



Each month we receive hundreds of enquiries as the direct result of our national and local editorial coverage for Hamptons properties and research in the media.

# Property – how low will it go?

House prices are expected to be flat next year but there will be ways to make a profit, says Alexandra Goss

HOUSE prices are set to remain stagnant next year but there will be opportunities if you know where to look. The value of the average property stands at £244,204, according to the Halifax House Price Index, a 2.4% lower than at the end of 2009.

The Royal Institution of Chartered Surveyors (RICS) predicted last week house prices would drop 2% by the end of 2011, with continued falls at the start of the year as consumer confidence dips and public spending cuts begin in earnest. It said a lack of new properties for sale could prompt an increase in the spring.

Simon Ballinson, chief economist at RICS, said: "The lack of supply in the market is likely to prevent significant house price declines in 2011. The narrowing gap between supply and demand will see the price downward trend in prices currently taking place at least partly reversed as the year wears on."

However, lack of mortgage finance is set to be a big stumbling block. Gross mortgage lending shrank to £11.1 billion in November, the lowest November total since 2005, said the Council of Mortgage Lenders.

What is more, the CML expects

not lending to slump to its lowest level in 20 years next year as banks are obliged to repay the £20 billion borrowed under the Bank of England special liquidity scheme. The CML thinks net lending will hit a trough of £4 billion in 2011, against a high of £20 billion in 2008. Net lending this year was about £5 billion, while the figure for 2009 was £11 billion.

As yet, a property gap, is more acute the most bullish of our forecasters, predicting prices will rise by up to 5% because a lack of finance for new developments, combined with the slashed budgets for social housing, will keep supply constrained. It also thinks interest rates will remain on hold until 2012, supporting the current low mortgage rates and reducing the number of home sales.

Ballinson thinks prices will remain relatively flat, while Capital Economics, the consultancy, expects prices will fall 2% – and is predicting a further 10% drop in 2012 as job losses intensify. It said: "It would be unprecedented for such widespread job losses not to lead to significant real house price falls."

Capital Economics is regularly the

most bullish of our forecasters – it predicted a fall of 10% this time last year and a decline of 20% in 2009.

Experts say the division between cash-rich buyers and first-timers reliant on mortgage finance will widen next year, so those looking for better returns are being urged to look at the prime markets and to consider buy-to-let, where rents are up more than 12% in London.

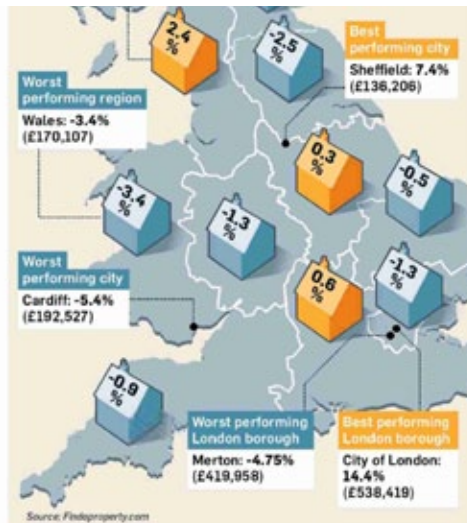
Melanie Binn at Private Finance, a broker, said: "While first-time buyers will continue to struggle to get a mortgage, landlords will see an opportunity to expand their portfolios with rents and yields rising, which will further support prices."

We look at the prospects for property in 2011.

## PRIME PROPERTY

House prices fluctuated in 2010. The highest rise was in the City of London, up 24.6% to an average of £383,643, said FindaProperty.com, the property site. However, the London region as a whole saw values fall 1.3%.

The northwest was the best performing region in 2010, with a rise of



# Social housing cuts set alarm bells ringing in rental sector

Government cuts to social housing will put even more pressure on the private rental market. **Kevin Rose** reports

THE MEASURES announced in the comprehensive spending review are still being digested, but the Chancellor's decision to cut the social housing budget in England by more than 50 per cent has led to calls from lettings agents, landlords, brokers, lenders and charities for the Government to do more to increase supply and ensure buy-to-let financing is dramatically increased.

The private rental sector is being relied upon to support demand for social housing yet is itself in a far from healthy position. It is already struggling to match existing demand, and the buy-to-let market is virtually unrecognisable from its peak three years ago. In addition, changes to welfare rules could put existing landlords of letting to those receiving housing benefit.

