PROPERTY VISION

A subsidiary of HSBC Private Bank

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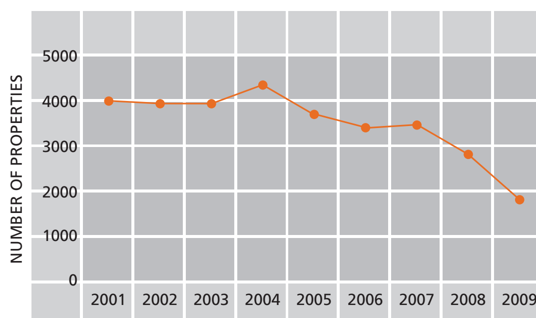
Look no further... it's supply

So why has the prime property market in the UK, particularly London, been so resilient over the last few years? Euro strength? Minimal interest rates? Nowhere else to put your money? All good candidates; but it looks as though the answer probably lies in an unexpected direction – on the supply, not the demand, side of the price equation.

We had a look at the amount of property that we have had on our database over the last ten years – and what we found was fascinating. Take London: during 'normal' years there were around 4000 units from one-bedroom flats upwards that fall inside our universe within the prime areas of London. Our universe is a slightly circumscribed one – none of our clients are ever going to buy a basement flat (or anything else for that matter) on the Cromwell Road – so these are excluded.

This 'normal' time ran pretty constantly from the millennium to 2004 when things started to change and the number of properties coming to the market began to fall – and continued to do so until today. What is so remarkable is the steadiness of this fall, culminating in a market turnover that has halved over a six-year period. This coincided with a time of 'irrational exuberance' (remember that?) and bankers walking on water, as well as Lehman Bros and the Credit Crunch – but none of these seem to have arrested or accelerated this inexorable decline.



Central London properties registered by Property Vision

The picture in the country is different. We are in the process of picking apart the data that we have and what has come out is that the overall numbers of houses coming on to the market varies marginally from year to year – as you would expect – but with no downward trend. That it should be so is not too surprising as there is a different attitude to owning a country house where traditionally people think in terms of planting a wood and leaving in a wooden box. The sort of trading 'up the ladder' that went on in London didn't really happen in the country. The four reasons for selling have always been death, divorce, debt and decrepitude, none of which, one would have thought, would vary greatly from year to year – medical science has improved, but not by that much, and the divorce statistics don't suggest a wave of happiness breaking over the world.

What, however, we did see was a change in how these houses are sold with a much larger number being sold privately, with or without an estate agent involved, and with many less going through the pages of *Country Life* than in the past. So clearly the complaint amongst buyers that there just don't seem to be so many houses around is founded on fact – though those facts are rather different between London and the country, the former being about real numbers and the latter about visibility. In the country it probably has something to do with the increasing number of estate agents with buying businesses that are effectively cannibalising their parent. As we said would happen, the market for country houses is increasingly resembling the art market: you pay a selling fee to sell the ordinary; if you own a Renoir, the buyer pays.

The fall in London supply neatly explains the gravity defying maintenance of prices in the face of a global economy that hasn't looked so grim in years: if you lose a third of your buyers, but have half the number of properties available, you are still in a bull market. What is more difficult to account for is why this has happened. If it was about the economy or the financial crisis, then we

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would see volatility that tracked the ebb and flow of confidence. But the trend in supply is steady and downwards with little seeming correlation to sentiment. There has been no new legislation or taxation to act as a break on turnover.

The answer may lie in a subtly changing attitude to London residential property over ten years of what has been called the 'lost decade' of investment. With two booms and crashes in the equity markets that have left the average investment fund or blue chip share where it was at the millennium, London property has been the smart investment, doubling in value and low in the volatility stakes, written off prematurely but holding its value in the teeth of the storm. In short, it has, for better or worse, taken on the characteristics of a store of value in a world where paper looks less secure. Maybe it is no coincidence that the last decade also belonged to government bonds and gold.

Probably connected with, and part of, this explanation has been the internationalisation of this market. Most overseas buyers are not resident: they either let the property they have bought or use it for holidays and their children's education. They are buyers – but not so often sellers. As they own more and more of this finite market, the traded pool gets smaller and, in a self-fulfilling prophecy, owners that might have traded are reluctant to be out of a market where they can see real difficulties in replacing what they already have.

If this analysis is accurate, then it is difficult to see what would shake the tree and shower the market with more property. A serious recession in the City of the sort that was feared post-Lehman might do it, or a sharp rise in interest rates that would dislodge highly geared players – though most owners in this market are more cash than debt. Perhaps a second round of the credit crunch when banks are forced to crystallise losses rather than limp on, rolling over loans that are still paying interest but well under water. History, and the example of Japan, would suggest that banks don't do this in a low-interest-rate environment. As the saying goes, 'a rolling loan gathers no loss'.

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