Residential Quarterly | Summer 2019

Research - Market View

Economic Outlook

Brexit continues to be a major source of uncertainty within British politics. The EU and UK have agreed a further delay to the UK's withdrawal until 31st October 2019. Despite the extension to October 31st, the perceived likelihood of a no-deal Brexit has risen. Moreover, Theresa May resigned as Conservative Party Leader on 7th June 2019 and formally resigned as Prime Minister on 24th July 2019. May has been replaced by Boris Johnson, who won the Conservative leadership contest, announced on the 23rd July 2019.

The National Institute for Economic and Social Research estimates that the UK economy is on course to shrink by -0.2% during the second quarter of 2019, which is lower than the growth rate achieved in Q1 2019 (0.4%). HM Treasury is predicting that the UK economy will grow by 1.4% in 2019, with forecasts ranging from 1.2% to 1.9%. For 2020 the economy is also predicted to grow at 1.4%, with forecasts ranging from between 0.9% and 2.0%.

The British Chamber of Commerce has upgraded is growth forecasts for the UK in 2019 to 1.3% (from 1.2%). However, it has lowered the forecast for 2020 to 1.0% (from 1.3%) and to 1.2% (from 1.4%) in 2021. The BCC claims the continued Brexit impasse, including the growing possibility of a no-deal exit, together with the high upfront cost of doing business in the UK and the running down of excess stock, as key to the UK's economic outlook as it is expected to suffocate investment activity over the near term.

The ICAEW measures business confidence and in Q1 2019, the UK scored -16.4. This has fallen further to -16.6 this quarter, the lowest level for nearly a decade. ICAEW quote the absence of a resolution to Brexit, and the fractured politics that are linked to it, as well as global economic uncertainty, particularly relating to China, international trade, and the European slowdown, as key issues.

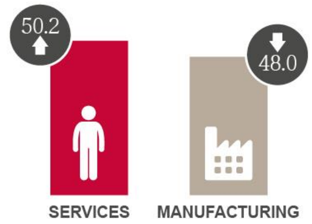
The latest figures from the ONS show that inflation (CPIH) as of June 2019 is 1.9%, remaining unchanged from May 2019. This is broadly in line with the 2.0% target. The inflation rate has fallen slightly from November 2018 (2.0%) and continues the steady fall since November 2017 (2.8%). Falling fares for transport services, particularly air fares influenced by the timing of Easter in April, and falling car prices produced the largest downward contributions since April. However, this downward pressure was partially offset by upward contributions but these were offset by downward contributions in games, toys and hobbies, furniture and furnishings, and accommodation services.

The BoE has maintained the 0.75% interest rate. Dependent on the ease of the Brexit withdrawal, the MPC judges that a tightening of monetary policy would be appropriate to return inflation sustainably to the 2.0% (CPI) target. What happens to the economy in the coming months, may have an influence on whether this target needs to be revised.

As at 1 July 2019, the FTSE 100 stood at the second highest point in the last 6 months. It increased by 2.5% in Q2 2019. Although growth in Q2 2019 is less than the growth experienced in Q1 2019 (7%), this is more a reflection of the stability of the FTSE 100 at this time than a slowdown in the market.

1.9%

June 2019 inflation (CPIH) was at 1.9%, unchanged from May 2019
Source: ONS



PMI Services up from 48.9 & PMI Manufacturing down from 55.1
Source: IHS Markit/CIPS (June)

