MARKET INSIGHT

RETURN OF COMMUTERVILLE

SPRING 2023 ::: HOLIDAY LETS ::: CASH LANDLORDS

Hamptons

THE HOME EXPERTS

Aneisha Beveridge
Head of Research
beveridgea@hamptons.co.uk

Alison Blease
Head of Research PR
bleasea@hamptons.co.uk

David Fell
Senior Analyst
felld@hamptons.co.uk

Isaac Odegbami
Analyst
odegbamii@hamptons.co.uk

FOCUS
RETURN OF COMMUTERVILLE

Commuterville seems set to be one of the words of the year in the property market since relocation here became one of the top trends of 2023, as our research reveals.

The Commuterville definition covers small-to-medium-sized towns surrounding cities, with a mix of character, convenience and green spaces. They are ideal for the new post-pandemic pattern of working life, being served by faster commuter trains, or situated about 30-45 minutes drive from a city centre.

Commuterville hotspots include Saffron Walden, the medieval market town 15 miles south of Cambridge and Witney, a similarly historical town 12 miles west of Oxford. Clacton-on-Sea in Essex is 33 minutes from Colchester.

While 2021 and 2022 were characterised by mass outmigration to the countryside, data for the early part of 2023 suggests that this trend is unwinding. This year, more country bumpkins traded in the rural countryside for the suburbs, rather than moving all the way back to a city.

So far this year 39% of those moving from the deepest countryside headed for Commuterville, up from 28% in the first quarter of 2022. The partial return to the office meant that Commuterville fits the bill far better for city workers than some of the far-flung rural hideaways that were popular among people seeking more living and green space at the height of the pandemic.

COMMUTERVILLE RISERS *(Q4 2022 V Q4 2021)*

District	Area	Near	Average Price	Annual growth
CB11	Saffron Waldon	Cambridge	£460,590	19.9%
YO24	Foxwood	York	£346,770	19.7%
EX14	Honiton	Exeter	£298,180	19.5%
BN43	Shoreham-by-sea	Brighton	£496,200	18.9%
PO8	Horndean	Portsmouth	£401,580	18.2%
RH19	East Grinsted	London	£494,490	18.0%
CO15	Clackton	Colchester	£276,300	17.4%
OX28	Witney	Oxford	£373,170	17.2%
SO50	Eastleigh	Southampton	£338,240	16.9%
CV22	Rugby	Coventry	£321,980	16.6%

Source: Land Registry & Hamptons

However, they aren't the only ones. It appears movers from other small towns as well as bigger cities are also heading to more suburban zones. With prices in some of the smallest towns having seen some of the strongest price growth over the last few years, 10% more movers are heading back to commuterville, with a further 7% moving in the opposite direction to pastures green.

Commuterville often provides a more affordable option than the suburbs for those seeking a larger property with a garden. While the typical property value in Saffron Walden is £460,950, the average price in Clacton-on-Sea is £276,300.

Price growth is likely to slow this year in all regions, but the slowdown in Commuterville seems set to be more limited than elsewhere. With average prices in these locations up 5% so far this year, this means that Commuterville ranks as the fastest growing group in terms of price growth in 2023, overtaking the countryside which has dominated for the last four years.

Some Commuterville places were already sought-after. Others are on an upwardly-mobile journey. But, whatever their status, such is their desirability that prices have appreciated handsomely, with the top 10 locations having seen rises of 16-19% in 2022, as our table highlights.

Their ascent can be attributed largely to the altered working life of many employees. In many cases, they are required to be in the office for just two or three days a week. This means that they need a property that has sufficient space for home working, situated in a location that is an easy-enough commute to their workplace.

The Commuterville phenomenon should be seen against the background of wider property market trends since the global financial crisis of 2008-2009. Prices in cities rose furthest and fastest between 2009 and 2014. Property values in London and other cities in the South of England recovered quickest, causing growth to ripple out to other regions. Commuterville locations were the top performers between 2015-17 before smaller towns and villages then took the lead in 2018. Rural locations leapt to the front in 2019-22, propelled by the pandemic, although prices in these places had already begun to pick up before lockdowns were imposed. In 2023, it seems like more buyers will be viewing Commuterville as the perfect compromise in a challenged market.

