

September 2018 CLAPHAM PROPERTY NEWS

2018



Market Update

This month I have seen a trend with clients re-financing and letting their properties out instead of trying to sell them. This is not a surprise given the up and down market we have been experiencing recently. August is always a busy month in the lettings market and with high demand, property owners get a chance to get good quality tenants and higher rents.

I have kept a close eye on the local rental market because of this trend and I have seen that as expected properties are renting quickly. However in terms of rental prices, they are similar to figures landlords achieved in their previous tenancies from the year beforehand. There was an exceptional case this month where I was personally involved in Balham. A 1 bed flat being advertised for £1650pcm ended up achieving a huge figure of £1750pcm!

I have also seen more buy-to-let investors emerge and beginning their search for a new investment property. This has been a relatively stagnant part of the market, ever since the stamp duty hike for additional properties a few years back. I have had a few calls from clients asking for advice on buying in university cities in England, where the yield is much higher than in London.

To echo the sentiment in the main article of this newsletter, I have also seen a greater price realism on the sales side this month. To illustrate this, we listed a 1 bed garden flat in SW2 which ended up having 23 viewings in a week and sold for around 5% above the asking price. Without being priced realistically, this scenario would not have been possible.

The sales market is stable on both lettings and sales but sales may slow a little as we enter the traditional summer lull when many people take holidays.

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Increased realism on house prices



Over the last 2 years there has been a noticeable disparity between asking prices and completion prices in the London property market. Figures show that in London as a whole, the average difference between asking price and completion price was around 1.5% in 2014. By the start of 2018, it had grown to almost 5%. Inner London was affected the most reaching a peak of 7% at the start of this year. As discussed in previous newsletters, Inner London has been the hardest hit compared to most of the capital due to its reliance on overseas buyers with many of these buyers choosing to invest their money into property markets in other countries as a result of the economic uncertainty caused by the EU referendum vote back in June 2016.

It is not all doom and gloom. In the past couple of months, there has been signs of a greater amount of realism in property pricing. The gap between asking prices and completion prices have started to close which may indicate that the two year re-pricing process is now starting to have the right impact as owners adapt the market conditions post Brexit. London is expected to still experience weak price inflation in the short to medium term, however the increased level of realism on pricing will hopefully help increase transaction volumes which have fallen by approximately 20% since the boom in 2014. Even prime central London, which took a significant hit on price in the last two years has seen sprouts of recovery. It seems that buyers are taking advantage of discounted prices causing growth figures to increase by 1.2% this quarter compared to the same time last year. This is the largest level of growth in prime central London since the third quarter of 2015, according to property data agency, LonRes.

The positivity is also echoed in the growth rate of the London property market as a whole, as it has risen by 0.7% in the last 3 months. Whereas in previous months many London boroughs were posting negative growth figures, they are now growing, which bodes well for the market for the rest of the year. The current trend is expected to continue through to the remainder of 2018 as the housing market plays up against factors such as rising employment. It still remains to be seen how the increased interest rates will affect the market. The last time they were raised, it had little impact on the property market in South London and things continued pretty much as they were. It is expected to follow a similar pattern this time as the mortgage payment hike isn't that much more annually.

The rental market in London has followed a more positive and consistent path in recent weeks and months. Prices have been more of less where they were a year ago and in some areas of London have increased. Clapham for example is experiencing its busiest months of the year with rental prices being similar to where they were 12 months ago, but in some cases, properties in the area are getting slightly increased rental income than they were in the same period in 2017. Many landlords are advertising for slightly higher rental prices than last year, but are realising that the market is in a similar place so are settling for the same monthly rent they got in their last tenancy. The number of properties being let is high and prices are not dropping in the most part. This has contributed to many property owners making the decision to rent out instead of selling due to the solidity of the rental market.

The pitfalls of Airbnb in the London leasehold property market

For visitors, renting an Airbnb property provides an opportunity to immerse themselves in an area and live like a local during their stay. For homeowners, it provides the opportunity to utilise their largest asset, their home, to make money. If this sounds to you like a match made in heaven, then you are not alone. The success of Airbnb is clear: it now lists more than half a million private properties across 192 countries and, having been founded just ten years ago in 2008, is now valued at an estimated \$38 billion.

However, their success may be under threat as a result of the harsh line which is being taken by authorities on a global basis; Berlin banning all short term lets, Madrid and New York imposing minimum short term let requirements and Barcelona has gone as far as to fine Airbnb for breach of local laws on hosting illegal tourists and failing to impose tourist taxes. In July 2018, the UK government announced its intention to close the “lodger loophole” for Airbnb, which many London hosts have relied upon in order to avoid paying tax on their rental income from Airbnb lets.

Along with this increase in regulation from authorities, and leaving to one side the fear of being left with a muddy carpet or piles of dirty dishes, there is an additional risk for owners of leasehold properties in this country that, by letting your property on Airbnb, you are in fact breaching your lease. But what does this mean for leaseholders?

Recent caselaw - *Bermondsey Exchange Freeholders Limited v Ninos Koumetto (as Trustee in Bankruptcy of Kevin Geoghegan Conway)*

Kevin Conway, a leaseholder in the Bermondsey Exchange, marketed his property on Airbnb from 2015. The building freeholder raised concerns about nuisance and security issues and the detrimental impact on a 'sense of community' of casual overnight use. The freeholder successfully sought an injunction to prevent Mr Conway from using the flat in this manner. District Judge Desai in the Lambeth County Court stating that the freeholder had not consented to use of the property for temporary lets which were a clear breach of the lease. Following an appeal, this judgement was upheld by the Central London County Court on 1st May 2018.

How is your leasehold property affected?

Your property lease sets out the terms and conditions under which you hold your property, and most leases contain terms that would impact on marketing and using your property for Airbnb purposes, for example:

1. **Residential Use:** *Use of the property is limited to private residential purposes, and occupation by one family or household only.* Short term temporary accommodation is being categorised by commentators, judges and professionals as use of the property for commercial purposes and therefore in breach of residential use restrictions.
2. **Restrictions on Sub-Letting:** *You must not sub-let your property except under the terms of an assured shorthold tenancy agreement for a minimum term of 6 months and you must give notice of any such tenancy to the landlord and pay a reasonable registration fee to the landlord upon the grant of each new tenancy.* Airbnb lets do not meet these standard requirements and commonly landlords are not being advised of the use of the property for these purposes.
3. **Nuisance:** *Not to cause nuisance or annoyance to the owners or occupiers of neighbouring and adjoining properties.* In extreme cases, such as a case where a party hosted by an Airbnb renter at a property in Brixton led to the arrival of riot police after 150 people turned up, the unauthorised use can make the headlines. More commonly this can be the disturbance of people coming and going, checking in to the property at unusual times and not taking into consideration other residential owners in the building.

Recourse available to your landlord

Landlords are usually in a position to take action against you for breach of the terms and conditions contained in your lease. Commonly such action will simply prevent ongoing use of the property in breach but ultimately, if the unauthorised use continues, it could result in the landlord repossessing the property, though the landlord would require a court order to do so. It is, therefore, essential, that when purchasing a leasehold property you fully understand the covenants and conditions which affect your home.



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