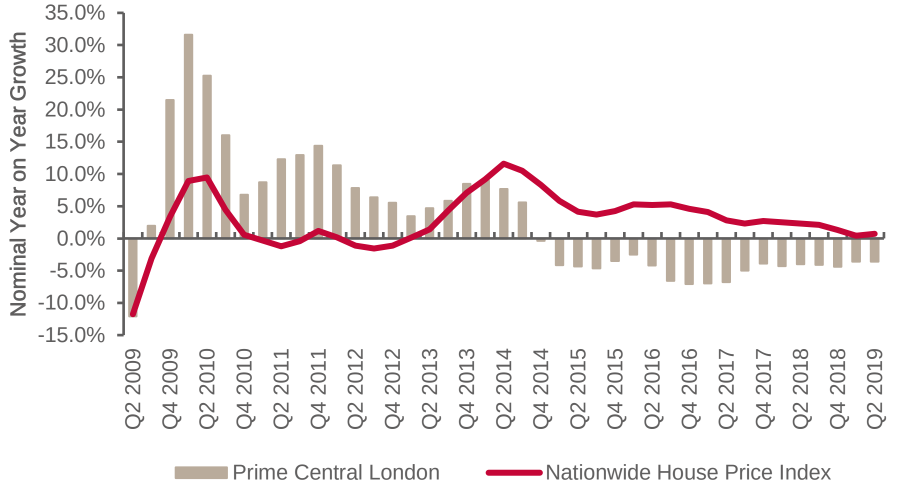
Real average weekly earnings (total pay) rose to £498 in May 2019, compared to £489 in May 2018.
Source: ONS

Property market pricing

UK property prices grew by 0.7% in the year to Q2 2019, which included QoQ growth in Q2 2019 of 0.3%, 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 (5.3%) followed by Wales (4.3%) and Yorkshire & Humberside (3.1%). London, which historically has always had the strongest growth across the UK, had one of the lowest growth rates (-0.6%).

Nationally, house prices are now 16.6% above their pre-crisis peak whilst London prices are 53.5% above their pre-crisis peak. Northern Ireland (-37.4%), North (-3.9%) and Scotland (-2.5%) 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 0.7% YoY to Q2 2019
Source: Nationwide HPI

Regional residential sales transactions

Table 1. Number of registered properties sold for H1 2018 and H1 2019

Region	All Property H1 2018	All Property H1 2019
East Midlands	23,464	24,097
East of England	29,483	29,499
Greater London	27,818	27,297
North East	11,819	13,010
North West	34,488	36,829
Scotland	43,663	45,297
South East	41,919	41,421
South West	28,960	29,058
Wales	14,111	14,418
West Midlands	25,493	26,603
Yorkshire and Humber	25,528	27,359

***Source:** Dataloft, Land Registry Q1 2018 data as at 16th July 2018, Q2 2019 data as at 10th July 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 August 2019.*

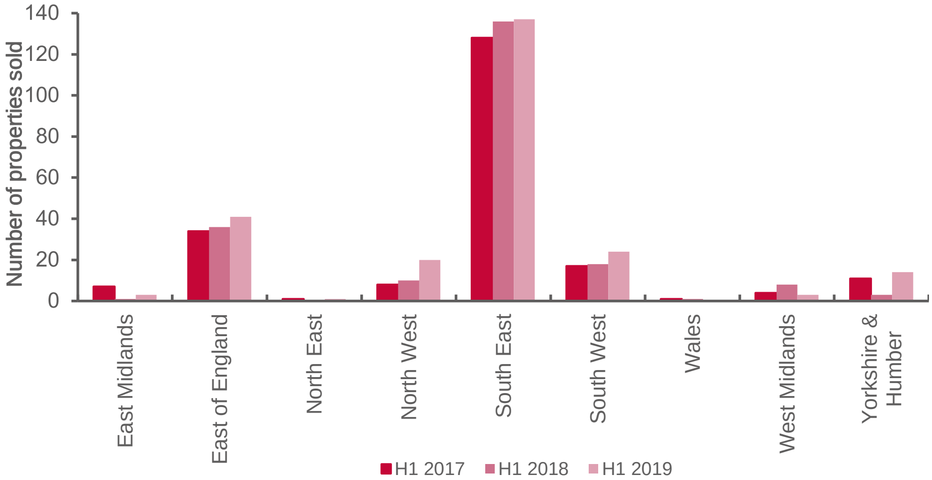
National house prices are now 16.6% above the 2007 peak
Source: Nationwide HPI

