research

from Hurford Salvi Carr

MIDTOWN, CITY AND EAST LONDON

RESIDENTIAL 1ST HALF 2022

“

London’s property markets

have proved

remarkably resilient.

”

HURFORD SALVI CARR

Market Overview

DEMAND FOR CITY LIVING

The housing market in our parts of London, was stronger in the first half of 2022 than at any time since 2014. Given the many economic and political challenges facing the UK, London's property markets have proved remarkably resilient. Capital values gained 2% between January and June, while rents increased by 4% over the same period.

The strength of the market is firmly underpinned by two factors: the return of life to the city streets and the persistent shortage of homes for sale or rental. Together, they created conditions which have been able to withstand threats from spiralling energy costs, strained international relations, the unwelcome return of inflation to the UK economy and the still-hovering spectre of new Covid variants.

There is another key factor contributing to the resilience of this market: sale prices are broadly the same today as they were in 2014, while in other parts of the UK there have been steep rises. London prices have begun to look rather attractive in comparison with many other places. For many this looks like a good time to buy if only the stock were available.

SHOREDITCH EC2 - 2 BEDROOM LOFT, SOLD JUNE 2022, £1,350,000

Rents are another story. The return of London's young workforce to the city has put extraordinary pressure on rental values. The market suffered a painful blow during the pandemic as London's footloose renting population fled the city leaving rents to plummet in their wake. Summer 2021 marked a sharp turning point after which rents regained their pre-pandemic levels and far surpassed them. By the middle of 2022, rents were 12% above their pre-pandemic levels. Those who took leases while the market was slow now face higher rents at renewal. The unintended consequence is that renewals have soared and supply of homes to rent remains pinched.

The spectacle of steeply rising rents alongside relatively low prices inevitably piques the interest of investors as gross yields improve. We also recorded more enquiries from first time buyers, generally backed by capital contributions from their parents who sense that the time is right to help the next generation get on the housing ladder.

There were two government-supported interventions with major implications for our markets. The first, London's newest underground line, has been a long time coming and has been warmly welcomed; the second, a financial pledge from housebuilders, is intended to unlock the impasse over fire safety works, although we remain to be convinced of its efficacy at least in the short term.

The Elizabeth Line opened on May 24th, later than planned but to high praise and just in time for the Queen's Platinum Jubilee celebrations in early June. As well as adding capacity to the underground system, it slashes journey times and helps remove friction from the decision to commute into the office. It also improves the connectivity of our markets in Midtown, City and East London. For instance, a journey between Farringdon and Canary Wharf is reduced from 24 minutes to just 10. Infrastructure has always been an enabler in housing markets and this latest addition to the network will open up new destinations and reinforce values along its route.

No overview of the housing market can be complete without acknowledging the significant challenges facing the economy hot on the heels of a pandemic. Inflation rose to a 30-year high in H1 2022, energy prices were posing such a threat to household budgets that the government stepped in with a £15bn support package and wages are beginning to rise in response to inflationary pressures. The Bank of England raised interest rates for the 4th time this year in June to 1.25% and, while they remain low by historic standards, they have increased fivefold since the start of the year, are at their highest rate since early 2009 and may well rise again.

At the midpoint of 2022, none of this seems to have dampened demand yet and for anyone seeking a safe place for capital, property investment is often a favoured choice. There will be an overall impact on the housing market by later this year with price growth and rental growth rates anticipated to slow.

LIMEHOUSE E14 – 2 BEDROOM FLAT, LET MAY 2022, £576 PER WEEK

Economic Overview

INFLATION HITS 9.1%

In June, UK inflation reached a 40-year high of 9.1%, creating consternation in an economy that had, until recently, enjoyed decades of relatively stable prices, moderate wage growth and low interest rates. Furthermore, an economy which appeared to have weathered the worst of Covid remains relatively unscathed.

The economic outlook changed rapidly in the first half of 2022. The year began with a boost to confidence as the Omicron variant turned out to be less severe than Delta and quite quickly people returned to public transport, shops and the office.

By February the invasion of Ukraine hit headlines and the full impact of the cost-of-living crisis began to emerge. Latest economic forecasts significantly differ from those issued only a few months ago. In June, the Bank of England suggested that inflation would peak at just over 10% later in 2022, more than double the consensus forecast of 4.6% for the year back in February.

GDP expectations for 2022 have fallen from 4.3% at the beginning of the year to a current consensus forecast of 3.8%, with economic growth expected to slow further next year (the current consensus is for 1.0%). The Bank of England have a more pessimistic outlook for economic growth next year, suggesting that the GDP growth rate could fall slightly (-0.2% in 2023). More downward revisions to GDP growth forecasts seem likely in this uncertain environment.

By far the highest profile event over the last 6 months, the invasion of Ukraine, unfortunately now looks set to be a lengthy conflict. Focusing on the economic impact, war in itself is a source of uncertainty, but as long as it doesn't spread through Europe then the most likely economic impact will be through supply chain constraints and inflationary pressures, particularly sharply rising energy costs.

There is a significant ongoing energy risk, given the reliance of many EU countries on Russian supplies, most notably Germany which imports around 50% of its natural gas from Russia. Germany is looking at alternative sources (probably the Middle East) but in the meantime energy prices are likely to remain volatile.

The UK imports roughly half of its natural gas, with the lion share of that coming from Norway. Only a small proportion comes from Russia (less than 5%) but clearly that hasn't left us immune to energy price fluctuations.

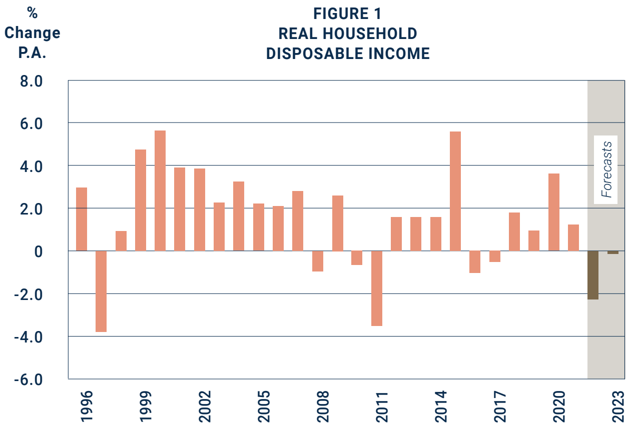
TABLE 1
HM TREASURY CONSENSUS FORECASTS
2022-2023

Year	GDP Annual Average %	Inflation: CPI Annual Average %	Interest Rates End Q4 %	Real Household Disposable Income %
2022	3.8	8.3	1.7	-2.3
2023	1.0	2.7	1.9	-0.1

Source: HM Treasury Consensus Forecasts June 2022

Energy price rises is one of the key factors that has brought the cost-of-living crisis to the fore. Real household disposable income is held as the best measure of household wealth over time, adjusting for changes in cost-of-living such as taxation, benefits and inflation. The most serious declines in this measure were in 2011 (-3.5%) and in the mid-1990s (-3.8%). The current forecast for 2022 is -2.3% with broadly flat expectations for 2023 (-0.1%).

FIGURE 1
REAL HOUSEHOLD DISPOSABLE INCOME

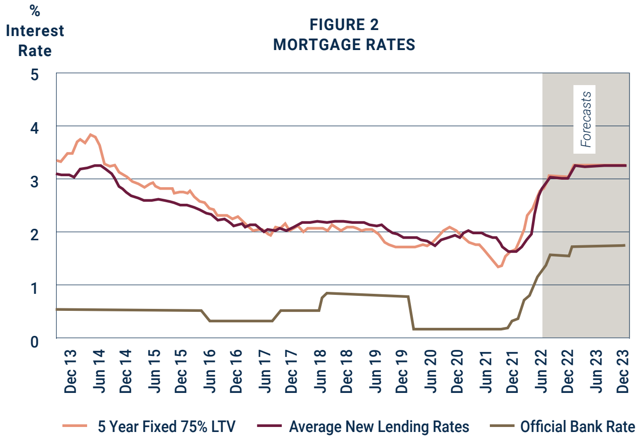


Source: Dataloft, HM Treasury Consensus Forecasts June 2022, ONS

In recognition of the hardships facing many households this year, the Chancellor stepped in with alleviation measures in May – announcing £15bn in support to help with rising energy costs. The emerging consensus is that these measures, which are more significant for less wealthy households, could be enough to stave off a recession next year. It remains to be seen whether they will be enough to bolster consumer confidence which had sunk, in May, to its lowest on record.

