



RESIDENTIAL MARKET TRENDS

By Jennet Siebrits
Head of Residential Research, UK

OVERVIEW

- We are half way through 2011 and the outlook for the housing market remains as uncertain as at the start of the year. However, despite monthly volatility, the underlying trends remain broadly stable, albeit at historically low levels. House prices remained unchanged in June, but this translates to an annual fall of 1.1%.
- FirstBuy is massively over-subscribed and many potential first-time buyers will be disappointed. It is only expected to help 10,000 buyers over two years; roughly 3% of the current first-time buyer market.
- With much lower house prices the commuter belt can provide a viable housing option for many cash-strapped London employees. However, the popular towns of Beaconsfield, Sevenoaks and Gerrards Cross are more costly than London.

CONTINUED WEAKNESS IN THE HOUSING MARKET

Monthly volatility makes it hard to determine the true direction of the housing market. In particular, April's data were especially weak, distorted by the extended bank holiday period. The resulting bounce back means May's data appears relatively buoyant. However, iron out these blips and the underlying trends are largely flat, albeit at historically low levels. For example, gross mortgage lending totalled £11.3bn in May, 11% higher than in April, but broadly similar to the 2010/11 monthly average. Although mortgage approvals remained stable in May at 45,000, they are 7% lower than a year ago.

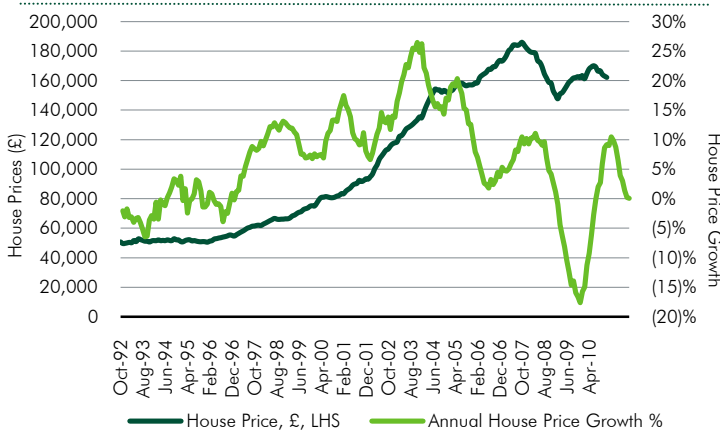
According to Nationwide, house prices remained unchanged in June to stand at £168,205; this is 1.1% lower than a year ago. Although Rightmove report a continued increase in asking prices, it argues rising stock levels (on agents books) and low demand will cause buyers to re-evaluate price expectations. According to Hometrack, sellers are already becoming more realistic about pricing and this helped boost sales in June.

WITH FIRST-TIME BUYERS OUT OF LUCK

First-time buyer activity remains muted as this group is particularly constrained by ongoing borrowing difficulties; especially raising the required deposit. Traditionally making up around half of the market, they now account for around just a third, According to the Chartered Institute of Housing, 100,000 first-time buyers will be excluded from the market this year; in our February MarketView we estimate it could be even higher. The Government's £500 million FirstBuy scheme has now started and will provide help to 10,000 buyers.

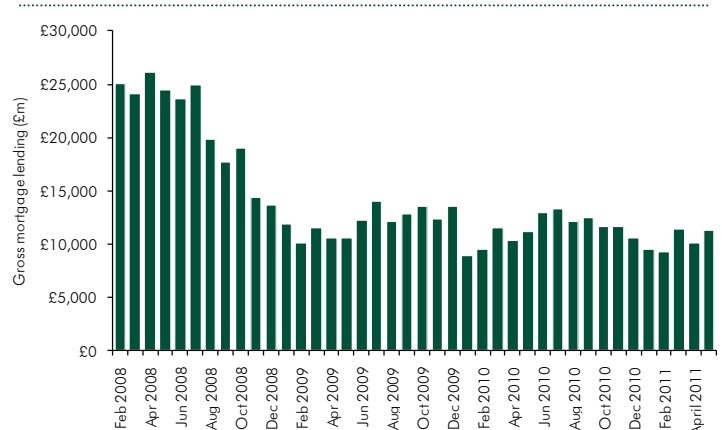
The scheme is open to household's with an income of less than £60,000 a year. Buyers must save a 5% deposit, with the government and housebuilders putting up 10% each through an equity loan, enabling people to qualify for 75% loan-to-value mortgage (four lenders have so far backed the scheme). The equity loan is interest-free for the first five years, with interest charged at a preferable rate thereafter. FirstBuy only applies to new-build homes up to £280,000, which limits choice in areas with few new developments.