The Government is being called upon to produce a coherent and practical strategy to deal with an impending housing crisis. One leading lettings agent, Hamptons International, claims the latest cuts are likely to

Melanie Binn  
Director, Private Finance

have a more dramatic impact on the structure of the UK housing market than the introduction of Right to Buy in the 1980 Housing Act.

Adrian Challis, head of research at Hamptons International, says:

"While [the] 150,000 new affordable homes announced by the Government are necessary, this is just the beginning in terms of addressing the large number of new homes required by the population of the UK."

He is also concerned that while the Coalition has scrapped the target-led system of the previous government, it has not provided any concrete direction for its alternative, the "Localism" agenda.

Affordable housing schemes take time to materialise which will only add to the existing pressure on the rental market. Meanwhile, the current lack of mortgage finance means that the average age of the first time buyer has risen to 37, from 31 five years ago, as prospective buyers are

unable to provide the high deposits demanded by lenders.

Countrywide Residential Lettings, the UK's largest letting agent, reported that in September more than 15,700 new tenants registered

for rental accommodation, up 44 per cent on the year-to-date, while the number of new rental properties coming to the market rose by only 1 per cent during the same period.

The landlord community has responded by calling for a change in government-thinking over welfare reforms.

David Sahasrabudh, chairman of the National Landlords Association, has urged the Government to put in place a strategy to incentivise the growth of the private rented sector and support professional landlords.

He says: "Despite the Government's recognition of the true cost of providing homes to rent, the Government's planned cuts to local housing allowance could well result in heavy additional financial burdens on the private rented sector, at precisely the time that demand for affordable housing to rent will be increasing. It is crucial that the Government rethinks cutting local housing allowance rates to the 90th percentile of market rates in one go and introduces transition arrangements."

He also says the increase in the age limit for the shared rooms rate from 25 to 35 will place a greater local demand on shared housing.

The issue of financing is key. Buy-to-let lending is down 80 per cent on its peak and, as Melanie Binn, direc-



'Already, rents are rising significantly. More pressure on tenants will push them higher'

tor of mortgage broker Private Finance, says, there is little sign of the situation improving significantly.

"Buy-to-let lenders are few and far between, even with the return of Paragon to the market recently. Criteria remain tight, sizable deposits are necessary and fees are high. More lending is essential to meet the likely increased demand."

"Already, rents are rising significantly. More pressure from an increased number of tenants will push them higher – good news for a few landlords perhaps, but hardly a sustainable situation in the longer term," she said.

Paragon's return to buy-to-let lending has been a welcome, if small, flip for the professional investor. Once the third largest buy-to-let lender, it was forced to withdraw from lending in 2008 due to the seizing up of the wholesale lending markets. It recently secured a £250m funding line, although its lending criteria is firmly aimed at the professional landlord.

Other recent additions to the market include Aldermore and Poshite Mortgages, as well as the

draw of buy-to-let is less likely to entice casual investors.

Instead the real opportunity lies in rental income which, due to the high level of demand, is providing landlords with increasing yields and, with capital gains still likely over the long term, an investment in rental property remains an attractive proposition for landlords who have the vision and resource to commit for a sustained period."

But with not enough finance to go around, the private rental sector is not going to be able to deal with the demands placed on it by the Government's cuts.

Alan Clary, managing director of new buy-to-let lender Precise Mortgages, says the Government should have considered this when it planned its cuts to social housing. He says: "I must provide incentives for lenders to lend and for professional landlords – who are in the market for the long term – to invest further in the sector. If the Government fails to provide some safety net for the private rental sector we could be heading for a housing disaster."

that which is needed. "A lot of early financing is dealing with bank debt and refinancing, not the creation of new letting units, or conversions of houses to flats," he said.

The massive shrinkage in the buy-to-let market is not totally unwelcome. Just before the credit crunch the deals that were being offered to inexperienced buyers – so-called "amateur landlords" – were verging on the raft.

For example, Rooftop Mortgages, the now-defunct UK lending operation of US investment bank Bear Stearns, offered a product which allowed borrowers to buy 20 units, provided they already owned three – all with only a 15 per cent deposit. Crucially, while most lenders apply a rent-to-interest (RTI) cover calculation in their decision-making – usually demanding that the monthly rental will be between 120 per cent and 130 per cent of the monthly interest payment, Rooftop didn't set any RTI requirements. Therefore it didn't dictate to the investor whether a property was a good yielder or not.

