.1% in May
- Average monthly rents in June rose by 3.7% in London
- Residential sale transactions in May were 11.6% higher than in the previous month
- More than half a million British homeowners are now property millionaires

National barometer

Recent data points to an encouraging increase in mortgage lending and transactions. Nonetheless, the shortage of properties available to buy remains an issue and is preventing the market from realising its potential. Perhaps surprisingly, annual house price growth (achieved price as opposed to asking price) is slowing both in London and nationally despite the supply/demand imbalance. However, this seeming anomaly can largely be explained by the gap between buyer and seller expectations.

If price growth continues to slow, those vendors who wish to sell sooner rather than later may well decide to give ground on asking prices which could trigger a fairly rapid response from purchasers. The release of pent-up buyer demand would probably accelerate price growth.

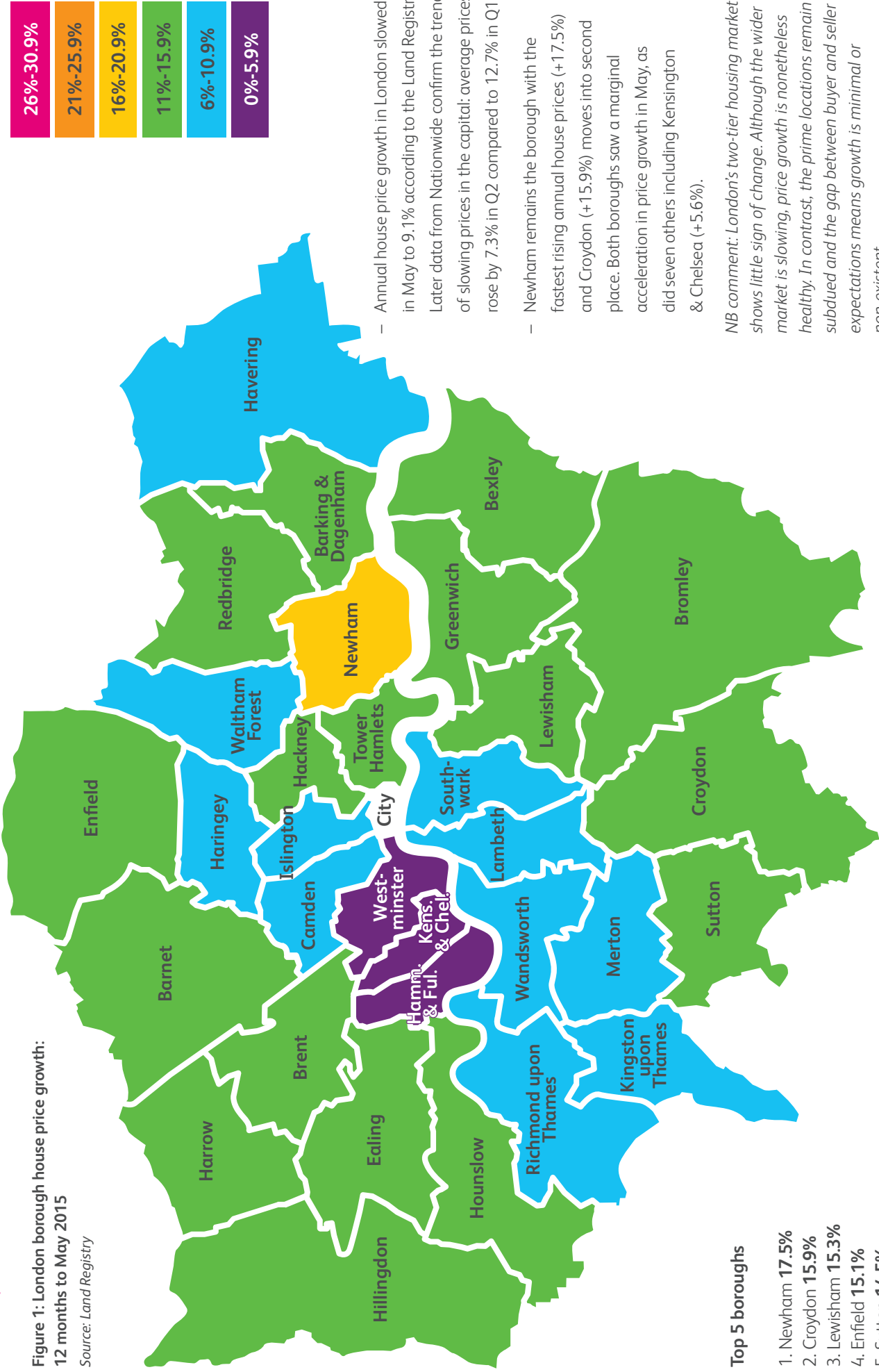


Chestertons National Barometer

House prices – London

Figure 1: London borough house price growth: 12 months to May 2015

Source: Land Registry



– Annual house price growth in London slowed in May to 9.1% according to the Land Registry. Later data from Nationwide confirm the trend of slowing prices in the capital: average prices rose by 7.3% in Q2 compared to 12.7% in Q1.

