Residential Quarterly | Winter 2019/2020

Research - Market View

Economic Outlook

The majority win by the Conservatives in the General Election means that there is now more certainty around Brexit than there has been for over three years, especially following the recent passing of the withdrawal bill in the House of Commons during the early weeks of January. Markets have responded positively to this, with the FTSE 100 jumping 4% in the five days after the General Election, and subsequently closing the year strongly up 12% from the beginning of 2019.

The ONS recorded that the UK economy contracted by 0.2% in Q2 2019. The ONS official statistics indicate that the UK economy grew by a revised 0.3% in Q3 2019, thus avoiding recession.

The HM Treasury consensus forecast has been slightly revised upwards by 0.1%, with a new central estimate of growth of 1.3% over the course of 2019, with forecasts ranging from 1.1% to 1.7%. For 2020 the expectation remains unchanged at 1.1%, with forecasts ranging from 0.5% to 2.0%.

The British Chamber of Commerce (BCC) have increased their forecast for 2020 from 0.8% to 1.0%. For 2021 their forecast growth of 1.2% has marginally upgraded to 1.3%. The BCC states that the upgrades are mainly driven by growing anticipation of an increase in government spending. With that being said, the BCC reiterates that a weaker outlook for investment, trade, consumer spending and productivity are still expected to affect growth prospects.

The ICAEW measures business confidence on a scale of -100 to +100 (+100 being extremely confident, 0 being neutral, -100 being extremely negative). Confidence has been negative throughout the whole of 2019 however, and despite a marginal bounce back in Q3 2019, it subsequently worsened in Q4 2019, with an index score of -20.6. Reasons for the significantly low score cited by the ICAEW include concerns around Brexit and the fractured politics that are linked to it, as well as global economic uncertainty regarding trade. That said, the methodology behind the ICAEW index means that it is likely that this view is at least in part driven by the uncertainty prior to the General Election, which has now passed.

The latest figures from the ONS show that inflation (CPI) as of December 2019 is forecast to be 1.4%, down from 1.8% in October 2019. This is broadly in line with the 2.0% target.

The BoE has maintained the 0.75% interest rate. Most forecasters still expect interest rates to rise gradually over the next few years, although this is now expected to be even slower than previously thought, with no expectation of further rises until late-2020s at the earliest and rates of 1%-1.25% by 2022. Although much depends on the outcome of Brexit.

Having remained volatile around the lower August level for four months, the General Election result saw the FTSE 100 instantly bounce back, gaining 4% in just five days. The consolidated market performance was maintained through the latter stages of December as Q4 saw the FTSE 100 end the year strongly, up 12% at 7,542 points.

1.4%

December 2019 inflation (CPIH) was at 1.4%, down from October 2019 (1.8%).
Source: ONS

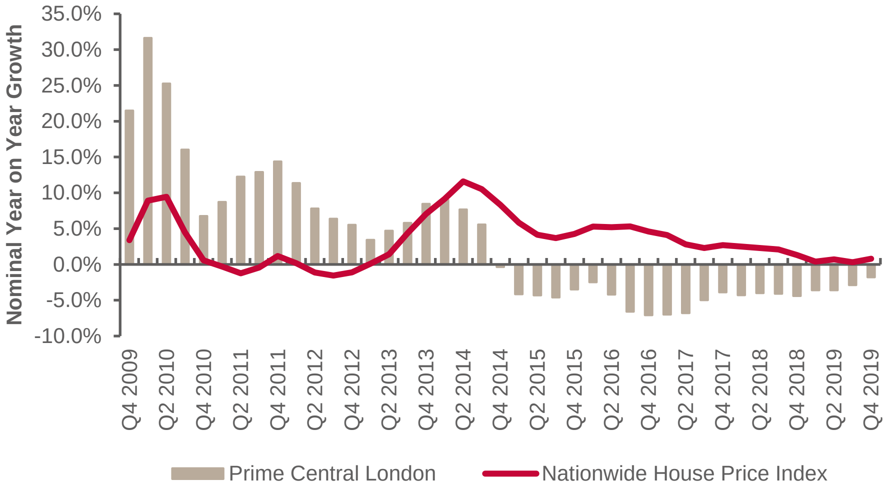
PMI Services up from 49.5 & PMI Manufacturing up from 48.3
Source: IHS Markit/CIPS (December)

