

# Residential Quarterly | Spring 2018

## Research - Market View

### Economic Outlook

Slowly details in regards to the Brexit agreement are being released. The UK will pay approximately £40bn in a 'divorce bill', UK workers in the EU and EU workers in the UK will keep their rights for a maximum of five years after the UK leaves the EU, and both sides have agreed to a 21-month transition phase starting in March 2019 that may last until the end of 2020. During this 'transition phase' the UK will be able to negotiate and sign trade agreements with other trading blocs. EU citizens arriving in the UK during this time will receive the same rights as those who arrived before the EU Referendum. There however remains a significant issue still outstanding in regards to the Northern Ireland border.

There was potential for stunted economic growth in light of the adverse weather conditions in March, however rather than retail sales pulling down UK gross domestic product (GDP) for the quarter it was construction, falling by 3.3%. The Office for National Statistics (ONS) reported that the UK economy only grew by 0.1% in Q1 2018. For 2017 as a whole it is thought growth was at 1.8%, which is higher than the 1.5% originally forecast by the Office for Budget Responsibility. Independent forecasts from March 2018 collected by Her Majesty's Treasury range from 0.6% to 2.6% growth expected for 2018 with the average forecast being 1.6%. Whilst uncertainty does exist, only one forecast is above 2.0% and only one is below 1.0% with the majority predicting growth of around 1.6%. For 2019 the range, and central forecast, are very similar to those for 2018 with the average being 1.5%. PWC and the British Chamber of Commerce (BCC) are both predicting similar rates of growth for 2018 and 2019.

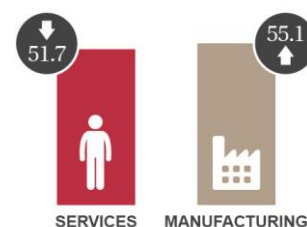
Business confidence fluctuated over the course of 2017. In Q1 2018 business confidence sits at -1 and therefore remains essentially neutral. Confidence is only negative in half of the UK regions but is noticeably the most negative in London at -12, which is thought to be due to the concentration of financial and property firms in London that currently have the most negative outlook.

Rising costs for businesses, such as the apprenticeship levy, business rates, and living wage and coupled with the weak exchange rate, may still impact the domestic market, both by increasing costs for domestic firms as well as making imports more expensive. In November 2017 inflation reached a peak of 3.1% before declining to 2.5% (by March 2018) which provides some relief to businesses. The BCC forecast inflation average 2.9% for 2018 and 2.6% for 2019. Given that wage growth of 3.1% is expected in 2018 it would mean earnings growth would outpace inflation. This should help support consumer spending, a key driver of the UK economy. The official bank rate remains at 0.5% which is very low by historic standards. Although earlier this year the BoE hinted at a possible rate rise as early as May, Mark Carney, the Governor of the BoE, recently commented that a policy rate rise in May was far from a done deal. He referred to the mixed data and reportedly cited Brexit uncertainty as a key restraint on the economy. In addition, the softer-than-expected inflation may mean that the BoE may not be in a hurry to raise rates.

The National Institute for Economic and Social Research expects interest rates to gradually increase, reaching 2.0% by 2021. This will increase the costs of mortgages for some households, at the same time as increasing savings rates for others.

# 2.5%

March 2018 inflation was at 2.5% down from 2.7% in February 2018  
Source: ONS



PMI Services fell from 54.5 & PMI Manufacturing up from 55.0  
Source: HIS Markit/CIPS

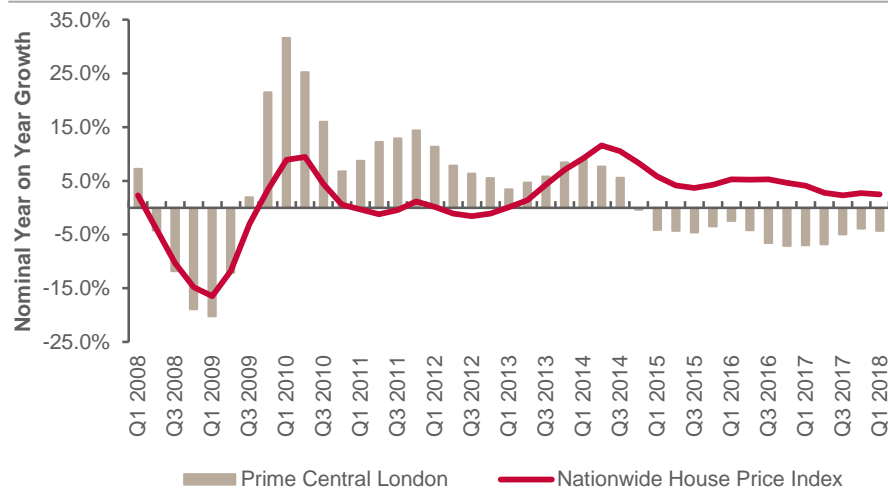


Real average weekly earnings (total pay) rose by 0.1% in the three months to February 2018, compared to the equivalent period in 2017.  
Source: ONS

