Residential Quarterly | Spring 2019

Research - Market View

Economic Outlook

Brexit continues to be a major source of uncertainty within British politics. The European Union (EU) and the UK have agreed a further delay to Brexit until 31st October 2019. The results of this is feeding through into a cautious and unknown economic outlook from most commentators and sentiment surveys are negative. That said, the economy continues to deliver growth, employment is strong and inflation is in-line with expectations.

The National Institute for Economic and Social Research estimates that the UK economy grew by 0.4% during the first quarter of 2019, slightly higher than the growth rate achieved in Q4 2018 (0.3%). The HM Treasury is predicting that the UK economy will grow by 1.3% in 2019, with forecasts ranging from 0.7% to 1.9%. For 2020 the economy is predicted to grow at a slightly faster rate of 1.6%, with forecasts ranging from between 0.9% and 2.2%. All are more positive than the predictions of two years ago, despite the Brexit delays.

The British Chamber of Commerce (BCC) is predicting a slightly lower growth of 1.2% for 2019 and for 2020 they have lowered their forecast from 1.5% to 1.3%. For 2021 they are predicting a growth of 1.4%. The BCC claims a disorderly departure from the EU is the key to the UK's economic outlook as it would likely weaken the UK's short-term growth and productivity.

The ICAEW measures business confidence on a scale of -100 to +100 (+100 being extremely confident, 0 being neutral, -100 being extremely negative). In Q4 2018, the UK scored -12, the lowest since the financial crisis. This has fallen further to -16 this quarter. ICAEW note that this reduction is down to economic and political factors, not least Brexit. Other identified economic factors include slowdowns in several EU economies and China, and reported problems in the domestic retail sector.

From a regional perspective, in Q1 2019, like Q4 2019, all regions across the UK reported negative business confidence, with the South West now the most confident region at -7, previously it was Wales. The least confident regions are East of England (-27), West Midlands (-25) and London (-20). ICAEW note that the key reason why confidence in London is lower than the national average is the reliance on service sector exports and migration labour.

The latest figures from the ONS show that inflation (CPIH) in February was at 1.8%, which is broadly in line with the 2.0% target. The inflation rate has fallen slightly from November 2018 (2.0%) and continues the steady decline since November 2017 (2.8%). Rising prices in food, alcohol and tobacco and a range of recreational goods made up the largest upward contributions but these were offset by downward contributions in clothing and footwear.

The BoE has maintained the 0.75% interest rate but is still planning to reach an interest rate of 2.0% by 2021. What happens to the economy in the coming months, may have an influence on whether this target needs to be revised.

In December the FTSE 100 was at the lowest it has been since 2016. It recovered by 7% in the first quarter of 2019 and now stands at its highest point in the last six months. In 2015, the average value of the Pound to the Euro was 1.38, in Q1 2019 the exchange rate was at 1.16 which is 16% below the 2015 average.

1.8%

February 2019 inflation (CPIH) was at 1.8% down from 2.0% in November 2018
Source: ONS

PMI Services down from 51.2 & PMI Manufacturing up from 54.2
Source: IHS Markit/CIPS (March)

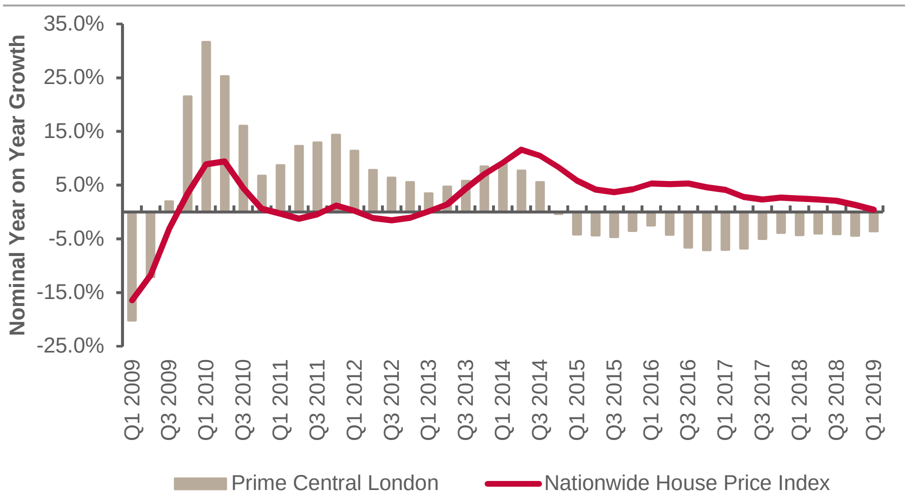
Real average weekly earnings (total pay) rose to £540 in February 2019, compared to £524 in February 2018.
Source: ONS

