

Inside Access

Professional Advisory

The summer months have allowed us to get used to the 'new normal' in the UK; austerity is the watchword for both buyers and sellers of residential property. Despite this, the marketplace continues to defy doomsayers, with demand in the rental market picking up the slack from frustrated would-be buyers.

Shakeel Barok *Acting Managing Director*

Autumn 2010

Inside this issue

Market uncertainty persists...but it won't last

New build development activity and sales are improving

Good relationships are key to development finance

Embassy season for Corporate Services

Beyond your expectations
www.hamptons.co.uk

HAMPTONS
INTERNATIONAL

Market Uncertainty Persists... But it Won't Last Forever



Adam Challis
Head of Research
challisa@hamptons-int.com

This summer, the major housing market indices began to reflect the softer market conditions that we noted across the Hamptons International network back in the spring.

Our 2nd Quarter index shows that house prices were down 1.7 percent across the network, with London faring slightly better than the rest of Southern England at -0.6 percent and -2.6 percent respectively.

In addition to the seasonal slowdown, the price adjustment has taken hold due to growing supply set against constrained demand. Buyers have stayed out of the market over the summer due to a combination of factors:

1. Availability of mortgages has been restricted to those with higher equity stakes, generally above 25 percent. First-time buyers have been hardest hit. This has a knock-on effect through the entire market as higher value property sellers in a chain rely on 'trading-up' from lower rungs of the property ladder.
2. Many mortgagees are currently on very attractive rates, which they are loathe to give up while their lender's Standard Variable Rate remains well below current offers for new mortgages.
3. Uncertain economic conditions have eroded market sentiment. Echoes of a double

dip recession were followed by the coalition Government's austerity budget and the fiscal crisis in continental Europe and Ireland.

This combination of factors has forced buyers to become increasingly cautious and there is no question that we are adjusting to a 'new normal' market in the post-credit crunch era. However, all is not lost. GDP figures for the 2nd Quarter, announced in August, were 1.2 percent, with 0.9 percent of this coming from the all important private sector. The UK's most important trading partners on the continent have posted equally impressive figures. The Council of Mortgage Lenders (CML) continues to report improving mortgage lending volumes and consumer spending has been ahead of gloomier forecasts.

In contrast to the sales market, the number of available properties for rent is well below current demand. This is pushing up prices across the Hamptons International network, with many renters preferring to accept higher renewal prices rather than face the difficulty of finding a new home elsewhere. Investors who have managed to weather the downturn are now reaping the rewards of improving rental income and yields.

On balance, house prices are likely to remain subdued well into 2011. The October 20th Government Spending Review, combined with higher taxation in the New Year (notably the 2.5 percent increase in VAT), will hold back demand for some time. We still expect the market to begin a legitimate but protracted recovery, but not until Spring 2011 ■



Solid Fundamentals Underpin New Build Sales



Nick Vaughan
Head of Development
 vaughann@
 hamptons-int.com



Second Quarter new build activity has reflected our experiences in the 1st Quarter, with stable pricing set against ongoing challenges of low stock levels.

Activity from overseas markets remains strong, particularly for top end properties. Traditional demand from economies such as the UAE and Russia has been complemented by growing interest from newer locations, including Malaysia and mainland China. Off-plan investment stock continues to sell well in far Eastern markets such as Hong Kong and Singapore.

Domestically, cash buyers are key players as they do not have the funding challenges that are holding back the rest of the market. First-time buyers are also slowly re-emerging, however their profile has changed significantly; older and with larger deposits funded through parental assistance in abundance.

The popularity of off-plan stock continues to return across the South East for both apartments and houses. There has been a recent trend towards demand for pre-completion family-orientated housing stock in Outer London, with the limited supply of upper end off-plan units moving well in Central London.

Ongoing uncertainty for the wider housing market over next year will hold back the full weight of demand. However the shortfall of completed new development units should provide some stability to both value levels and sales rates. In the coming months, extra impetus for the development sector will come from Government Kickstart funding for a number of new projects, combined with an increase in land transactions. Many developers are now gearing up to launch new schemes into what is perceived to be a stable if not necessarily rising market during 2011. Whilst there is uncertainty in the short term, the medium to long range outlook for the new development market remains positive. ■

Repositioning for the Opportunities Ahead



James Brown
Development Director
brownj@hamptons-int.com

Since the beginning of the market downturn in mid-2007, most residential developments became unviable for well documented reasons.

This substantially reduced development land transactions and construction starts in London and Southern England. In the 2nd Quarter of 2010, we have seen an improved situation, with the market for our clients split into three sections.

1. There have been a number of new land transactions below £5m lot sizes. Many of these are fresh purchases bought at re-based land values. Whilst very limited, the Banks are offering development finance for these projects, albeit on costly terms.
2. We have assisted a number of 'would be' developers with larger sites re-negotiating their planning consents and Section 106 agreements. Many of these projects will struggle to get on site in the next 12 months.
3. The larger sites (many of which have planning consents for high density flatted schemes in non-prime areas) remain in the 'zombie land bank'. These projects are excessively burdened with debt overhang

and prohibitive progression costs.