## Property market pricing

According to the Nationwide House Price Index, UK property prices grew 2.5% in the year to Q1 2018. Y-o-Y growth over the same period shows that on a regional basis the best performers have been: Northern Ireland (7.9%), Wales (6.0%) and the West Midlands (4.8%). Despite historically having one of the strongest growth rates in the UK, London showed the weakest growth in the country for the quarter (-1.1%). Other regions below the national average were East Anglia (2.4%), Outer South-East (2.0%) and Scotland (0.2%). National house prices are now 16% above the 2007 peak with London prices 57% above the 2007 peak. The North (-4.0%), North West (-0.5%), Wales (-0.8%), Scotland (-4.7%) and Northern Ireland (-38.4%) all remain below their 2007 peaks.

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



Source: Nationwide House Price Index, Volterra

## Regional residential sales transactions

Table 1. Number of registered properties sold for Q1 2017 and Q1 2018

Region	All Property Q1 2017	All Property Q1 2018
East Midlands	6,559	6,693
East of England	8,780	8,441
Greater London	7,998	7,679
North East	3,130	3,066
North West	9,260	9,596
Scotland	20,090	18,894
South East	12,789	12,027
South West	8,665	8,325
Wales	3,916	3,917
West Midlands	6,939	7,067
Yorkshire and Humber	6,868	6,926

Source: Dataloft, Land Registry Q1 2017 data as at 7<sup>th</sup> April 2017 and Q1 2018 data as at 10<sup>th</sup> April 2018; Registers of Scotland Q1 2018 as at 1<sup>st</sup> May 2018.



UK property prices grew 2.5%  
Y-o-Y to Q1 2018  
Source: Nationwide HPI



National house prices are now  
16% above the 2007 peak  
Source: Nationwide HPI

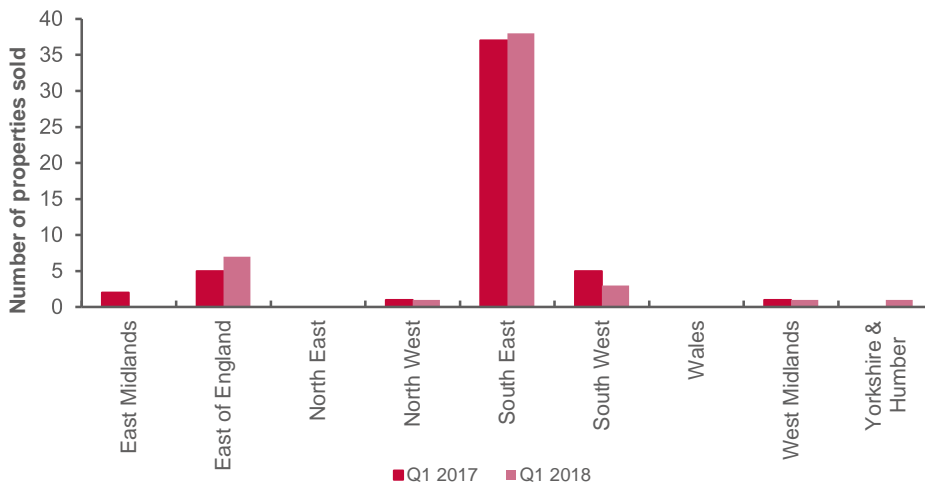
## Country house highlights

The largest number of sold property transactions over £2 million excluding Greater London were in the South East and East of England in 2016 and 2017. And so far it looks to be a similar pattern for 2018.

It is worth paying attention to the North West, Wales and Yorkshire & Humber which all have seen an increase in the number of transactions in 2017 compared to 2016. These regions still all remain below their 2007 peaks in terms of average pricing according to the Nationwide House Price Index.