Areas recording the strongest price growth

2009	City
2010	City
2011	City
2012	City
2013	City
2014	City
2015	Commuterville
2016	Commuterville
2017	Commuterville
2018	Smaller towns and villages
2019	Countryside
2020	Countryside
2021	Countryside
2022	Countryside
2023 (YTD)	Commuterville

Source: Land Registry & Hamptons

"COMMUTERVILLE RANKS AS THE FASTEST GROWING GROUP IN TERMS OF PRICE GROWTH IN 2023"

MARKET METRICS
SECOND HOMES & HOLIDAY LETS

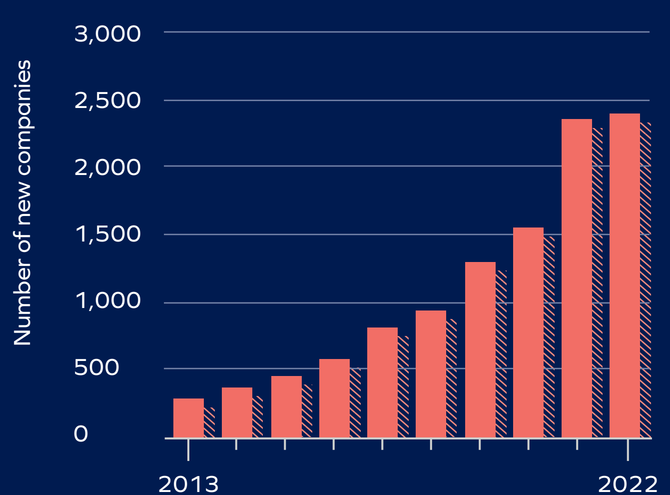
While second home buyers have been making up a progressively smaller proportion of the market, accounting for only 1.3% of sales in the first quarter of this year, those setting up holiday let limited companies have been increasing in number. This suggests that some long-term landlords have switched to the holiday let market to seek bigger profits. However, this has put pressure on the availability of homes for locals in some pockets of the country and is why the government is looking to introduce rules forcing new second homeowners to seek planning permission to let their property on a short-term basis.

Holiday homes - seven key facts on governments new proposals.

1. There were 2,426 LTD companies holding Holiday Lets set up in 2022. A 310% increase on 2016
2. The tax crackdown on buy-to-let has driven landlords into the holiday let market, causing a boom in short-term lets and putting pressure on prices for local residents.
3. Government proposals require new second homeowners in England to seek planning permission for short-term letting, with councils removing some permitted development rights.
4. A mandatory registration scheme and planning use class for short-let properties are under consultation, with grace periods of 30, 60, or 90 nights being considered.
5. These restrictions are only likely to be bought in for a small number of local authorities given that second home purchases are quite concentrated. Half of all second homes bought in the last five years were in just 13 local authorities.
6. Proposals are unlikely to impact property prices across the board. However, in areas with restrictions, lower demand may reduce pressure. That said, a premium may grow for homes with short-let permission.
7. While proposals may halt the growth of holiday lets in some areas, more radical action, such as equalising tax rates, may be required to address affordability and long-term rental issues.

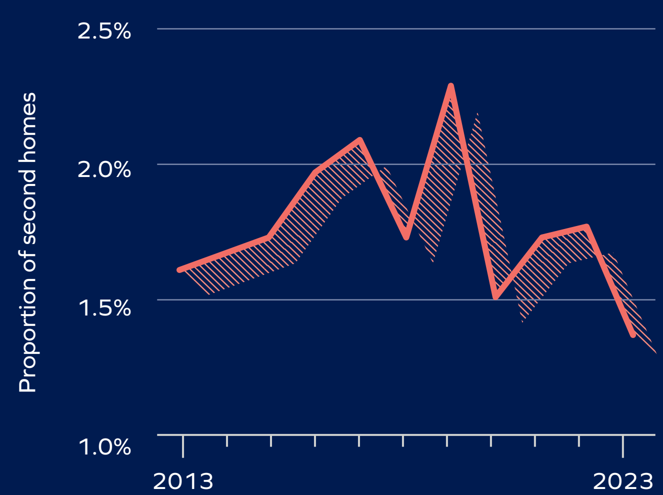
New holiday let LTD companies set up each year

