Residential Quarterly | Winter 2018/2019

Research - Market View

Economic Outlook

Brexit continues to be a major source of uncertainty within British politics. A deal is yet to be agreed. Theresa May lost the 'meaningful vote' on her Brexit plan and narrowly survived the subsequent no-confidence vote. She is calling for a cross party consensus but there remains very little agreement on Brexit both within her party and across parties. The result of this is that considerable political uncertainty remains and it is extremely difficult to predict when this will change. It is feeding through into a very cautious and unknown economic outlook from most commentators.

The National Institute for Economic and Social Research estimates that the UK economy grew by 0.3% over the course of Q4 2018, which was lower than the growth rate achieved in Q3 2018 (0.6%). This is consistent with the HM Treasury central forecast that over the course of 2018 the UK economy grew by c.1.3%. The forecast for growth during 2018 gradually dropped throughout the year, although not considerably, and finished broadly as expected. For 2019 the forecast has remained largely unchanged, ranging from 0.9% to 2.2% with an average forecast of 1.5%.

The Institute of Chartered Accountants in England and Wales measures business confidence on a scale of -100 to +100 (+100 being extremely confident, 0 being neutral, -100 being extremely negative). In Q3 2018 the UK scored -2. Q4 2018 has seen a reduction in confidence and the UK now scores -12.3. This is the lowest that business confidence has been in the UK since the financial crash.

From a regional perspective, in Q3 2018 many parts of the country such as the West Midlands, Scotland and the East of England reported positive business confidence. However, in Q4 2018 all regions across the UK have reported negative confidence. Wales is the most confident region with a score of -6. London has a business confidence of -9.1. Despite being negative this is above the UK average of -12.3. The ICAEW claim the decline in confidence seen in Q4 2018 set in immediately after the PM unveiled the draft Brexit agreement.

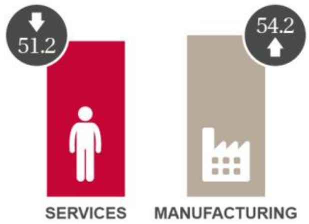
The latest figures from the ONS show that inflation (CPIH) in November 2018 was at 2.2%. This is unchanged from the previous month but lower than the inflation rate a year ago (2.8%). The cause for this drop off over the past 12 months has been a reduction in the cost of petrol and recreational goods and services.

The Bank of England have maintained the 0.75% interest rate, and are still planning to reach an interest rate of 2.0% by 2021. What happens to the economy in the coming months, particularly post 29th March, 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 has since had a slight uptick but remains low compared to the past year. Relative to the past five years it remains strong however. In the year 2015 the average value of the Pound to the Euro was 1.38, the equivalent figure over the course of 2018 was 1.13. This shows that the Pound has fallen by 18% relative to the Euro. As of the start of January 2019 the exchange rate is 1.11 and is the third lowest it has been over the past twelve months.

2.2%

November 2018 inflation (CPIH) was at 2.2% down from 2.4% in September 2018
Source: ONS



PMI Services down from 52.2 & PMI Manufacturing up from 51.1
Source: IHS Markit/CIPS (December)

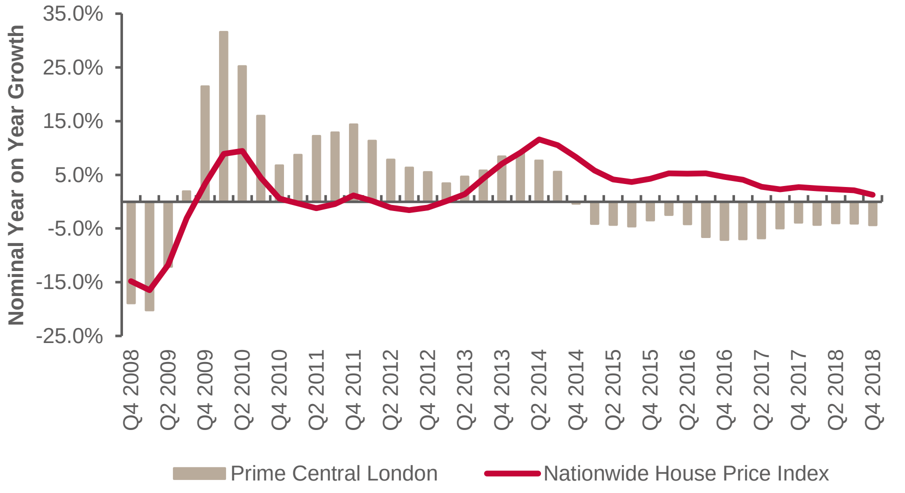
Real average weekly earnings (total pay) rose to £527 in November 2018, compared to £510 in November 2017.
Source: ONS