Hamptons International Research provides regular commentary to the media on market and industry issues, while offering deeper insights through research publications and direct advice to industry clients

## How the other half lives

As the recovery gets off to a slow start, a lack of houses and sharp budget cuts highlight Britain's great divide, says Paula Hawkins

It may seem as though the North-South house price divide has existed since time immemorial, but it is less than 40 years old. Nationwide figures show that in 1974 house prices in the South and in the North were, on average, at about the same level. Not only is a return to those days out of the question, but also housing economists believe that disparity between prices in the South and the North will become even greater.

"As the UK emerges from the downturn, the divide between prices in the North and South is set to widen," says Adam Challis, the head of research at Hamptons International. He cites a number of factors, such as the persistent lack of housing supply and the likelihood of stronger jobs growth in the South.

The first signs of significant divergence between the North and the South began in the boom of the late 1980s and the gap has widened more over the past ten years. While property prices in the South were harder hit than those in the North by the post-2007 downturn, the South has recovered faster: in 13 of the past 16 quarters, price growth has been higher

in the South than in the North.

The latest house price figures from the Land Registry show that prices in London rose 12.1 per cent in the year to August 2010, while prices in the North West rose by only 0.3 per cent; in the North East they fell by 1.4 per cent.

However, this is not solely a London v the rest story. Land Registry figures show that Brighton and Hove was the strongest-performing area in the country over 12 months, with prices rising by 17 per cent. In Bournemouth prices were up 11.4 per cent and in Bristol just over 10 per cent.

In Darlington, by contrast, prices fell by 3.2 per cent and in Middlesbrough they fell 1.1 per cent.

Challis, like most housing experts, believes that the price increases seen in the South over the past year are now over. He predicts that the UK market as a whole is entering a period of weakness. He forecasts that this will last at least until next summer. Once the economic recovery begins in earnest, however, he expects house-price growth in the South to start to outstrip the growth farther North once again.

"The engines of economic growth in the new business cycle will continue to be located in London and in the South East," Challis says.

According to statistics from Experian, the economic forecaster, London and the South East will gain 475,000 jobs in the five years to 2015. This represents 43 per cent of all new jobs forecast to be created in the UK.

"Although growth will be broad, the key industries will continue to be in the service sector and high-value manufacturing, including the finance and business services," Challis says. At the moment higher unemployment is constraining wage inflation, but as growth returns this will no longer be the case. "Employees will have greater leverage to ask for pay increases to

counteract two to three years of flat or falling real incomes," Challis says.

However, the greater number of jobs will not be matched by a similar increase in housing supply. The previous Government set the target for new homes at 66,000 units a year: in 2009 only 42,970 new units were built. The number is expected to fall further this year.

Savage cuts to the Homes and Communities Agency budget, which has been slashed by £450 million, has led to a dramatic reduction in funding streams for affordable homes.

Challis argues that economic and employment growth, combined with the lack of new supply, will place greater pressure on housing prices in London and the surrounding commuter areas. Hamptons forecasts that house prices will rise by 3 per cent in the UK next year, with a 4 per cent increase in the South East and a 5 per cent increase in London.

Those who are living in the South will also find it easier to get mortgages because they tend to own a greater proportion of the equity in their homes than do households in the North. Recent research from Savills shows that in the South homeowners tend to hold at least 60 per cent of the equity in their homes compared with between 25 and 50 per cent in the North.

A stronger housing market, however, is not an unqualified good. In addition to making life much more difficult for first-time buyers, or at least for those who are without parents willing to lend them a hefty deposit, the "have versus have-not" geographical divide has other negative consequences.

"It weakens the flexibility of workers to chase new employment opportunities," Challis says. "This will have the potential to constrain economic growth."

## Shaftesbury shops provide profit jump

PROPERTY  
By MARION DAKERS

WEST END property company Shaftesbury posted double-digit growth in its asset value for the full-year yesterday, and said it expected strong demand for its shops, pubs and restaurants to continue.

Shaftesbury also said it was hunting for a new chief executive, after current boss Jonathan Lane announced his intention to retire in 2011 after 24 years with the firm. Lane will stay on as deputy chairman.

The company posted full-year pre-tax profit of £22.3m, up from £21.3m last year. Adjusted net asset value has risen 24 per cent on last year to £948.2m, or £4.14 per share.

Shaftesbury plans to pay a second-half dividend of 5.25p a share, taking the total for the year to 30.25p.

Chairman John Manser said the company made good progress in 2010, having let 81 per cent of commercial space at its St Martin's Courtyard scheme in Covent Garden.