– Newham remains the borough with the fastest rising annual house prices (+17.5%) and Croydon (+15.9%) moves into second place. Both boroughs saw a marginal acceleration in price growth in May, as did seven others including Kensington & Chelsea (+5.6%).

NB comment: London's two-tier housing market shows little sign of change. Although the wider market is slowing, price growth is nonetheless healthy. In contrast, the prime locations remain subdued and the gap between buyer and seller expectations means growth is minimal or non-existent.

Key national housing market indicators

Source	Price (£)	12 month change	3 month change	Monthly change	Data as at	Definition
Land Registry	£179,696	4.6%	0.2%	0.0%	May-15	England & Wales: sold price
Rightmove	£294,542	5.1%	2.9%	0.1%	Jul-15	England & Wales: asking price
Home.co.uk	£279,880	5.7%	3.6%	0.4%	Jul-15	England & Wales: asking price
LSL Acadametrics	£278,849	4.1%	0.9%	0.3%	Jun-15	England & Wales: based on Land Registry data
ONS (not seasonally adjusted)	£274,000	5.7%	1.9%	1.1%	May-15	UK: price at mortgage completion
Nationwide	£195,055	3.3%	3.0%	-0.2%	Jun-15	UK: price at mortgage approval
Halifax (not seasonally adjusted)	£200,280	9.6%	3.6%	1.7%	Jun-15	UK: price at mortgage approval