Figure 2

Number of recorded properties sold over £2M in England & Wales excluding London in Q1 of 2017 and 2018



Source: Dataloft, Land Registry Q1 2017 data as at 7<sup>th</sup> April 2017 and 2018 data as at 10<sup>th</sup> February 2018

"After a muted start to 2018, with snow interrupting many people's decision to move, the market is showing signs of life. In a climate of fast property price growth and low stamp duty, the cost of moving previously seemed relatively inconsequential, but now, with higher stamp duty and lower house price growth, moving costs are extremely material in the whole event, and has had an impact. People have come to terms with Brexit, and sellers should be preparing to act on plans put back from last year. As we move into summer, we are hopeful that a lift in confidence will see an increase in supply to meet current buyer demand."

**Guy Robinson**

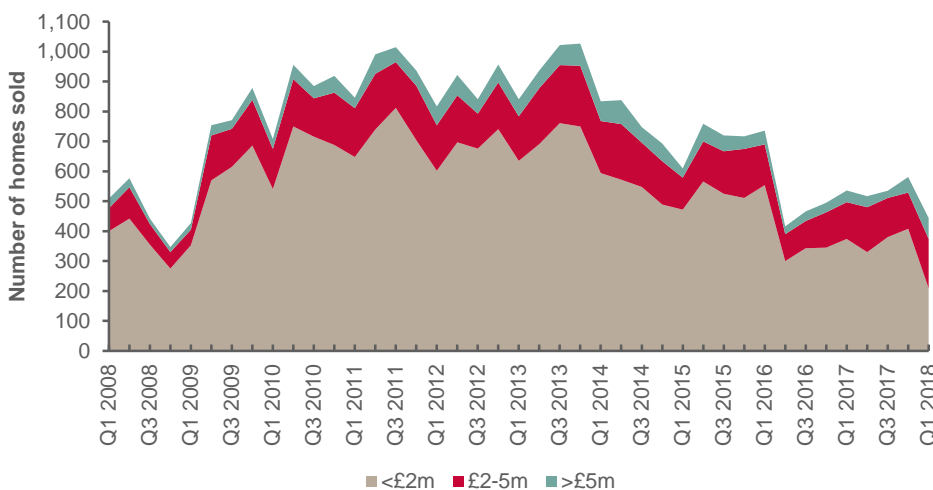
Head of Residential Agency

## Prime Central London residential sales market

Overall, transaction levels had been gradually increasing during 2017 however Q1 2018 saw an overall decline of 17.2% compared to Q1 2017. This large decline masked the fact that the £2m-£5m and £5m+ brackets experienced a 34.1% and 79.5% (respectively) Q-o-Q increase. Both brackets are also above the seven year average for number of transactions.

Figure 3

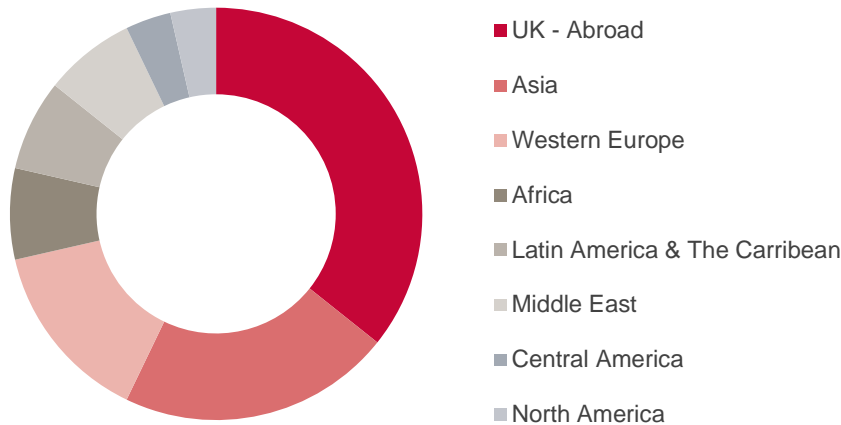
Historic number of sales in PCL



Source: Dataloft, Lonres.com, Strutt & Parker as at 10<sup>th</sup> April 2018

Even with the Stamp Duty Land Tax (SDLT) for second homebuyers along with a progressively harsher tax system for higher priced properties and the continued weakness in Sterling following Brexit, PCL continues to attract overseas purchasers. In particular there has been an increase of UK buyers who currently live abroad, although it should be noted this is at very low levels.

Figure 4  
Known PCL buyer nationalities for Q1 2018 (excluding UK domestic market)



Source: Strutt & Parker

“Whilst some buyers may have been driven to look at investments in other sectors and abroad over the last few years, the impact of stamp duty and taxation as a whole on PCL sales appears to have been absorbed by a reduction in asking prices. While fewer properties are transacting than before, there has been a recent increase in competitive and sealed bids; and early signs that transaction levels and buyer confidence are rising. Buyers realise there will be more competition in the market the closer we get to a resolution on Brexit, and that they should make the most of fixed lending levels now, with further interest rate increases likely.”

