research

from Hurford Salvi Carr

MIDTOWN, CITY AND EAST LONDON

RESIDENTIAL 2020

“

Pricing is no longer a barrier
for many buyers.

”

HURFORD SALVI CARR

Market Overview

RENTS FALL 20%

The global pandemic, which catapulted the UK into a two month long total lockdown in March, defined the remainder of 2020, not only in the UK but across the world. The USA elected a new president in November, ending the controversial era of Donald Trump and the UK finally reached a deal with the EU on Christmas Eve - but neither managed to displace Covid from the headlines for more than a few days.

As the year drew to an end, a second lockdown was announced in early November and London entered the highest category tier 4 restrictions on 20th December as the country faced the very real possibility an extended lockdown into January.

The UK housing market surprised many by staging a strong recovery as soon as it re-opened in July, despite continued interruptions to travel, hospitality and the entertainment industries and the virtual suspension of office-based working. The Nationwide House Price Index reported annual growth of 6.5% in November, the highest since January 2015 and the Halifax was even more robust at 7.6%.

In our area of central London however, the positive momentum of the summer ebbed away as autumn progressed and ended the year with no change in sale prices. Rental values fell dramatically in 2020, by 20% or more, weighed down by the burden of supply brought to the market after the collapse of the short term lettings market. Record numbers of tenants served notice to end tenancies in 2020 and many moved home during the pandemic to take advantage of the new rent levels, saving up to £10,000 p.a.

The sales market performed better in 2020. After 5 difficult years, following the Stamp Duty increase in 2014, signs of recovery emerged in 2019 and were strengthened by the convincing Conservative election victory in the December of that year. The summer 2020 market gave cause for further optimism as with a mini 'bounce-back' of pent-up demand following the first lockdown. Prices were no longer a barrier to many buyers and more owners were minded to release capital from the central London market prompted, by the pandemic, to reassess their priorities.

Unfortunately, many of those would-be vendors were thwarted after all, by what would turn out to be the biggest single influence on the Central London sales market in 2020, bigger even than Covid. That was a requirement for apartment blocks to have compliant Fire Safety EWS1 forms – a certification system introduced to protect against fire risk in the wake of the Grenfell Tower tragedy.

Although EWS stands for external wall system, the assessment covers a much wider brief and created a very long waiting list for a qualified assessor, effectively blighting the sale prospects of thousands of apartments and presenting many owners with potentially life-changing bills for repairs and remediation, as we reported in our half year report. Without a compliant EWS1 form, lenders are not prepared to accept a property for mortgage purposes and a cash buyer would look for a substantial discount to reflect the uncertainty around repairs and liquidity.

Late in November, the government narrowed the scope of EWS1 to buildings which have cladding - but it does not solve the problem. Equally, the speculation that there will be special loans for leaseholders to cover the cost of works is no solution for a leaseholder who is in no way responsible for the building defects or who wishes to sell.

The rental market, already flooded by short term stock sidelined by business or leisure travellers, was presented with another source of new stock, as owners with non-compliant EWS1 forms offered their unsaleable apartments for rental, adding to the oversupply and suppressing rents. Neither of these trends are long term structural issues for the rental market. It is widely expected that business and leisure travel will resume within a year and the backlog of EWS1 assessments will clear within two to three years. As soon as office workers return to their desks, demand for homes in the city will recover.

The government was keen in the late summer to encourage people back into London offices and, although that policy was reined in as autumn progressed, there were signals at the year end, that the romantic view of working from home was beginning to pale and many urbanites were craving a return to the bustle and buzz of life in a global city. The announcement of an effective vaccine gave a boost to the national (global) mood although it was evident that the roll out would take many months.

CLERKENWELL EC1 - 4 BEDROOM HOUSE, SOLD NOVEMBER 2020 £2,000,000

We expect rental growth to become positive in spring or early summer of 2021. Sales prices on the other hand, will remain flat in 2021 as the true strain on the UK economy from Covid on top of our new trading arrangements with out European partners takes its toll.

The removal of a 'no deal' Brexit is good news for London which combined with Covid vaccinations gives optimism for a bounce back in London's housing market for 2021.

Economic Overview

LOCKDOWNS THWART RECOVERY

The economic agenda of levelling up the economic disparities across the UK continues to be a central piece of government policy. With the pandemic taking a hard toll on London and the uncertainty of how Brexit will affect the financial service industry, it is important to remember the significant role our capital plays in supporting economic growth across the UK. Policy initiatives need to recognise that London too, is at a critical juncture.

Crucially the number of people coming into London fell dramatically in 2020 with so many now working from home. Passenger journeys on London public transport in the summer were running at about 50% below pre-Covid levels. (In the period 23rd August-19th September the number of London passenger journeys recorded was 131 million which compares to 271 million for a comparable period pre-Covid). The tube has suffered an even higher contraction in passenger numbers.

It isn't just commuters who are not travelling but tourists too. This has prompted a deep and prolonged fall in consumer activity across London. Whilst both commuter and tourist income are critical to London, recent analysis from the GLA suggests that the loss of tourism income far outweighs the loss of commuter income.

The GLA numbers suggest that the loss of worker expenditure (£1.9bn) in 2020, compared to a no-Covid scenario, is significantly lower than the estimated loss of tourism expenditure (£10.9bn). London needs commuters and travellers to return. With the UK taking the lead on Covid-vaccinations, we can hope to see numbers start to rise from the spring onwards but that means at least a few more months of businesses being in survival mode.

While shopping and recreation trips were suppressed across the capital, reductions were much greater in the city centre. The City of London, Westminster, Camden and Islington, saw the largest declines in retail trips.

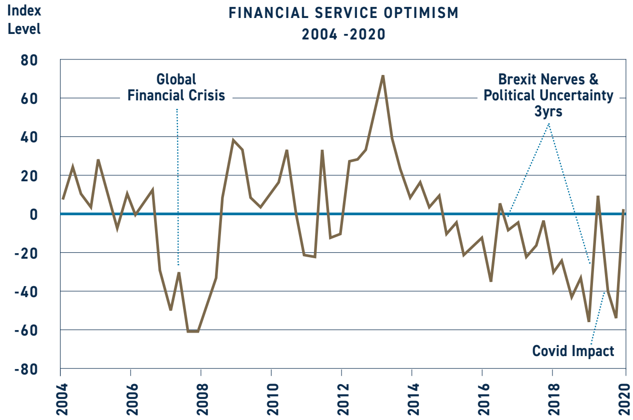
The service sector dominates the London jobs market accounting for 92% of all jobs. London service sector jobs in Q2 saw the largest quarterly contraction in jobs since 1996. 'Accommodation and food services' was one of the sectors to see largest declines.