Real average weekly earnings (total pay, seasonally adjusted) rose to £544 in Nov 2019, compared to £526 in Nov 2018.
Source: ONS

Property market pricing

UK property prices grew by 0.8% in the year to Q4 2019, which represents a 0.5% slowdown on the same period last year (1.3%), according to the Nationwide House Price Index. This is, however, a slight rebound from the previous quarter's YoY growth (0.3%), which was the weakest YoY growth since Q1 2013. YoY growth over the same period shows that on a regional basis the best performer has been the North, West Midlands and Scotland, all of whom recorded YoY growth of 2.7%. In contrast, London and the Outer South East both continued to experience falls in house prices (-1.9% and -1.0% respectively). London has now experienced negative YoY growth for 10 consecutive quarters, thus holding its position as the most negative performer of all regions.

Figure 1
UK house price growth vs Prime Central London (PCL)



Source: *Nationwide House Price Index, Volterra*

UK property prices grew 0.8% YoY to Q4 2019
Source: Nationwide HPI

Regional residential sales transactions

Table 1. Number of registered properties sold for Q1-Q4 2018 and Q1-Q4 2019

Region	All Property Q1-Q4 2018	All Property Q1-Q4 2019
East Midlands	69,113	66,681
East of England	85,460	81,790
Greater London	81,244	77,048
North East	35,152	35,510
North West	101,169	99,754
Scotland	100,854	102,930
South East	124,050	116,722
South West	85,766	79,849
Wales	40,901	40,048
West Midlands	74,389	71,852
Yorkshire and Humber	74,406	73,946

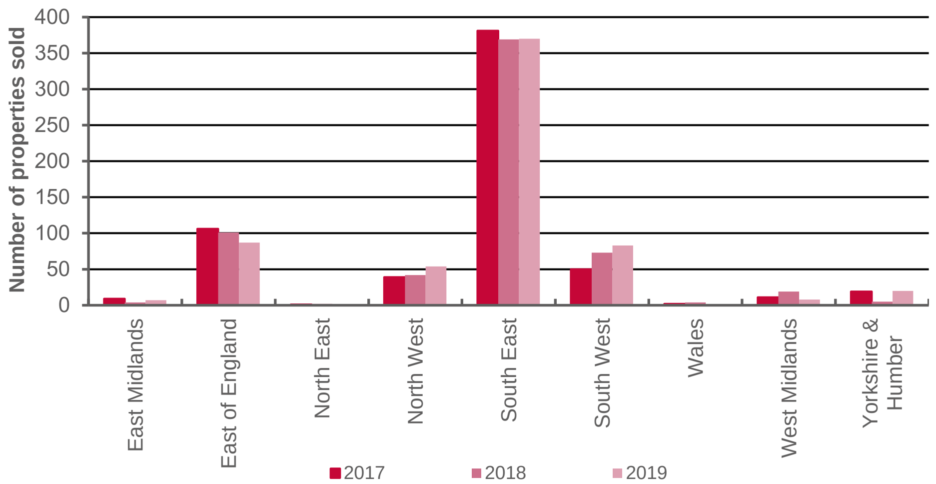
Source: *Dataloft, Land Registry Q1-Q4 2018 data as at 18th January 2019, Q1-Q4 2019 data as at 11th October 2019; Land Registry data has a data lag which is why we compare equivalent registered data for the same reporting period. Registers of Scotland 2018 and 2019 data as at 6th February 2020.*

National house prices are now 17.4% above the 2007 peak
Source: Nationwide HPI

Country house highlights

All regions, outside of Greater London saw transactions volume in the over £2 million market, however, the largest numbers of £2 million plus homes that sold continued to be in the South East for 2019. With East of England, South West rounding out the top three regions for the largest number of transactions in this price point.

Figure 2
Number of recorded properties sold over £2M in England & Wales excluding London in 2017, 2018 and 2019



Source: *Dataloft, Land Registry 2017 data as at 9th January 2018, 2018 data as at 18th January 2019, 2019 data as at 20th January 2020; Please note Land Registry data has a data lag which is why we compare equivalent registered data for the same period, not year-end final reported figures for 2017 and 2018.*

"We are already seeing an increase in stock levels and are confident that this is both a good time to buy and sell and predict this 'bounce' to continue to send positive ripples through the market for the first half of 2020."