The residential sales market is largely driven by what people can borrow and at what cost. With inflation running high, the Bank of England increased base rates to 1.25% in June, with a further 50bp rise expected before the end of 2022. The typical margin between mortgage rates and the bank rate (typically 1.5 percentage points over the last year) suggests the average new lending mortgage rates will be around 3.4% by the end of 2023, the highest rates in almost 10 years.

FIGURE 2
MORTGAGE RATES



Source: Dataloft, Bank of England, Consensus Forecasts for Base Rate June 2022

There is a risk that the Bank of England feels it necessary to raise interest rates further in the face of cost and wage inflation. Rates rising higher than currently expectations would present a shock to the housing market that over recent years has acclimatised to low rates.

The vast majority of new mortgage borrowers are on fixed rates (representing 92% of new loans over the last 5 years) offering protection, at least until the fixed term expires. However, it will be increasingly hard for first-time buyers to make it onto the property ladder in London. Saving for deposits is a key hurdle, particularly when other household bills are rising. As an offset for now, the jobs market is remarkably strong and earnings have been increasing.

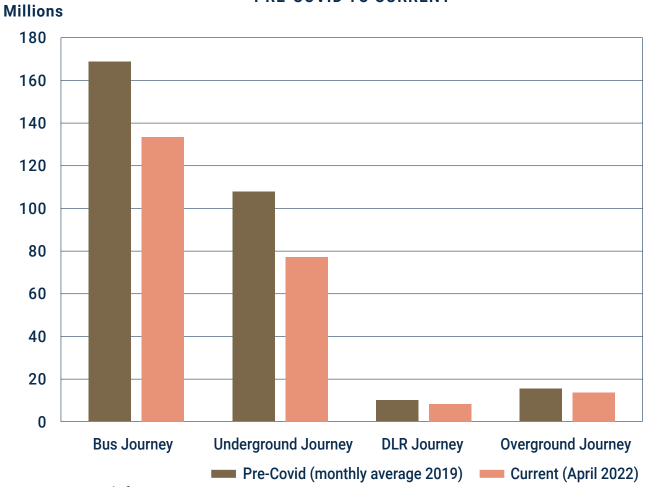
Any fall in the number of first-time buyers (FTB) does have an impact on the rest of the housing market eco-system, in an absence of FTB, it is more difficult for second steppers and so on. Furthermore help-to-buy is being phased out by 2023, which has helped many FTB onto the housing ladder. Whilst current interest rate increases are forecast to be modest, this does drive affordability in the wrong direction.

Testimony to the strength of the market across the UK is stamp duty land tax receipts that amounted to approximately £14.1 billion in 2021/22, compared with £11.61 billion pre pandemic in 2019/20. The total was boosted by the 2% surcharge on the purchase of residential properties by overseas non-residents which was introduced on 1 April 2021. From introduction up to the end of Q1 2022, this surcharge had been levied on 10,400 transactions, collecting £111 million.

London is busy once more: passenger numbers from Transport for London show that across all their types of transport they are back to between 73% and 98% of their pre Covid levels. Likewise, the Pret Index, which tracks the activity across a range of its London store locations, shows a strong recovery in sales which are now above pre-pandemic levels in the West End, at London stations, in London suburbs and at airports, with particularly strong sales at airport locations. For the city and Canary Wharf, sales are back to 87% of pre Covid levels reflecting current hybrid working practices of more days worked from home.

London is also enjoying the return of international travellers, the absence of which was keenly felt through Covid. Data on passenger numbers for Heathrow show that in April the number of passengers was back to 5.1million with prior Covid passenger numbers around 6 million per month, which like the TfL passenger numbers, is back to 75% of prior levels (hoping that logistical problems with airlines doesn't detract from this bounce back).

FIGURE 3
TFL PASSENGER NUMBERS PER MONTH
PRE-COVID TO CURRENT



Source: Dataloft, TFL

LONDON, ECO CITY

Sadiq Khan, Mayor of London, said: "Global cities have a big role to play in tackling climate change and environmental issues. London has shown its leadership by committing to a Green New Deal to help London become greener and fairer – creating new jobs and skills for Londoners and ensuring London becomes a net zero-carbon city by 2030 and a zero-waste city by 2050. As the new Chair of C40 Cities, I am working with other Mayors and cities across the world to share ideas and collaborate". Early in 2022, London won a bid to host the biennial Ecocity World Summit in June 2023. It is a global conference on sustainable cities established over 30 years ago. Only recently, has sustainability has become an important consideration for developers of new homes and for city planners, and is still not a key factor in most home choices.

The EcoWorld Summit will take place in June 2023 at the Barbican Centre and will bring together communities from across the city including school children, academics, businesses, investors, and political leaders, to share new thinking and maintain the energy and momentum engendered by COP26.

The intention is to leave a legacy of a new piece of green infrastructure in London, conceived, and developed through a collaborative process. It will take place during the month-long London Festival of Architecture which has events across the city in June. The bid to host the summit was led by the NLA (New London Architecture) with the support of the UK Government, Mayor of London, London Councils, City of London Corporation, Transport for London, UK Green Building Council, Royal Town Planning Institute, Green Finance Institute and Bartlett Faculty of Built Environment, UCL.

Sales Market

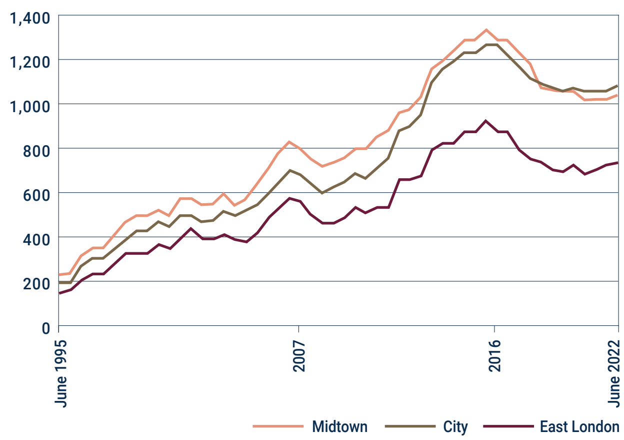
TRANSACTION NUMBERS INCREASE

Across our markets more sales were agreed in the first half of 2022 than at any time since 2014 - and that includes the busy run-up to the deadline for the stamp duty holiday in June 2021. Our experience was reinforced by data from TwentyCi which reported that sales agreed in Inner London in Q1 2022 were higher than the pre Covid Q1 2019 by 37.5%. In consequence, there was a gentle uplift in values, adding another 2% to the average price and a little more (3%) to a 2 bed apartment in City or Midtown.

CLERKENWELL EC1 – 2 BEDROOM LOFT SOLD MAY 2022, £1,500,000

The price rises we reported in 2021 have been consolidated in 2022. Nevertheless, the cost of a home in our markets remains at the level they had reached 8 years ago, in 2014. That simple fact is a key driver in the market today – buying a home in our markets is within reach for more people, while the cost of renting has risen in comparison. That combination has also caught the attention of investors.