These job losses are despite the government's efforts to support the jobs market (with furlough extended to March 2021). There is likely to be more bad news forthcoming given the fall in job opportunities in London (job postings on search website Indeed are 50 per cent below their pre-virus baseline) and the looming impact of business failures like Topshop and Debenhams.

There may be tentative signs that the business environment is stabilising at least. The latest CBI/PWC business optimism survey (Q3) showed a tentative shoring up of business activity and optimism, although notably with risks attached to the outlook.

The financial service sector appeared increasingly nervous of the potential outcome of the Brexit negotiations. A few more high profiles names have chosen to dual list their entities on a European based stock exchange as insurance.

FIGURE 1
FINANCIAL SERVICE OPTIMISM
2004 -2020



Source: Dataloft, CBI/PWC Financial Services Survey

For the UK economy, the third quarter produced a strong rebound in GDP of +15.5%, a marked turnaround from the -19.8% fall in the second quarter. Whilst the rebound helped pull back some of the economic value lost, at the end of September GDP was still 10% below its pre-Covid end 2019 level. The fall in GDP has been greater than during the Global Financial Crisis (GFC) in 2008 when the peak to trough decline in GDP was -6%. Whilst the scale of the fall has been sharper there are reasons to suggest the bounce back could be sharper too.

Forecasts for the economy remain very mixed. The consensus across the 50 or so economists tracked by the Treasury Consensus forecast series suggests a bounce back to +5.7% GDP growth next year and +4.3% beyond that. There has been much talk of a 'k shaped recovery' as different sectors recover at different speeds dependent on how they have been impacted through the course of the pandemic.

HOLBORN WC1 - 1 BEDROOM FLAT, LET OCTOBER 2020 £725 PW

With such risks to the economic outlook, interest rates are unlikely to rise any time soon. There is now a need for a period of ultra-low interest rates to manage the nation's debt. Another factor which supports the housing market by enabling mortgages but also by ensuring that capital should not be left to languish as cash.

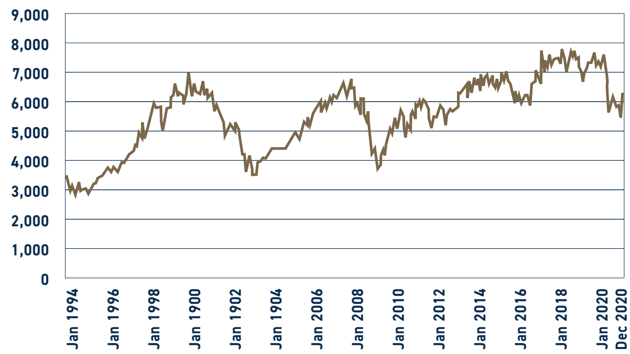
Also, more optimistically, the news of a vaccine roll-out has helped boost stock market performance, with November 2020 the strongest monthly performance since 1989. Whilst admittedly coming off a low base the FTSE-100 increased +12.4%. The FTSE-100 is a good leading indicator for the health of the economy and the London residential market alike.

Consensus Forecasts	2020 Forecast	2021 Forecast	2022 Forecast
GDP	-10.6%	+5.7%	+4.3%
Unemployment Rate (Q4)	6.5%	7.1%	6.1%
Interest Rates (end Q4 rate)	0.1%	0.1%	??

Source: HM Treasury

Whilst it is easy to understand a temporary shift in people's attitudes towards urban living, it is difficult to foresee a wholesale permanent shift. Cities have so much to offer their residents and visitors and offices still have a central role to play in working life. Whilst there will be some aspects that change forever, and a lower proportion of workers coming into London every day is one of these, offices are likely to evolve towards a format that better enhances collaboration and innovation. Offices will still be important but used in a smarter way. Whilst there will be subtle shifts to our way of life there is nothing in the data yet to undermine the pre-eminence of central London as a place to work, visit and enjoy and the worst of 2020 will soon be consigned to history.

FIGURE 2
FTSE 100 ADJUSTED CLOSE PRICES
MONTHLY TO DEC 2020



Source: Hurford Salvi Carr

GROUND RENTS

Over the last few years, pressure has been building to change the leasehold system, particularly in response to onerous ground rent clauses on new build homes. These have become more commonplace in recent years and many include ground rents that ratchet up steeply, together with other evidence of misuse including overly inflated management fees. In some instances, these high charges have prevented people from being able to sell on their homes.

The recently released (July 2020) Law Commission review of the leasehold system was a meaty 850 pages suggesting the complexity of change this area.

Across England and Wales there are an estimated 4 to 5 million leasehold properties on which ground rents are typically charged. Historically ground rents were generally levied at a nominal rate but the practice of imposing more onerous clauses gained popularity with developers. Recent clauses, like a doubling in ground rent every decade, have made some leasehold properties unsellable and difficult to re-mortgage. Many of these properties were sold through 'Help to Buy' and a few developers have been referred to the competition regulators for investigation.

With this mounting pressure, ministers announced earlier this year that from April 2021 properties could not be sold under Help to Buy unless with a peppercorn ground rent (effectively zero).

Ahead of formal legislation and in a major step forward some of the nation's largest housebuilders have now called time on ground rents. Countryside, Barratts and Bellway are removing ground rents and offering 999-year leases on their new build homes. Berkeley and Taylor Wimpey have announced a move to zero ground rents and will review lease lengths.

Barratts are also now seeking to standardise terms across its new build portfolio to ensure there is a level playing field. We would expect to see other developers follow suit.

Campaigners suggest the next step forward would be for leasehold to be abolished as a tenure. The Law Commission review favoured 'commonhold' tenure with a 999-year lease and no ground rent.