Property market pricing

According to the Nationwide House Price Index, UK property prices grew 1.3% over the course of 2018. YoY growth over the same period shows that on a regional basis the best performers have been Northern Ireland (5.8%) followed by the East Midlands (4.0%) and Wales (3.9%). As seen throughout 2018, London, which historically has always had the strongest growth across the UK, had one of the lowest growth rates (-0.9%). Nationally, house prices are now 16.5% above their pre-crisis peak and London prices are 53.7% above their pre-crisis peak, whilst in Q4 2018, Northern Ireland (-38.6%), the North (-6.0%) and Scotland (-2.9%), still remained 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 1.3% Y-o-Y to Q4 2018
Source: Nationwide HPI

Regional residential sales transactions

Table 1. Number of registered properties sold for Q1-Q4 2017 and Q1-Q4 2018

Region	All Property Q1-Q4 2017	All Property Q1-Q4 2018
East Midlands	67,903	69,113
East of England	86,888	85,460
Greater London	83,464	81,244
North East	33,877	35,152
North West	99,674	101,169
Scotland	103,367	101,040
South East	128,009	124,050
South West	87,468	85,766
Wales	40,422	40,901
West Midlands	72,952	74,389
Yorkshire and Humber	73,614	74,706

Source: *Dataloft, Land Registry 2017 data as at 9th January 2018, 2018 data as at 18th January 2019; Land Registry data has a data lag which is why we compare equivalent registered data for the same reporting period. Registers of Scotland 2017 and 2018 data as at 1st February 2019.*

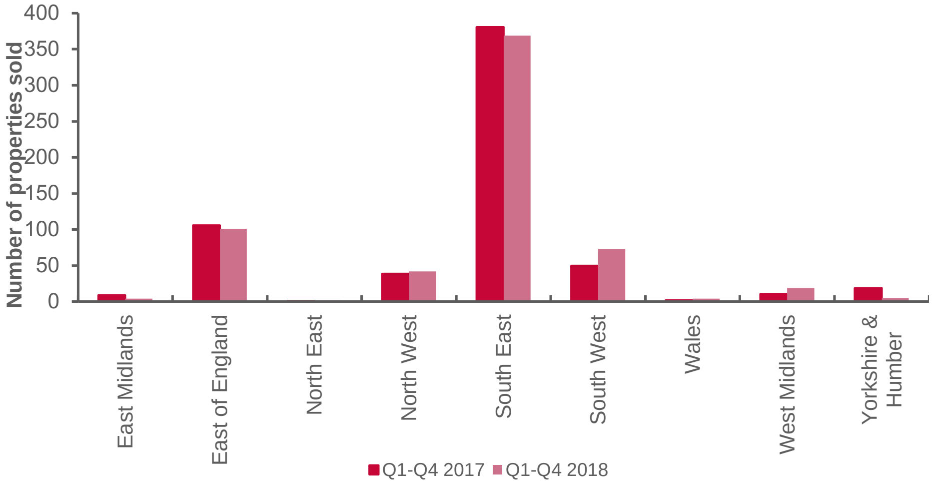
National house prices are now 16.5% above the 2007 peak
Source: Nationwide HPI

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 2018. With East of England, South West, North West and West Midlands rounding out the top five regions for the largest number of transactions for homes sold over £2 million.