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 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 H1 2017, H1 2018 and H1 2019



Source: *Dataloft, Land Registry 2017 data as at 11th July 2017, 2018 data as at 16th July 2018, Q2 2019 data as at 10th July 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.*

"Whilst the market remains cautious, house prices on a national level are sitting more than 15% higher than their pre-crisis peak. However, stock remains stubbornly low and remains a key reason for a subdued market. We cannot predict what will happen after October 31st but for now, we are experiencing an increase in buyer interest and activity is relatively stable."

Guy Robinson

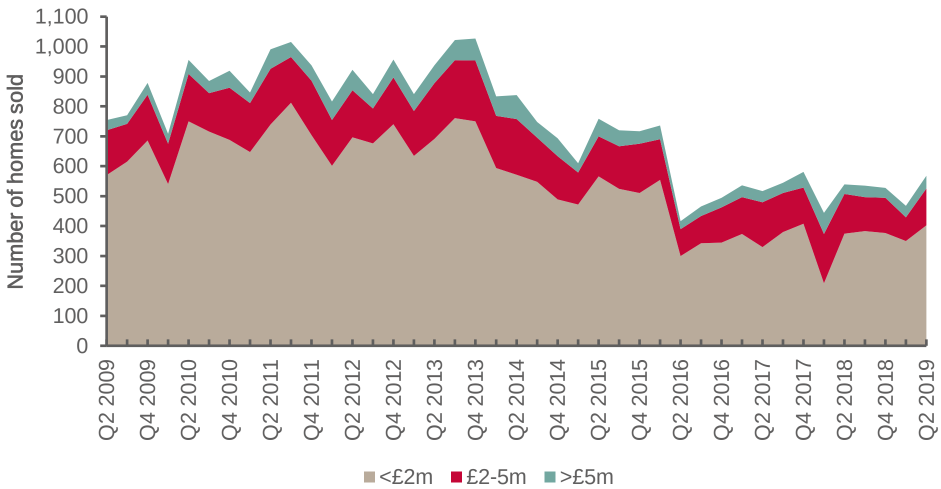
Head of Residential Agency

Prime Central London residential sales market

Prime Central London (PCL) prices have continued to fall and are now c. 20% down from their 2014 peak. Transactions levels across all price brackets also remain very low by historic standards (approximately down 45% on 2013 volumes) and have been volatile. However, total transactions for PCL grew by 5.3% in H1 2019 compared to H1 2018. This growth was largely driven by the sub £2m bracket, where transactions grew by 28.9%.

Figure 3

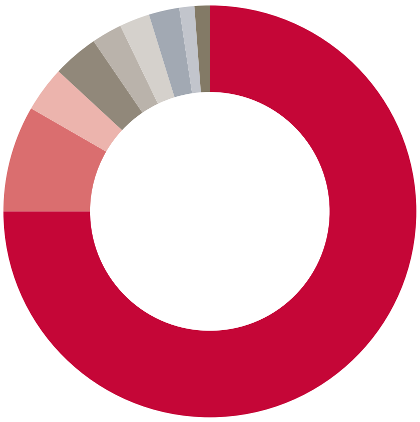
Historic number of homes sold in PCL



Source: *Dataloft, Lonres.com, Strutt & Parker as at 10th July 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 Q2 2019



Source: *Strutt & Parker*

"Despite continued political uncertainty, we are cautiously optimistic about the market in PCL. Price expectations amongst both sellers and buyers has narrowed, and we expect our 2019 transactions numbers to be comfortably up on the previous year."