Sales Market

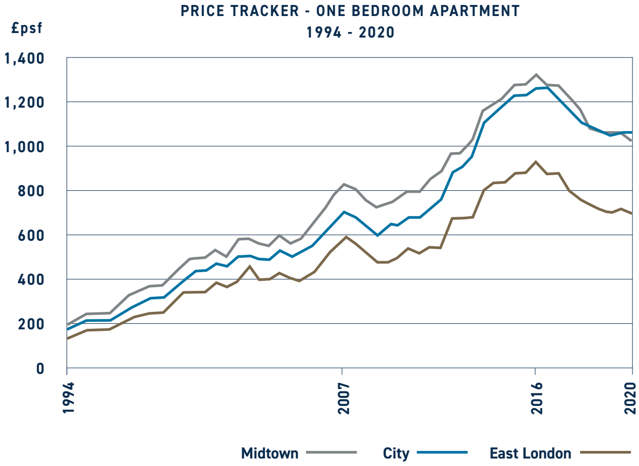
PRICES STABILISE

The year began with a sense of optimism in our markets which was stifled as the year progressed. The pandemic had a surprisingly little direct effect on sales but it was fire safety issue in the end which shaped the market for 2020, creating a virtual impasse as mortgage finance became impossible to secure on the vast majority of apartment sales built over the last 30 years.

BARBICAN EC2 - 1 BEDROOM APARTMENT, SOLD APRIL 2020 £825,000

On 8th July the Chancellor announced a Stamp Duty holiday running through to 31st March 2021 waiving the charge on the first £500,000 of any home purchase saving buyers up to £15,000. This provided additional impetus to the housing market which had already shown positive signs of a rebound following the relaxing of the first national lockdown in May.

FIGURE 3
PRICE TRACKER - ONE BEDROOM APARTMENT
1994 - 2020



Source: Hurford Salvi Carr *Data based on the value of a 500 sq ft one bed apartment in the re-sale market*

While central London did not witness the increase in transactions experienced by other parts of the UK we ended the year having sold a similar number of homes as 2019 in a remarkable bounce back across the housing market. This flew in the face of many economists' predictions that the housing market would collapse due to economic difficulties which in itself showed a lack of understanding that property prices at least in central London had been on a downward spiral since 2015. Over the past 5 years Brexit influenced a lot of people who would normally have purchased a London home more cautious. In 2020 Covid made buyers more determined to move forward with their future housing requirements as they threw of Brexit concerns to secure new homes.

TABLE 1
PRICES AND ANNUAL GROWTH FOR ONE BEDROOM APARTMENTS IN THE RESALE MARKET AT YEAR END : AVERAGE FOR MIDTOWN, CITY & EAST LONDON

Year	Annual Price Change %	Market Value £	Annual Change in Value £
1998	N/A	150,000	N/A
1999	26%	189,000	39,000
2000	11%	210,000	21,000
2001	10%	230,000	20,000
2002	13%	260,000	30,000
2003	-8%	245,000	-15,000
2004	0%	246,000	1,000
2005	10%	270,000	24,000
2006	26%	340,000	70,000
2007	9%	371,000	31,000
2008	-15%	318,000	-53,000
2009	8%	338,000	20,000
2010	4%	351,000	13,000
2011	10%	386,000	35,000
2012	5%	405,000	19,000
2013	20%	486,000	81,000
2014	8%	520,000	34,000
2015	6%	550,000	30,000
2016	1%	555,000	5,000
2017	-4.5%	530,000	-25,000
2018	-8.5%	485,000	-45,000
2019	-2.1%	475,000	-10,000
2020	-3.2%	460,000	-15,000

Source: Hurford Salvi Carr

With the surge in house sales nationally the infrastructure that supports buying and selling was under enormous strain not helped by volume low cost conveyancers who are ill equipped and often understaffed to handle leasehold transactions. The reopening of the housing market in late spring and early summer caused a frenzy of pent up demand fuelled by the Stamp Duty deadline.

Buyers registering in our offices typically work in finance, law or tech and have not been affected by the financial distress felt by so many in other parts of the country. The barrier for them is choice – there is very little stock available to buy. In our experience, six out of ten properties we were asked to value, were in blocks where an EWS1 form is required but not yet available. Initially the process was applied to homes in blocks over 18 m high (or 6 storeys) but in January 2020 the guidance was expanded to include low rise blocks too.

Prices had fallen since 2015 and overall they stabilised in 2020 - although there were small differences with one beds losing value while larger apartments, with space to work from home, or outside spaces, appreciated. There was a notable focus on larger homes over £1 million where our offices sold a record number of properties in the 12 months to December. Across the market, transaction volumes held up and prices were sustained at 2019 levels.

BLOOMSBURY WC1 - 2 BEDROOM MEWS HOUSE, SOLD JULY 2020 £1,425,000

Two bedroom apartments maintained their value in 2020 and the price of a 3 bedroom apartment rose over the year in both City 4% and Midtown by 6%, taking the purchase price to around £1.7 million.

Our analysis of pricing for a one bed apartment in the resale market, takes an average across City, Midtown and East London, and is a good indicator of the tone of the market. It records a progressive decline in value over the past 4 years amounting to a fall of £95,000 or 17% from the 2016 peak of £555,000. Today's averaged price would be £460,000 and it lost £15,000 over the course of 2020.

TABLE 2
PRICES & PRICE CHANGES FOR 1,2 & 3 BEDROOM APARTMENTS IN THE RESALE MARKET AT YEAR END

		2019 £	2020 £	£ per sq ft	Change % 2019 - 2020	Change % 2015-2020
Midtown	1 Bed	550,000	525,000	1,050	-5%	-19%
	2 Bed	850,000	850,000	1,133	0%	-15%
	3 Bed	1,650,000	1,700,000	1,133	6%	-35%
City	1 Bed	560,000	530,000	1,060	-5%	-16%
	2 Bed	765,000	765,000	1,020	0%	-9%
	3 Bed	1,400,000	1,450,000	967	4%	-24%
East London	1 Bed	390,000	375,000	750	-4%	-17%
	2 Bed	525,000	525,000	700	0%	-16%
	3 Bed	900,000	900,000	600	0%	-28%

Source: Hurford Salvi Carr *1 bed is 500 sq ft, 2 bed is 750 sq ft with 2 baths, 3 bed is 1,500 sq ft*

The demand for a pied a terre all but disappeared this year while the rental market, which drives investor behaviour, has been stronger for apartments with space to work from home, so has favoured larger properties, especially as affordability has improved.

It is very clear that owning a property in central London is more affordable now than it has been for several years and that will attract a new audience of city buyers. As long as London retains its position as one of the world's great global cities, there will be a desire, from home and overseas, to own a piece of its real estate.