FIGURE 4
PRICE TRACKER - ONE BEDROOM APARTMENT
1995 - H1 2022



Data based on the value of a 500 sq ft one bed apartment in the re-sale market

Source: Hurford Salvi Carr

The London suburbs and wider South East have experienced double digit price growth for two consecutive years with agents regularly reporting sales at above asking prices. This is not the case in Central London. The contrast makes our markets look, for many, like a good buying opportunity.

We have seen an increase in demand for one bedroom apartments. City prices edged above Midtown in 2021 and that order has been sustained into 2022. The cost of one bedroom apartments has been underwritten by demand from first time buyers alongside pied-a-terre purchasers and investors.

Most of the demand is coming from domestic buyers. Overseas investors have been slow to return to the market. We expect more to return over the next year, spurred on by economic and political uncertainty in many parts of the world. London has long been considered a safe haven for capital because of its benign and relatively stable political and economic environment maintained over many years.

TABLE 2
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
2021	1.1%	465,000	5,000
2022 H1	2.2%	475,000	10,000

Source: Hurford Salvi Carr

Some £10,000 was added to the value of a one bedroom apartment in our markets by the middle of 2022, taking the average value to £475,000, though still significantly below its peak at £555,000 in 2016.

There has been moderate price growth across all our markets this year but the strongest uplift has been for 2 bed apartments. The return of price growth to our markets was initially led by larger (3 bed) properties where prices rose in 2020 and 2021 but have since remained stable this year. Only recently, in 2022, have we seen a return to price growth for smaller apartments.

During the pandemic, many people sold homes and left London. Those who stayed, often wanted to exchange their apartment for a freehold house with outside space. This shift in preferences kick-started the price growth in 2020 and 2021.

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

		2019 £	2020 £	2021 £	2022 H1 £	£ per sq ft	Change % 2021-2022 YE
Midtown	1 Bed	550,000	525,000	525,000	535,000	1,070	2%
	2 Bed	850,000	850,000	850,000	875,000	1,167	3%
	3 Bed	1,650,000	1,700,000	1,800,000	1,800,000	1,200	0%
City	1 Bed	560,000	530,000	530,000	540,000	1,080	2%
	2 Bed	765,000	765,000	765,000	790,000	1,053	3%
	3 Bed	1,400,000	1,450,000	1,550,000	1,559,000	1,039	1%
East London	1 Bed	390,000	375,000	385,000	390,000	780	1%
	2 Bed	525,000	525,000	535,000	540,000	720	1%
	3 Bed	900,000	900,000	975,000	975,000	650	0%

1 bed is 500 sq ft, 2 bed is 750 sq ft with 2 baths, 3 bed is 1,500 sq ft

Source: Hurford Salvi Carr

Looking across different locations, East London recovered faster than Midtown and City with increases for all property sizes in 2021 but here too, the 3 bed properties climbed steeply last year and have flattened this year.

Apartments are the dominant property type across all of our markets. In the recent past however, the relative popularity of houses versus apartments has been skewed by several unusual and unforeseen circumstances. The pandemic led people to re-evaluate their lifestyles. Extra space, including outside space, became a priority. The realisation that hybrid working is not a temporary phenomenon has consolidated the need for additional internal space. At the same time, fire safety issues have rendered many of the apartments built in the last 30 years un-mortgageable, and/or prohibitively expensive as maintenance and retrofitting costs have been added to annual service charges. That has deterred buy to let investors and excluded many other buyers. The appeal of the house as a property type has been driven by a perfect storm of push and pull factors.

STRATFORD E15 – 3 BEDROOM PENTHOUSE SOLD MAY 2022, £890,000

Anyone who has owned property in our markets for 20 years or more will have accumulated substantial capital gains. For those who became homeowners around the turn of the millennium, the value of their property will have doubled. Prices have grown five-fold since we first began monitoring these markets in 1994. Many people from that generation are now considering equity release to free up some of their accumulated housing market wealth and pass it on to the next generation. A record £4.8 billion was withdrawn in equity release in 2021 and it has become a key driver in the UK housing market.

TABLE 4
LONG RUN PRICE CHANGES FOR A 1 BEDROOM APARTMENT IN THE RESALE MARKET

Submarket	1994-2022 H1	2000-2022 H1	2007-2022 H1	2008-2022 H1	2015-2022 H1
Midtown	448%	108%	25%	38%	-19%
City	518%	149%	53%	69%	-12%
East London	471%	118%	26%	46%	-16%

Source: Hurford Salvi Carr

Equity release enables buyers to apply for low loan to value mortgages and secure some of the most competitive interest rates available. Parents who gift money to relatives can reduce the Inheritance Tax liability for their beneficiaries and also experience the pleasure of seeing their money put to use.

ALDGATE E1 – 2 BEDROOM FLAT SOLD MARCH 2022, £750,000

Homeowners who haven't seen significant price gains are less motivated to sell with the taxes potentially incurred on the way in (purchase) and the way out (sale) adding further reluctance to do so.

Despite advances in technology, delays with solicitors and managing agents processing sales this year (under the strain of increased sales volumes and compliance checks) have pushed the average time taken to exchange a leasehold flat from 6 - 8 weeks 30 years ago to 12-16 weeks in 2022. This inevitably leads to greater stress levels for buyers and sellers at a time when both inflation and interest rates are rising.

FIRE SAFETY UPDATE

The issue of Fire Safety continues to hang over any apartment built in the last 3 decades. Thousands of residential developments have been found to have dangerous cladding and other safety issues uncovered by inspections prompted by the Grenfell disaster in 2017.

Many innocent leaseholders have become legally responsible for huge bills to fix the problems, while others are unable to sell as banks refuse to lend before expensive remedial work has been completed.

In January 2022 the Department for Levelling Up, Communities and Housing (DLUCH) asked housebuilders to sign up to the Building Safety Pledge, and contribute to the cost of remediations in buildings between 11m and 18m in height. The levelling up secretary, Michael Gove, threatened action against housebuilders if they failed to sign up, saying: 'We will do whatever it takes to hold industry to account, and under our new measures there will be nowhere to hide."

By the end of April, 36 of the UKs 53 largest housebuilders had signed, including many who built blocks in and around the City, committing just over £2bn towards fixing dangerous cladding – a considerable chunk of the £4bn the government estimates is required to remediate cladding on tall buildings.

On 28th June 2022 the Building Safety Act became law protecting the rights of leaseholders in buildings above 11m tall or at least five storeys and included the appointment of a Building Safety Regulator. In circumstances where building owners do not have the resources to pay, leaseholders' bills will be capped at £15,000 in London and £10,000 outside the capital. This covers anything owners have paid in the past five years including non-cladding costs such as 'waking watch' fire patrols.

Another £3bn is expected to be raised through an expansion of the Building Safety Levy that will be chargeable on all new residential buildings in England.

While this is a positive step, some 3 million people remain in homes they are unable to sell or re-mortgage. Transferring responsibility to the original developers will cause further delays in the commissioning of the remedial works. It has, in many instances, pushed expected start dates back to 2023 at the earliest as the housebuilders consider whether to undertake the works themselves or continue with professional teams who have been preparing tenders for government approval. Until the works are undertaken, leaseholders will continue to pay inflated building insurance costs which will not be covered by the cap on costs.

An issue of concern to many of our clients, is that landlords with more than two properties are not included in the protection afforded leaseholders under the Building Safety Act. This could cause conflict in buildings where remedial works are not fully covered by the original builder and there is a mix of homeowners entitled to access The Building Safety Fund and investors held liable for their share of the cost. This could make accessing the fund more problematic for the managing agents or professional team making an application. It falls short of the previous government pledge that those who did not cause this crisis would not have to pay to fix it.

Data released from the London Fire Brigade in October 2021 confirmed that there were 1,107 buildings with building and fire safety failings in London. A quarter were located in Hackney and Tower Hamlets. In May 2022 the London Fire Brigade said it is "extremely concerning" that more than 1,000 residential buildings in the capital still have serious fire safety failings. Only 6% of flats with flammable cladding have been made safe five years since the Grenfell fire that killed 72 people.