Source: Hamptons & Companies House



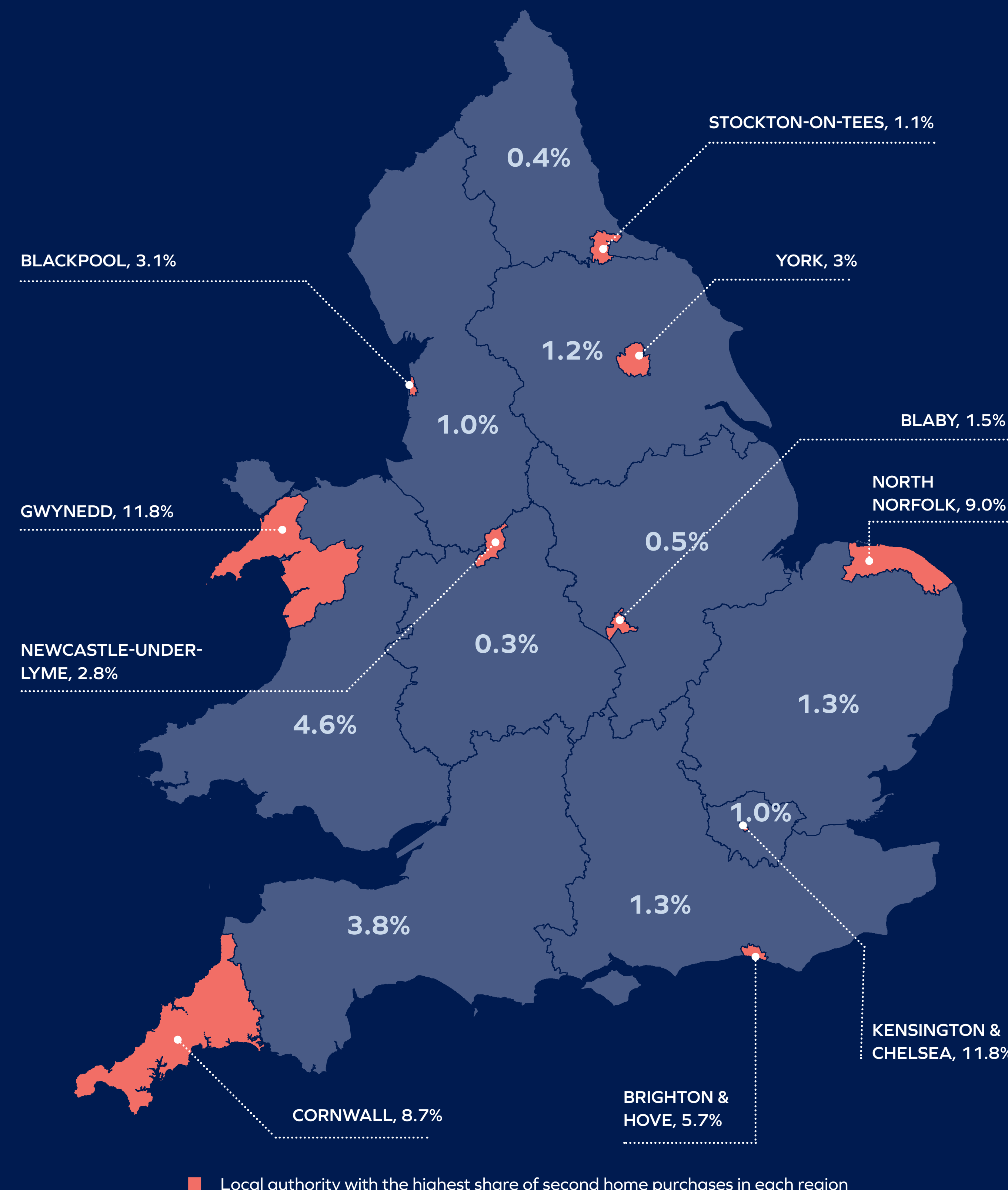
Second homes as a proportion of all sales in Q1 of each year

Source: Hamptons



PROPORTION OF SECOND HOME BUYERS

Source: Hamptons



LETTINGS
SOUTHERN INVESTORS SWITCH TO CASH

The rise of the cash landlord is set to be one of the key characteristics of the rental market in 2023. To date, as many as 59% of buy-to-let purchases have been funded by cash. This compares with 53% in 2022 - and represents the highest proportion of such deals since 2017.

Significantly, despite higher interest rates and a tougher tax regime, landlord purchases still account for 11.9% of all transactions, lower than in 2022, but not by much.

