MONTHLY MARKET REVIEW

As we approach the end of the year momentum has slowed as attention starts to focus on the festive season. In some cases moving plans are now being put on hold until the New Year, further compounding the slowdown being experienced in the market.

Prices still rising
2014 has been a year of mixed fortunes for differing sectors of the market and locations. Overall it has been a strong year for national house price growth but the gap between how different locations have performed has been quite profound. Despite this, the top 20 cities in the UK are currently all experiencing annual house price growth of 5% or more for the first time in a decade – the highest being London at 18%, followed by Bristol at 13% and Cambridge at 12%.

Latest data on housing transaction volumes recorded a slowdown in activity last month, but house prices increased by 0.3% according to Nationwide, and by 0.4% according to Halifax, after the previous month's fall.

Data from Halifax reveals a further slip in the rate of price growth over a 3 month period, which is now 0.7%. Nationwide also confirmed last month that the annual rate of price growth had fallen from 9% to 8.5%.

Mind the gap
The recent changes to market sentiment witnessed over the last quarter are leaving some economists puzzled, given the favourable economic background. Unemployment has been steadily falling through the year, inflation pressures have eased, fears of an early interest rate rise have receded and business confidence levels generally remain high.

Why therefore are we seeing a slowdown in the market? Mortgage approvals have fallen by nearly 20% compared to the start of the year and are down nearly 27% against the long term average. This mortgage approval data equates to an equivalent of 4% of the housing stock turnover levels, and contrasts with the historical level expected of 6%, thus illustrating that whilst the market has improved this year, transactional activity still remains below that seen previously.

Whilst in the depths of the recession the market relied upon a recovering economy, we are now seeing a level of decoupling, as sentiment becomes more influenced by micro issues and headwinds brought by an uncertain political landscape in 2015.

Sweeping reforms to Stamp Duty
In his Autumn Statement the Chancellor announced sweeping changes to the way in which Stamp Duty Land Tax is charged. These changes brought welcome news after many years of lobbying to switch from a 'slab structure' to a 'progressive tax' and for many buyers in the mainstream market this change will bring financial savings to most property transactions below £937,500.

However not all buyers welcomed the changes and yet again policy reform is aggressively focusing on buyers in the prime market and arguably it disproportionately affects the London market, which already contributes a significant 42% of stamp duty revenue in England and Wales for homes valued over £1 million. This now means a buyer acquiring a £5 million property will need to pay duty of £513,750 compared to £350,000 under the previous structure, equating to a 47% increase.

Whilst previous significant SDLT reforms have been quickly absorbed by prime property buyers as an unwelcome but unavoidable cost, these latest changes will inevitably lead to greater negotiations on sale values, as buyers seek to share the increased SDLT tax burden in the form of price reductions. However the changes make it less likely that a "mansion tax" would be introduced next year if there was a change of Government.

Investors poised for a busy 2015
Despite market conditions slowing in recent months, one group of buyers who look poised to take action in the early months of 2015 are property investors.

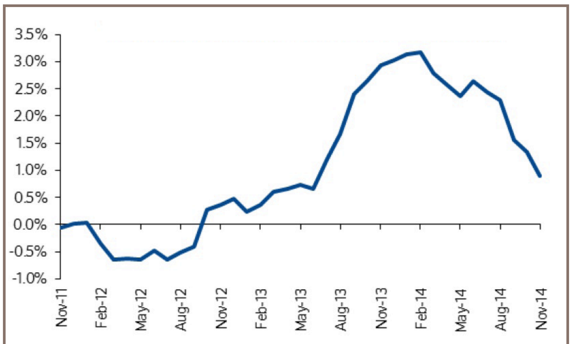
Garrington has received a significantly higher level of enquiries in recent weeks from investors who are attracted to property as an asset class, supported by rising tenant demand and increasingly attractive mortgage rates available for buy to let purchases.

Of particular note is the move away from significant trophy assets to more portfolio based investment strategies. Recent changes in stamp duty levels may well also help to shape average target property profiles in 2015.

Winter outlook
It is a well-established principle that markets do not like sudden change or uncertainty. In the weeks and months ahead we are likely to see the results of recent sudden changes, and increasing levels of uncertainty as we approach the General Election.

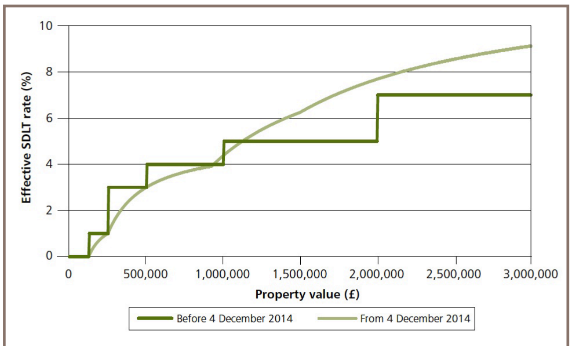
Despite these factors the winter season could offer enticing opportunities for buyers who are willing to take action whilst many others reflect.

THREE MONTHS ON THREE MONTHS % CHANGE



Source: Nationwide

EFFECTIVE SDLT RATES BEFORE 4 DEC 2014 & FROM 4 DEC 2014



Source: HM Teasury calculations

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