In a potential admission that the scope of fire safety issues covered by EWS1 certificates may have exceeded what was originally intended, the government wants to restore risk proportionality to the remediation of unsafe buildings. This includes encouraging the Royal Institution of Charted Surveyors (RICS) and key lenders to form a new reset approach to the building safety crisis in terms of risk assessment and suitability for lending.

On an encouraging note, the Building Society Association (made up of 43 Building Societies plus Barclays, HSBC, Lloyds, Nationwide, Nat West and Santander) has now stated that where the EWS1 form recommends remediation works under A3 or B2 ratings, lenders will consider lending where a costed and funded remediation plan has been agreed with committed days for starting and finishing all specified /required works. However, at present, we do not know of any blocks that meet this criteria.

BUYER PROFILES H1 2022

Almost half (44%) of the buyers who bought through our offices so far this year have been aged under 40 but, perhaps more surprisingly has the sharp uptick in older buyers aged 60 and above which has shifted from 3% in 2021 to 17% in the first half of 2022.

We would characterise these as affluent professionals who are in a position to make choices. They may have relocated to rural or coastal locations but would like access to the culture and vitality of city life and often these will be second homes, or a return to the city which will include travel overseas for parts of the year.

When we compare the age structure of buyers in Half 1 2022 with the longer-term average (2015-H12022), there is also a sharp fall of buyers under 30. However, whilst it is too early to call a trend it is a notable change, on Q1 2022 it was 10% versus an average of 18% over the longer term.

Younger buyers, if they have the means, do have an opportunity to buy at relatively favourable prices but the threat of emerging interest rate rises this year will be a deterrent to this group who will often be pushing their affordability to the limits. At the moment, rents are rising much faster than prices which in some senses encourages first time buyers but there are significant threats which young buyers will be wary of too.

Buying an apartment to use as a pied-a-terre accounted for 17% of all sales in the first half of 2022 – that is double the long-term trend and significantly higher than in 2021 (9%). The other category which was surprisingly high this year, given their absence in recent years, is buy to let which made up 21% of all purchases. First time buyers, on the other hand, were far less active in the first six months of this year, down from 31% in 2021 to just 14%.

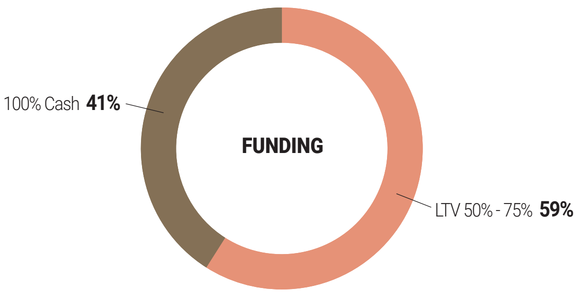
Although the category 'parents buying for children' only makes up 3% of purchases this time, it is common for the first time buyers in our markets to have had parental help with their deposit. This is an increasingly common way for families to pass money down through the generations. Owner occupation only became widespread in the UK in the post-war decades and as their children inherit, the next generation is often the beneficiary.

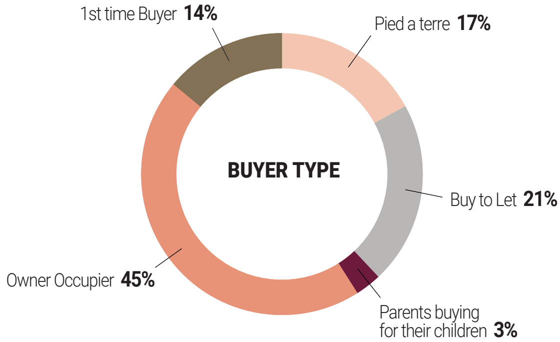
Only 10% of buyers had previously lived in the local area although another 46% had lived elsewhere in Greater London. Almost three quarters of the people who bought homes through our offices in Half 1 2022, were British. That is significantly more than 2021, when they accounted for 58% but closely in line with the norm for our markets at around 70%.

European buyers are an important segment of the market and they made up 17%, with the balance from the Far East (7%) and Middle East (3%).

It is heartening to note that overseas nationals continue to commit their lives and their capital to London, despite the challenges this city has faced – as have so many cities across the world. With unrest in eastern Europe, we would normally expect the UK, and London in particular, to be seen as a safe haven for international capital. To date, we have not seen a strong return of overseas buyers and the 2% surcharge (additional stamp duty for overseas buyers) will be a deterrent, nevertheless, at current pricing, we believe London will be looked upon as an attractive proposition.

In most years there is a spread of loan to value ratios in our markets but in the first half of 2022, all our buyers had a deposit of at least 50% and over a third were defined as 'cash buyers'. There are several possible explanations: savings were accumulated during Covid; parents passing on capital to children; people who sold and rented with the express intention of being 'cash buyers'.





New Homes

46% NOW BUILT TO RENT

Very much akin to other parts of the market reported here, new home sales started well in 2022. Evidence from the first quarter shows that just over 6,000 new homes were sold across London which is the highest for any quarter since 2018 and indeed the fifth highest quarterly rate since 2008.

Focusing in on the schemes which achieved more than 12 sales over the quarter (which is about 85% of activity over Q1), data from Molior highlights some interesting trends on the state of play for London's new homes market. A large share of these Q1 sales were to large scale investors accounting for 46% of sales.

Within this it was chiefly Build-to-Rent operators (BTR), either with forward funded transactions or with homes which were destined for the sales market but switched to rental at completion, accounting for 41% of Q1 new build sales. Another 5% of sales were to bulk investors, not counted as BTR as their purchase doesn't represent an entire scheme.

The data also shows the large proportion of new homes sales going through Help to Buy (HTB). The window of opportunity for HTB sales is now closing with the scheme due to be phased out in 2023 and many developers running out of stock destined for Help to Buy. Close to a quarter of all sales in the first quarter were to HTB. A further 6% of sales achieved were switched to affordable housing.

Overseas investors have been less prevalent through Covid, but these latest numbers showed that 8% of sales in Q1 were to overseas investors.

After accounting for these different types of buyers, it leaves a very small proportion that are UK buyers negotiating their own single purchase with the developer. This potentially suggests how far removed the new homes premiums have moved from the mainstream residential sales market, perhaps more an indicator of large-scale investor demand.

There is much of relevance to developers in the recent announcements on the Levelling Up agenda. A new £1.5 billion for the Levelling Up Home Building Fund is to being launched, which will provide loans to small and medium sized developers and support the government's wider regeneration agenda in areas considered a priority for levelling up (for which London might not be the focus).

NEW INFRASTRUCTURE LEVY

In April the Government unveiled its intention to replace Section 106 planning obligations and the Community Infrastructure Levy (CIL) with a new infrastructure levy, with the proposed change expected to simplify the system.

The new levy was first proposed in 2020 as part of the Government's Planning White Paper and, in its response to the House of Lords' Built Environment Committee report published in January, the Government said it was "considering the details" of a new levy, that it said would "aim to reduce complexity and uncertainty and enhance the transparency of developer contributions". It is envisaged that a singular levy will make the process simpler for all those involved, and will get the development off the ground quicker.

CIL is a tariff-based charge that applies to most new developments. It is registered as a local land charge, i.e. it will bind the land as a financial liability and appear within a home-buyer's local authority search accordingly. The money collected from the levy is used to improve infrastructure within the borough where the development is located.

When buying a newly built home, it is fundamental to therefore ensure that this financial liability has been met by the developer before proceeding with the transaction, as otherwise, it will remain registered as a financial burden affecting the property. The liability attaches to the land and not necessaryily the developer.

Section 106 agreements are used alongside the levy to reduce the impact of development, in association with planning applications, and to address issues such as affordable housing, highways, education and town centre improvements and available parking within the local area. Amongst other things, the agreement will contain specific obligations upon the developer to pay certain financial contributions. This is the planning document that often contains a car free obligation on the development and its occupiers.