> *"For the first time, there are more homes bought in cash by landlords in the South of England than the North"*

Previously, buy-to-let purchases in cash were more common in the North of England where property prices are lower. But, for the first time since our records began, landlords who rely on cash rather than finance to add to their portfolios, have become more numerous in the South of England than in the North.

This is a direct consequence of the hike in the cost of borrowing. In 2021 and for much of 2022, landlords were able to take advantage of sub-2% mortgage rates. Today such competitive offers are no longer available and lenders' stress tests have also become stricter.

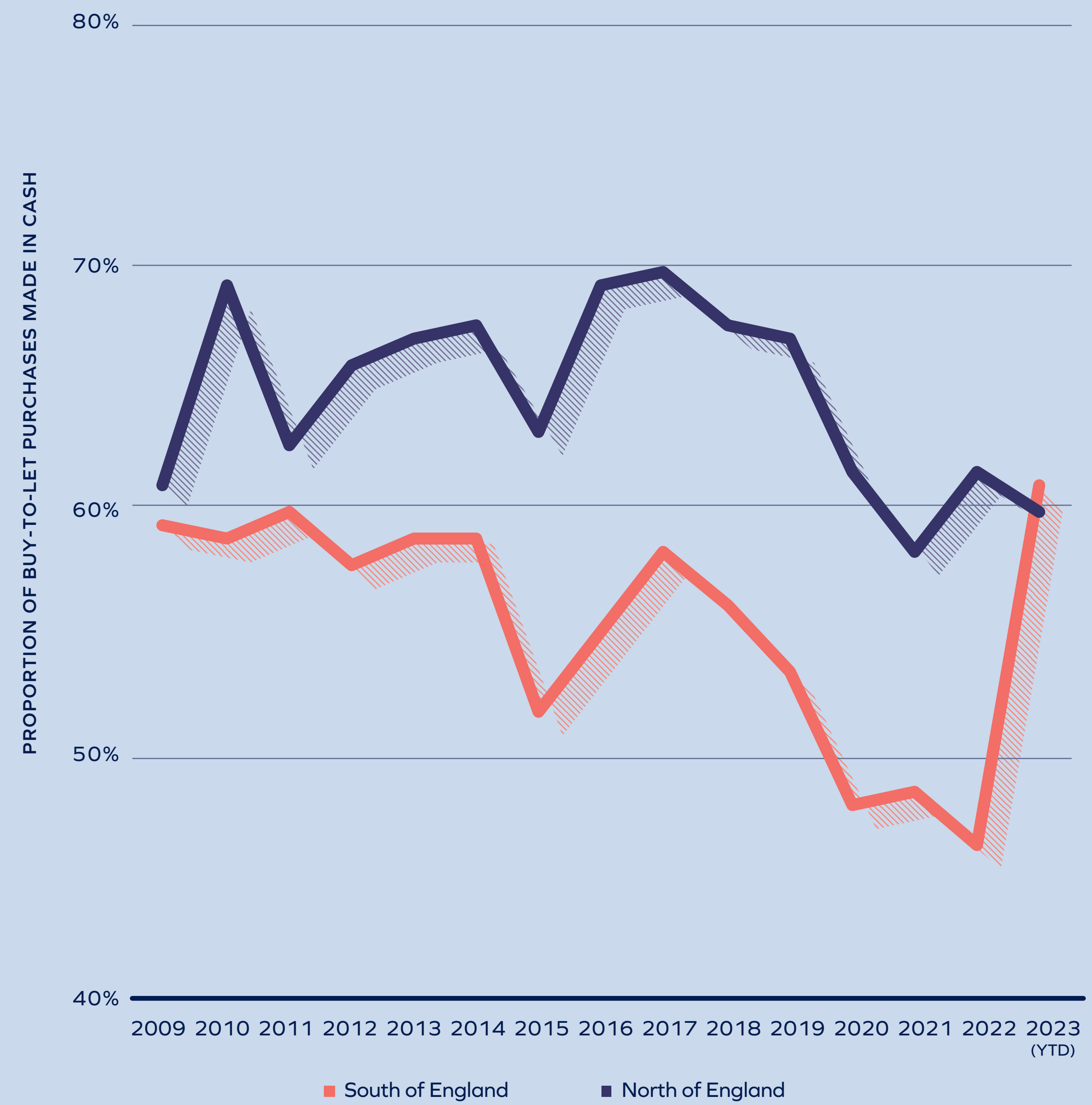
As a result, some landlords are struggling to make the sums work; this is especially so in the South where rental yields are lower. A landlord investing in the South this year is achieving an average gross rental yield of 5.4% which is lower than the cost of some mortgage rates. The comparable average yield in the North is 7.5%

A record 61% of buy-to-let investor purchases made in the South (London, the South East, the South West and East of England) have been in cash, against 47% in 2022. By contrast, such purchases fell slightly in in the North of England from 62% in 2022 to 60%.

