Residential Quarterly | Autumn 2018

Research - Market View

Economic Outlook

Brexit continues to be a major source of uncertainty within British politics. However, looking beyond the government and concentrating on the economy, the National Institute for Economic and Social Research estimate that the UK GDP grew by 0.6% in Q3 2018. This is a higher growth than Q2 2018 (0.4%) and substantially higher than the Q1 2018 growth of 0.2%. These improved figures however are not sufficient to completely compensate for the slower performance at the start of the year, and forecasts for the growth expected over the whole of 2018 have been revised down slightly. The independent forecasts collected by Her Majesty's Treasury (HMT) range from 1.2% to 1.5%, with an average forecast of 1.3%, for total growth by the end of 2018. This outlook has been downgraded slightly from the previous quarter (when the average outlook was 1.4% for 2018). For 2019 the spread has remained largely unchanged, ranging from 0.8% to 2.0% with an average forecast of 1.5%.

The British Chamber of Commerce (BCC) have also downgraded their growth forecasts for the UK economy, from 1.3% to 1.1% for 2018. If this is realised 2018 will be the weakest year since 2009. They have also downgraded expected growth for 2019 from 1.4% to 1.3% although the 2020 forecast remains unchanged at 1.6%. A more conservative outlook for consumer spending, business investment and trade drives this change. The BCC acknowledges that real wages are now rising, but so far the increases have been so negligible and it will not translate into any growth in consumer spending. In addition productivity remains weak, which will also limit increases in real wages.

In Q2 2018, the ICAEW reported a business confidence score of +7, which was the first time it had been positive since the EU referendum and the first time all regions were positive. Unfortunately this was not the start of a trend as business confidence decreased to -2 for Q3 2018. Although not a huge decrease it highlights the uncertainty across business, mirroring the economic uncertainty. The cause for this reduction in confidence is down to a range of factors; inflation not declining as fast as expected whilst being accompanied by an interest rate rise (raising the base rate to 0.75%), declines in the rate of house price growth, various high street retailers closing down and Brexit negotiations not progressing as fast as expected.

The interest rate increase is only the second interest rate rise since the financial crisis and will have a knock on effect of increasing the cost of mortgages for some households, and increasing saving rates for others. Forecasters still expect interest rates to rise gradually over the next few years, with an expectation of reaching 2% by 2021.

In May 2018 the FTSE 100 matched its previous all-time high seen in December 2017, before falling slightly. Over the course of Q3 2018 it has continued this decline and is now at the lowest level of the past six months, although by historic rates remains strong.

2.4%

September 2018 inflation (CPI) was at 2.4% down from 2.7% in August 2018
Source: ONS

PMI Services down from 53.9 & PMI Manufacturing down from 53.6
Source: IHS Markit/CIPS (October)

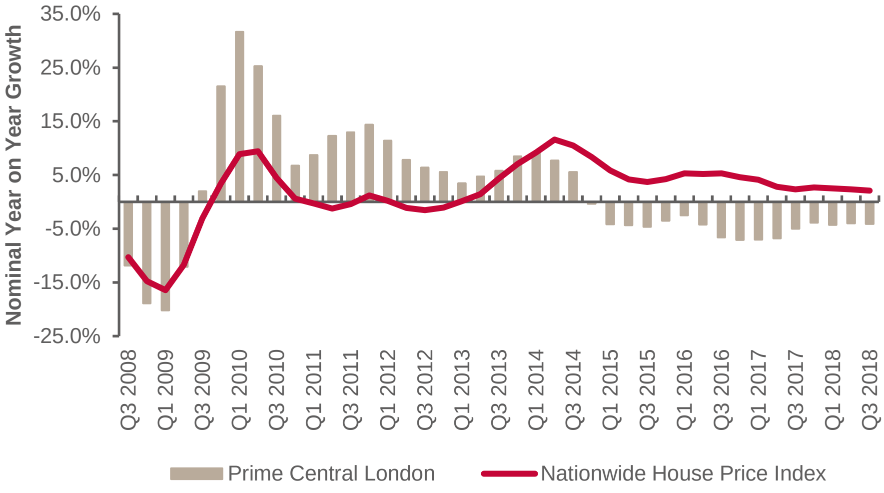
Real average weekly earnings (total pay) rose by 0.2% in the three months to July 2018, compared to the equivalent period in 2017.
Source: ONS