Most agreements are site specific, and the bespoke nature of Section 106 agreements means that they take a long time to put in place and can be complex. This can be frustrating for developers who are waiting on this before the planning permission can be fully granted, and this is often needed before development finance can be put in place.

GROUND RENTS ON NEW HOMES BANNED

From 30 June 2022, anyone buying a home on a new long lease will now be freed from these annual costs, helping homeowners manage their bills as they face cost of living increases. The Leasehold Reform (Ground Rent) Act 2022 represents the first stage of the government's aim to make leasehold property ownership fairer and more affordable.

Sometimes worth hundreds of pounds a year, Ground Rent charges provide no clear service in return and can be set to escalate regularly, with a significant financial burden for leaseholders. Freeholders will be banned from charging ground rent to future leaseholders, under a new law that will lead to fairer, more transparent homeownership for thousands of homebuyers, helping to level up opportunities for more people.

The Act will apply to new residential long leases (with a term of more than 21 years) granted for a premium and will stipulate that only a peppercorn (nil) rent can be demanded, resulting in a ban on collecting new ground rents. The Act will also prohibit landlords from charging any administration fee for demanding a rent.

In preparation, developers have already reduced ground rent to zero for homebuyers starting a new lease with them. The move forms the first part of the government's reform package that will make homeownership cheaper, fairer and more secure.

It is important to note that following 30th June 2022, in circumstances where an existing lease is to be extended beyond the expiry of the original term it must be at a peppercorn rent for that extended term.

Future measures proposed last year include, a new right for leaseholders to extend their leases to 990 years at zero ground rent and an online calculator to help leaseholders find out how much it would cost to buy their freehold or extend their lease. We await further detailed information on these proposals.

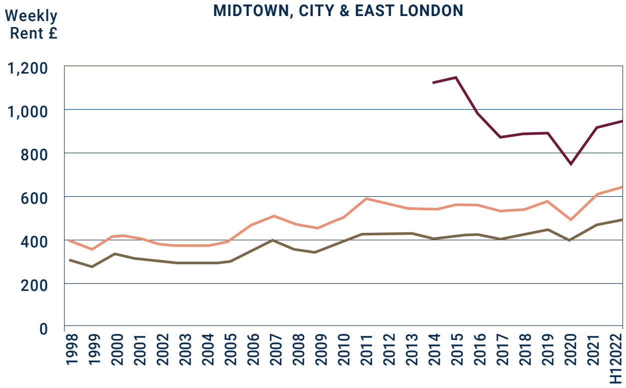
Lettings Market

SUPPLY SHORTAGE

The extraordinary performance of the rental market, which began in summer 2021, has continued into 2022. Normally, the rental market picks up mid-year as the new intake of students and graduates arrive but this year there has been no slow period and we expect rents to continue rising through the summer months.

There is a simple economic equation at work: demand exceeds supply and that stimulates price growth. The supply of homes available to rent is lower than usual and the demand is higher than usual.

FIGURE 5
WEEKLY RENTS FOR 1, 2 AND 3 BEDROOM APARTMENTS
MIDTOWN, CITY & EAST LONDON



1 bed is 500 sq ft, 2 bed is 750 sq ft with 2 baths, 3 bed is 1,500 sq ft

Source: Hurford Salvi Carr — 1 Bed — 2 Bed — 3 Bed

Low supply can be explained by two factors: more leases are being renewed so rental stock does not return to the market and more landlords are selling with limited numbers of Buy To Let (BTL) investors entering the market, reducing the total stock. On the demand side, not only have office workers continued to return to London but also rental households need more space per renter to enable hybrid working (perhaps taking an extra bedroom as a study) – putting more pressure on the stock.

SHOREDITCH N1 – 2 BEDROOM PENTHOUSE, LET APRIL 2022, £750 PER WEEK

There is a parallel with an earlier period of social change in London. In 1939 London had accommodated a population of 8 million, the population shrunk dramatically during World War II and yet when the population grew back to the same size in the late twentieth century, we had a housing shortage. The explanation lies in household size.

BARBICAN EC2 – 3 BEDROOM FLAT, LET FEBRUARY 2022, £1,040 PER WEEK

In the pre-war period, large families crammed into smaller homes and bedroom sharing was commonplace for children. In the second half of the twentieth century household size shrunk and lifestyles changed – more young adults moved out of home to live with friends before marriage; more couples divorced and formed separate households plus more people chose to live as single-person households. These social trends meant we needed more homes to house the same size of population.

Something similar is underway today. Working from home is not comfortable or viable in cramped houses and young renters are breaking into smaller households or, if they have the means, paying to set aside a spare bedroom. There is also a category of affluent renter who moved out from the capital but would like a base for the 2 to 3 days a week that they are in the office and prefer to rent rather than buy. Many social commentators anticipated a post-pandemic boom in socialising and enjoying the attractions of city life – we are just seeing the beginning of that and renting is a flexible way to experience city living.

Another theme boosting the demand for rental homes is the rising incidence of people renting in order to break the chain in the buying and selling process and become a cash buyer. Whilst not a dramatic increase, it is another factor accounting for the surge in demand.

Rental uplift in the first six months of 2022 averaged 4% but reached 6% or 7% for 2 bed apartments. Across the board, rents are up in our areas by around 12% on their pre-pandemic levels of 2019.

Rental growth since lockdown is startling. The sharp post-pandemic recovery creates spectacular headlines with rises of 30% or more in City and Midtown (where the falls were also sharpest) in little over 12 months. It is this rate of increase that is persuading so many renters to renew leases rather than venturing out into the open market, knowing they are unlikely to find an equivalent property at a similar rent. Higher rents and reduced supply are compelling reasons to renew a lease with a landlord who is likely to look favourably on existing tenants.

The continuing presence of these out of area renters puts additional pressure on supply. They will probably move away once their discounts disappear, and we expect that to happen gradually over the next year or two. It will be one trend that will help to relieve pressure on stock eventually.

TABLE 5
WEEKLY RENTS FOR 1, 2 & 3 BEDROOM APARTMENTS IN MIDTOWN, CITY & EAST LONDON AT H1 2022

Submarket		£ 2018	£ 2019	£ 2020	£ 2021	£ 2022 H1	% Change 2021-H122	% Change 2020-2022 H1
Midtown	1 Bed	475	500	450	550	570	4	27
	2 Bed	640	680	575	700	750	7	30
	3 Bed	1,100	1,100	875	1100	1150	5	31
City	1 Bed	450	490	390	510	520	2	33
	2 Bed	560	600	500	650	690	6	38
	3 Bed	950	975	800	1000	1000	5	31
East London	1 Bed	340	350	325	350	375	7	15
	2 Bed	425	440	400	450	475	6	19
	3 Bed	575	575	540	600	600	0	11

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

TABLE 6
ANNUAL RENTS FOR 1, 2 & 3 BEDROOM APARTMENTS IN MIDTOWN, CITY & EAST LONDON H1 2022

Submarket		Weekly Rent £	Sq ft	Total Rent payable p.a. £	Rent psf £
Midtown	1 Bed	£570	500	£29,640	£59
	2 Bed	£750	750	£39,000	£52
	3 Bed	£1,150	1,500	£59,800	£40
City	1 Bed	£520	500	£27,040	£54
	2 Bed	£690	750	£35,880	£48
	3 Bed	£1,050	1,500	£54,600	£36
East London	1 Bed	£375	500	£19,500	£39
	2 Bed	£475	750	£24,700	£33
	3 Bed	£600	1,500	£31,200	£21

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

London's thriving tech sector has continued to create demand for rental homes in our markets and, indeed across other areas of London. The volume of demand we have experienced strongly suggests that they are using their offices at least some of the time and choosing to live nearby. We have found homes for employees of Facebook, Amazon, Google and LinkedIn, in recent months all of whom have offices in the local area. TikTok and We Chat have signed new office leases in Farringdon and we would expect an influx of prospective renters to follow.