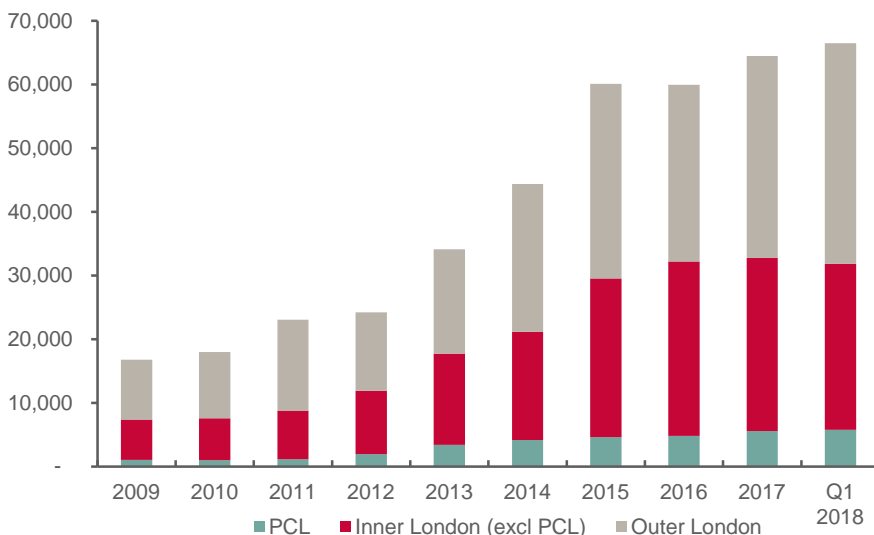
**Charlie Willis**

Head of London Residential Agency

**Greater London residential new homes**

In Q1 2018, across Greater London, 6,900 new homes were sold. This is the second highest recorded figure for a quarter since Q1 2015, according to Molior. Some of these sales were bulk purchases by corporate buyers, such as housing associations, but others are a result of build to rent (BTR) operators developing product directly or purchasing assets for BTR use. And the trend continues as nearly 20% of the 66,000 units that are currently under construction across Greater London are intended to be BTR product. Additionally, rational pricing and the Help to Buy initiative continue to be cited as drivers of success for schemes across Greater London.

Figure 5  
Number of units under construction in schemes of 20+ private units in Greater London

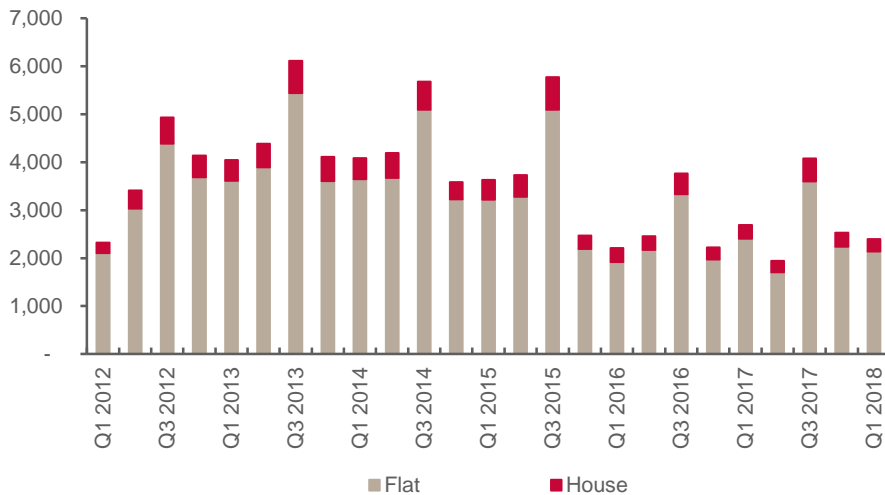


Source: Molior, Strutt & Parker as at 26<sup>th</sup> April 2018; PCL defined as Local Authorities of Hammersmith & Fulham, Kensington & Chelsea and Westminster; Inner London defined as Local Authorities of Camden, City of London, Hackney, Islington, Lambeth, Southwark, Tower Hamlets, Wandsworth; Outer London defined as remaining 22 Greater London boroughs

## Prime Central London lettings market

The take-up of new rental tenancies across PCL decreased by 11.0% in Q1 2018 compared to the same period last year and is down 20.1% on the five-year average for the first quarter.