A pied a terre can double as a space to work and meet business contacts and a base for people who take the decision to make their main home away from the city but still have commitments in the city 3 or 4 days a week.

The longer history of price growth remains robust. Prices have more than doubled over 20 years. The City has experienced the strongest growth over the longer timescale. It has been transformed over the past two decades from a purely office environment which effectively closed in the evenings and at weekends, into a vibrant mixed community with retail, office and residential co-existing with internationally recognised modern architecture, in what has become one of the most visually exciting areas of London.

TABLE 3
LONG RUN PRICE CHANGES
FOR A 1 BEDROOM APARTMENT IN THE RESALE MARKET

Submarket	1994 - 2020	2000 - 2020	2007 - 2020	2008 - 2020	2015 - 2020
Midtown	437%	104%	23%	35%	-22%
City	506%	144%	50%	66%	-15%
East London	477%	121%	27%	47%	-15%

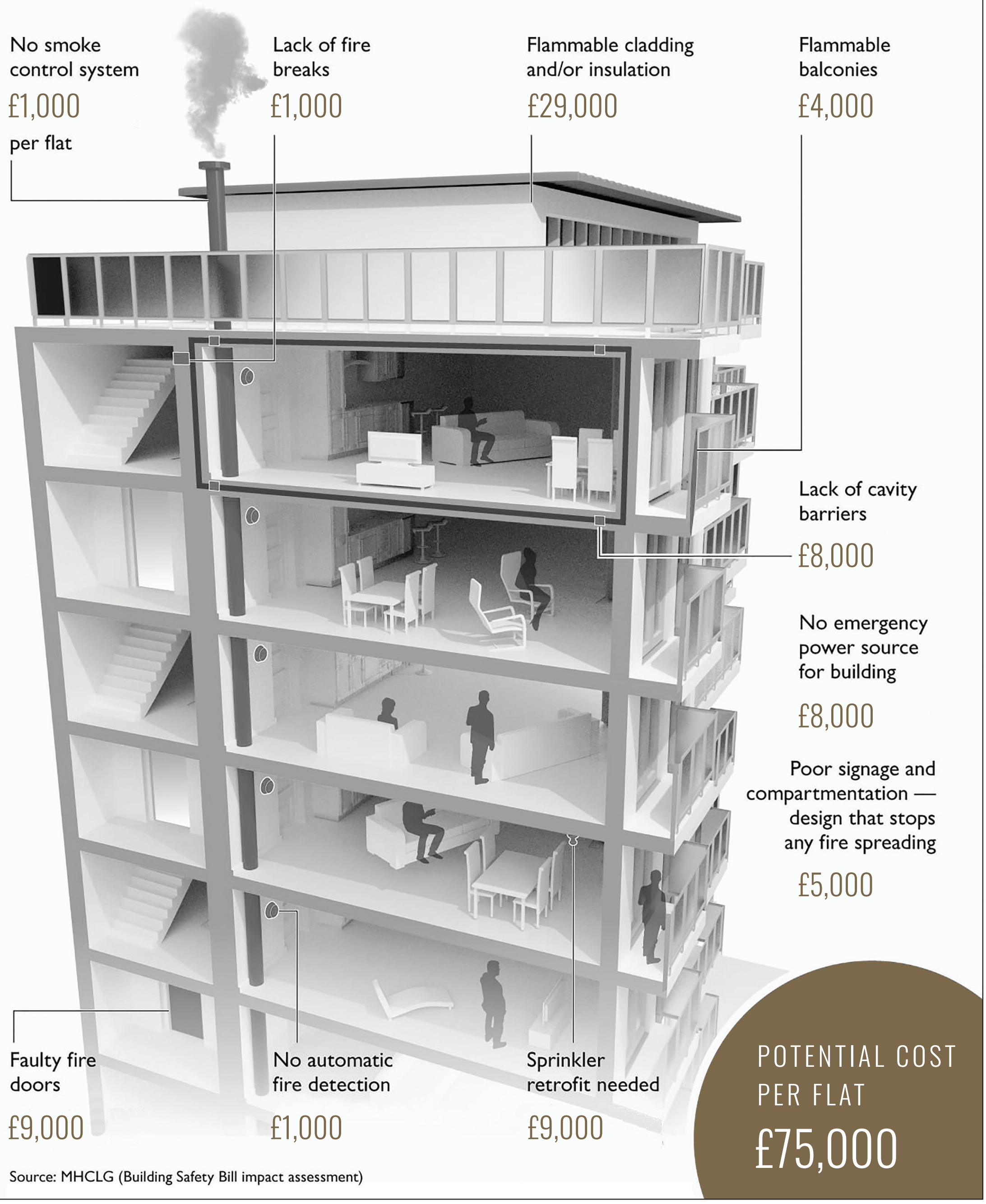
Source: Hurford Salvi Carr

LIMEHOUSE E14 - 3 BEDROOM APARTMENT, SOLD OCTOBER 2020 £975,000

The removal of a no deal Brexit should provide confidence to both domestic and overseas buyers.

Ten Deadly Flaws

FIRE HAZARDS DISCOVERED POST-GRENFELL WILL COST EACH LEASEHOLDER THOUSANDS TO RECTIFY



Source: MHCLG (Building Safety Bill impact assessment)

FIRE SAFETY UPDATE

Recent estimates give us an idea of the true scale of the fire safety crises facing flat owners across the UK. One campaign group (End Our Cladding Scandal) estimate there are currently 1.9 million 'mortgage prisoners' who, in the absence of the critical EWS1 fire safety certificate, are unable to sell their flats.

The issue of unsafe cladding on tall buildings has been a growing concern since the terrible risks were exposed by the fire at Grenfell Tower in 2017. Soon after the fire, new fire safety guidance was introduced for residential buildings taller than 60ft / 18m – typically six storeys. In January 2020 the guidance was extended to buildings of all heights and now applies to all apartment blocks with any type of cladding.

Since Grenfell, fire assessors and other suitably qualified professionals have been in great demand and the lead times for testing, inspections and design solutions have caused long delays. Without information from the original developer, or follow up reports, it is often not possible for a Fire Consultant to certify a building as safe or complete the new standard EWS1 form produced by the Royal Institute of Chartered Surveyors.