By now, the long list of policies designed to disincentivise buy-to-let investment is familiar, beginning with the stamp duty for Additional Homes which came into force in April 2016; phased loss of tax relief on buy to let mortgages, dating back to April 2017; the Tenants' Fees Act introduced in 2019 and the gradual spread of local licencing fees across London boroughs. We have dubbed this the 'anti-landlord agenda' and it has had the intended consequence of reducing the number of homes owned as buy to let investments as well as the (presumably) unintended consequence of driving up rents.

The Levelling Up white paper, published in February, sets out plans for further reforms to the private rental sector. First, will be the ending of section 21 evictions, meaning landlords have fewer possibilities to regain possession of their properties. Housing Secretary, Michael Gove, says this will 'end the unfair situation where renters can be kicked out of their homes for no reason.' It also announced a new minimum standard for rental homes known as the 'Decent Homes Standard'.

A third proposal, the National Landlord Register, is designed to address the problem of rogue landlords and sub-standard conditions, by issuing fines and bans to repeat offenders. While the sentiment seems fair and just, the reality is that it will further discourage the majority of reasonable landlords from taking on the risk of being a landlord, particularly as there is no equivalent proposal to crackdown on rogue tenants. This proposal for a National Landlord Register is currently out for consultation. If it is adopted, the balance will tip further in favour of selling up for Buy to Let investors.

On top of the proposals from central government, the Mayor of London has asked for the power to freeze private rents in the capital for two years. However, this will be more difficult to argue since the government announced in May that it does not support rent controls, acknowledging that: historical evidence suggests that it would discourage investment in the sector and would not help landlords or tenants.

BLOOMSBURY WC1 – 3 BEDROOM PENTHOUSE, LET JUNE 2022,£1,384 PER WEEK

Large investing institutions and corporates are filling some of the gaps left by the retreating army of small investors - but the stock owned by these 'Build to Rent' investors, tends to be in zone 2 and beyond where there are higher yields, lower land values and larger development opportunities. There is still very little in our markets of City, Midtown and the most central areas of East London. The closest to our borders are probably in Canary Wharf and Stratford.

There were some positives for landlords in the White Paper. A new ombudsman for private rented landlords will ensure disputes can be more easily resolved without going to court.

In terms of headline rental growth, investors have been through a very rosy period, experiencing growth of 25%+ in the past 18 months – but of course that is measured from the very low base reached during Covid. The reality is that 25% was the growth recorded for the whole 15 year period since 2007. Looking at long term rental growth over a range of time periods, the contrast between 2007 (pre-Global Financial Crisis) and 2008 (Global Financial Crisis), clearly illustrates the significance of the base year.

TABLE 7
LONG TERM RENTAL GROWTH

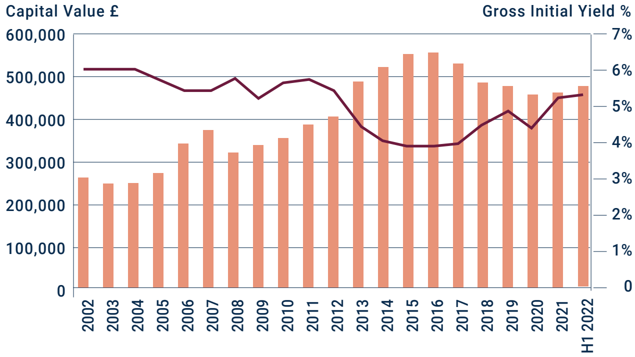
	2000 - 2022 H1	2007 - 2022 H1	2008 - 2022 H1	2014 - 2022 H1	2020 - 2022 H1
1 Bed	49%	26%	39%	20%	24%
2 Bed	55%	26%	38%	18%	28%
3 Bed	N/A	N/A	N/A	-17%	25%

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

Gross initial yields are now firmly above 5% for one bed apartments - a level last achieved in 2012, although the costs associated with income from rental investments have risen significantly in the intervening period, as discussed earlier in relation to the 'anti-landlord agenda'.

For larger properties, the gross returns range between 3% and just over 4% and many of the associated costs are more punitive too. Investors are now, of course, starting to see their borrowing rates rise with interest rates.

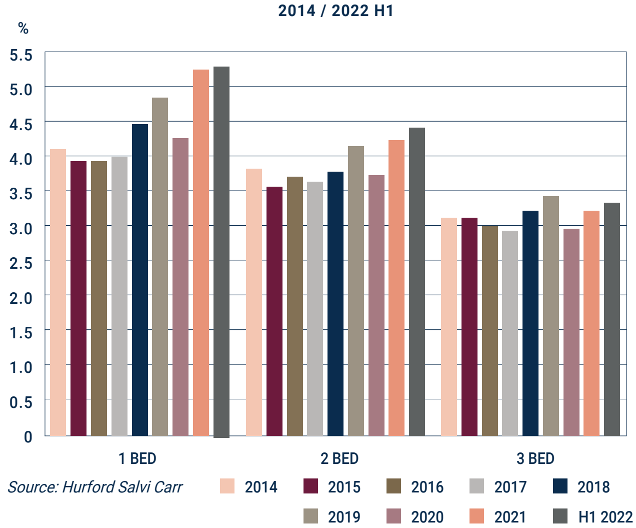
FIGURE 6
CAPITAL VALUES AND YIELDS FOR ONE BEDROOM APARTMENTS
MIDTOWN, CITY & EAST LONDON



Source: Hurford Salvi Carr

The average annual rent for a one bed apartment is around £25,000 per annum. A single occupier, would need an income of £75,000 to cover the rent and comply with normal referencing criteria of 30% gross income cover. Couples sharing a single bedroom apartment are in a much stronger position but renters in these markets are often affluent overseas students who pay six months up-front and treat the cost as a capital investment in their education.

FIGURE 7
CHANGE IN YIELDS FOR CITY, MIDTOWN & EAST LONDON
2014 / 2022 H1



Source: Hurford Salvi Carr

TABLE 8
GROSS INVESTMENT RETURNS FOR ONE BEDROOM APARTMENTS
AVERAGE OF MIDTOWN, CITY AND EAST LONDON 2013 TO 2022 H1

	2014	2015	2016	2017	2018	2019	2020	2021	2022 H1
Gross Annual Income £	21,060	21,580	21,840	21,060	21,840	23,140	20,280	24,336	25,220
Capital Value £	520,000	550,000	555,000	530,000	485,000	475,000	460,000	465,000	475,000
Gross Initial Yield %	4.1%	3.9%	3.9%	3.97%	4.50%	4.87%	4.41%	5.23%	5.31%

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

TENANT PROFILES H1 2022

The range of nationalities represented by tenants in our markets is much wider than for buyers. British make up only just over one third of new rental households in H1 2022, broadly matched by Europeans (31%). The position so far in 2022 aligns very closely with the range in 2021.

Compared to the longer term average (measured between 2015 and 2022), British, American and Far East are all represented higher this year than the norm, while Europeans are a little lower. In our markets, there is usually a difference between Half 1 and Half 2 because of the importance of the student market and, in particular, the arrival of overseas students during the summer.

It is interesting to note the raised presence of Far Eastern renters because their share of the market would normally rise in Half 2 but they are already accounting for 17% of rentals in the first six months. It may be that overseas students continued learning online until the turn of the year and returned part way through the academic year. This would also help explain the raised levels of activity in rental markets compared to a 'normal' Half 1.

The majority of renters in our markets are aged between 25 and 40 years old. Those under 25 make up around a quarter of renters and only 11% are in the older age groups. That is entirely consistent with the long term average (measured 2015 to 2022). Normally, the share of under 25 year olds is lower in Half 1 and boosted when the students and young graduates arrive in Half 2 but this year has been different in that respect as people return to the capital post-pandemic.

