

De Villiers Surveyors

Aspects

March 2018

Welcome to the latest edition of Aspects 2018 and we hope you find it an interesting snapshot of the last few months at De Villiers. We've had a good start to the New Year and our commercial department has been busy with agency deals as well as lease renewals, rent reviews and business rates appeals.

The Residential team continues to carry out valuations in London and the Home Counties and if you have any upcoming valuations or surveys you wish to discuss please feel free to contact us.

We hope you enjoy the read and don't forget to enter our quiz competition for your chance to win John Lewis vouchers.

IN THIS ISSUE

Residential & Commercial market comment

**Business rates update
The abolition of 'the staircase tax'**

Latest Commercial deals & Insolvency Outlook and 2018 Trends

5 a side football results & Property quiz question

Property 5 a side

De Villiers took part in the City Voice Property 5 a side competition organised and hosted by former football stars Alvin Martin and Kerry Dixon at the Bank of England Sports Club back in October last year.

De Villiers team did well during the group stage but similarly to the previous year got knocked out in the semi-final, this time by City Voice on penalties. The tournament is held in aid of Teenage Cancer Trust.



Craig Shephard - FM Expert Ltd



RICS

the mark of
property
professionalism
worldwide

www.devilliers-surveyors.co.uk
0207 887 6009

Property Quiz Question

Quiz question:

Who designed Facebook's new London offices located in Rathbone Place, just off Oxford Street W1?

Please email anna.svandova@devilliers-surveyors.co.uk with your answer. The first three correct answers from our draw which takes place on 9th April will win £100 in John Lewis vouchers each.





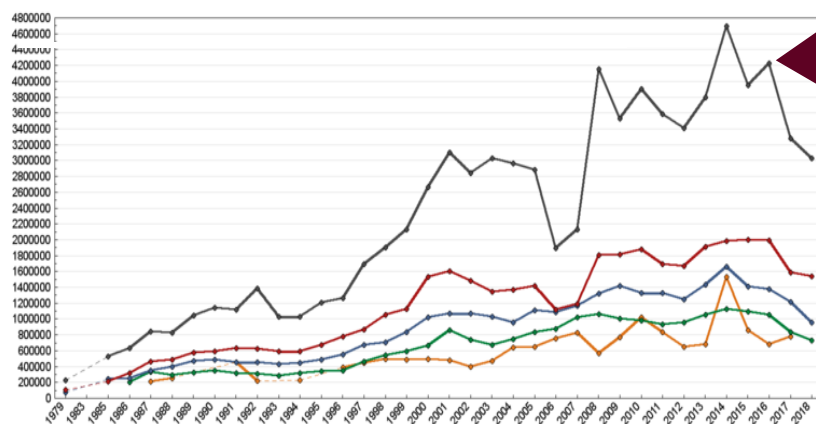
London Residential Property Market

“The property market can get sick but it never ever dies.....” I recently heard the quote above from an experienced investor and it seems all too relevant at the moment in the London market. Since 2014 when the changes in stamp duty were introduced the upper tiers of the residential market have struggled and the April 2016 and April 2017 tax changes have now hit the Buy to Let sector. So how long will this sickness last?

This is the third downturn I have experienced. The early 1990’s was very different with 15% interest rates leaving property prices to drop very hard to reach affordability, my second was the 2008 “crash” but

that never really materialised in Central London – it was 6 months at worst before the buyers starting coming in again – why? – the opposite of the 1990’s - interest rates had been adjusted downward to 0.5% improving affordability and resulting in property prices soaring.

The strong growth in prices in the upper tiers of the market from 2008 would have come to an end naturally but unfortunately George Osborne’s Stamp duty changes has resulted in a very hard landing as can be illustrated in the LONRES data below.



Average sales prices for The Greater London Area (lonres data)

These falls are now being echoed at all tiers of the London market as the introduction of the increased Stamp duty on the buy to let market, now followed by the inability to offset mortgage costs, has resulted in some agents saying they haven't seen a buy to let purchaser for over a year. Taking 25% of buyers out of the market at a single stroke will subdue demand and inflation.