Capital Economics suggest there could be 900,000 private apartments which require an EWS1 certificate before becoming eligible for a mortgage. Given the scale of the problem, there is potential for this to flow-on and affect the whole residential sales market, preventing buyers moving up the ladder, and it will disproportionately affect urban areas with higher density living. The potential costs involved for leaseholders aren't just the cost of remedial works but also higher building insurance and, until the problem is solved, the cost of waking watch fire security patrols.

Many leaseholders had been unable to sell their homes because mortgage companies are not willing to lend against buildings that cannot prove they have no combustible materials on or between their walls. Many sales fell through in 2020 or were put on hold with no end date.

At the end of November, a report from the Parliamentary housing committee suggested it was completely unacceptable that 3 years on from the Grenfell fire there are 2,000 buildings still identified as high risk. The report also suggested that it will be an 'abdication' of responsibility by government if leaseholders are forced to fix a problem that is not their responsibility.

Mortgage lenders and underwriters' chief concerns, aside from the safety issue, are over the heightened financial risk. Given there is often no clear scope on the scale of remedial works required, or the cost, with a risk this still becomes a bill the leaseholder needs to absorb, it affects mortgage affordability and potentially sales value. In turn for lenders this represents greater financial risk (in a climate of already greater economic uncertainty) which they are not willing to take on until the situation becomes clearer.

It is difficult for lenders to individually assess the variance in risk for different properties and therefore the EWS1 fire safety certificate has become the critical component of willingness to lend. With a very small pool of EWS1 assessors this means that even properties where the extent of the remedial works have been assessed and paid for, still get stuck without EWS1 sign off.

There was an announcement in mid-December of a new £30 million government Waking Watch Relief Fund. This is a positive interim measure to help leaseholders cover the cost of common fire alarms, reducing the need for and cost of waking watch fire wardens in their buildings.

There has already been £600 million allocated to help remove cladding from high-risk buildings. There is another £1billion to be allocated (Building Safety Fund) and it was announced that the deadline for this will be extended (new deadline of June 2021) to help ensure more eligible buildings are covered.

Whilst the extension of the deadline will help ensure more buildings can access the fund, it might frustrate others who were already waiting for confirmation that they can access funds, since it is likely to push back the date that remedial works can start. Furthermore, campaigners suggest that the true cost will be much greater than the £1billion allocated. The total cost of remediation work is substantially higher than the fund. Social landlords alone have estimated that the cost to make their non-ACM fire safety measures will exceed £10 billion.

As part of the mid-December announcement, the government extended the deadline fro funding applications by six months to ensure more eligible buildings can remove unsafe cladding made a commitment that around 95% of buildings with dangerous ACM cladding (the same as Grenfell) will have either completed remedial works, or have workers on site by the end of the year. That is not our experience with most blocks still unable to commit to remedial works until confirmation is received that the works will qualify for Government funding through The Building Safety Fund.

The 6 month extension was not well received by hundreds of buildings waiting for confirmation if they will receive access to the Building Safety Fund and is now likely in the majority of buildings to delay the commencement of remedial works until late 2021 or 2022.

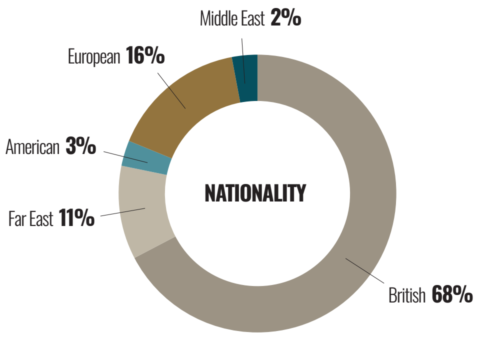
At the end of December the mayor of London, Sadiq Khan, called for a one off 10% tax on developers' profits over the past 10 years to help fund essential fire safety works. The housing ministry said it was considering a range of options to fund repairs.

BUYER PROFILES 2020

Nationality

British is always the dominant nationality for buyers in our markets and it was no different in 2020. The biggest shift this year was the return of Europeans, who made up 16% of all buyers, after dropping to just 6% in 2019. We have particularly noted activity from French buyers. Far Eastern buyers were also more active this year, accounting for 11% of sales, up from 6% the year before.

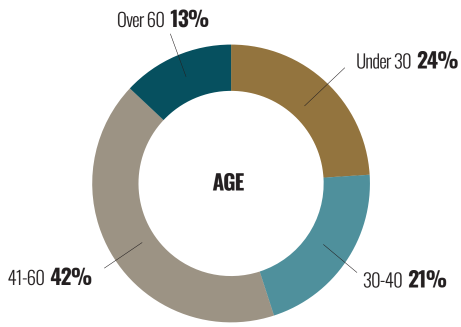
The prevalence of European buyers is heartening as we approach the final stage of Brexit with the prospect of a no deal particularly as banks have expressed serious concerns about their ability to operate fully in the City.



Age

Judging from our buyer data, people in their 30s were far less active in 2020 than age groups either side. We suspect that the pandemic played a part in causing this as people in the family formation years no longer needed to think about proximity to the office. Young people in their 20s picked up the slack, making up 24% of buyers, compared to 11% in 2019.

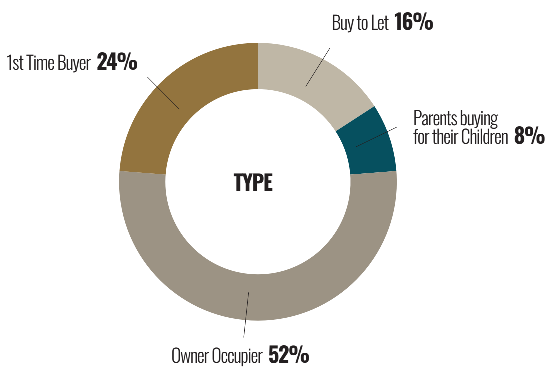
On average over the past 5 years, 37% of our buyers were aged between 30 and 40 but this year, their share fell to just 21%.