There are distinct differences between our offices. City and Islington are skewed towards under 25s while the 25 to 40 year age group is makes up a higher proportion of all renters in Aldgate and East London.

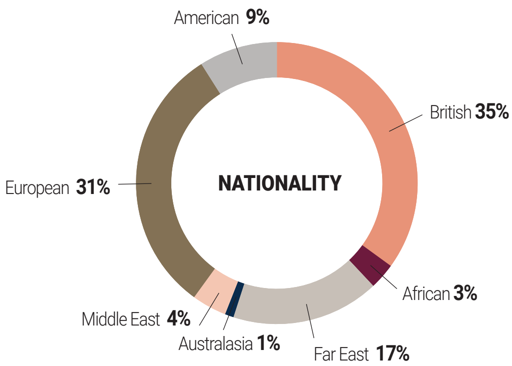
We noticed a significant increase in the proportion of renters employed in the Tech sector in the first half of 2022, accounting for 18% of all rentals, compared with a long term average of 10%. In our Islington and Shoreditch office, their share was as high as 26% - reflecting the importance of tech employment in this part of London.

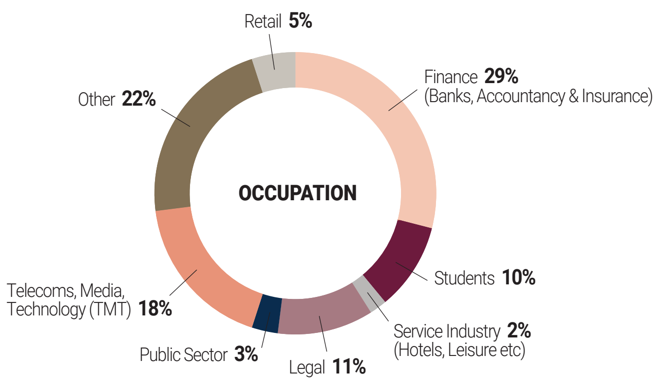
Students are always under-represented in Half 1 and over-represented in Half 2. So far this year they have made up 10% of rentals against a long term average of 24% but we would expect the normal distribution to be restored over the summer.

Given the shortage of supply of rental stock this year, some renters are beginning their searches earlier in order to secure a property and that will create additional pressures on space when students return en masse in the weeks ahead.

Singles accounted for 38% of all rental households in our markets in H1 2022 but in the Aldgate office they made up 54%, in stark contrast to East London where they only made up 17%.

This will, in part, be explained by the nature of the housing stock which is more likely to be houses in East London and apartments in and around Aldgate. It also reflects the typical demographic profile of each market. 46% of East London households are couples but only 15% in Aldgate. We noted in our last report that singles made up a disproportionate share of renters and speculated that it was caused by a return to the city of office workers who had relocated families and now needed a base in London for a few nights a week. This difference between Aldgate and East London backs up that theory.





Future Prospects

RENTAL YIELDS MOVE TOWARDS 5.5%

Over the past 12 months the property market in the UK has seemed immune to the real-world troubles of Covid, war in Ukraine and rising energy costs. But with UK inflation projected to end the year at 10%, interest rates likely to rise further and the cost-of-living squeeze expected to hit hard this winter, reality is soon likely to hit home.

London prices remain attractive compared to other parts of the UK which have experienced double digit growth in the past 2 years and will inevitably slow down. While office workers have returned to the city in the first half of 2022, we believe there is more to come as people increase the number of days they spend in the office. This will support transaction volumes, underpin current sale prices and continue to drive rental values upwards.

We expect sales volumes to hold up in the second half of 2022 but would be surprised if prices continued to increase given the array of challenges facing the economy. It seems only a matter of time until the housing market loses some momentum, given what we've seen in the consumer sector and particularly following such a buoyant period across much of the UK over the past two years. Midtown, City and East London residential prices remain at attractive 2015 levels and for that reason alone with a shortage of supply we do not anticipate prices changing from their current levels in 2023.

The number of apartments coming to the market remains severely constrained by delays to fire safety remedial works. This issue will continue to over-shadow any block built within the last 30 years. There is now a window of opportunity for homeowners not affected by fire safety works to secures sales with less competition in the market over the next 6 – 18 months.

Landlords who were hit hard with reduced revenue during the first year of the pandemic are now enjoying an uplift in real income and we hope this will help to stem the tide of investors looking to sell their investments. Rents will continue to rise further in the second half of 2022 because quite simply there is not enough stock to meet demand. We expect rental values to rise by 10% in 2022 driven by reduced supply as more buy-to-let investors look to exit the market despite higher rents being achieved. A consequence will be stronger yields with gross returns moving towards 5.5%.

Increases to rents and the general cost of living are persuading renters to stay in their existing accommodation unless a move is necessitated by a change in their personal circumstances. Renewal rates of existing tenancies look set to remain high for the rest of 2022 and into 2023 fuelling further rental growth in parts of the market.

The Government unveiled a list of measures in the Rental Reform White Paper on 16th June designed to appeal to tenants including: greater rights to have pets in their properties with landlords having limited powers to refuse; a doubling of the notice for rent increases, a redress system for tenants, a new portal to help with disputes, a Decent Homes Standard (currently applied only to social housing) extended to the private rental sector; Section 21 eviction powers for landlords and their representatives will be scrapped and Section 8 eviction powers will also be enhanced. The government has pledged to give six months notice before transitioning to the new system of periodic tenancies.

It is our view that there will be increasing pressure on the government to support the private rental sector so that it can contribute to relieving the housing crisis. Although the current government favours home-ownership, it is not a viable option for many, especially in London and it is often not a desired option for those who prefer a flexible footloose lifestyle, particularly in the current environment where hybrid working presents more choices for young well-paid workers.

A recent report from Capital Economics suggested that London needs 85,000 new private rented homes to meet demand but the government's own figures show that supply has been falling in London over the past 5 years. There needs to be a discussion about incentives that would encourage investors to return to the market, otherwise rents will continue to rise.

The demand for short lets remains strong, fuelled by flexible work patterns as people are more able to build long weekends into their working lives.

The Government has recently invited feedback on a proposal for a Tourist Accommodation Register which would help to regulate the short-term market including holiday lets and second homes, reacting to the rise in direct to consumer platforms such as AirBnb. The register would address issues around compliance, health and safety and anti-social behaviour. In our reports, we have consistently highlighted the importance of this market in London.

In the policy paper published in May, the Department for Levelling Up, Housing and Communities proposed a council tax premium of up to 100 per cent on second homes which remained empty after 12 months to encourage these empty properties back into active use. The application of this tax, if it became law, would be to the discretion of local councils. The department said this would "encourage more empty homes into productive use, while enabling councils to raise and retain additional revenue to support local services and keep council tax down for local residents".

The June announcements of the extension of Right to Buy to housing association tenants (met with some scepticism) and, in this context, of encouraging home ownership through direct policy support, we would expect the Government to formulate other housing policies to encourage more renters to become homeowners, particularly as we move towards the leadup to the next general election.

Overall it feels like 2023 will be a much more muted year as a number of these economic factors catch up with the residential sector.