The increase in such transactions in London – the lowest yielding region - has been the most pronounced, jumping from 43% to a record 67%. This shift has been accompanied by a decline in the average purchase price to £341,000, down from £450,000.

SHARE OF BUY-TO-LETS **BOUGHT WITH CASH**

Source: Hamptons



The pick-up in London cash purchases reflects a broader national trend. A record 71% of sales to buy-to-let investors where the average gross yield is less than 5% have been mortgage-free so far this year, against 50% in 2022. Meanwhile, in areas where gross yields exceed 8%, a higher proportion of buy-to-lets are being purchased with a mortgage.

Meanwhile the share of cash purchases in the North East, the highest yielding region, has dropped by 3% over the past year. More landlords are also relying on mortgage finance in the North West.

One result of the dash to cash will be a decline of about £61.9 million in the total new landlords' mortgage interest payment bill. This estimate is based on an average buy-to-let property price of £187,110, with the landlord putting down a 25% deposit and borrowing the rest.

But new landlords will still pay about £405 million in mortgage interest in 2023. This estimate is also based on these landlords borrowing 75% of the purchase price of the home at a typical rate of 5.27% and putting down a 25% deposit. The comparable bill for 2022 was £347 million.

However, despite the trickier sums, there are no signs that the landlord sell-off has gathered pace so far in 2023.

RENTAL GROWTH

In March, the average monthly rent for a newly let home in Great Britain hit a record high of £1,236. This is an annual increase of 10.8%, the second largest since our records began, exceeded only by 11.5% growth recorded in May 2022.

As a consequence of the rise, the average tenant taking on a new lease will be paying an extra £1,452 each year. The number of rental homes coming on the market in March rose for the seventh consecutive month from a low base, but demand is also higher.

London regained its place at the top of the rental growth chart with an average annual 16.2% increase to £2,178-a-month. Inner and Outer London grew at a similar rate.

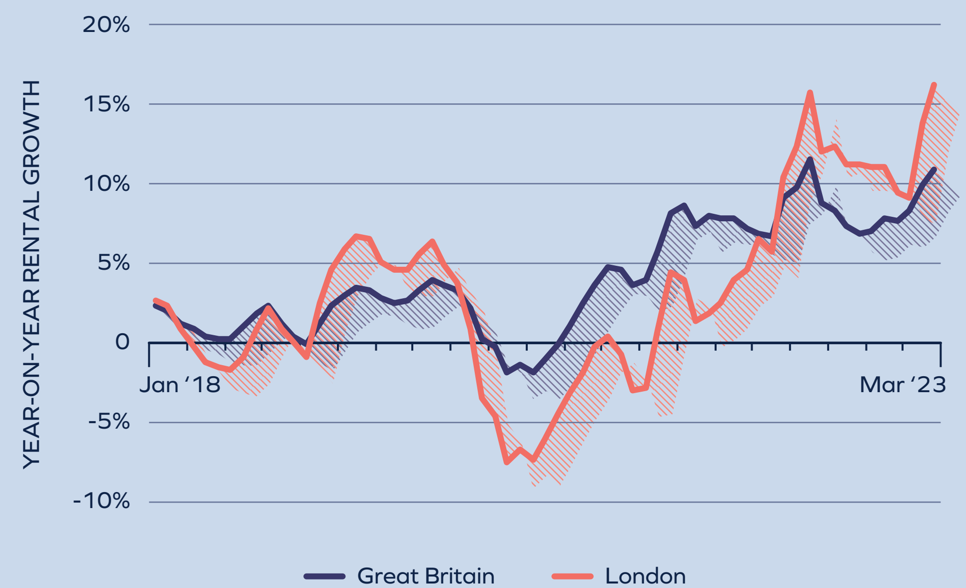
This was a reversal of the pattern of 2022 when rents in Inner London rapidly recovered from Covid lows.