Property market pricing

UK property prices grew by 0.4% in the year to Q1 2019, which included QoQ growth in Q1 2019 of -0.1%, according to the Nationwide House Price Index. YoY growth over the same period shows that on a regional basis the best performer has been Northern Ireland (3.1%) followed by the North West (2.9%) and East Midlands (2.6%). London, which historically has always had the strongest growth across the UK, had the lowest growth rate (-3.9%).

Nationally, house prices are now 16.4% above their pre-crisis peak whilst London prices are 51.0% above their pre-crisis peak. Northern Ireland (-36.7%), North (-3.9%), Scotland (-2.3%) and Wales (-0.3%) are still below their pre-crisis peak.

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



Source: *Nationwide House Price Index, Volterra*

UK property prices grew 0.4% YoY to Q1 2019
Source: Nationwide HPI

Regional residential sales transactions

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

Region	All Property Q1 2018	All Property Q1 2019
East Midlands	6,693	6,635
East of England	8,441	8,193
Greater London	7,679	7,491
North East	3,066	3,396
North West	9,596	9,527
Scotland	18,894	19,491
South East	12,027	11,591
South West	8,325	8,233
Wales	3,917	4,092
West Midlands	7,067	7,041
Yorkshire and Humber	6,926	7,572

Source: *Dataloft, Land Registry Q1 2018 data as at 10th April 2018, Q1 2019 data as at 8th April 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 1st May 2019.*

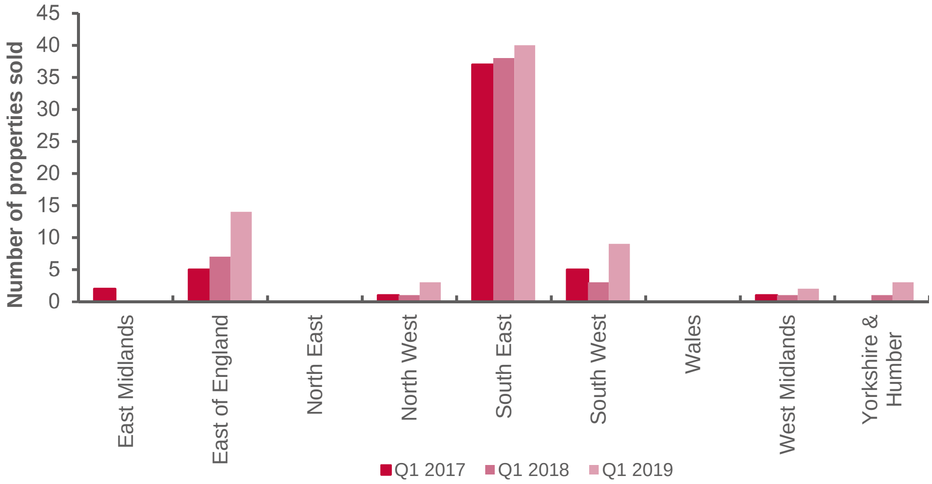
National house prices are now 16.4% above the 2007 peak
Source: Nationwide House Price Index

Country house highlights

All regions, outside of Greater London saw some level of transaction volume in the over £2 million market, however, the largest numbers of detached homes that sold over £2 million 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 Q1 2017, Q1 2018 and Q1 2019



Source: *Dataloft, Land Registry 2017 data as at 4th April 2017, 2018 data as at 10th April 2018, 2019 data as at 8th April 2019; 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.*

"Although 2019 started with subdued levels of activity and growth across the country, the better weather is beginning to have an impact on the property market with an increased number of registered buyers chasing a limited number of potential new homes. The laws of supply and demand and 'Brexit fatigue' are playing their part."