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

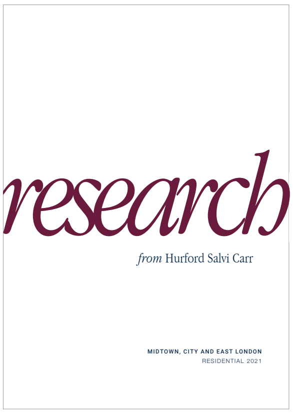
BLOCK MANAGEMENT
Castle Gate,
Castle Street
Hertford SG14 1HD
Block Management
01992 507185
enquiries@hscpm.co.uk

Research Vault

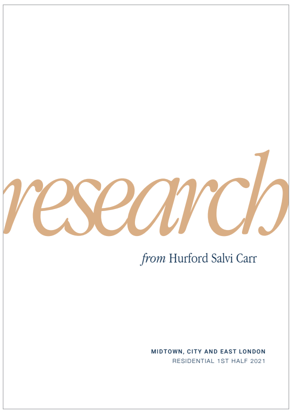
TO VIEW PREVIOUS COPIES OF OUR RESEARCH PLEASE VISIT

HURFORD-SALVI-CARR.CO.UK/RESEARCH OR CLICK ON THE LINKS BELOW

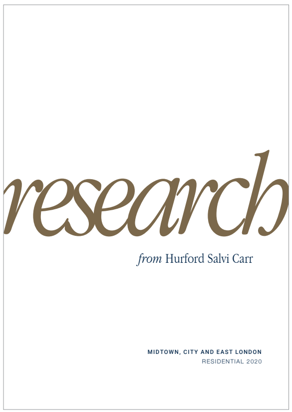
2021 YEAR END



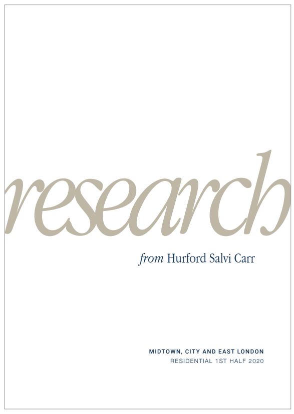
2021 FIRST HALF



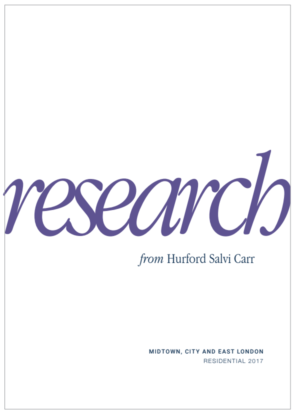
2020 YEAR END



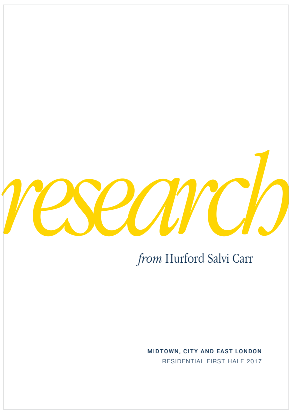
2020 FIRST HALF



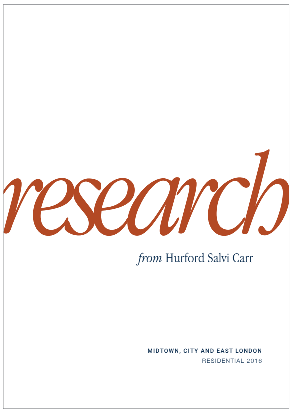
2017 YEAR END



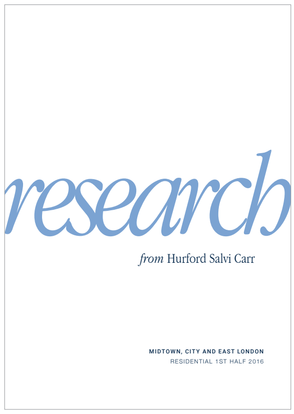
2017 FIRST HALF



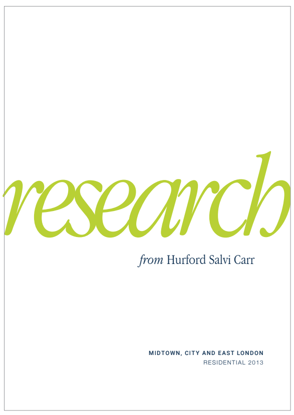
2016 YEAR END



2016 FIRST HALF

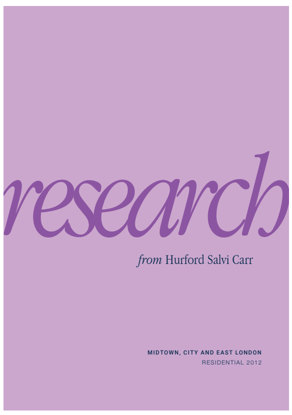


2013 YEAR END



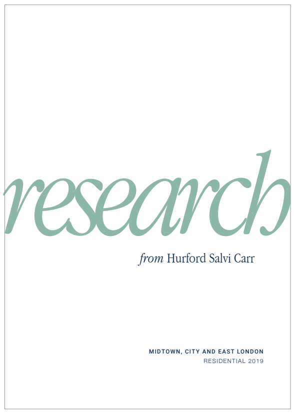
2013 FIRST HALF

2012 YEAR END

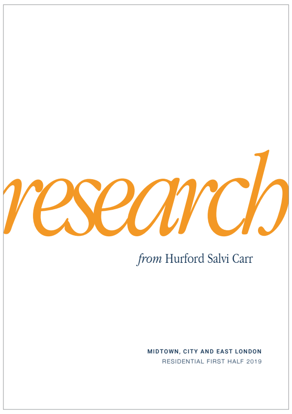


2012 FIRST HALF

2019 YEAR END

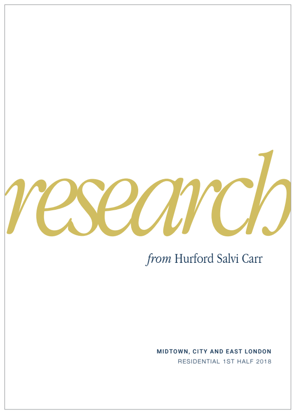


2019 FIRST HALF

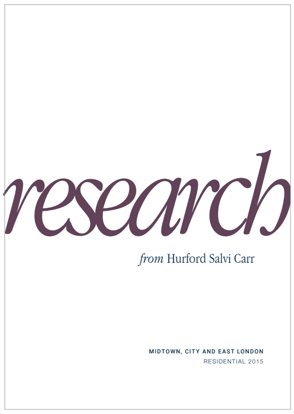


2018 YEAR END

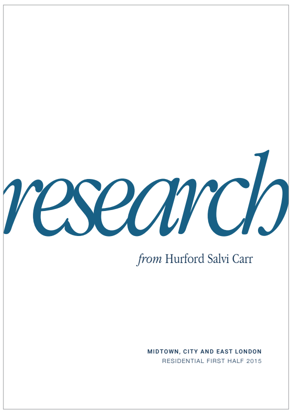
2018 FIRST HALF



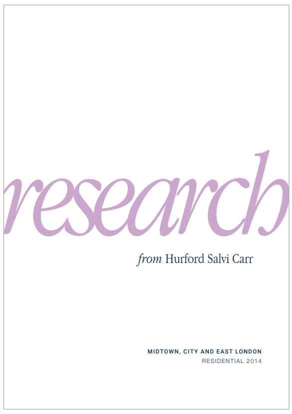
2015 YEAR END



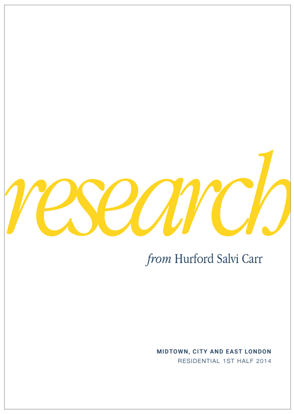
2015 FIRST HALF



2014 YEAR END



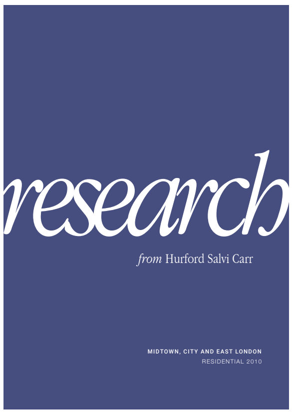
2014 FIRST HALF



2011 YEAR END

2011 FIRST HALF

2010 YEAR END



2010 FIRST HALF

HURFORD SALVI CARR

hurford-salvi-carr.co.uk