He said the firm would continue to seek acquisitions, on top of properties worth £65.3m bought last year.

"We expect strong occupier demand for our properties to continue, and we are confident that we shall maintain our record of delivering out-performance in income, dividends and capital values."

Evolution Securities analyst John Cahill said in a note the results are marginally below his forecasts, adding that Lane's retirement "has been suspected for some time, and Lane will be a hard act to follow. The choice of successor - not an obvious one - will be pivotal for the future of this company."

Shares fell 1.4 per cent to 435p.

### FAST FACTS | SHAFTESBURY

- Shaftesbury was set up in 1986 by Peter Levy as a vehicle to buy properties in Chinatown.
- It listed on the London market in 1987 and became a real estate investment trust in 2007, and now has properties worth over £863m.

### GOOD VALUE FOR OVERSEAS BUYERS



Overseas buyers made over 70 per cent of central London housing deals in 2010

SUMMER 2010		SUMMER 2008	
Price of a two-bedroom apartment in the Lancasters (pictured):		Price of the apartment:	
<b>£2.4m</b>		<b>£2.4m</b>	
Price in dollars:	Price in yen:	Price in dollars at 2008 exchange rate:	Price in yen at 2008 exchange rate:
<b>\$3.73m</b>	<b>¥312.4m</b>	<b>\$4.76m</b>	<b>¥502.2m</b>
US buyers getting more than <b>20</b> per cent relative discount to 2008			
Japanese buyers getting more than <b>35</b> per cent relative discount to 2008			

Sources: Clavio and Hamptons International

Estates Gazette

### Smart money finds a home

Foreign buyers snap up UK residential as investment in continental property falls.

**EXCHANGE RATE ARBITRAGE**  
LONDON OFFERS ADVANTAGE

The smart money has found prime residential markets a safe bet in the downturn. It has been rewarded with price growth of 17% since May 2009, although a discount can still be had for buyers in foreign currencies. The dollar and dollar-pegged currencies, such as the dollar, Hong Kong dollar and Chinese renminbi, still enjoy prime prices that are 20% lower than at the peak of the market. The more recent devaluation of the euro has all but eliminated any currency arbitrage for continental buyers.

**INDEX OF PRIME PRICES FROM PEAK VALUES BY CURRENCY**

35.4% US DOLLAR, 20.8% EURO, 4.8% HONG KONG DOLLAR, 0% CHINESE RENMINBI, 3% OTHER

**MIXED BAG**  
**CENTRAL LONDON MATURITY BUYER PROFILE**

The profile of buyers over the summer shows UK investors accounted for just 28% of deals compared with more than 50% prior to the market downturn. Motivations for all investors vary from pure investment demand to purchases on behalf of children studying in the UK and additions to personal property portfolios.

Property Week

### Residential

Investment | Regeneration | Management

#### Private-rented sector casts shadow over commercial

Report shows private-rented market at £300bn, putting pressure on government to support sector. **Doug Morrison reports**

Britain's private-rented housing stock is worth £300bn – dwarfing the value of the entire commercial property sector – a new report reveals.

The research, by CB Richard Ellis, charts the true assumptions of a full life cycle of a house following the credit crunch.

CBE estimates that the private-rented sector has grown by 1.1 million households over the past decade and now accounts for 34.2% of all households in England. In 2008/09 alone, the sector accounted for 55% of all household created.

The firm attributes the growth to the declining affordability of home ownership, changing household composition, increasing reward for rental investment and the growing need for affordable housing.

These changes have put pressure on the government to support the sector. The sector accounts for 23% of new build stock nationally.

CBE's findings reveal a number of key trends in the sector. The authors see a fall in building the housing shortage.

It also notes a sharp contrast to the previous government's view of the sector. The Home Office and Communities Agency (HOCA) and its successor, the Department for Communities and Local Government (DCLG), had previously argued that the sector was a drain on the public purse.

In July 2009, however, the HOCA became the first Land Manager to become part of the HOCA to call for private-rented sector reform. In March, the HOCA and DCLG announced plans to impact £200m of assets into a new fund, although this is not formally part of the initiative.