Figure 2: Average national house prices & price growth

Source: Various

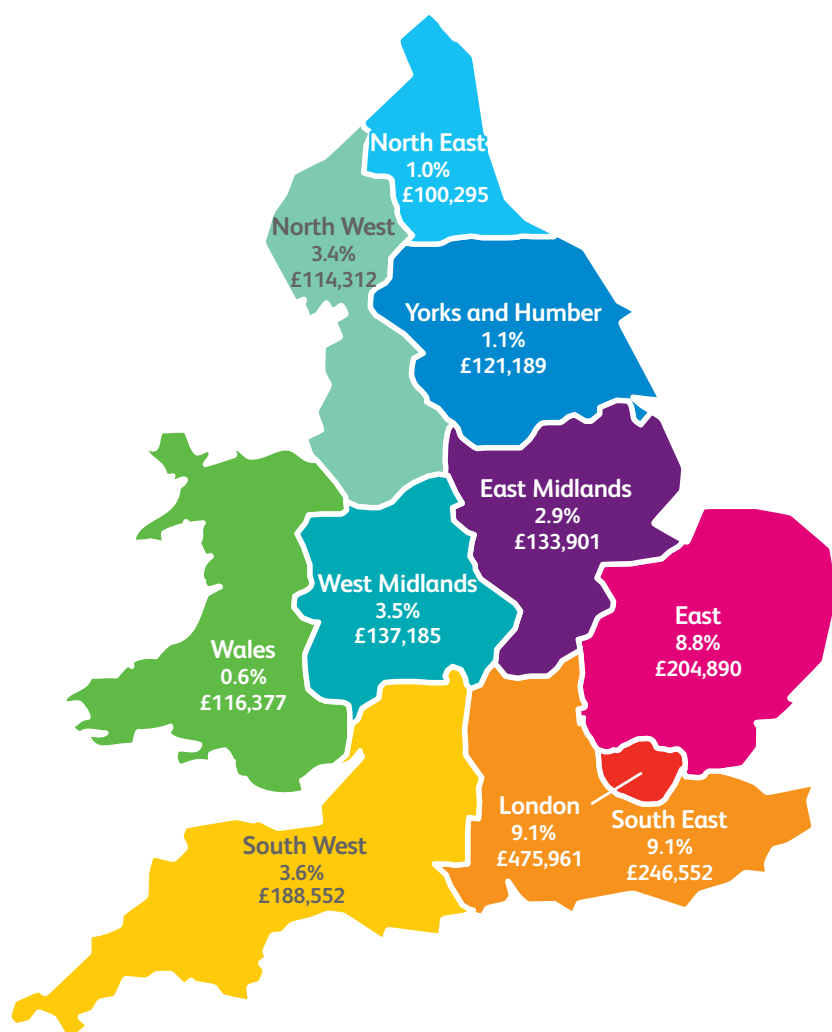


Figure 3: Regional average house prices and 12 month price growth (May 2015)

Source: Land Registry

House prices – national & regional

- The deceleration in London prices is being mirrored at national level with average annual growth slowing from 5.1% in April to 4.6% in May according to Land Registry data.
- Annual price growth accelerated in the South East to match London at 9.1%. The only other region with growth averaging above 5% is East (+8.8%).

NB comment: The national housing market continues to labour under a shortage of available properties and affordability issues – the latter despite the most favourable mortgage market ever for borrowers.

Rental values

- The average UK rent for private tenancies in June was £982 pcm, 2.3% up on May and 13.8% higher than in June 2014, according to the Homelet Rental Index.
- Average monthly rents (£1,561) in London rose by 3.7% in June compared to May and were 10.6% higher than in June 2014.

NB comment: Average rents in the private sector continue to rise in both London and nationally. Rents in the prime London market are also beginning to recover, albeit growth is modest.

