

Residential Market Trends

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OVERVIEW

The rise in Capital Gains Tax (CGT) from 18% to 28% for those higher rate taxpayers is far less onerous than feared in the lead up to the Budget. The rise is unlikely to have a significant impact on the buy to let sector or second home owners.

The Bank levy was widely trailed and there is no doubt that steps need to be taken to ensure the banks do not pose a significant risk to the UK financial system. However, a bank levy could be counterproductive to the economy if it makes the banks more risk averse to lending.

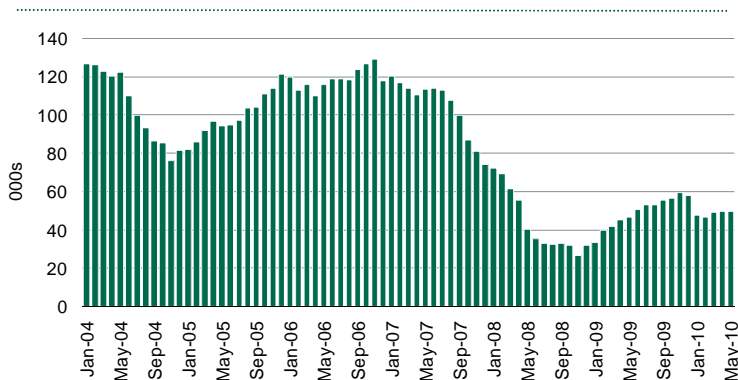
Despite a gradual pick up in the availability of credit, the residential market remains constrained. First time buyers, in particular, continue to struggle to access mortgage finance as many are unable to afford the large deposits required by lenders.

PRICES

Price indicators are providing mixed messages on the housing market recovery this month. The RICS report a relatively strong pick up in the house price balance. However, according to Nationwide the pace of house price growth has slowed to 0.1% in June (annual growth of 8.7%). And in contrast, Halifax reported a 0.4% fall in prices in May. This highlights the continued underlying uncertainty and volatility in the market.

According to Nationwide, the South West saw the strongest growth over the last three months, with prices rising by 3%. However, Greater London continues to out perform the other regions; it recorded an annual growth in house prices 13.2%. In contrast, the East Midlands recorded the weakest growth over the quarter.

Chart 1: Mortgage Approvals



Source: Bank of England

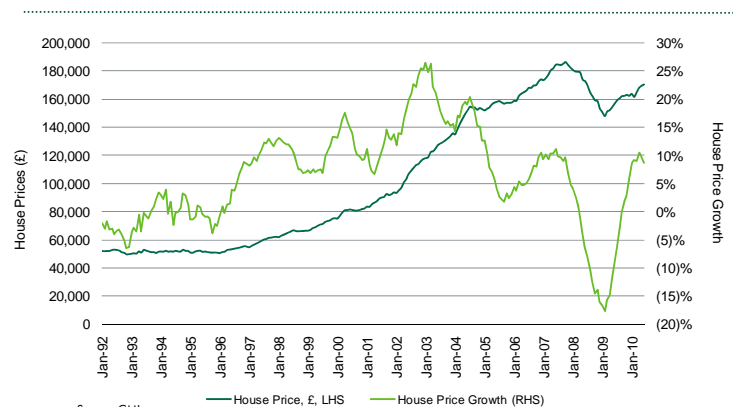
ACTIVITY

According to HMRC, transactions reached 78,000 in April and have totalled 292,000 so far this year. Although this is around a third lower than the historical average, it is around a quarter higher than the same period last year.

LENDING

According to the CML, gross mortgage lending totalled an estimated £11.3 billion in May, a 7% increase from £10.5 billion in April and up 10% from £10.2 billion in May 2009. Overall, the underlying trend of these data suggests a gradual recovery in house purchase lending. Confirming this, latest data from the Bank of England show there were just under 50,000 mortgages approved in May. This is nearly 7% higher than last year.

Chart 2: House Prices



Source: CML

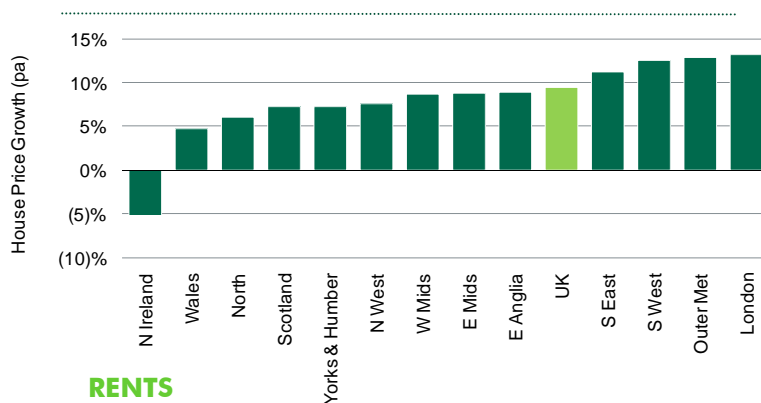
This measured pick up in activity reflects a slight increase in mortgage availability in recent months; there are a few more higher LTV products on the market and rates have fallen slightly. However, NAEA data shows that the number of househunters per agent and the ratio of buyers per seller have fallen over the last month.