Buyer Type

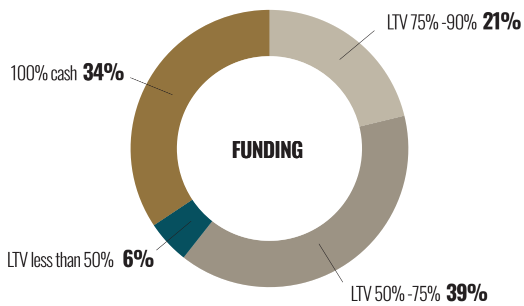
Our markets often diverge from national trends and the identity of the buyers is proof of that this year. In most of the country, first time buyers have been disadvantaged in 2020 by increasingly stringent mortgage requirements but in our markets, they made up 24% of all transactions – significantly more than in any of the last 5 years. First time buyers in our markets are generally high earners and often international citizens.

The buyer type that totally disappeared from our markets in 2020 was the pied a terre owner – perhaps unsurprising when so many offices were closed and people retreated to homes outside the capital. The loss of the pied a terre buyer partly explains weak demand for smaller apartments.



Funding

The breakdown of buyers by their loan to value ratio changed very little. Cash buyers still make up 34% of the total – equal to the five year average.



Lettings Market

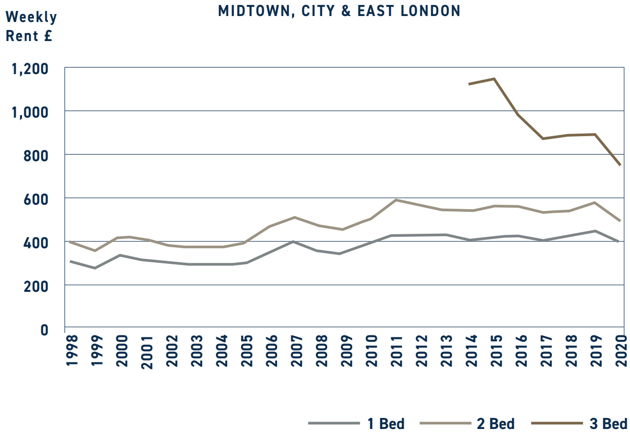
TENANTS TAKE ADVANTAGE

There was a clear shift in the balance of power between landlord and tenant in our markets in 2020. Rents have fallen and, during the pandemic, tenants have been able to demand concessions that would be unthinkable and probably unreasonable in any other circumstances.

2020 has been a difficult year for many people with health concerns, job insecurity and reduced earnings. The shared experience has often strengthened communities and bolstered family ties but it has been a disappointingly divisive period for some landlord/tenant relationships in our markets. The government introduced a complete ban on evictions so that no tenant could be asked to leave their home even if they were unable to meet their rental obligations which is designed to protect tenants against unreasonable landlords but can create difficulties for landlords operating a well-managed business.

Landlords with properties to let have had to tolerate unusually long void periods before they find tenants and even then, only once they have accepted that rents have fallen steeply. Many tenants have secured additional reductions on reduced asking prices.

FIGURE 4
WEEKLY RENTS FOR 1, 2 AND 3 BEDROOM APARTMENTS MIDTOWN, CITY & EAST LONDON



Source: Hurford Salvi Carr *1 bed is 500 sq ft, 2 bed is 750 sq ft with 2 baths, 3 bed is 1,500 sq ft*

Measures were introduced to protect tenants who might get into difficulties meeting their rent payments. On 26th March 2020 the Coronavirus Act came into effect obliging landlords to give tenants three months' notice of an intention to seek possession. Under this law, which applies until 31st March 2021, landlords cannot apply to start the court process until after the three month notice period. From 27th March, the court service suspended all ongoing housing possession action – effectively suspending a landlord's rights to evict tenants during this period. Landlords struggling as a direct result of coronavirus, could apply to their mortgage lender for a repayment holiday.

Rents began to decline in Q2 and then stabilised in the normally busy Q3 seasonal peak but by Q4 then were once again sliding downwards. Much of the activity was driven by tenants relocating to negotiate a lower rent, or more space for their money. By the year end, rents were down by 13% overall and by 20% in the centre of the City. In some instances, rents have been agreed at 30% below their previous achieved levels and sometimes with long fixed rent periods agreed.

Landlords, anxious to cover their base costs of services charges, utility bills and mortgage payments, were ready to agree generous concessions in return for a source of income.

The change is, in our view, an 'over-correction' and will be reversed within the next couple of years as leases end and rents are restored to the prevailing open market level. The tipping point will come when office workers return and business and leisure travel picks up so that the excess rental stock is absorbed. Unlike the sales market, an annual rent fixed at a low point in the market will only last as long as the market conditions persist and can be quickly corrected with a new letting at market value.

TABLE 4
WEEKLY RENTS FOR 1, 2 & 3 BEDROOM APARTMENTS IN MIDTOWN, CITY & EAST LONDON AT YEAR END

Submarket		2017 £	2018 £	2019 £	2020 £	% Change 2019 - 2020
Midtown	1 Bed	450	475	500	450	-10
	2 Bed	600	640	680	575	-15
	3 Bed	1,100	1,100	1,100	875	-20
City	1 Bed	450	450	490	390	-20
	2 Bed	560	560	600	525	-13
	3 Bed	925	950	975	850	-13
East London	1 Bed	320	340	350	325	-7
	2 Bed	425	425	440	400	-9
	3 Bed	575	575	575	540	-6

Source: Hurford Salvi Carr *1 bed is 500 sq ft, 2 bed is 750 sq ft with 2 baths, 3 bed is 1,500 sq ft*

Yields are broadly in line with their 2013 level because falls in capital values since 2015 have now been matched by falls in rental values in 2020. The gross yield for a one bed apartment is around 4.4% while a two bed apartment is now closer to 3.6% and less than 3% for a three bed. All three compare well to the interest rates available on cash investments and mortgage interest remains low. The greatest threat to returns in 2020 has been the risk of a prolonged void period. For that reason, landlords have been open to negotiation in a way that we would not expect to last long past mid 2021.

TABLE 5
ANNUAL RENTS FOR 1, 2 & 3 BEDROOM APARTMENTS IN MIDTOWN, CITY & EAST LONDON YEAR END

Submarket		Weekly Rent £	Sq ft	Rent p.a.	Rent psf
Midtown	1 Bed	£450	500	£23,400	£47
	2 Bed	£575	750	£29,900	£40
	3 Bed	£875	1,500	£45,500	£30
City	1 Bed	£390	500	£20,280	£41
	2 Bed	£525	750	£27,300	£36
	3 Bed	£850	1,500	£44,200	£29
East London	1 Bed	£325	500	£16,900	£34
	2 Bed	£400	750	£20,800	£28
	3 Bed	£540	1,500	£28,080	£19

Source: Hurford Salvi Carr *1 bed is 500 sq ft, 2 bed is 750 sq ft with 2 baths, 3 bed is 1,500 sq ft*

It is also the case that the foundations are more secure than in previous recessions. When the Global Financial Crisis hit the housing market, prices had been rising strongly and affordability was stretched. This current crisis has struck after a period of slow or negative price growth and at a time when affordability had been rebalanced to some extent. It means that sellers had already begun to adjust to new expectations and buyers are less likely to fear buying in a falling market.