Guy Robinson

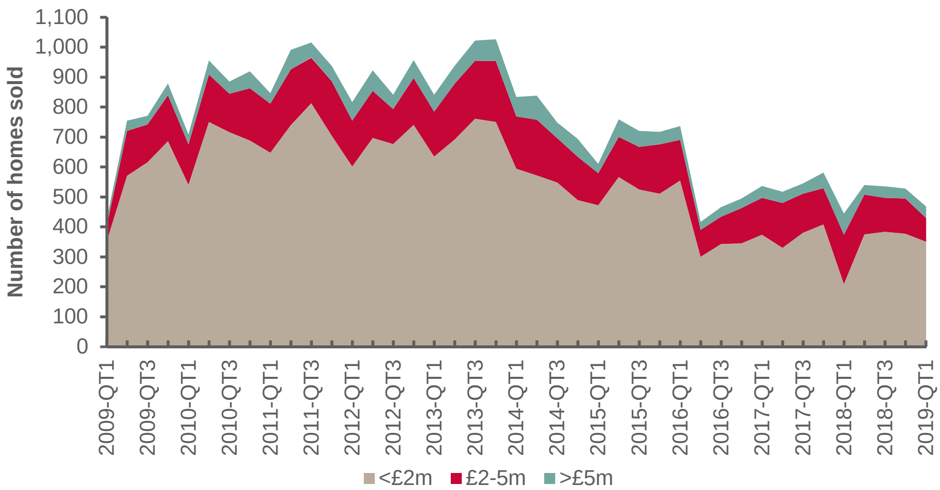
Head of Residential Agency

Prime Central London residential sales market

Total transactions fell by 11.4% in Q1 2019 compared to Q4 2018. This was a significant reduction and was largely driven by the £2-£5m bracket, where transactions fell by a third (-33.1%) and are at their lowest since Q1 2009. The sub £2m bracket, which accounts for 75% of total transactions, also fell by 7.2% for the same time period. Total PCL transactions in Q1 2019 were just less than half their previous peak in Q4 2013.

Figure 3

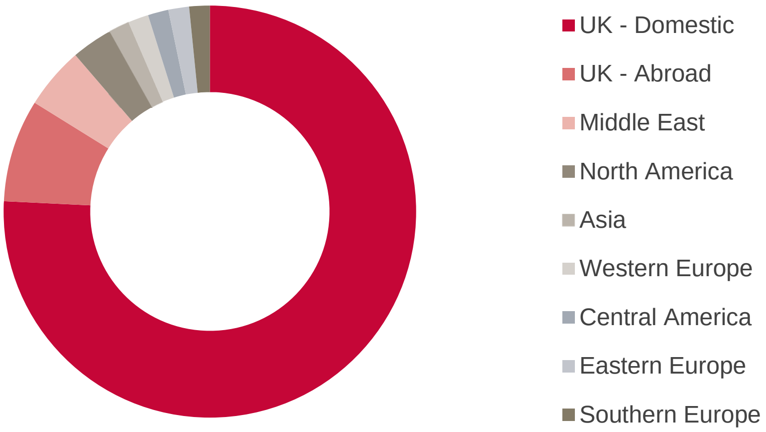
Historic number of homes sold in PCL



Source: *Dataloft, Lonres.com, Strutt & Parker as at 9th April 2019.*

The UK's soft power of culture, arts, time zone, language, diversity, history, architecture, tolerance, and vibrancy along with appropriately priced properties and the continued 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 Q1 2019



Source: *Strutt & Parker*

"A weak pound has increased the appeal of buying in the UK amongst some investors and foreign buyers - London remains the most internationally dependent part of the UK, both in terms of investment and in terms of its labour market. Overall we've seen a significant increase in demand from potential buyers of more than 40% (YoY) and transactions volumes are moving in a positive direction too."

