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Still Going Strong

This is a market for sellers, not buyers. Prices across the board are up about 15% with anything really good – London, the country, South of France, flats, houses (or Picassos) – pushing out the envelope of comparative valuation.

And making it very difficult for our clients to buy what they want.

Though we are at the daily coalface of the market, because we have a relatively small pool of clients, it is difficult for us to produce meaningful statistics. Knight Frank, with a large network of estate agency offices, are able to flesh out our impressions with numbers that show what is going on. In Central London, they estimate that supply (selling instructions) is down 21% on last year, while demand (applicants registering with them) is up 43%. In such circumstances, it is difficult to see prices going any way but up and, once a momentum is established, it tends to feed on itself – perversely probably because of the mushrooming cost of moving. This sounds counter-intuitive but if you add up estate agents' fees, stamp duty at the top end, removals, decoration, lawyers and countless other expenses you hadn't thought about when you started the exercise, the cost of moving is not far short of 10%. When markets are flat or dropping, the inclination is to dust down the DIY manual and add the extra

bedroom rather than move – which was part of the story behind the steady decline in market turnover of the last few years. If the market is trotting up briskly, then the costs of moving are easier to assimilate into the overall financial picture and the psychology becomes self-fulfilling – which is where we are now.

It is also, to adapt Bill Clinton, 'the stock market, stupid.' As we have said many times before, interest rates are not the major factor in our market, other than at the extremes when they tend to reflect a turbulent macro-economic picture that is the real story. This is because most buyers are paying cash provided by a bonus or the sale of another property – or a company.

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Most buyers are also sellers so, if they are buying expensive, they are often doing it with the proceeds of a house that they have sold well. Debt tends to be optional or proportionally much lower than in the 'mainstream' market.

What does make a huge difference to the percentage of the world whose balance sheet is in credit – and they tend to form our market – is how confident and wealthy they are feeling; and despite the

gyrations of the last few weeks, if they have been an investor in just about any stock-market over the last two years, they are still feeling ok – whether they stay that way, if this judder becomes something worse, is another matter. One also doesn't want to lose sight of the fact that, for the truly rich, some of the eye-watering prices being paid in London and nearby are not that significant in the larger scheme of things when you compare them with the cost of a yacht (or a Picasso). Paying £3500 per square foot for an exceptional property, which has happened a few times this year, needs to be seen in this context. These are not people who depend on a (rear-view mirror) bank valuation to buy what they want.

At the more 'normal' end of the market, we are still seeing the classic ripple effect of London where a relatively modest three/four-bedroom house in Chelsea is now selling for over £2 million and larger family houses in Notting Hill Gate for well over £5 million – driven up by the imbalance of supply and demand – as illustrated by Knight Frank's statistics. £1000 per square foot is now pretty normal for any good house or flat in Central London and

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£2000 per square foot would no longer raise an eyebrow for the really good. This is flowing out into the country market where Knight Frank in Henley told us earlier this year that they had over eight hundred applicants with over £1 million to spend and a stock of new sale instructions that totalled twelve in that price range. In these circumstances, we are not surprised to see estate agents' price guides (if they are based on history, not seller's aspirations) exceeded by 30% or more. We have to rely on what we know and our experience of these markets in the past – though this is tricky when the so-called 'guide price' is often so wrong and the poor buyer is looking at it as some sort of valuation anchor. Being right is often not comfortable.

Is it sustainable? There are two questions here. The first is whether you think we are in the famous 'Goldilocks' economic environment. In this scenario, the world looks as healthy as it has done for a long time

with coordinated growth and high corporate profitability driven by the rise of China and India and the continued robustness of the US economy. The worriers look at trade imbalances, rising inflation and the mountain of consumer and government debt. This dualism is what provides the classic wall of

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worry from where, you have to remember, the feeling is always better than if you are falling off a cliff. You will have your own views on this.

The second question is more local. Do you think London is going to be more or less of a world city (the world city?) over the next ten years? As it is London that ultimately powers the country market, this is key to what is going to happen. It seems a long time ago that Frankfurt

was being touted, with the advent of the Euro, as the new world financial centre but it is not beyond the bounds of possibility that the Prime Minister-in-waiting could score a spectacular own goal by changing the rules on non-domicile tax status. On balance, our money would be in the positive camp.

So far, only a couple of our clients have lost their nerve – but they are the exception – and the competition for the good properties is as strong as ever. It may be that for every buyer lost to the current inflation scare, there is another who is buying into property as an inflation hedge. Time will tell who was right but, in the meantime, people still need somewhere to live – and there are many more of them than properties for them to buy.

LONDON OFFICE
Property Vision Limited
8 Cromwell Place
London SW7 2JN
Telephone +44 (0)20 7823 8388
Fax +44 (0)20 7823 8188

COUNTRY OFFICE
Property Vision Limited
Great Farm Barn, West Woodhay
Newbury, Berkshire RG20 0BP
Telephone +44 (0)1488 669900
Fax +44 (0)1488 668843

ASCOT OFFICE
Property Vision Limited
Old Boundary House
London Road, Sunningdale
Ascot, Berkshire SL5 0DJ
Telephone +44 (0)1344 651700
Fax +44 (0)1344 651777

SOUTH OF FRANCE OFFICE
Property Vision France SARL
Immeuble HSBC, 1 rue Gubernatis
06000 Nice
Telephone +33 (0)4 93 92 79 35
Fax +33 (0)4 93 92 79 39

mail@propertyvision.com
www.propertyvision.com