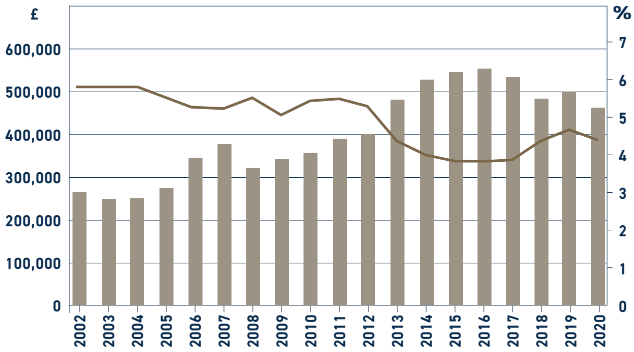
TABLE 6
LONG TERM RENTAL GROWTH

	2000 - 2020	2007 - 2020	2008 - 2020	2014 - 2020
1 Bed	20%	1%	11%	-4%
2 Bed	21%	-2%	8%	-8%
3 Bed	N/A	N/A	N/A	-33%
Inflation (CPI)				

Source: Hurford Salvi Carr *1 bed is 500 sq ft, 2 bed is 750 sq ft with 2 baths, 3 bed is 1,500 sq ft*

CLERKENWELL EC1 - 2 BEDROOM LOFT, LET NOVEMBER 2020 £650 PW

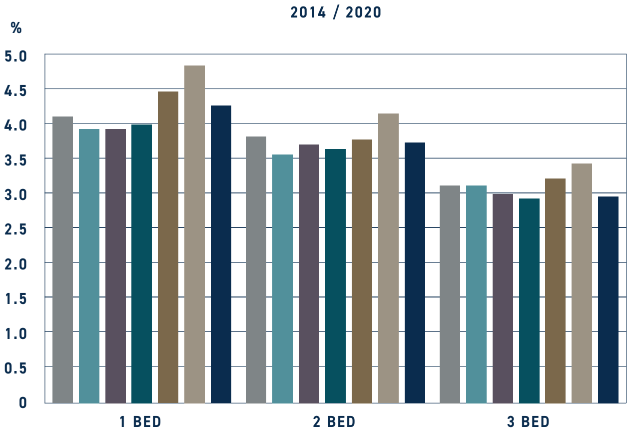
FIGURE 5
CAPITAL VALUES AND YIELDS FOR ONE BEDROOM APARTMENTS
MIDTOWN, CITY & EAST LONDON



Source: Hurford Salvi Carr

Investors can feel optimistic about the prospects for rental growth because there are three strong sources of demand that can reasonably be expected to return in 2021: once offices re-open, overseas students return and travel is resumed.

FIGURE 6
CHANGE IN YIELDS FOR CITY, MIDTOWN & EAST LONDON
2014 / 2020



Source: Hurford Salvi Carr

TABLE 7
GROSS INVESTMENT RETURNS FOR ONE BEDROOM APARTMENTS
AVERAGE OF MIDTOWN, CITY AND EAST LONDON 2013 TO AS AT YEAR END

	2013	2014	2015	2016	2017	2018	2019	2020
Gross Annual Income £	21,840	21,060	21,580	21,840	21,060	21,840	23,140	20,280
Capital Value £	486,000	520,000	550,000	555,000	530,000	485,000	475,000	460,000
Gross Initial Yield %	4.5	4.1	3.9	3.9	3.97	4.50	4.87	4.41

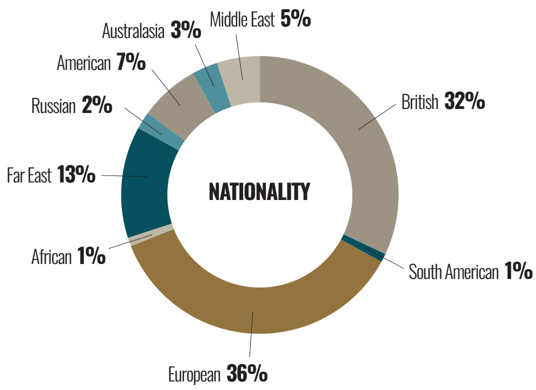
Source: Hurford Salvi Carr *Gross Yields - Gross to Net is typically depleted by 2.5%*

TENANT PROFILES 2020

Nationality

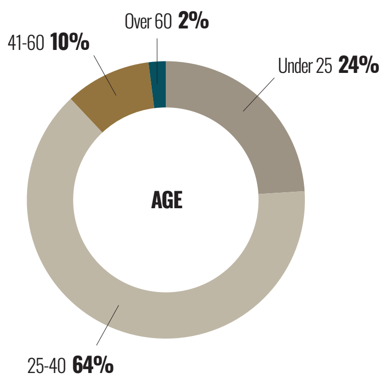
As with age, the nationality profile of renters in 2020 was entirely consistent with previous years. Europeans made up the largest proportion (36%) by a small margin over British (32%) and that mirrors the five year average. As in the sales market, we particularly noted activity from French citizens.

No other overseas region supplies close to the number of renters in our markets as the European mainland in any year but the Far East also maintained its share at around 13% - perhaps surprising given the potential impact of the pandemic on overseas students.



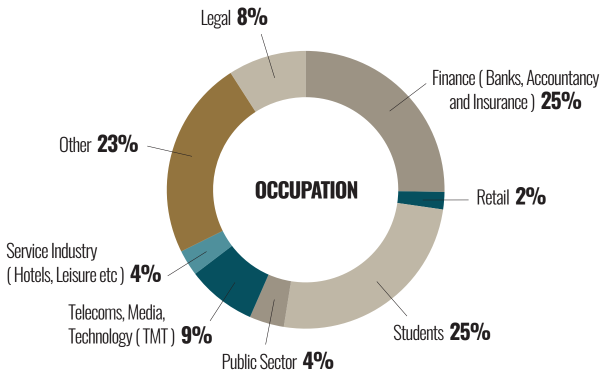
Age

The age profile of those who signed a new lease in our markets in 2020 was in line with the five year average. Two thirds fall into the age category between 25 and 40 but, as always a quarter were under 25, reflecting the key role of students and young early career professionals in our markets. Unsurprisingly, the structure of renters is quite different from buyers where 55% are over 40, compared to just 12% of renters. Of course these two statistics are interrelated.