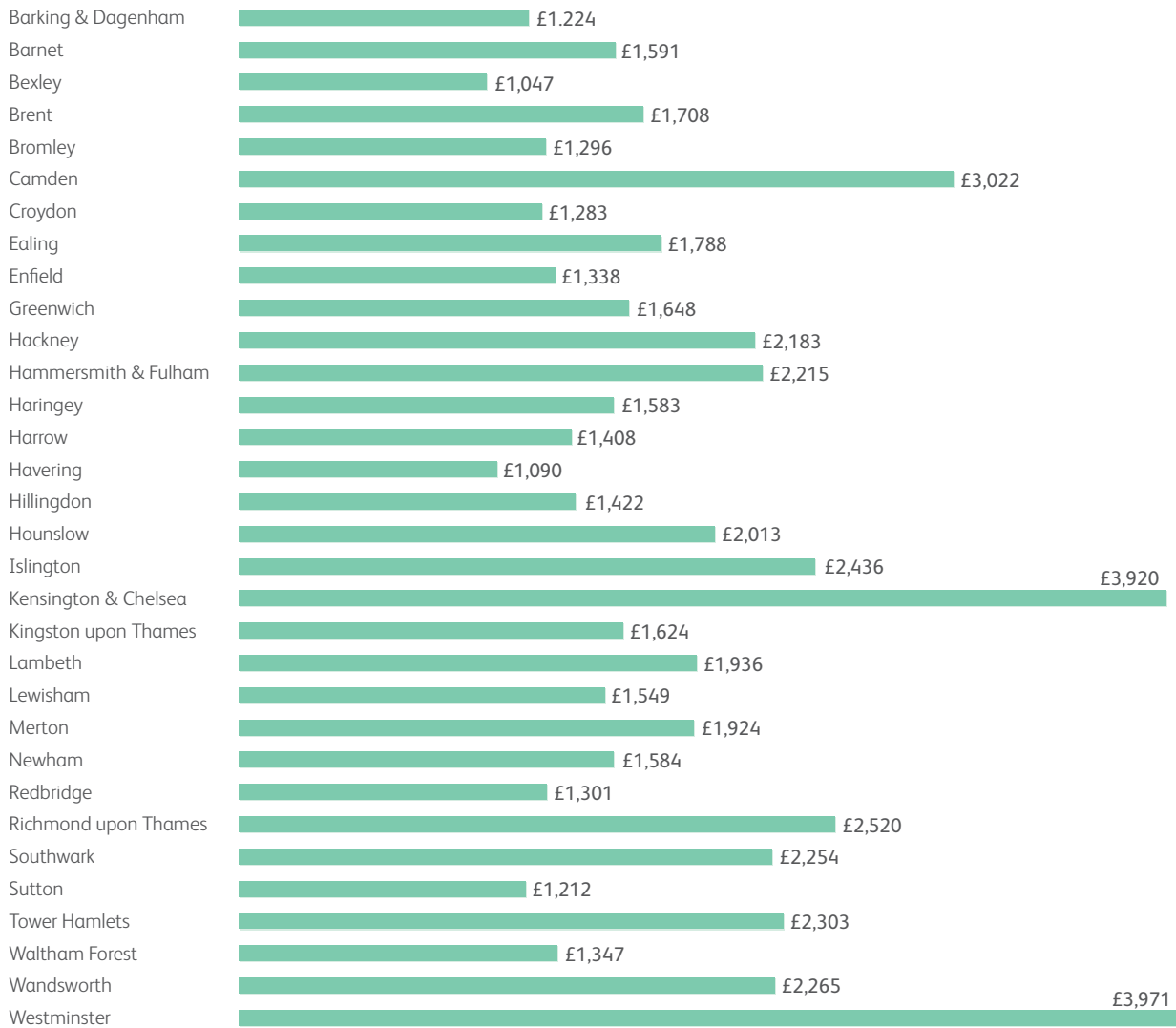


Figure 4: London borough monthly asking rents for 2-bed flats (as at 20 July 2015)

Source: Zoopla

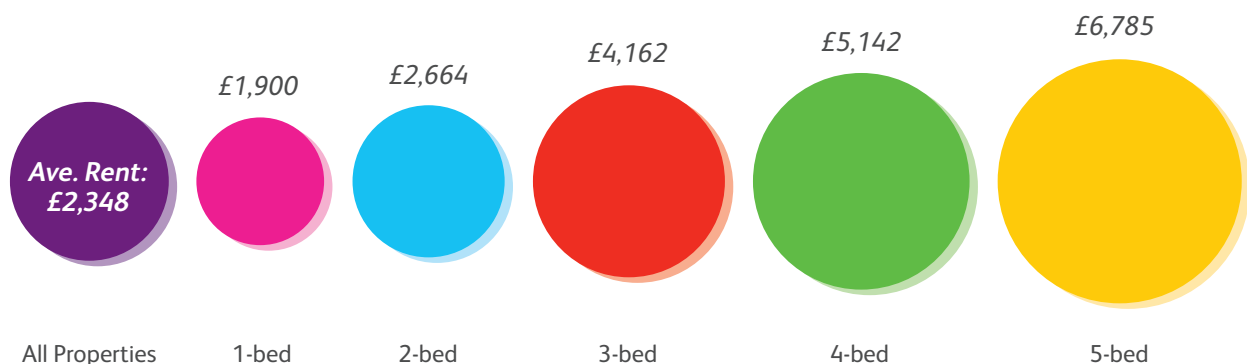


Figure 5: London average monthly asking rents by property type (as at 20 Jul 2015)

