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JOURNAL OF LUXURY PROPERTY

Back to School: Nine key themes to watch in the weeks ahead

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With the government taking an understandably cautious approach to easing the lockdown, few in the property industry expected last week's decision to lift restrictions on buying, selling and renting residential property. Within the ranks of lawyers, agents, surveyors and other participants in the Prime and Super Prime markets, there is a palpable frisson; a mixture of excitement and trepidation as we 'return to school'.

Most people we have spoken to appreciate we are entering into unchartered territory.

Human skills will never have been so important, with empathy being the highest amongst them. We will all have to be diligent to maintain social distance, follow protocols and protect each other to help avoid a second peak and further lockdowns, which many across government fear would be much more damaging than the first.

As sales agencies scramble to re-open, drafting new protocols and procuring PPE, we will have to wait for the first straws in the wind to see how the market adjusts to a post lockdown world. In contrast to many markets (equities most notably), London's Super Prime and Prime markets entered this crisis on the back of five years of heavy falls in both trading volumes (-40%) and valuations (-20%), taking raw generic data to demonstrate the trend. To this extent, we expect there may be less 'excess fat' to assimilate as the market re-opens.

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Lockdown has provided some indicators. Those deals agreed pre Coronavirus which transacted in lockdown suggest price adjustments of circa 2-5%. Mostly these price revisions were attributed to quantified due diligence issues, with buyers taking a zero risk approach to inheriting issues, rather than for pure discounting purposes. These trades are now being used as comparables and the leading forecasters suggest a circa 5% adjustment has already taken place across the market.

Whether vendors will continue to accept these, or even greater discounts, is yet to be seen. Early asking prices for properties released overnight suggest that vendors are coming out fighting.

Taking a longer term view, Knight Frank and Savills are holding firm on their five year projections, merely adjusting their year-on-year growth figures. It is clearly too early to comment meaningfully on such prophecies, so pending clarity on the facts, we thought we would share some themes and variations that we expect to inform our market in the weeks ahead:

• **Supply and demand:** With an inevitable flight to quality, a lack of good stock will continue to be a defining issue of this market. In contrast, there remains significant pent up demand which we know drove growth in Q1 of this year. With little distress yet evident, and competition for the best in class properties very likely, values for the good stuff may yet hold up. For more generic or compromised stock, we expect values to fall further.

• **Viewings:** Firms are hastily drafting their protocols in line with government guidelines. What is clear is this will be an ordeal; we note one agent proclaiming airport style temperature checks at the door and one in one out! Viewings will be limited to the most committed of buyers as the guidelines state that viewings should only be conducted by those "seriously considering making an offer". We can also expect travel restrictions and quarantines to hamper international buyers, potentially further impacting super prime new build sales, which are dominated by the international elite.

• **Off market:** Whilst the government is encouraging online marketing, we expect most Prime and Super Prime properties to remain firmly 'off market' with disclosure (let alone access) limited to a very few committed, deliverable buyers. The drivers for 'off market' sales have only increased as a result of the Coronavirus outbreak.

• **Change of emphasis:** We have already seen a change of emphasis from many of our clients with outside space, home offices, access to London's great parks and the river rising to the top of their requirements in this post lockdown world. This may benefit period properties with larger gardens and adversely impact some glass box new build developments where outside space is often limited.

• **Lending:** Interest rates are now at record lows and private banks are generally keen to lend, albeit they are focusing manpower on servicing existing clients. Practical hurdles will remain as the market re-opens and we can expect longer periods and more rigour for credit approvals, valuations and legal sign off. Banks will also be keeping a close eye on valuations as they shift from desktops back to physical inspections; there will be precious few comparables to rely on in the early days.

• **Corona clauses:** Corona-specific provisions have added a new spice to contractual negotiations. We have seen the good, the bad and the ugly in the past few weeks – negotiations around these will be important, not least where lending is involved or, heaven forbid, a chain. The government asks buyers to try to be flexible about completion timing and that must be right in the circumstances.

• **SDLT:** We don't expect a holiday or any reforms to SDLT in the near term. The government has confirmed the additional 2% for non residents with effect from April 2021. However, to give context to the overall cost of transacting, Savills' research suggests that currently London ranks 9th in the list of top 10 most expensive cities in terms of the costs of buying/selling (assuming a 5 year hold), with agents' fees much lower here than in other global cities.

• **Sterling:** Sterling remains at historical lows against the dollar, which makes it appealing for many international buyers. When combined with recent generic market falls, it is important to note that property is currently 45% cheaper for a dollar buyer than it was in 2014 – a statistic we imagine is not lost on overseas buyers, many of whom have emerged from lockdown before us.

• **Brexit:** Confining Brexit to a mere footnote perhaps gives a sense of the impact of the current crisis. However, with Brexit negotiations due to conclude by the end of the year, the rhetoric will yet reappear on the front pages. One can only hope that the sabre rattling of old may fall away whilst countries focus on more pressing matters amid the realistation that we all need to help each other more than we did before.

As the first skirmishes commence we expect that transactional volumes will suffer the biggest impact. Many vendors will take a wait and see approach and those that do enter the fray will have to adjust to the new norms. That said, vendors of good properties may just be rewarded in a period where demand is likely to exceed supply. Values for these best in class properties will remain a battle of wills between vendors and buyers where, ironically, competition may provide a measure of confidence for each.

There will be opportunities for cash buyers willing and able to move quickly; distress will emerge, as night follows day. It will be vital to focus on good assets with distressed vendors rather than mere distressed assets and buying in to someone else's problem.

In this market, buyers will need credible, experienced and professional representation to access the best in class properties, employ considerable negotiating experience and navigate the transactional hurdles. It will remain a challenging and fluid market but we are nothing if not used to that! For now, it's just good to be going back to school.