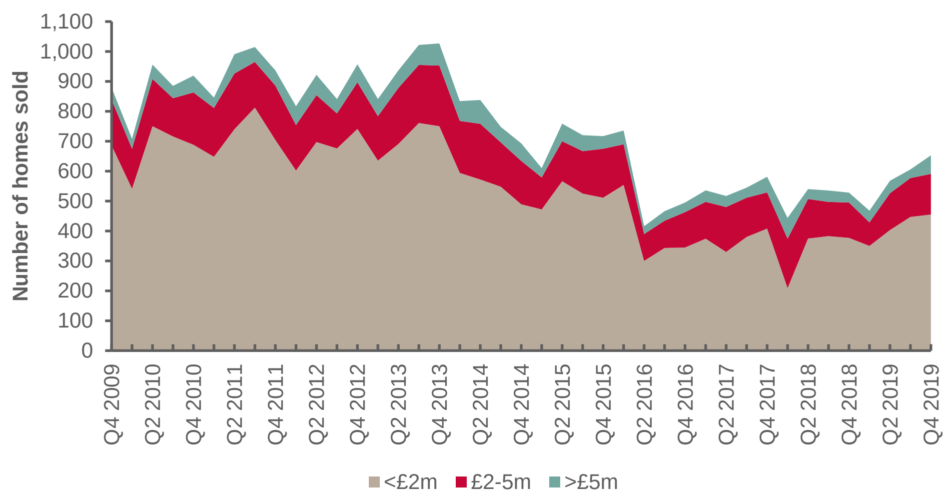
Guy Robinson

Head of Residential Agency

Prime Central London residential sales market

Prime Central London (PCL) prices have levelled out in Q4, marking the end of 17 consecutive quarters of declining prices, although prices still remain nearly 20% down from their 2014 peak. Transaction levels across all price brackets have continued their gradual uptick, rising by 24% compared to Q4 2018, but still remain very low by historic standards, approximately 65% down on 2013 volumes.

Figure 3
Historic number of homes sold in PCL

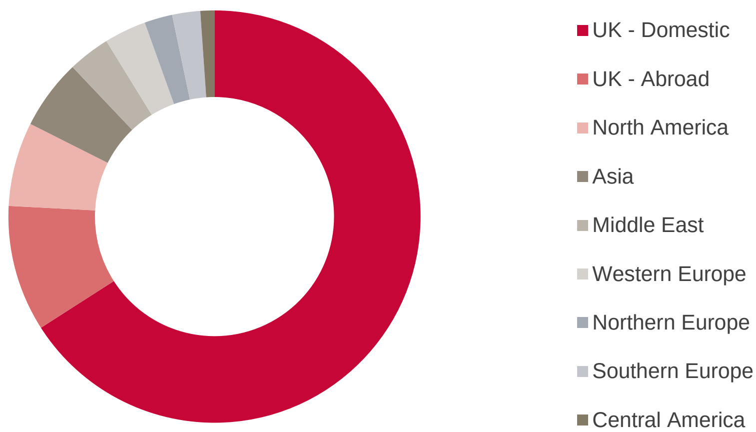


Source: *Dataloft, Lonres.com, Strutt & Parker as at 8th January 2020.*

The UK's soft power with appropriately priced properties and the attractiveness of Sterling continue to be key factors attracting international buyers. However with increasing regulation and property taxation changes, we have seen a decline in overseas purchasers in PCL, compared to historical levels.

Figure 4

Known PCL buyer nationalities for Q4 2019



Source: *Strutt & Parker*

"Sentiment has undoubtedly improved post-election which has manifested in a considerable y on y increase in new applicants registering to buy in the first few weeks of the year; this is yet to be matched by an increase in stock levels so we expect competition for good property to be strong, and remain optimistic for a positive 2020 in terms of both value and transaction volumes."