Property market pricing

According to the Nationwide House Price Index, UK property prices grew 2.1% in the year to Q3 2018. Y-o-Y growth over the same period shows that on a regional basis the best performers have been: Yorkshire and Humberside (5.9%) followed by the East Midlands (4.8%) and N. Ireland (4.3%). Despite historically having the strongest growth rates in the UK, London now continues to show weak growth. In Q3 2018, the North had the lowest growth (-1.7%) with London registering the second lowest growth (-0.6%). Nationally, house prices are now 16.7% above their pre-crisis peak and London prices are 53.9% above their pre-crisis peak. Four regions remain below their pre-crisis peaks: N. Ireland (-39.2%), Scotland (-2.5%), Wales (-1.2%) and the North (-6.7%).

Figure 1

UK house price growth vs Prime Central London (PCL)



Source: *Nationwide House Price Index, Volterra*

UK property prices grew 2.1% Y-o-Y to Q3 2018
Source: Nationwide HPI

Regional residential sales transactions

Table 1. Number of registered properties sold for Q1-Q3 2017 and Q1-Q3 2018

Region	All Property Q1-Q3 2017	All Property Q1-Q3 2018
East Midlands	44,595	45,195
East of England	57,881	55,716
Greater London	55,489	53,233
North East	22,436	23,232
North West	65,011	66,360
Scotland	75,481	72,384
South East	84,509	81,199
South West	57,273	55,824
Wales	26,499	26,759
West Midlands	47,678	48,254
Yorkshire and Humber	48,326	48,935

Source: *Dataloft, Land Registry 2017 data as at 13th October 2017, 2018 data as at 15th October 2018; Registers of Scotland 2017 and 2018 as at 7th October 2018. Please note Land Registry data has a six-month data lag unlike Registers of Scotland, which reports actual transaction figures at time of reporting.*

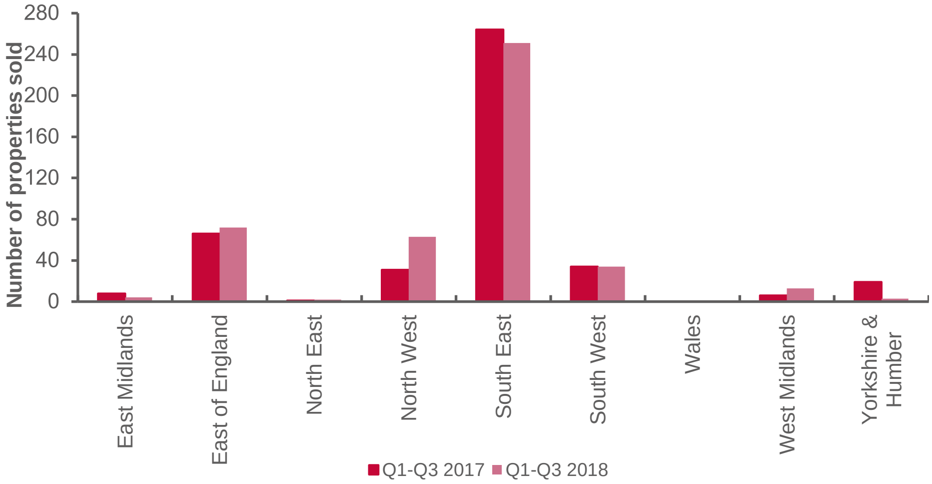
National house prices are now 16.7% above the 2007 peak
Source: Nationwide HPI

Country house highlights

The largest numbers of detached homes sold over £2 million excluding Greater London continued to be in the South East and East of England for 2018. The South West, North West, and West Midlands rounded up the top five regions for the largest number of transactions for homes sold over £2 million compared to 2017.