At almost all tiers of the market we have now reached the maximum affordability criteria so there is little room for growth for the owner occupier market until prices and affordability are back in balance. The exception to this is London where buyers, particularly overseas, are not affected by affordability. Their criteria is profit or financial security, but many of the profit seekers are not committing partly due to the falls in the market, the uncertainty around Brexit and the increased taxes.

So what will happen next?

We need to assume interest rates remain low – by that I mean sub 1.5%. Nominal quarter point rises will not cause that many issues.

However with interest rates having been this low for so long, the Bank of England has caused the levels of corporate and personal debt to be so high their hands are tied for anything other than nominal changes. The significant correction at the upper tiers has resulted in a degree of value being seen where vendors are dropping prices to reflect the market. But Brexit has resulted in many overseas buyers postponing their Central London purchases until perceived clarity and stability around Britain leaving the EU is finalised. The falls should now start to bottom out but with little growth for a year or two.

The lower tiers of the London market (Sub £1.0m) may see some further falls in values this year, but this bracket is far more secure and agents have reported this year that enquiries and commitment around the £500,000 price bracket is currently good.

To conclude with low interest rates there is no need to panic. The upper tiers of the market inflated too fast, too quickly and had to adjust although Osborne unfortunately exacerbated the correction. This reduced demand market and flat prices is likely to continue for the foreseeable future, further significant drops are unlikely particularly as agents are reporting that once the high prices are reduced multiple buyers will be found. Part of the reason for this is that generally we love property as a home or an investment and to return to the second part of the quote above“it never ever dies”and will always recover.



James Perris
Director, MRICS

James.perris@devilliers-surveyors.co.uk



Commercial Market Comment

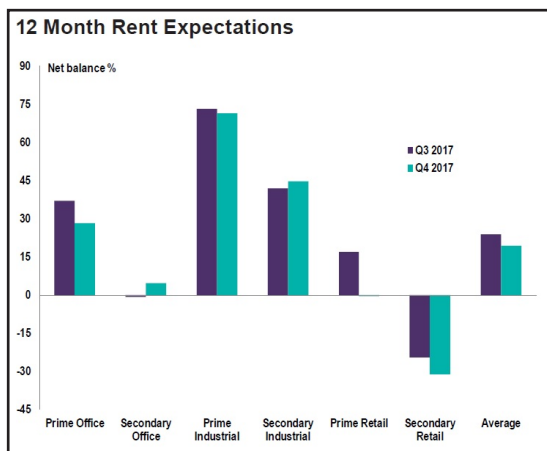
2017 was very positive from a commercial valuation perspective with increased workloads across a variety of private banks, bridging lenders & private clients. The early part of 2018 has continued to show strong demand for our valuation services particularly in loan security.

On reflection of the various markets we see a mixed picture with occupier demand weak in retail but strong in industrial and investment enquiries on the rise. We have seen retail occupier demand fall which may result in a decline in retail rents over the coming year although we expect prime retail will continue to remain strong. Other sectors have also seen demand growth, particularly industrial with near term rental growth prospects considered positive. This is comparative to a less clear-cut office sector where the value of incentive packages have continued to rise whilst landlords wish to maintain high headline rents. However, a diminishing supply of investment office space is expected to decline providing some counter balance. We have noticed the industrial / warehousing sector is currently experiencing good demand and we expect near term capital gains to be most significant in this currently vibrant sector.

A key player across all commercial sectors is the increased appetite of sellers to dispose of assets via an auction sale with almost a third of all private investor purchases having taken place in the auction room which is the highest level since 2000. The necessity to complete the purchase in a short time frame is both a challenging and exciting market for De Villiers and one we continue to strive to support.

Foreign investment has remained a positive factor driving the markets with China and Germany leading the trend and is no doubt boosted by the currently weak Pound Sterling. We have also noted average transaction yields during 2017 remaining at around 6.5% although an increasing disconnect between prime and secondary yields is expected to become more visible.