This is because the market remains difficult, particularly for first-time buyers who do not have a large deposit. In April, first-time buyers made up the lowest proportion of house purchase loans since September 2007. They accounted for 35% of all house purchase mortgages, down from 39% in March and 38% in April 2009.

The abolition of Home Information Packs (HIPs) will marginally reduce transaction costs and has led to a pick up in new instructions; recent research from Agency Express confirms this and found the number of new houses coming up for sale in the month after HIPs were abolished rose by 21% across the UK.

However, going forward, the various governmental financing support schemes will start winding down from next year and there will be a need for lenders to refinance these assets. As a result credit availability is likely to remain restricted for some time. This will naturally impede the housing market recovery.

Chart 3: Regional house price growth



RENTS

According to findaproperty.com, rents in Q2 2010 rose 2.7% keeping annual asking rent inflation in positive territory (1.9% up compared to June 2009). Rents sought by landlords are now £16pcm higher than a year ago. Since the start of 2010 rents have climbed 4.4% from £804pcm in January to £839pcm in June. This reflects a fall in the supply of rental properties; between March and June the amount of rental property available on the market fell 2.7%. Stock levels are now 28% lower than the peak in May 2009. Since the start of 2010 housing stock levels have fallen and are now 18.4% below January's levels with a 6.1% fall in the last quarter.

BUDGET OVERVIEW

- **Capital Gains Tax** was increased from 18% to 28% for higher rate tax payers. Many feared the rise would be considerably higher; in the 40% to 50% range. This relatively modest rise is unlikely to have a particularly big impact on the buy to let sector or second home owners.
- The **Bank Levy** is a tax on banks' balance sheets. While politically popular, it may conflict with the aim of increasing bank lending, and encouraging the recovery in the financial markets.
- **VAT** will rise from 17.5% to 20% from January 2011. This will undoubtedly affect households' disposable incomes which could have knock on effects for the economy. However, there should be little impact for house builders as the VAT on building new homes is zero rated (provided certain conditions are met).
- **Regional Development Agencies (RDAs)** are going to be abolished and more support will be given to "local enterprise partnerships". The government will be looking into ways to promote more balanced regional growth in the UK in a White Paper later this summer.
- As with the majority of government departments, the **DCLG** budget will be cut by 25%. As a result the **HCA** along with other agencies will see a major reduction in funding; it will become a "smaller, slimmer, enabling agency" operating in a genuinely local way.
- The maximum **local housing allowance** will be capped and the percentile of market rates will be altered and up-rated according to the CPI from 2013/14. The cap will range between £280pw for 1 bedroom properties and £400pw for 4 bedrooms. This could be problematic for tenants, particularly in inner London boroughs.
- **Stamp Duty** affecting property has been left unchanged, although greater anti avoidance measures will be reviewed for high value property transactions. The effectiveness of the Stamp Duty exemption for first time buyers of properties under £250,000 will be reviewed. The 5% rate of stamp duty for residential transactions over £1 million, announced in March 2010 will take effect next April. Residential portfolio sales of more than six units appear to be able to avoid the higher stamp duty rate as they are classified as "commercial transactions"
- **REITs** will continue to change in accordance with the previous budget, whereby they will be allowed to issue optional stock dividends as part of their income distribution requirement.
- The **Corporation tax** rate will be reduced from 28% to 24% by 2015 – this will give the UK the lowest rate of corporation tax in the G7 which should in turn encourage greater investment and industry in the UK and fuel the economy. This will be a welcomed by many house builders and property companies, as well as business in general.

HOUSE PRICE INDICES				
	M-on-M	Q-on-Q	Y-on-Y	Level
Nationwide (Jun)	0.1%	1.9%	8.7%	£170,111
Halifax (May)	-0.4%		6.9%	£167,570
Land Registry (May)	-0.2%		8.2%	£165,314
Hometrack (Jun)	0.1%		2.1%	
CLG (Apr)	0.4%		10.1%	£207,516
Rightmove (Jun)	0.3%		4.3%	£237,767

ACTIVITY INDICATORS				
	M-on-M	Q-on-Q	Y-on-Y	Level
Mortgage Approvals (Apr)	-0.0%		7.0%	49,815
Gross Mortgage Lending (May)	7.0%		10.0%	£11.3bn
Housing Completions (Q1)		-21%	-16%	24,620
Housing Starts (Q1)		24%	60%	24,570

ECONOMIC INDICES				
	M-on-M	Q-on-Q	Y-on-Y	Rate
GDP (Q1)		2.0%	3.3%	
CPI (May)	0.0%		3.4%	
RPI (May)	0.0%		5.1%	
Unemployment (Feb 10 to Apr 10)		0.1%		7.9% (2.47 million)

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