With respect to the first two sections of the market, renewed activity needs to be encouraged and supported as the way ahead is likely to be choppier than Mervyn King's definition of 'choppy'. In particular, we believe it will now be more important than ever to achieve genuinely viable planning consents as opposed to relying upon a drawn out market recovery to bring them into a viable state.

Public spending cuts will mean less grant funding for S106 affordable housing. Without a more progressive definition of affordable housing that considers alternative tenure structures such as private renting, this will significantly reduce scheme value and profitability. Cuts may also cause Local Authorities to rely more heavily upon general Section 106 contributions. S106 costs were already proving to be unsustainable as the typical contribution (over and above affordable housing) has increased from around £3,000 to over £10,000 per unit.

Development finance is starting to return. However, the amount of profit and de-risking that creditors require continue to erode potential profit. We are actively engaged with our clients to chart a straight course through these choppy waters. ■



In Search of Development Funding



Nigel Macdonald
 Head of Valuation
 macdonaldn@
 hamptons-int.com



As I review the first half of the year and look at what the remainder of 2010 holds for those seeking financing opportunities in the market, it is clear that the general view of lenders is still one of caution across the residential market sectors for development/ refurbishment and investment purchase.

If anything, I note a contraction in the availability of funding for those developers looking to acquire larger, high value prime Central London assets for refurbishment and residential conversion. This compares with the early months of the year, when several sources were still actively considering new opportunities. Although discounting for new build valuations has largely diminished, there is no desire to recognise any new build premium from lenders.

In contrast, smaller deals, particularly one and two unit development projects in peripheral Home Counties locations continue to be more fundable. However,

the catalyst required for any deal is the expectation from funders that a substantial level of equity will be put into the equation.

Whilst it is clear that the likes of HSBC and Santander are active and seeking deals, the jury is still out on how 'hungry' the Government backed banks are to do any real new business. Private banks remain the most active lenders and to some extent this is how new lending from the Government backed institutions is being fed into the market again, underpinned by substantial levels of equity.

There are plenty of rumours regarding certain High Street names being back in the development market (even one of the Irish banks!) so long as the product and borrower fit the current template profile. But, in reality I am not seeing any real evidence of this coming through as tangible money for borrowers and I remain unconvinced that we will see a resurgence from this group before 2011.

Most of the active players in the residential development market have adjusted to the 'new normal'. We are advising clients to seek closer relationships with funders, developing a higher level of trust than may have been necessary in the past. ■

In Focus Corporate Services



Canan Mounir
Head of Corporate Services
mounirc@hamptons-int.com

Hamptons International Corporate Services works with companies to help solve their relocation requirements.

It is a free service to our corporate clients, which provides specialist knowledge across the whole of the residential property market in the UK and overseas. From sourcing a short-let property to finding the ideal country home, we have the experts available to help.

As a direct result of growth in this specialist sector, we developed and launched a stand-alone department earlier this year. It is designed to meet the unique and diverse requirements of blue chip clients. We have housed employees from a wide collection of businesses and sectors, including Santander, HSBC, Experian, RBS, Shell and Arcelor Mittal.

This targeted service line provides us with a unique view of the performance of London's major international employers. In our experience, 2010 began with optimism, with enquiries up across all sectors. As usual, British and Continental European businesses continue to represent the largest proportion of activity. However, we began to see a return from US-based financial services firms after strong outflows in 2008/09. The growing trend for interns at large finance companies for the 12 week summer period returned in 2010. The dip in corporate budgets in the last couple of years is very slowly creeping back up to pre-recession levels, even with the ongoing ambiguity of the current market.

The lighter activity that is typical of the summer months has been made more difficult by renewed economic uncertainty in the UK. However, the traditional surge in activity from the Embassy sector in September is already apparent. We have had requirements to find anything from a new Embassy building to housing an ambassador and other diplomats. In order to meet this demand we will be hosting a reception at the recently launched Lancasters development on the north side of Hyde Park, where more than 100 embassies will attend for drinks and canapés.

Our clients are telling us that there is a constant need to source the best talent to drive their businesses forward. If this is anything to go by, London's vibrant and active market for international relocation is set to be supported by continued demand. Far East employers continue to be an important new business opportunity for us, with requirements for both executive and managerial level staff. To highlight a particularly strong sector, technology businesses such as Nokia have been sending employees over on short term assignments, while LG Electronics have been bringing over assignees on three-year placements.

It has to be said that over the years temporary assignments seem to be evolving and companies are carefully evaluating the value of investing in long term relocations. However, we anticipate relocations to remain strong as companies are happy to pay the price for the best people in the business to ensure continued growth in today's difficult market conditions. ■



Drawing on over 140 years' experience, Hamptons International is one of the premier international residential agents – with a network of more than 80 offices in the UK and key overseas markets.

We continue to expand to be one of the most valuable and innovative residential property groups in the world.

Our name is synonymous with an unrivalled level of expertise and the finest properties. Our services include:

- Sales
- Lettings
- Residential Development
- Interior Solutions
- Property Management
- Mortgage Finance