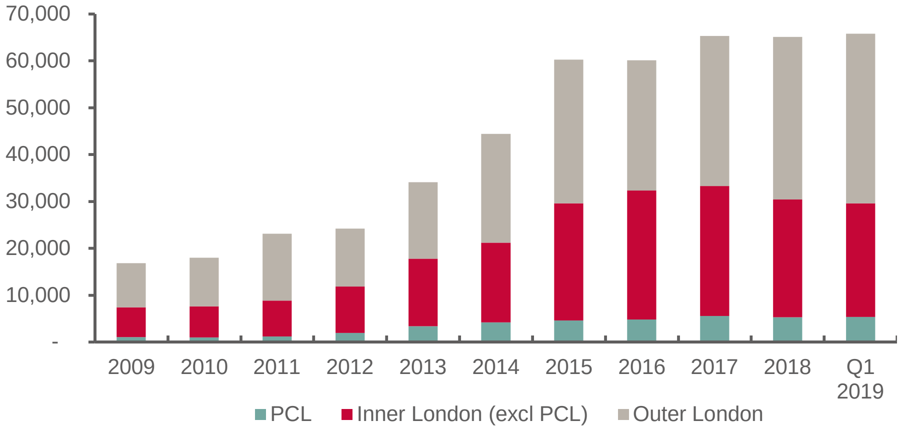
Louis Harding

Head of London Residential Agency

Greater London residential new homes

Across Greater London, there are nearly 5,500 new build for sale units where construction has started in Q1 2019, with 5,200 new build for sale units sold during the quarter, 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 25th April 2019; 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*

Furthermore across Greater London, there are just over 1,200 new build to rent (BTR) units where construction has started in Q1 2019, according to Molior, which brings the total construction volumes for BTR in Greater London to an all-time high of nearly 13,700 units for Q1 2019.

"The capital's market overall may have slowed but well-priced, good quality developments are still selling, particularly completed stock in micro locations where there is a scarcity of supply. It's a good time to invest – those investments may just be channelled into different sectors within residential development. The Build to Rent sector shows no sign of slowing, with total construction volumes hitting an all-time high of 13,700 units, in Q1 2019."

Mark Dorman

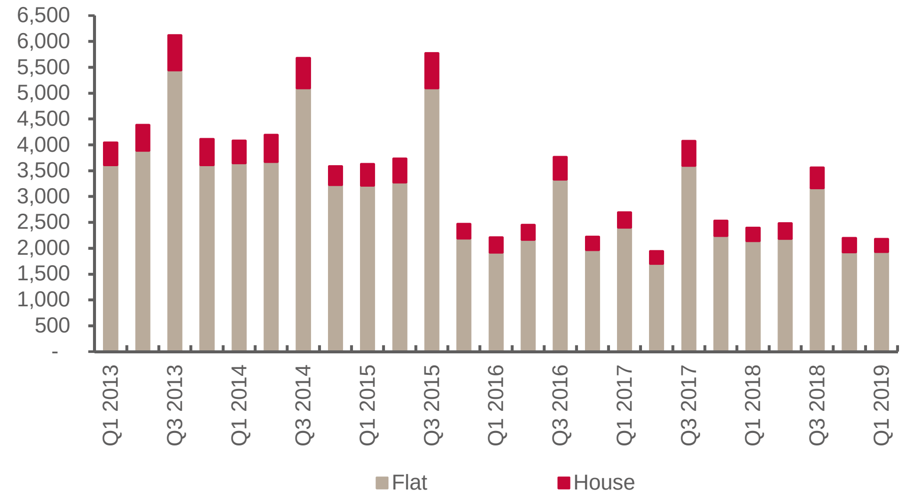
Head of London Residential Development & Investment

Prime Central London lettings market

The take-up of new rental tenancies across PCL decreased overall by 9.2% in Q1 2019 compared to the same period last year. The sub £500 per week price bracket and the £3000-£4999 per week price brackets saw the largest Q1 2019 declines compared to Q1 2018.