Chart 1: House Price Movements



Source: Nationwide

Chart 2: Gross Lending



Source: CML

But it is massively oversubscribed – even despite research from DPG showing low awareness of such schemes. Barratt, which has just a £25 million share of the total pot, already have 12,000 pre-registered applicants. The total allocations is just not big enough to make a huge difference to the market. For example, the money that has been made available in London is only likely to help around 940 buyers.

LONDONERS PRICED OUT OF LONDON

Although not immune to the wider downturn, London's housing market is outperforming national trends. Even though sales are low at two thirds normal levels, prices have increased by 5% over the last year (Land Registry). In contrast national prices have fallen by 1.3%. With London becoming increasingly out of reach for many - the monthly mortgage payment for an average house price of £460,000 would be £2,309 - it may be prudent for buyers to take advantage of the cheaper prices in the commuter belt towns rather than the increasing house prices of London.

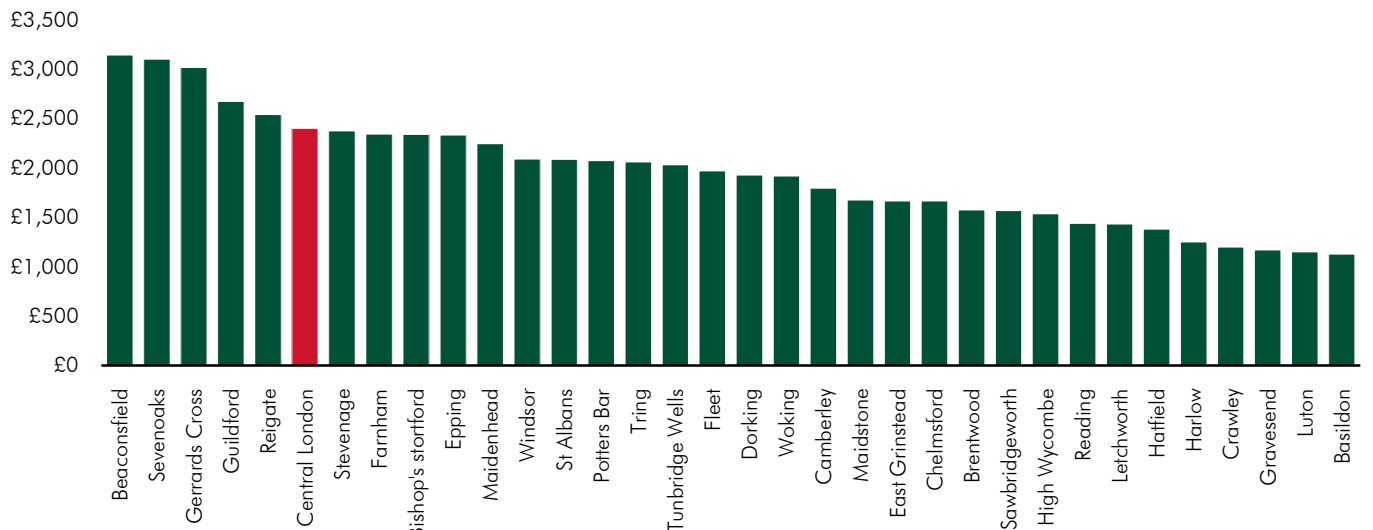
THE CHEAPER ALTERNATIVES

In this analysis we have compared house prices across a selection of popular commuting towns – within an hour's rail travel of London - to identify the cheapest commuter towns. As well as housing cost we have included the travel cost into London as this can make quite a significant impact on overall costs.