Source: home.co.uk

Housing market activity: sales, rentals, development & investment

- Residential sale transactions in May were 11.6% higher than in the previous month but 4.5% lower than in May 2014 according to provisional figures from HMRC.
- Britain is one of several countries anticipating a surge in interest from Chinese buyers seeking safe-haven property in the wake of stock market volatility at home. At the time of writing, around 20% had been knocked off the value of Chinese shares since mid-June, though attempts by the authorities to stem the bleeding are having some effect. However, there is also anecdotal evidence that some Chinese investors are pulling out of new-build purchases because they no longer have sufficient funds.
- Analysis from Rightmove reveals that buyer demand remains high, with visits to the Rightmove website up by 22% in June compared to the same period a year ago. In contrast the number of properties coming to market is running at a weekly run-rate 10.6% below the same period in 2014. The biggest drop-off in fresh supply is in the first-time buyer sector with two bedrooms or fewer, where demand was already at its highest compared to available properties.
- Oxford is rapidly becoming one of the country's hottest property markets. Research from Hometrack reveals residential property values have surged by £41,700 on average over the past year, nearly four times higher than gains in the wider UK and a whisker above those in London.
- House prices in the city of spires jumped by 12.3% to reach an average of £380,100 in the 12 months to May.
- A recent study from the Halifax has identified that house prices have increased, on average, by a third across British seaside towns over the past decade. During the past ten years, the average house price in seaside towns rose by 31% (£49,207) to reach £208,729. However, there is a marked north-south divide in property values between locations, with all ten of the most expensive seaside towns in southern England. Salcombe (£672,874) in Devon and Sandbanks (£614,726) in Dorset are the two most expensive seaside towns in Great Britain.
- A new official UK-wide residential property index is set to be published for the first time in the first half of next year. Operated by the Office for National Statistics (ONS), it is proposed that the new UK house price index will be published via the Land Registry website providing a single and central access point for users. Further details will be made available in due course.

NB comment: Encouraging data from HMRC, which show the number of house sales in May rose – but we still need more homes available for sale. At the current rate, sales for the year as a whole will only just sneak over the one million mark – by way of reference, the pre-global recession peak was more than 1.6 million.

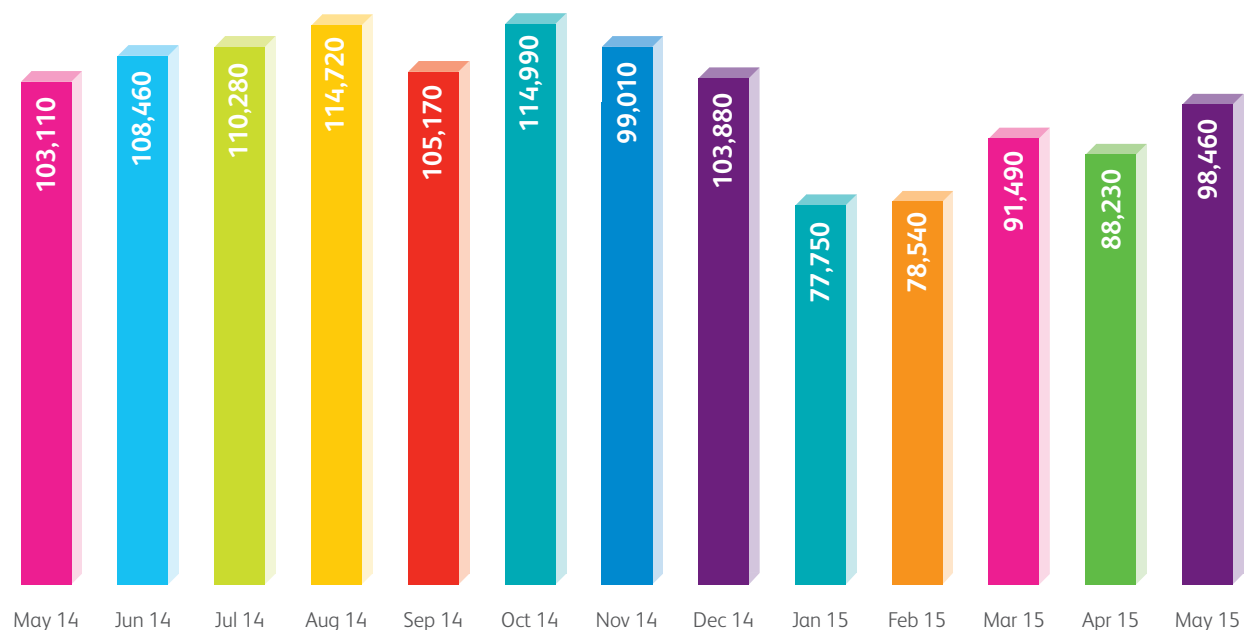


Figure 6: UK residential transactions, non-seasonally adjusted: May 2014 – May 2015.