Figure 2

Number of recorded properties sold over £2M in England & Wales excluding London in Q1-Q4 of 2017 and Q1-Q4 2018



Source: *Dataloft, Land Registry 2017 data as at 9th January 2018, 2018 data as at 18th January 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.*

"2018 saw a steady performance across the country in the face of the difficulties brought about by ongoing political turmoil. I'm pleased to say that early indication for 2019 is that we continue to buck the trend, with an increased volume of instructions and the number of registered buyers maintaining stability, despite both buyers and sellers displaying understandable caution in the current climate."

Guy Robinson

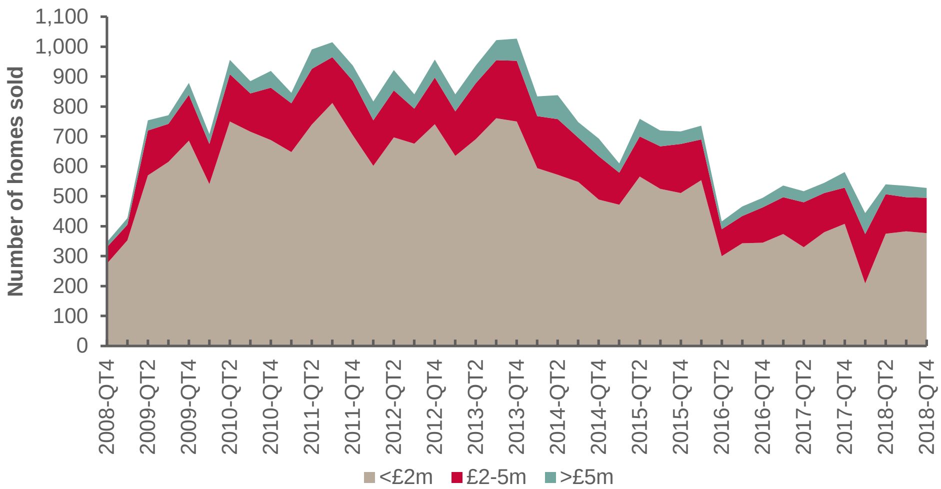
Head of Residential Agency

Prime Central London residential sales market

Total transaction levels in PCL continued to fall in Q4 2018, by c.9% YoY, which was a bigger YoY decrease than seen in Q3 2018 (-1.8%). PCL transaction volumes are now almost 50% lower than they were five years ago (2013). Whilst levels have fallen across all price brackets, the £2-5m bracket has held up slightly better than the sub £2m and over £5m. The sub £2m bracket still dominates transactions, but it has fallen from representing c. 80% of the market a decade ago to c. 70% now.

Figure 3

Historic number of homes sold in PCL

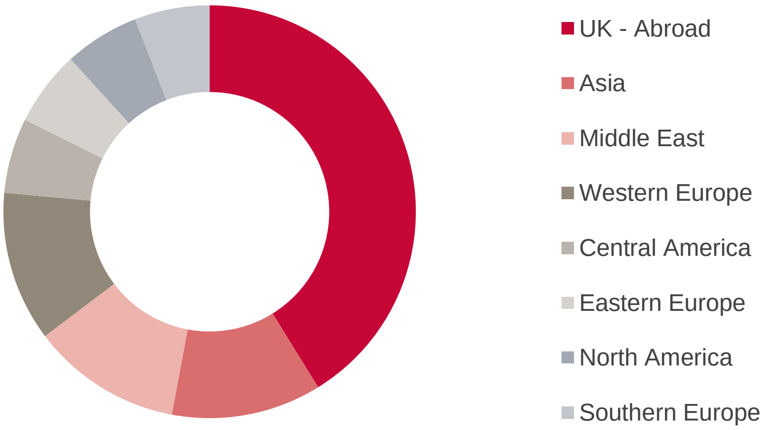


Source: *Dataloft, Lonres.com, Strutt & Parker as at 14th January 2019.*

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 Q4 2018 (excluding UK domestic market)



Source: *Strutt & Parker*

"Across our London offices, we ended 2018 with transaction levels up by just over a quarter year on year. There are some signs that sentiment may be improving. Savvy purchasers who have been trying to call the market are sensing that now could be the right time to secure a property in the capital at a sensible price."