Figure 6

New rental tenancies in PCL by house type

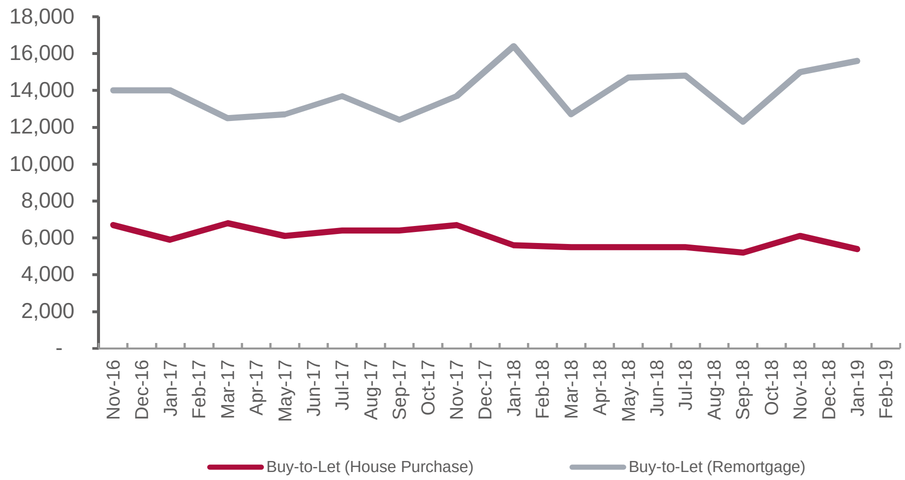


Source: *Dataloft, Lonres.com, Strutt & Parker as at 10th April 2019.*

According to UK Finance, there were 4,800 new buy-to-let house purchase mortgages completed in February 2019 (most recent data released) showing a decline of 7.7% YoY. Additionally, there were 14,400 new buy-to-let remortgages completed in February 2019, resulting in a Y-o-Y increase of 2.1%. Overall, the buy-to-let market looks to be relatively stable, albeit with subdued levels of new uptake, due in part to the impact of recent legislative and tax changes.

Figure 7

Number of New Residential Loans (monthly)



Source: *UK Finance – Mortgage Trends Update 17th April 2019*

"All expectations were of a subdued Buy-to-Let market as a result of tax and legislative changes. However, with 14,400 new buy-to-let remortgages completed in February 2019, it could also be said that it is relatively stable, with at least some buy-to-let landlords taking a 'business as usual' view of the market."

Kate Eales

Head of Residential Lettings

UK Average Rent: £942pcm
Source: HomeLet

Outlook & forecast

Economic and political uncertainty remains both nationally and globally and it does not appear that this will change any time soon. The likely outcome of Brexit negotiations remains uncertain. However, the fundamentals of the UK economy remain broadly positive, but sentiment remains cautious resulting in indecision within many markets. There are early signs of increased interest, particularly when properties are priced appropriately.

Total transaction levels for the UK look to be similar to this time last year and pricing for the UK has been positive for Q1 2019, therefore our forecasts have remained the same for the UK.

In PCL, transactions levels continue to be low by historic standards and prices in 2018 failed to stabilise resulting in 2018 performance finishing closer to our downside risk scenario. In the first quarter of 2019, prices have continued to fall in PCL, albeit at a slower rate and therefore our forecasts for 2019 performance have not changed – with a best case of 2% growth and a downside risk of -5%. The best case forecast predicts a return to stronger growth from 2020 onwards. However, the risk remains predominantly on the downside, with the possibility of further price falls in 2019.

Appropriate pricing and the attractiveness of Sterling for overseas buyers will continue to be factors affecting market activity levels in the higher price sectors. Beyond 2019 it is extremely difficult to forecast this market with any certainty but we would expect some bounce back once more stability has returned.

"Our residential forecasts for 2019 performance have not changed, due to the continuing economic and political uncertainty. And whilst we don't have a crystal ball as to when the market may gain clarity, we anticipate a return to stronger growth from 2020 onwards once market stability returns."

Vanessa Hale

Director, Research

Table 2. Residential price forecast Q1 2019

Sales	2019	2020	2021	2022	2023	5 Year to 2023
Prime Central London ***Best case***	2.0%	5.0%	6.0%	6.0%	6.0%	28.0%
Prime Central London ***Downside risk***	-5.0%	1.0%	2.0%	2.0%	2.0%	2.0%
UK	2.0%	4.0%	4.0%	4.0%	4.0%	19.0%

Lettings	2019	2020	2021	2022	2023	5 Year to 2023
Prime Central London	1.5%	2.0%	2.5%	2.5%	2.5%	11%

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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 Q1 2019 in light of changes since Q1 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.