Source: HMRC

Mortgage market

- Gross mortgage lending in June (not seasonally adjusted) showed a significant rise compared to the previous month, according to the Council of Mortgage Lenders. It rose by 29% compared to May to an estimated £20.5 billion. In addition to the month-on-month rise, there was also a year-on-year increase of 15% in lending in June 2014.
- Data from the British Bankers' Association (BBA) indicate the average value of loans for house purchase rose to £169,900 in May, 1.1% higher than in April, 3.9% higher than in May 2014 and 7.5% higher than the pre-global recession peak figure.
- Equity release lending rose by 17% in the first six months of 2015, according to data from equity release provider Key Retirement. Retired homeowners cashed in £753m from their properties during the period, up from £641m in the first half of 2014 and the total number of equity release plans sold also increased year-on-year, from 10,013 to 11,007. Mortgage debt is emerging as a “major issue” with 23% of Key Retirement customers using equity release to pay off home loans.
- The Bank of England (BoE) is to look at tools that could be used to regulate buy-to-let (BTL) mortgage lending, ahead of a government review into whether to give the BoE formal powers over the sector. BTL mortgage lending is currently unregulated, however Mark Carney recently expressed concern that the rapid growth of lending to the sector this year posed a potential threat to the country's financial stability.
- Interest rates could rise as early as the turn of the year, according to Bank of England Governor Mark Carney. However, increases would proceed slowly and rise to a level in the medium term that is perhaps about half as high as historical averages (4.5%). Three major factors would be considered when deciding when and how to raise Bank Rate: the pace of economic activity, household debt and core inflation. However, shocks to the economy could easily adjust the timing and magnitude of any increases.
- Meanwhile, The Bank of England's quarterly Credit Conditions Review shows lenders expect a “slight” reduction in prime residential rates and a “significant” reduction in buy-to-let rates in Q3.

NB comment: Is the Bank of England playing mind games regarding interest rates and when they might rise? First we are led to believe that Bank rate is unlikely to rise until mid-2016 and now we can expect it might be as early as the beginning of next year. Either way, the window of opportunity for borrowers to obtain good deals will not last forever.

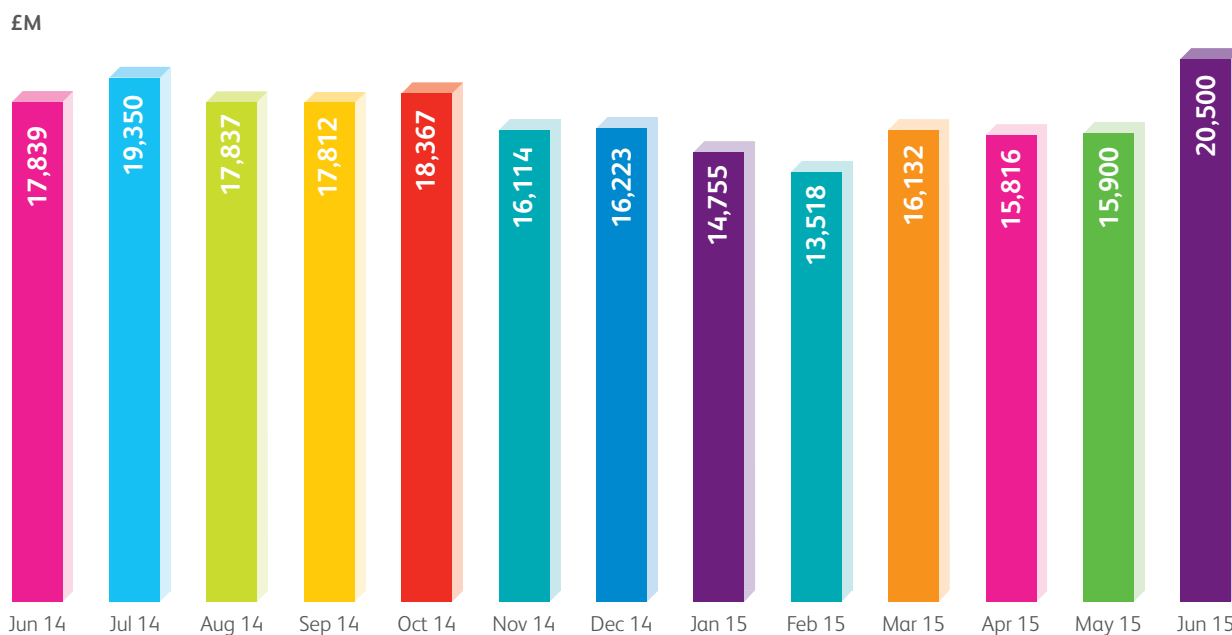


Figure 7: National gross mortgage lending (Jun 2014 – Jun 2015).