Figure 2

Number of recorded properties sold over £2M in England & Wales excluding London in Q1-Q3 of 2017 and Q1-Q3 2018



Source: *Dataloft, Land Registry 2017 data as at 13th October 2017 and 2018 data as at 15th October 2018*

"As we move through autumn, we have recorded a steady performance. Transaction levels across the country have been encouraging in comparison to last year and the number of registered buyers is gradually increasing, as are the viewing numbers, outstripping 2017. Homebuyers are no longer using the uncertain political climate as a reason to sit on their hands and those who need to make a move are serious about selling which is keeping the market in motion."

Guy Robinson

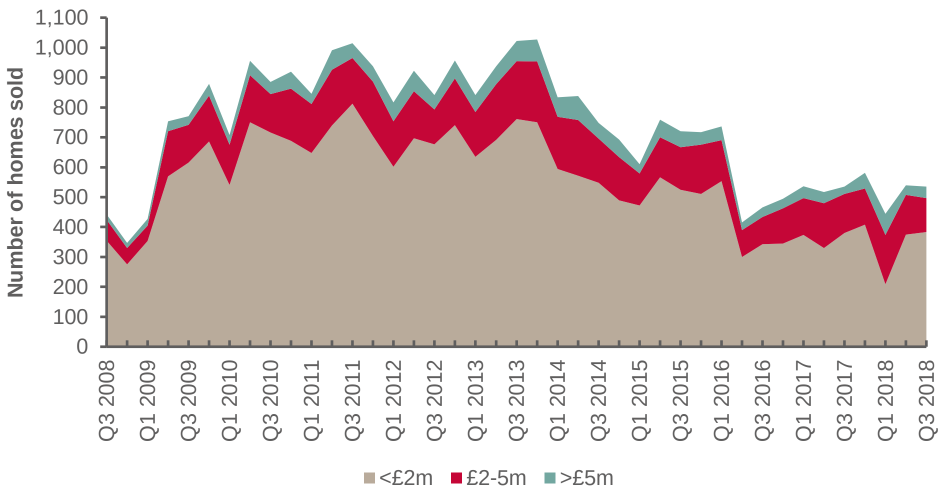
Head of Residential Agency

Prime Central London residential sales market

Overall, PCL transaction levels have seen a -1.8% decrease compared to Q3 2017. This overall decrease masks the fact that the sub £2million and the over £5million brackets experienced 0.8% and 11.8% (respectively) Q-o-Q increases in transaction volumes.

Figure 3

Historic number of homes sold in PCL

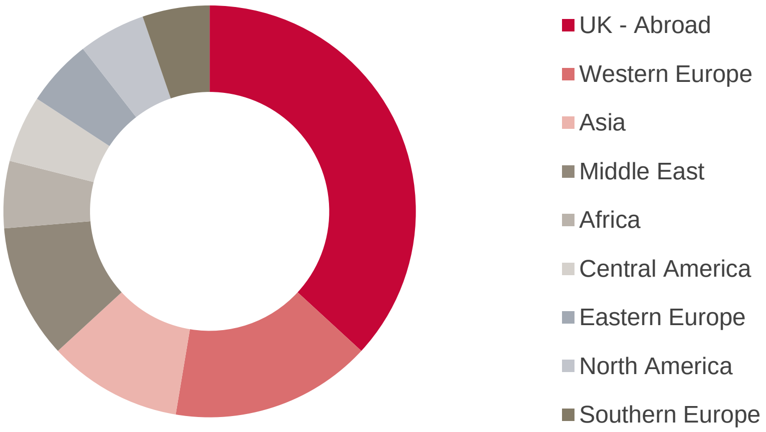


Source: *Dataloft, Lonres.com, Strutt & Parker as at 8th October 2018*

PCL continues to attract overseas purchasers albeit at a slightly lower level than historically. However, recently the government announced a consultation to apply a Stamp Duty Land Tax surcharge of 1% for foreign buyers. This may be considered a further barrier for foreign buyers, particularly those in the higher price bracket (£2m plus).

Figure 4

Known PCL buyer nationalities for Q3 2018 (excluding UK domestic market)



Source: *Strutt & Parker*

"The PCL market continued to tick over throughout the summer months and August was a particularly good month for us in terms of transactions. Keenly priced properties are generating the most interest as sophisticated buyers who understand the long term strength of the London market are still out there. Nevertheless, the growing number of hoops to jump through for compliance and the overall conveyancing processes are causing properties to take longer to exchange."