Of the 33 towns we identified, Luton had the lowest house price at £148, 872, with a monthly mortgage payment of £744. However, despite just a 31 minute train journey into London, its monthly travel cost is quite high at £406. As a result Basildon actually tops the table, despite having house prices £15,000 higher than Luton.

Similarly Crawley's house prices are lower than Gravesend, with mortgage payments of £865 and £898 respectively. However, the cost of travel from Crawley to London is £60 higher than Gravesend, offsetting the cheaper mortgage.

Chart 3: Mortgage and Transport Costs for Commuting into London



Source: Land Registry

Table 1: Ranking of Commuter Towns

RANK	COMMUTER TOWN	AVERAGE HOUSE PRICE	100% MORTGAGE AT 6%: £	COST OF MONTHLY PEAK-TIME PASS:	MONTHLY MORTGAGE COST PLUS TRAVEL	JOURNEY TIME (MINS)	DISCOUNT TO LIVING IN C. LONDON
	Central London	£461,700	£2,309	-	£2,401.50	-	-
Top 5							
1	Basildon	£164,379	£822	£221	£1,129.09	37	53%
2	Luton	£148,872	£744	£326	£1,150.66	31	52%
3	Gravesend	£179,655	£898	£268	£1,170.57	24	51%
4	Crawley	£172,951	£865	£290	£1,200.76	45	50%
5	Harlow, Essex	£190,648	£953	£242	£1,251.91	37	48%
Bottom 5							
29	Reigate	£453,407	£2,267	£225	£2,540.14	47	-6%
30	Guildford	£465,780	£2,329	£280	£2,674.20	38	-11%
31	Gerrards Cross	£548,314	£2,742	£205	£3,015.57	26	-26%
32	Sevenoaks	£554,681	£2,773	£270	£3,100.20	42	-29%
33	Beaconsfield	£565,893	£2,829	£248	£3,144.37	39	-31%

Notes: ¹Prices relate to average in 2010 for sample size reasons

Source: Land Registry

At the middle of the Table there are several towns whose combined mortgage and travel costs are in the region of £2,000. Still 15% below the total London outgoings of £2,402 (mortgage plus tube travel of £93). These include:

- Tunbridge wells, with a house price and mortgage of £333,000 and monthly mortgage payment of £1,665 plus travel costs of £366.
- Tring, with a house price and mortgage of £337,000 and total monthly outgoings of £1,684 plus travel costs of £376.

St Albans, with a house price and mortgage of £360,000 and total monthly outgoings of £1,800 plus travel costs of £289 and total outgoings of £2,086

BUT DON'T READ CHEAP FOR COMMUTER

At the other end of the scale, five towns come in at more expensive than London. Beaconsfield is the most expensive; its average house prices of £566,000 reflects the typically larger detached properties in the area. Its monthly travel costs are £315, making a total monthly outgoing of £3,144. Neighbouring Gerrards Cross has total outgoing of £3,016, and is marginally cheaper than Sevenoaks.



Source: Land Registry

For more information regarding the ViewPoint, please contact:

Jennet Siebrits

Head of Residential Research
CB Richard Ellis
Kingsley House
1a Wimpole Street
London EC4M 7HP
t: +44 20 7182 2066
e: jennet.siebrits@cbre.com

Mark Collins

Executive Director - Head of Residential
CB Richard Ellis
Kingsley House
1a Wimpole Street
London EC4M 7HP
t: +44 20 7182 2264
e: mark.collins2@cbre.com

Harry Downes

Senior Director
CB Richard Ellis
Kingsley House
1a Wimpole Street
London EC4M 7HP
t: +44 20 7182 2322
e: harry.downes@cbre.com

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