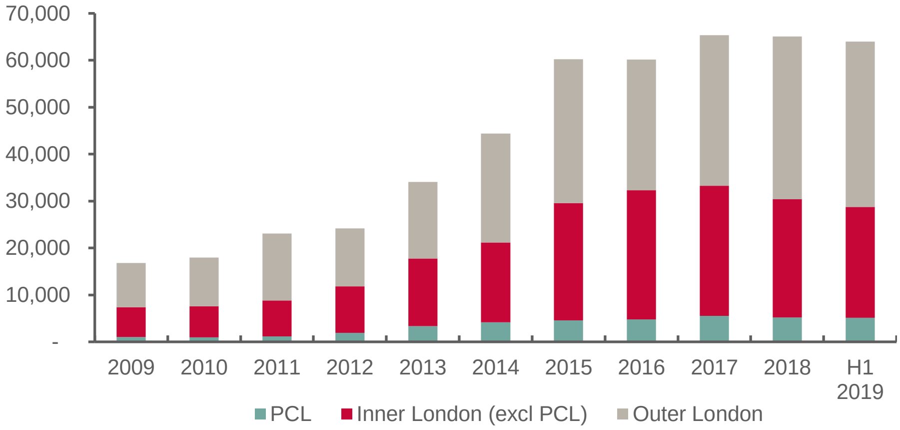
Louis Harding

Head of London Residential Agency

Greater London residential new homes

Across Greater London, there are nearly 64,000 new build units under construction, with 7,650 new build for sale units sold during H1 2019, according to Molior. Excluding build to rent (BTR) sales, Help to Buy continues to keep the sales market buoyant.

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



Source: *Molior, Strutt & Parker as at 2nd August 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 1,600 new BTR units where construction has started in Q2 2019, according to Molior. This brings the total units under construction for BTR in Greater London to nearly 13,500 units for H1 2019 with nearly three-quarters of stock being in outer London.

"As the data suggests, the market perception of value in PCL can be 20% below previous peak values. Only when vendor expectations and market perceptions are aligned are we seeing an increase in transactions. Overall, there has been a marked increase in activity and offers received over the last quarter, particularly in properties that sit above £5million."

Mark Dorman

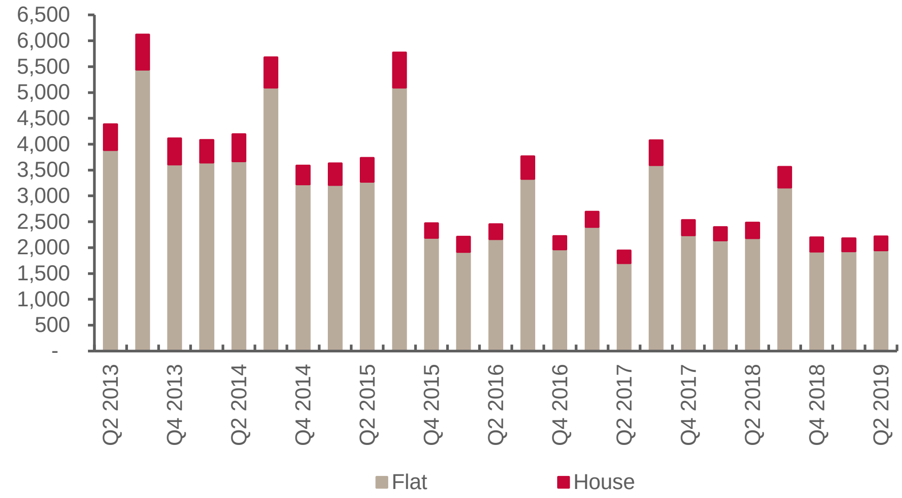
Head of London Residential Development & Investment

Prime Central London lettings market

The take-up of new rental tenancies across PCL decreased overall by 10.8% in Q2 2019 compared to the same period last year. The sub £500 per week price bracket continued to see the lowest number of new rental transactions in H1 2019.