Louis Harding

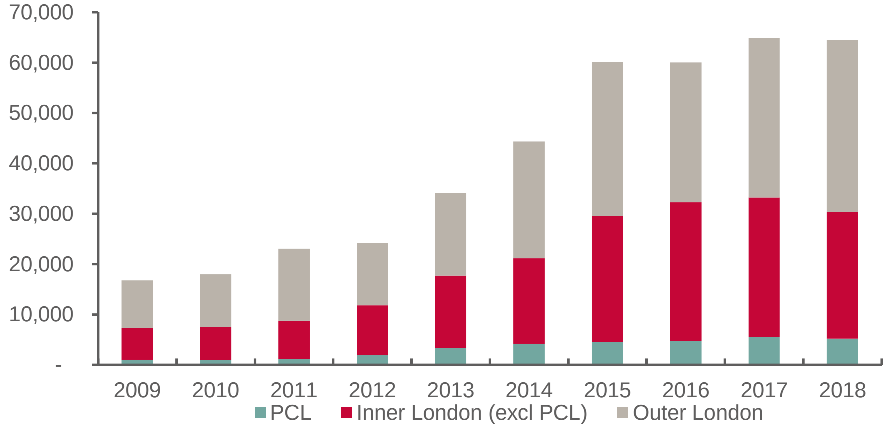
Head of London Residential Agency

Greater London residential new homes

Across Greater London, there are nearly 66,000 new units where construction has physically commenced in 2018 and 20% of these are Build to Rent (BTR) units, according to Molior. For private sale construction completions ended at 20,500 units for all of Greater London in 2018 with 4,830 BTR units delivered predominately delivered in outer London.

Figure 5

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



Source: *Molior, Strutt & Parker as at 23rd January 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*

"We had a buoyant end to the year with an uptick in transaction levels in November and December. The market continues to be incredibly price sensitive and the most activity is taking place at the lower end – with more mid-market properties priced up to £1,200 per sq ft selling well such as at Television Centre in White City and The Essex Brewery in Walthamstow. In contrast, the super prime market also continues to see transactions over the £10m mark. Everything in between is seeing less interest – it's a very polarised marketplace at the moment."

Mark Dorman

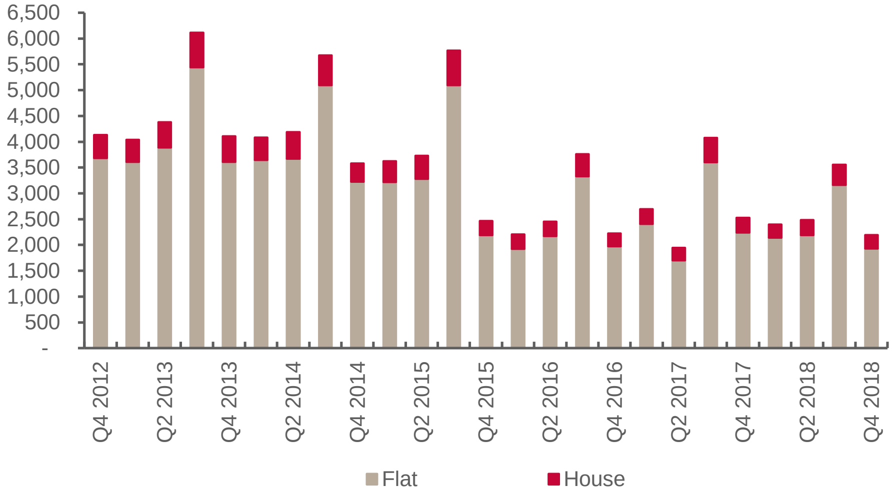
Head of London Residential Development & Investment

Prime Central London lettings market

The take-up of new rental tenancies across PCL decreased by 5.4% in 2018 compared to the same period last year and is down 13.2% when comparing Q4 2018 to Q4 2017.