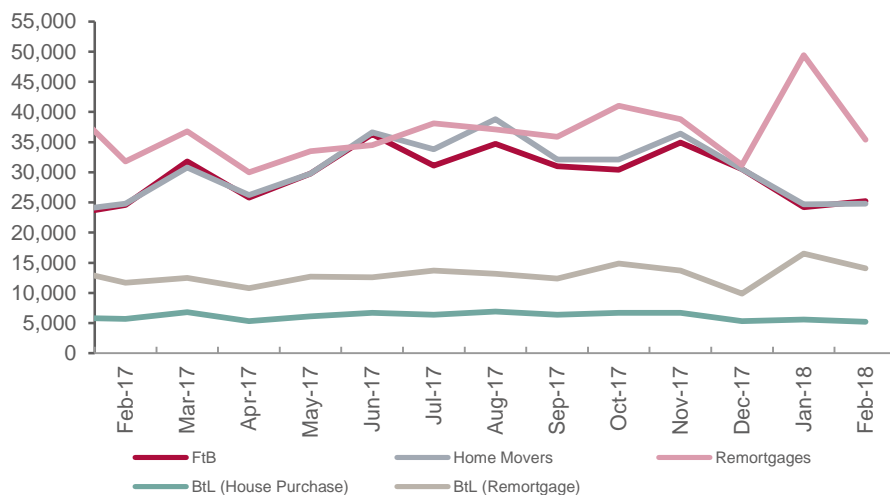
Figure 6  
New rental tenancies in PCL by house type



Source: Dataloft, Lonres.com, Strutt & Parker as at 11<sup>th</sup> April 2018

According to UK Finance, there were 5,200 new buy-to-let house purchase mortgages completed in February (most recent data released) showing a Y-o-Y decline of 8.8%. Additionally, there were 14,100 new buy-to-let remortgages completed in February, resulting in a Y-o-Y increase of 20.5%. 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 17<sup>th</sup> April 2018

“Although tenant demand has not fallen significantly, the supply of turn key lettings property has. Investors who turned to lettings 12 months ago are returning to the sales market, they have come to terms with more realistic pricing and are focused on a sale. The reason this is not driving pricing up is because this is only one segment of the market, the older, tired rental stock will continue to sit on the market with longer voids and potentially lower rents. The tenants that are out there in the market are more discerning than ever and want the best on offer.”

### Kate Eales

Head of Residential Lettings



UK Average Rent: £912pcm  
Source: HomeLet

**Outlook & forecast**

Now that there have been some initial agreements reached on Brexit, attention can move towards trade negotiations. The route Britain takes with these issues will have large implications on the nature of Brexit and the future strength of the UK economy. The fundamentals of the UK economy remain broadly positive, but sentiment remains very cautious.

Total transaction levels for England and Wales look to be relatively equivalent to this time last year. However, in PCL despite transactions picking up over the course of 2017, they are now below what they were last year and are very low by historic standards. With substantial economic and political uncertainty continuing, it doesn't look likely that this will change any time soon.

The forecasts for UK and PCL performance have not changed. In PCL the best-case scenario of the falls seen in Q1 being recouped during the rest of the year, thus finishing with 0% growth over the course of the year. The risk remains on the downside however, with the downside risk scenario of -5% growth for 2018. Realistic pricing and the continued attractiveness of Sterling will continue to be key factors affecting market activity levels in the higher price sectors. We expect this stagnation in prices to persist during 2018 with the possibility of further negative growth as globally and domestically the economy and political environments remain volatile. From 2019 onwards it is extremely difficult to forecast this market with any certainty but we would expect some bounce back once more stability has returned.

*“Whilst Brexit negotiations continue and political and economic conditions remain uncertain, we have held our residential house price forecasts for sales. We maintain that from 2019 onwards it is extremely difficult to forecast the housing market with any certainty, but we would expect some bounce back and a return to growth once more stability has returned to UK politics and the economy.”*

**Vanessa Hale**

Director, Research

Table 2. Residential price forecast Q1 2018

Sales	2018	2019	2020	2021	2022	5 Year to 2022
Prime Central London <i>Best case</i>	0.0%	4.0%	5.0%	6.0%	6.0%	23.0%
Prime Central London <i>Downside risk</i>	-5.0%	0.0%	1.0%	2.0%	2.0%	0.0%
UK	2.5%	2.5%	4.0%	4.0%	4.0%	18.0%

Lettings	2018	2019	2020	2021	2022	5 Year to 2022
Prime Central London	0.0%	1.5%	2.0%	2.5%	2.5%	8.5%

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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 2017 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.

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