Figure 6

New rental tenancies in PCL by house type

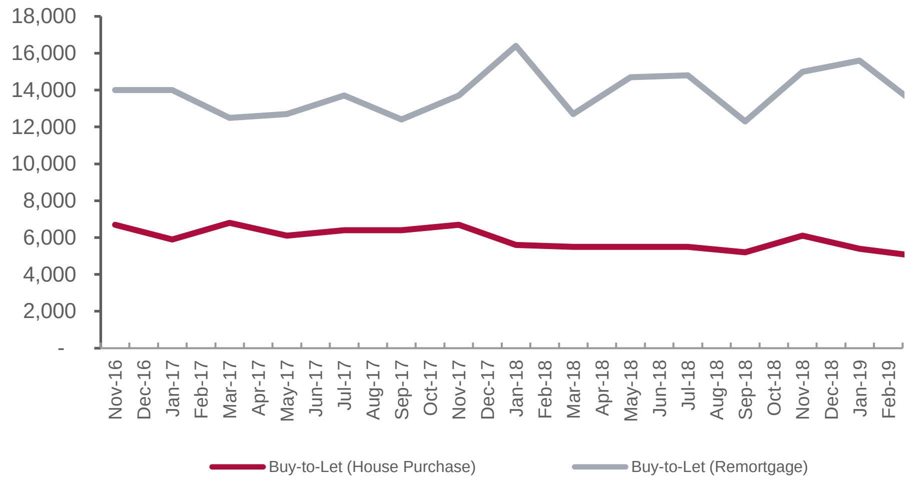


Source: *Dataloft, Lonres.com, Strutt & Parker as at 10th July 2019.*

According to UK Finance, there were 5,500 new buy-to-let house purchase mortgages completed in May 2019 (most recent data released), the same amount seen in May 2018. Additionally, there were 15,000 new buy-to-let remortgages completed in May 2019, resulting in a Y-o-Y increase of 2.0%. Overall, the buy-to-let market looks to be relatively stable.

Figure 7

Number of New Residential Loans (monthly)

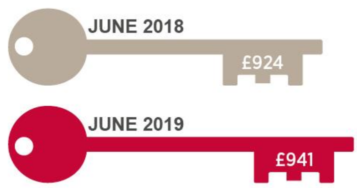


Source: *UK Finance – Mortgage Trends Update 16th July 2019*

"As stock levels in PCL Lettings continue to decline we are seeing some competitive bids for turn key properties in key locations. More generally, where demand remains high but stock is scarcer, we may see rental prices move upwards."

Kate Eales

Head of Residential Lettings



UK Average Rent: £941pcm
Source: HomeLet

Outlook & forecast

Substantial economic and political uncertainty remains both nationally and globally and it does not look likely to change any time soon. The fundamentals of the UK economy remain broadly positive. However, sentiment remains cautious as indecision remains within many markets. Nonetheless, 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 relatively positive for H1 2019, therefore our forecasts have remained the same for the UK.

However in PCL, transactions levels continue to be low by historic standards and prices have continued to fall in Q2 2019, albeit at a slower rate than in 2018. Therefore, forecasts for 2019 PCL 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 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 the global and domestic economy and political environment remain volatile. Beyond 2019 it is extremely difficult to forecast this market with any certainty.

"Transaction levels indicate that the markets are relatively stable during this time of economic and political uncertainty, however we know that pricing has become more fickle especially in PCL."

Vanessa Hale

Director, Research

Table 2. Residential price forecast Q2 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%	11.0%

Contact us

Guy Robinson

Head of Residential Agency
guy.robinson@struttandparker.com

Louis Harding

Head of London Agency
louis.harding@struttandparker.com

Kate Eales

Head of Lettings
kate.eales@struttandparker.com

Mark Dorman

Head of London Residential Development & Investment
mark.dorman@struttandparker.com

Vanessa Hale

Director, Research
research@struttandparker.com

Methodology

As the housing market is seasonal, for the purposes of this report; data is compared year on year, i.e. looking at Q2 2019 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.