Source: Council of Mortgage Lenders

Tax, planning & regulatory news

- Whilst much of the Chancellor's July Budget with regard to the housing market was either leaked or anticipated, there were a few surprises. Here is a summary of the key points:
 - The current relief available on mortgage interest that landlords of residential property can claim will be restricted to the basic rate of income tax. The restriction will be phased in over a four year period, starting from April 2017.
 - The government will also reform how residential landlords can account for the costs they incur in improving and maintaining rental property. Currently, landlords of furnished properties can deduct 10% of their rent from their profit to account for wear and tear, irrespective of their expenditure. From April 2016, the government will replace this allowance with a new system which will only allow relief on costs they actually incur.
 - The Rent-a-Room relief will be increased from £4,250 to £7,500 a year from April 2016.
 - From April 2017, anybody who has been resident in the UK for more than 15 of the past 20 tax years will be deemed UK-domiciled for tax purposes. Furthermore, it will no longer be possible for somebody who is born in the UK to parents who are UK domiciled to claim non-domicile status if they leave but then return and take up residency in the UK. These changes will effectively bring an end to the current permanent non-domicile status.
 - From April 2017 the government will also introduce new rules so that everybody who owns residential property in the UK and would otherwise pay inheritance tax on that property cannot avoid paying it by holding it within an offshore structure.
- The chancellor confirmed that a new transferable nil-rate band for Inheritance Tax (IHT) will be introduced from April 2017. This will apply when a main residence is passed on death to direct descendants. The allowance will be up to £100,000 in 2017-18, up to £125,000 in 2018-19, up to £150,000 in 2019-20, and up to £175,000 in 2020-21. This is in addition to the existing inheritance tax nil-rate band, which is set at £325,000 for the estates of individuals. This will create an effective £500,000 inheritance tax threshold for estates in 2020-21. As with the current nil-rate band, any unused main residence nil-rate band will be transferred to a surviving spouse or civil partner and means the effective inheritance tax threshold will rise to £1 million in 2020-21.
- In order to offset some of the loss of tax revenue under the IHT changes, there will be a tapered withdrawal of the main residence nil rate band for estates with a net value of more than £2 million.
- The government announced that the Help to Buy: ISAs, as promised in the March Budget, will be available for first time buyers to start saving into from 1 December 2015.

NB comment: while the Budget was mostly positive for the housing market, non-doms and buy-to-let landlords will be less happy.

The last word

- According to the 2015 Zoopla Rich List, the number of homeowners in Britain whose property is worth £1 million or more has reached 524,306, marking a rise of 8.3% year on year. 10,958 streets have an average property price above £1 million, 43% of them in London. 13 streets – all in London – have an average house price of over £10 million.

The most expensive street is Kensington Palace Gardens in W8, with homes worth £42,591,972 on average. The W8 area also boasts the title of ‘most expensive postcode,’ with average property prices of £2.77 million. Knightsbridge was ranked in second place, with an average value of £2.43 million, whilst property values in Chelsea fell to an average of £2.24 million

Top 10 most expensive streets in Britain

	Street	Average price
1	Kensington Palace Gardens, London W8	£42,591,972
2	The Boltons, London SW10	£30,288,586
3	Grosvenor Crescent, London SW1X	£22,752,425
4	Courtenay Avenue, London N6	£16,812,228
5	Ilchester Place, London W14	£13,718,746
6	Compton Avenue, London N6	£12,049,363
7	Manresa Road, London SW3	£11,600,920
8	Cottesmore Gardens, London W8	£11,037,133
9	Frogna! Way, London NW3	£10,702,421
10	Chester Square, London SW1W	£10,395,702

Figure 8: Top 10 most expensive streets in Britain

Source: Zoopla

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