Charlie Willis

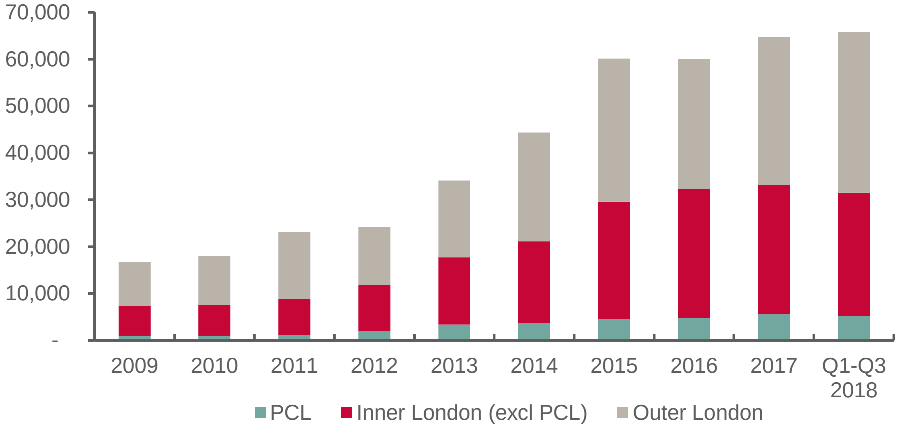
Head of London Residential Agency

Greater London residential new homes

So far in 2018, across Greater London, there are nearly 66,000 new units where construction has physically commenced to deliver homes is just 2% more than the end of 2017, according to Molior. Construction completions for Q1-Q3 2018 were 16,500 units which included nearly 3,000 build to rent (BTR) units for all of Greater London.

Figure 5

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

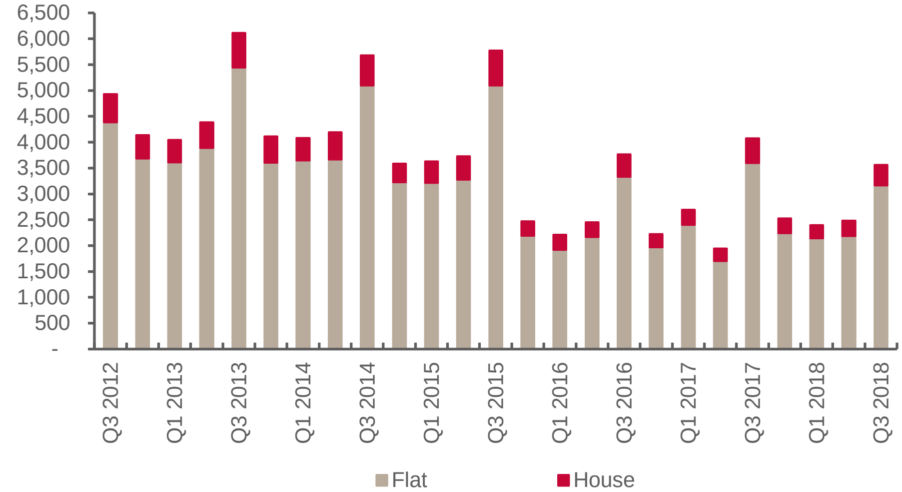


Source: *Molior, Strutt & Parker as at 1st November 2018; PCL defined as Local Authorities of Hammersmith & Fulham, Kensington & Chelsea and Westminster; Inner London defined as Local Authorities of Camden, City of London, Hackney, Islington, Lambeth, Southwark, Tower Hamlets, Wandsworth; Outer London defined as remaining 22 Greater London boroughs*

Prime Central London lettings market

The take-up of new rental tenancies across PCL decreased by 12.7% in Q3 2018 compared to the same period last year and is down 22.1% on the five-year average for the third quarter.

