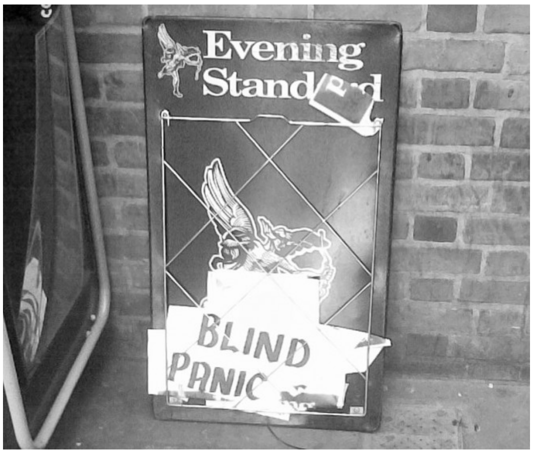
In a Spin: A bumpy ride ahead for London's market

The headlines have flipped from Property Bubble to London Cooling in the space of just a few weeks. It'll all come around, but expect a bumpy ride until the General Election, says Robert Bailey Property's Will Hollest.



It is enough to give you whiplash. It was no more than a month ago when I read that London house prices had gone up by 20% in some areas and were on track to go up at least 10% a year for the next decade. Suddenly there was talk of a housing bubble and how it was all going to come crashing down around our ears. Developers were handing out lottery tickets for block weekend viewings and there were numerous tales of gazumping and gazundering. Fast forward a few weeks and the sentiment has completely changed. Just a few days ago, the Evening Standard announced that the property market was cooling, falling even.

Don't underestimate the persuasive power of a newspaper read by 1.7 million Londoners every evening. According to this article "more home sellers [are being] forced to cut asking price as market cools" and there has been a "staggering jump in the number of homes on the market." Apparently 44% of all new listings in central London had a price reduction in the last month. Those of us in the industry are already well aware of this, of course, as a quick look on Lonres reveals all this and more.

The reason behind it all? Certainly the MMR has had an effect, even at the top end of the market. High net worth individuals may initially buy in cash but many then take out a mortgage once the deal has completed. With interest rates at historic lows, why wouldn't you? There is also the threat of an interest rate rise. For all the talk of them going up, they might as well have been hiked already. First time buyers who have only known life with 0.5% base rates may be in for a shock; I'm ancient enough that 5.7% in 2007 seems but a moment away – that's an additional £10,500 per year after tax on a fairly modest £200,000 mortgage. We may not be heading to these levels yet but it's a sobering thought that is making homebuyers think twice before committing to a monster mortgage.

There are also better properties available and more of them. The few buyers that are left are sensing the swing in their favour and are circling rather than pouncing. Interestingly, much of what we're viewing for clients presently is tenanted – perhaps a sign that landlords feel that now is the time to cash in. All of this is good for those who are actively searching but I think we can start preparing ourselves for a fairly bumpy ride as we head into elections. Despite our tendency as Londoners to shape the property mood with as much objectivity as a herd of anxious sheep, the fundamentals remain the same: it's still the best city on earth, it's a great place to do business and there is a limited supply of desirable properties.

If prices soften 5-10% over the coming months, remember those headlines about 20% price rises in a year. You've simply reversed a few months' growth. You'll be okay. If you've bought recently, it will almost certainly come back around. Doesn't it always?

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