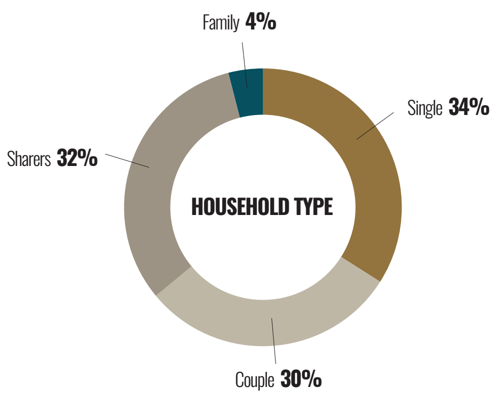
Occupation

The population of renters in our markets is surprisingly consistent across all our measures – in contrast to the sales market which is far more subject to fluctuations from year to year. The volume of transactions in any one year is much higher for rentals than sales and perhaps that helps to smooth the distributions.



Household Type

The only significant shift in the profiles of renters in 2020 was in household type. There was an increase in singles and a fall in the proportion of couples. Sharers remained at the same level as did families – who are always small players in our markets.



Future Prospects

LONDON AWAITS THE RETURN OF OFFICE WORKERS

As the coronavirus vaccine is rolled out across the UK the protection of the most vulnerable groups together with improved treatment for Covid-19 we expect the gradual return of London's office workforce from the spring of 2021.

At the same time the new regulatory environment as the UK leaves the EU will challenge many businesses that have already been under severe pressure nevertheless, we expect the reappearance of business travellers too in 2021. The revival of large scale international tourism will depend on robust testing procedures at airports - but we expect that to be in place next year.

In 2021 we expect demand from buyers and tenants to revive as offices are repopulated with the trend for larger properties with a quiet space to work from home and access to a private or nearby outdoor area to continue.

CITY EC1 - PENTHOUSE LOFT APARTMENT, SOLD OCTOBER 2020 £1,500,000

There will of course be a rush to complete sales transactions by the 31st March to secure the Stamp Duty relief and then from 1st April overseas buyers will face an extra 2% Stamp Duty on purchases in addition to the 3% surcharge they would pay if they own a home anywhere else in the world. From 1st April the governments Help to Buy scheme which has help to drive new homes sales in recent years will be restricted to first time buyers only.

With the UK economy in recession and a tighter tax and regulatory environment anticipated in the coming years, it seems likely that prices will come under renewed pressure. Taxes are likely to be raised or introduced in future years to help pay for the pandemic and we that may include property taxes or even the introduction of a wealth tax.

In the sales market, London values represent a buying opportunity however a lack of supply and low gearing will continue to underpin current values. In 2021 the overriding feature of the sales market in the City, Midtown and East London will be a shortage of apartments listed for sale compounded by the large of number of apartment blocks awaiting for remedial building works to bring the buildings up to the required fire standard.

KENTISH TOWN NW5 - 3 BEDROOM HOUSE, LET DECEMBER 2020 £725 PW

Banks and the banks' surveyors will not process mortgage applications without a compliant EWS1 form and this will apply to the majority of apartment blocks completed in the past 30 years. The government urgently needs to find additional funds to cover remedial works and find new solutions to assist leaseholders to unlock this situation or face a growing backlash from homeowners across the country.

We expect sales values to remain unchanged in 2021 for the second consecutive year – following falls since 2015. Anyone who purchased a property in central London since 2014 will have lost value and this fact only reinforces owners' disinclination to sell.

The oversupply of rented accommodation that has led to a dramatic fall in rents in 2020 is expected to reduce in the first half of 2020 giving a boost to rent levels. This coupled with a new university intake in September, will boost demand in Q2 and Q3 and we believe that rents will bounce back by 5% to 7%. December 2020 will mark a historic low point for rents.

Renters, we believe, will continue to demand more for their money but will find landlords less accommodating in 2021. The experience of the pandemic will leave a lasting legacy on behaviours and priorities.

London's short term letting market will take time to recover because so much of this stock was pushed into the mainstream rental market and is now tied up on longer leases. Many specialists serviced rental operators have now scaled back their operations or simply stopped trading and it remains to be seen how quickly this sector the market will recover.

As we leave 2020 behind we look forward to a better 2021, a year when the vaccine promises a return old world certainties for the nation's health and the wider economy. London's property market is well placed to benefit from an uplift in optimism and consumer confidence that will result from a return of office workers to the City, international tourism, and the return of students into full time education.

WEST END
39 Store Street
London WC1E 7DS
Sales & Lettings
020 7299 3322
westend@h-s-c.co.uk

CITY
37-41 St John Street
London EC1M 4AN
Sales & New Homes
020 7250 1012
sales@h-s-c.co.uk

CLERKENWELL
1 Britton Street
London EC1M 5NW
Lettings
020 7490 1122
lettings@h-s-c.co.uk
Commercial
020 7566 9440
commercial@h-s-c.co.uk
Development & Investment
020 7566 9444
investments@h-s-c.co.uk

ISLINGTON & SHOREDITCH
227 City Road
London N1 7NA
Sales & Lettings
020 7549 6969
cityroad@h-s-c.co.uk

ALDGATE
61 Alie Street
London E1 8EB
Sales & Lettings
020 7680 1888
aldgate@h-s-c.co.uk

DOCKLANDS
9 Branch Road
London E14 9HS
Sales
020 7791 7000
sales.docklands@h-s-c.co.uk
Lettings
020 7791 7011
lettings.docklands@h-s-c.co.uk
Property Management
020 7791 7033
management@h-s-c.co.uk
Renewals
020 7791 7022
management@h-s-c.co.uk

hurford-salvi-carr.co.uk

HURFORD SALVI CARR 25 ESTABLISHED 1996

HURFORD SALVI CARR

hurford-salvi-carr.co.uk