Despite the backdrop of uncertainty from the Brexit negotiations commercial values are currently remaining resilient in most sectors although with 2018 a pivotal year in negotiations this may of course change.



Philip Treadwell
BSc (Hons) MRICS; Associate Director
philip.treadwell@devilliers-surveyors.co.uk

De Villiers Commercial Office Deals



De Villiers have recently disposed of fitted office space on 3rd Floor at 1 Albemarle Street, Mayfair, London by way of an under lease on behalf of our client, European Oil Company, the existing Tenant. In a market where rental growth had stabilised, De Villiers successfully found a suitable tenant to sub-let the whole space, which extends to approximately 2,124 sq ft, at the passing rent of £185,850 per annum (£87.50/sq ft).



De Villiers have recently secured and renewed the lease for a foreign institutional client on the 8th Floor at Berkeley Square House, Mayfair, Central London. De Villiers carried out all of the negotiations for the new 10 year lease. The offices are just over 3,000 sq ft and is the main London HQ for our foreign institutional client.

For further information about our office acquisition service - please contact Paul Wise - paul.wise@devilliers-surveyors.co.uk or Tom Warren - tom.warren@devilliers-surveyors.co.uk or call our commercial office at 0207 637 7554.



Business Rates Update

The Abolition of ‘The Staircase Tax’

In the Autumn Statement 2017 the Chancellor announced that the Government proposed to introduce legislation to reverse the effects of the so called ‘staircase tax’, which acquired its name from the 2015 Supreme Court decision on assessment of business rates in *Woolway (VO) v Mazars (2015)*.

In summary, the effect of the Supreme Court’s decision was that fifty years of established rating practice as to whether a property should comprise a single assessment (or “hereditament” as they are known) or more than one hereditament, was overturned and that property which adjoined each other but did not intercommunicate directly were to be treated as more than one hereditament.

The government has now taken the next step towards abolishing the “staircase tax” by issuing a consultation which seeks views on how to reinstate the pre-Mazars practice of the VOA.

The move is good news for business occupiers and forms part of the government’s Budget pledge to increase the fairness of the business rates system in England. Affected businesses may be able to ask the VOA to recalculate valuations so that bills are based on the previous practice of assessment, backdated to April 2010.

The consultation opened on 29 December 2017 and closes on 23 February 2018.

If you have been affected and wish to obtain further advice please do not hesitate to contact either Mark Short or Paul Wise on 0207 637 7554 or email us on b.rates@devilliers-surveyors.co.uk



Mark Short

BSc (hons) MRICS, Director
mark.short@devilliers-surveyors.co.uk

Insolvency Outlook and 2018 Trends

Statistics released by the Insolvency Service in January 2018 continued the upward trend of insolvencies (both corporate and personal) with the number of underlying insolvencies increasing by 2.5% in 2017 compared to 2016. Slowed UK Growth combined with the on-going and protracted uncertainties surrounding Brexit negotiations is taking its toll on the market, stagnating foreign investment and preventing homeowners from placing stock into the supply chain.



Profit warnings have surged to a two year high culminating in high profile collapses such as Carillion, Maplin and Toys R Us whose underlying impact and knock on effect is already starting to detrimentally hit supply chains. The UK property market can be volatile and the

current political and economic climate is exacerbating this delicate situation.

With this as an economic backdrop it is imperative that lenders make

contingency plans to deal with “red flag” loans/mortgages and clearly set out a plan to manage potential problems and looming default positions as soon as possible to avoid greater losses.

There are a number of options available to a lender or stakeholder which include a consensual sales approach or alternatively, a more direct intervention route via an insolvency approach which will maximise receipts and provide the best possibility of full loan redemption. Whatever the approach, defaults in a slowing and uncertain market are the inevitable outcome.

Please call Richard Flint if you wish to discuss any potential or current loan default situation



Richard Flint
Director

BA, PG Dip Estate Mgmt Property
richard.flint@devilliers-surveyors.co.uk