Louis Harding

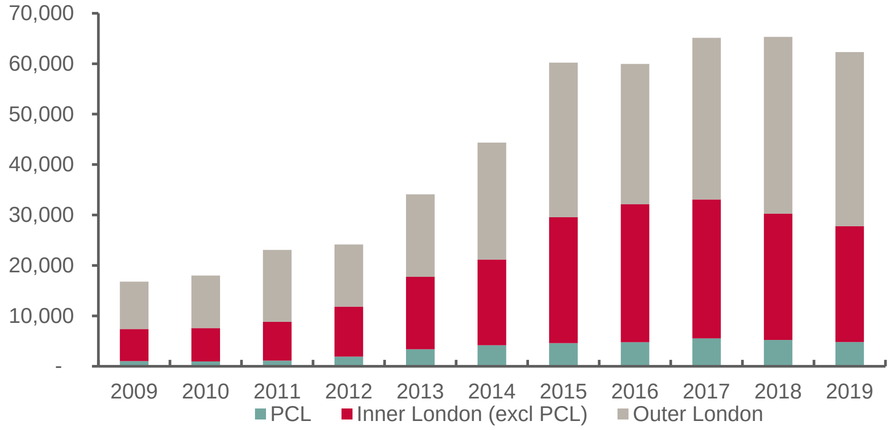
Head of London Residential Agency

Greater London residential new homes

Across Greater London, there were just over 62,000 new build units under construction at the end of 2019, with just under 20,000 new build for sale units sold during 2019, according to Molior.

Figure 5

Number of private sale units under construction in schemes of 20+ private units in Greater London



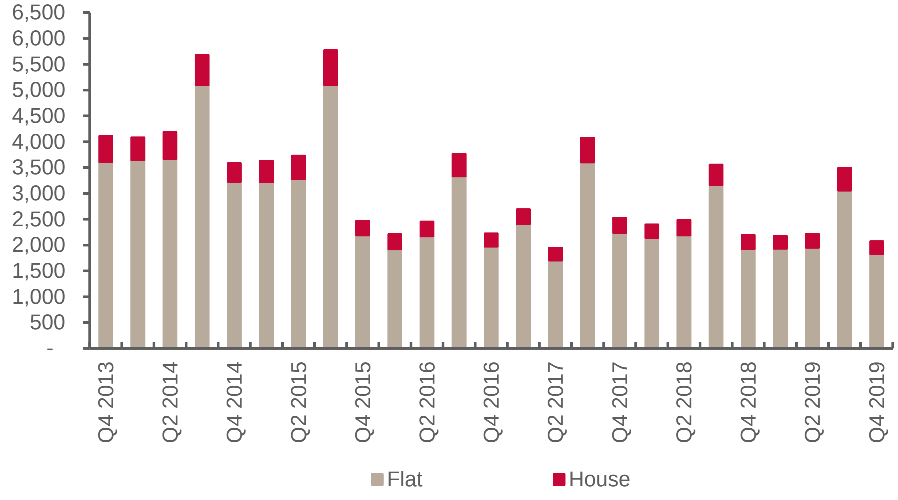
Source: *Molior, Strutt & Parker as at 6th February 2020; PCL defined as Local Authorities of Hammersmith & Fulham, Kensington & Chelsea and Westminster; Inner London defined as Local Authorities of Camden, City of London, Hackney, Islington, Lambeth, Southwark, Tower Hamlets, Wandsworth; Outer London defined as remaining 22 Greater London boroughs*

The construction figures include build to rent (BTR) units which now count for just over 20% of delivery across Greater London, according to Molior. This is a small decline when compared to 2018 BTR construction volumes. Delivery is concentrated in Outer London, for example Stratford City – East Village, Wembley Park and Greenford Quay.

Prime Central London lettings market

The take-up of new rental tenancies across PCL was just below 10,000 homes and illustrated a 6.4% decrease for all of 2019 compared to 2018. The sub £500 per week price bracket continued to show the largest annual decline (18%) in number of new rental transactions for the year, again compared to 2018.

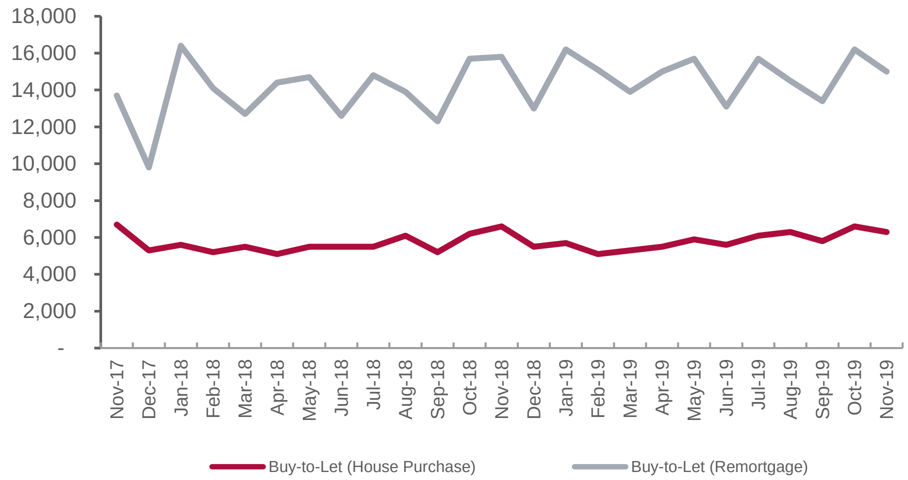
Figure 6
New rental tenancies in PCL by house type