First Time Buyer Magazine

### "WE EXPECT HOUSE PRICES ACROSS THE UK TO FALL BACK BY 4% IN 2011"

ADAM CHALLIS  
Head of Research, Hamptons International

"The Nationwide monthly house price index reported a decrease of 0.3% in November, although the smoother three-month-over-three-month figure improved slightly to -1.3% from -1.5%. The UK residential market continued its malaise in November. In addition to general market uncertainty and difficulty accessing mortgage finance, households held back on purchasing decisions until the outcome of the October comprehensive spending review was known. Subsequently, the traditional end of year slowdown has continued to depress demand for new purchasers.

London and the south of England have been more resilient in the face of economic challenges, which has fed through to better prospects for the regional housing markets. Although we expect house prices across the UK to fall back by 4% in 2011, the south of England should remain relatively steady, and London prices should grow modestly by around 3%."

### FT

#### Highs and lows in housing

Early growth has given way to stagnation, writes Tanya Po

The UK housing market has been a tale of two halves to 2010, with growth in the first half of the year followed by a period of stagnation as concerns over the economic outlook grew.

The industry's worst run since the UK housing market had recovered from March 2009 ended in the early summer of this year. Prices in the mainstream market began to fall from around June, and a month later, in July, prices in prime central London began to fall back.

The general election in May and the Co-Lo's coalition government's comprehensive spending review in October saw sentiment in the housing market plummet, with the traditional September 'hark-back' pickup failing to materialise.

"Early growth, continuing from last year, gave way post-election to a period of stagnation through the middle of the year," says Adam Challis, head of residential research at Hamptons International, a leading estate agent and private equity funds advising interested in the sector. But the advice that government support remains critical.

"It is a familiar when at Ovingdean, the UK's largest listed landlord, which has campaigned for years for a more professional sector that is less reliant on the 'buy to let' brigade.

Government actions were seen as the only problem, says the chief executive Andrew Cunningham. "There's time to let the regulator take its breath up to the summer of this year, there won't be



# Well, hello, sunshine!

That dream holiday home is still in reach, but look long and hard before you take the plunge, says Mark Hughes-Morgan

ONLY the best will do – that's the word as far as overseas property is concerned in 2011. So says estate agent Hamptons International in its latest overseas buyers forecast, anticipating another decidedly mixed year.

Of course, if you have a few million to spare, there will be no shortage of pricey places in which to invest your money.

Chesterton Hamptons has two immediate recommendations: the 12 Blues Resort & Spa in the Maldives, where 40 villas (starting at just under £1.3 million) are available on a 50-year leasehold title, with the resort hotel due to be ready by next year; and Mauritius Villas Viceroy, which offers golf as well as all the top-end resort extras.

Ramesh Raghunathan, chief economist for the Royal Institution of Chartered Surveyors (RICS), is cautious about the prospects for this year.

"There's uncertainty about debt, competitiveness, credit ratings and the euro," he says.

Statistics on world property performance are far from reliable in his view.

He questions whether official figures reflect how bad the situation is. He estimates Greece is 25 to 30 per cent off peak prices.

There are, however, a few success stories. Switzerland is thriving thanks to people attracted by its low tax regime competing for scarce stock.

"Scandinavia has done well, but the British do not buy there much," says Raghunathan.

Property in holiday destinations looks most vibrant, with values more likely to increase in big cities such as Paris and Berlin.

For the most part, buyers are going to stick with what they know – nice, safe, secure markets such as the Alps, the Côte d'Azur, and the best-known areas of Italy

such as Tuscany," says Andrew Hawkins, of Chesterton Hamptons International.

"Where people used to be fixated on capital uplift, the main criteria now is stability, and an exit strategy is much more important," says James Price, of Knight Frank International.

Charles Weston Baker, head of Savills International, agrees. "We have seen a return to the old favourites, Barbados and Antigua, and particularly high-quality golf resorts such as Quinta do Lago in the Algarve, which we expect to continue.

A recent villa sale at Quinta do Lago at £3 million was at 2008-2009 levels. The good stuff is still where it was."

With the euro weakening slightly against sterling, it has helped encourage British buyers to look around, and with the pressure on the euro in 2011, it will keep people interested.

One surprise success for Savills has been the ski property market in Austria.

"It's becoming better value compared to France," says Weston Baker. A development of individual chalets and apartments in a traditional village setting in Wagrain is a good example (from £174,000 for two-bedroom apartments).

But as Weston Baker says: "We have never had such a banking-focused crisis before – it will be two to three years before we recover."



Haves: Despite the economic downturn, there are still British people buying luxury holiday homes abroad

Hamptons International Research commentary appears in national and regional press, as well as industry trade publications and overseas periodicals.