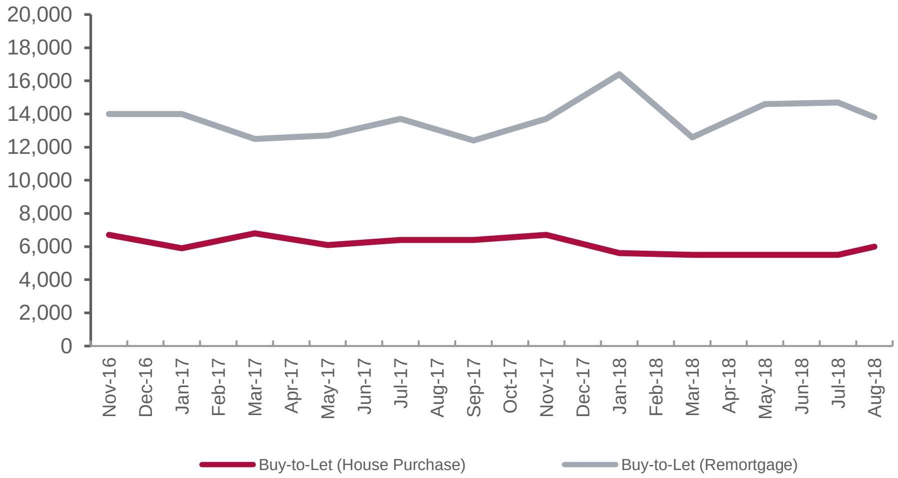
Figure 6
New rental tenancies in PCL by house type



Source: *Dataloft, Lonres.com, Strutt & Parker as at 15th October 2018*

According to UK Finance, there were 6,000 new buy-to-let house purchase mortgages completed in August 2018 (most recent data released) showing a Y-o-Y decline of 13.0%. Additionally, there were 13,800 new buy-to-let remortgages completed in August 2018, resulting in a Y-o-Y increase of 4.5%. 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 16th October 2018*

"We are seeing people renting out properties because they haven't been able to sell them, or moving into rental accommodation temporarily because they have found a buyer for their house and don't want to lose them. The PCL market is 18 months to two years ahead of the rest of the UK's rental market and properties that went to the lettings market have now gone back on the sales market which is moving again, with adjusted prices. Over the next few months, I think we will start to see rental prices go up slightly in central London for the first time in 24 months as stock levels tighten, alongside the impact of the tenant fee ban which will be introduced in April 2019."

Kate Eales

Head of Residential Lettings

UK Average Rent: £924pcm
Source: HomeLet

Outlook & forecast

Substantial economic and political uncertainty remains both nationally and globally and it does not look likely that this will change any time soon. The likely outcome of Brexit negotiations remains extremely unclear, with the potential for this uncertainty to continue longer than hoped. However, the fundamentals of the UK economy remain broadly positive, with sentiment remaining 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 continue to be low by historic standards.

The forecast for the UK has remained the same for 2018. Additionally, the forecast for PCL performance in 2018 has also remained the same – with a best case of 0% growth and a downside risk of -5%. However, as the year has gone on and the economic uncertainty has continued, it has become increasingly unlikely that the market will bounce back during 2018, meaning prices are likely to finish closer to our downside scenario.

We expect to see stagnant prices or further negative growth in the final stage of 2018 with the possibility of further price decreases continuing into 2019 as globally and domestically the economic and political environments remain volatile. For this reason we have revised down out 2019 outlook for PCL. However, beyond 2019 it is extremely difficult to forecast this market with any certainty and we would expect some bounce back once more stability has returned.

Table 2. Residential price forecast Q3 2018

Sales	2018	2019	2020	2021	2022	5 Year to 2022
Prime Central London ***Best case***	0.0%	2.0%	5.0%	6.0%	6.0%	20.0%
Prime Central London ***Downside risk***	-5.0%	-5.0%	1.0%	2.0%	2.0%	-5.0%
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%

"As the year has gone on and the economic uncertainty has continued, we expect to see stagnant prices or further negative growth in the final stage of 2018. There is the possibility of price decreases continuing into 2019 as both globally and domestically the economic and political environments remain volatile."

Vanessa Hale

Director, Research

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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 Q2 2017 in light of changes since Q2 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.