Figure 6

New rental tenancies in PCL by house type

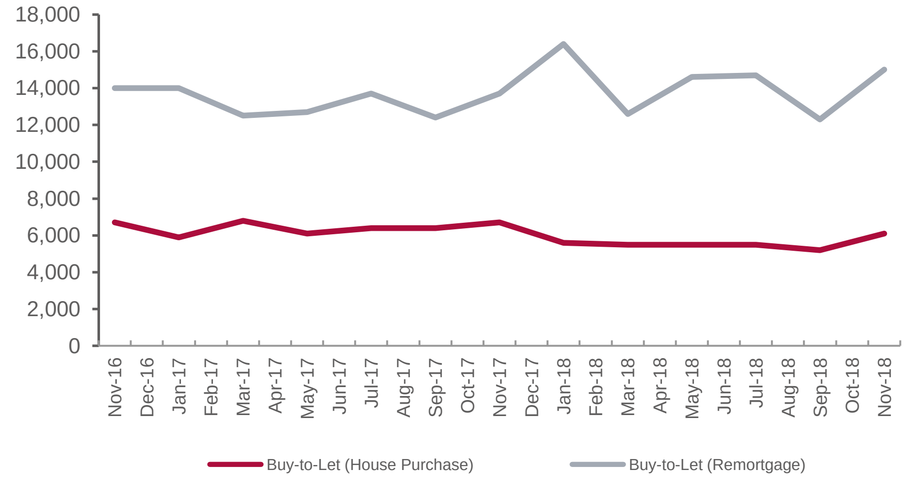


***Source:** Dataloft, Lonres.com, Strutt & Parker as at 14th January 2019.*

According to UK Finance, there were 6,100 new buy-to-let house purchase mortgages completed in November 2018 (most recent data released) showing a decline of 9.0% YoY. Additionally, there were 15,000 new buy-to-let remortgages completed in November 2018, resulting in a Y-o-Y increase of 9.5%. 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 17th January 2019*

"With fewer Buy-to-Let investors entering the market along and the possible repercussions of the tenant fee ban (which comes in on 1st June 2019) driving landlord costs up, there is a chance that rental prices in London might be driven up over the next year."

Kate Eales

Head of Residential Lettings

UK Average Rent: £921pcm
Source: HomeLet

Outlook & forecast

Substantial economic and political uncertainty remains both nationally and globally and it does not appear likely that this will change any time soon. The likely outcome of Brexit negotiations remains extremely uncertain and the route UK government takes will have huge implications for the UK and the rest of Europe. The fundamentals of the UK economy remain broadly positive, but sentiment remains 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 2018, they continue to be low by historic standards.

PCL prices in 2018 failed to stabilise. As a result, PCL performance finished closer to our downside risk scenario. For 2019, the best case forecast predicts a growth of 2% in PCL prices followed by 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 and a slower return to growth than anticipated depending on the progress made with Brexit.

Appropriate pricing and the continued attractiveness of Sterling will continue to be key factors affecting market activity levels in the higher price sectors. There is the possibility of further price decreases in 2019 as globally and domestically the economy and political environment remain volatile. 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.

Table 2. Residential price forecast Q4 2018

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	2018	2019	2020	2021	2022	5 Year to 2022
Prime Central London	1.5%	2.0%	2.5%	2.5%	2.5%	11%

"With the continuing economic and political uncertainty, we have elected to hold our PCL forecasts but acknowledge that there is the possibility of further price decreases in 2019 as globally and domestically the environment remains volatile. And suffice to say that realistically 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. "

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 Q4 2018 in light of changes since Q4 2017. 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.