Source: *Dataloft, Lonres.com, Strutt & Parker as at 8th January 2020.*

According to UK Finance, there were 6,300 new buy-to-let house purchase mortgages completed in November 2019, a decrease of 4.5% compared to November 2018. Additionally, there were 15,000 new buy-to-let remortgages completed in over the same time period, 5.1% less than November 2018.

Figure 7
Number of New Residential Loans (monthly)

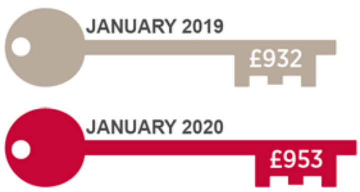


Source: *UK Finance – Mortgage Trends Update 15th January 2020.*

"The impact of changes to tax on landlords and the continued increased regulation of our sector has impacted stock levels across London which is reflected in this fall in volumes of new deals."

Kate Eales

Head of Residential Lettings



UK Average Rent
£953pcm
Source: HomeLet
(January 2019)

Outlook & forecast

Substantial economic and political uncertainty remains both nationally and globally. The Conservatives majority win of the General Election has eased this uncertainty for the first time in three years and early signs suggest that markets have responded positively. The fundamentals of the UK economy remain broadly positive however sentiment remains cautious.

PCL house prices fell throughout 2019, albeit at a slower rate than in 2018, finishing centrally between our best case and downside risk scenarios. Although the market remains uncertain, we expect 2020 to be the year that growth returns to the PCL market. We anticipate that with the election result and the uncertainty surrounding Brexit finally easing, that from 2020 onwards growth should return. The exact timing and scale to growth is challenging to predict given the low volumes of transactions.

Appropriate pricing and the attractiveness of Sterling will continue to be key factors affecting market activity levels in the higher price sectors. It remains extremely difficult to forecast this market with any certainty. Once the timescale for negotiations of trade deals become clearer we expect some bounce back.

"A degree of uncertainty was removed with the results of the General Election at the tail-end of 2019 and the outlook for transaction volumes and house prices for 2020 is more positive than the past few years in both PCL and the regions."

Vanessa Hale

Director, Research

Table 2. Residential price forecast Q4 2019

Sales	2020	2021	2022	2023	2024	5 Year to 2024
Prime Central London ***Best case***	5.0%	6.0%	6.0%	6.0%	6.0%	33.0%
Prime Central London ***Downside risk***	0.0%	2.0%	2.0%	2.0%	2.0%	7.0%
UK	3.0%	4.0%	4.0%	4.0%	4.0%	19.0%

Lettings	2020	2021	2022	2023	2024	5 Year to 2024
Prime Central London	2.0%	2.5%	2.5%	2.5%	2.5%	11.0%

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Methodology

As the housing market is seasonal, for the purposes of this report; data is compared year on year, i.e. looking at Q3 2019 in light of changes since Q3 2018. Data may also be compared on a rolling month on month basis. When referring to the PCL market it includes those markets which Strutt & Parker operate in (Knightsbridge, Belgravia, Kensington, Chelsea, Notting Hill & Fulham) and as such is reflective of London's most prime markets. Economic views are attributed to Strutt & Parker's retained economic advisors, Volterra. Registers of Scotland does not have a data lag at end of quarter compared to Land Registry data and therefore transaction figures at end of quarter for Scotland may appear abnormally high in comparison. Additionally, Lonres.com data is used to assess the London sales and lettings market. The behavioural data is collected from our activity in PCL markets: our proprietary "behavioural data" is not representative of the UK as a whole. The global economy remains volatile and therefore there is risk that any market commentary provided will become out-dated within a very short timescale.