The other regions in the South of England lagged behind London, however. These are the locations where affordability is also stretched. Rents in the Midlands and North advanced by 9.1% and 9.8% respectively.

In 2022, larger properties led the field in rental growth. But now smaller homes have moved to the fore. In the 12 months to March the average rent for a one-bedroom property jumped by 11.9%, nearly double the 7.2% rate recorded in March 2022. Annual growth for a three-bedroom home has decelerated to 9.1%, against 11.3% in February 2022.

RENTAL GROWTH

Source: Hamptons



SALES

10 THINGS TO KNOW ABOUT **TODAYS MARKET**

Conditions in the property market in 2023 were always likely to be challenging, such was the economic turbulence of 2022. It was also inevitable that the double-digit price growth of 2021 and 2022 could not be sustained. To date, however, the market has proved resilient, with many metrics indicating a return to a more normal tempo. Here are 10 things to know.

1

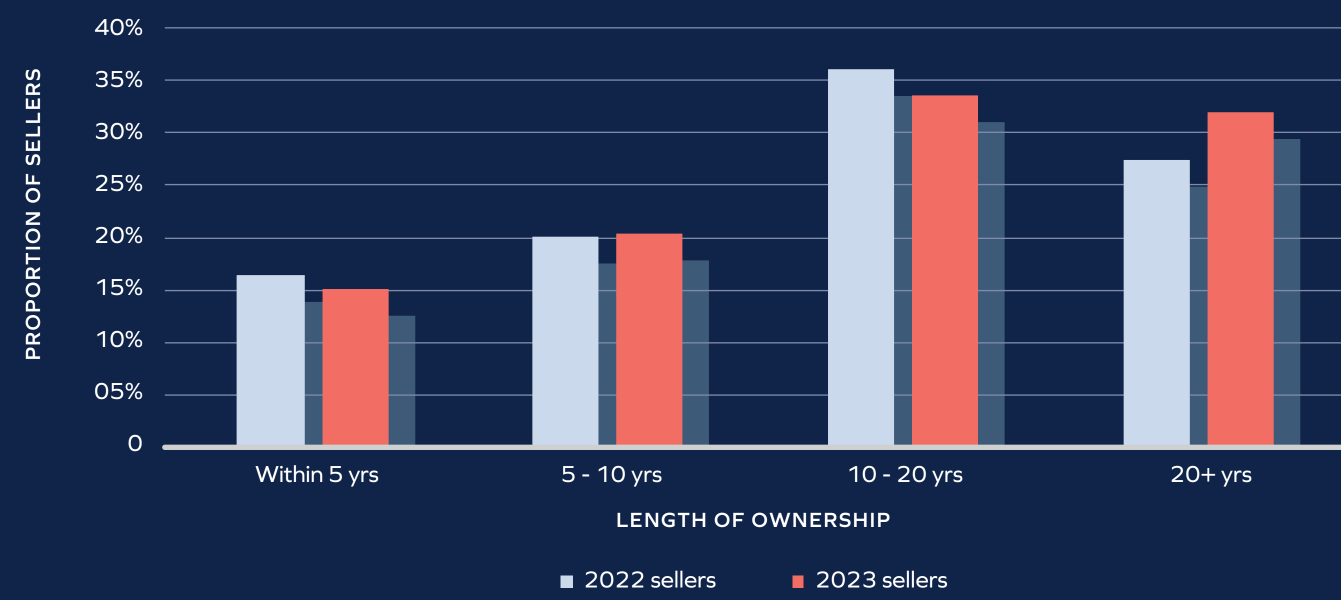
Many owners are still reluctant to sell their home for less than they believe it to be worth. But those who do opt to sell are not being forced to significantly downgrade their expectations: in April the average home sold in England & Wales achieved 99.0% of its asking price. This may be lower than at the peak in April 2022, when the average home changed hands at 101.2% of its asking price. But it is still the highest proportion recorded for any April pre-2021 and up from the 95.4% recorded in April 2009 when prices were falling. Last month the average home marketed at £1 million or more achieved 97.4% of its asking price, up from 95.4% in April 2019, and again, the fourth strongest result for any March since 2009.

2

The impact of the Autumn 2022 mini-Budget continues to weigh on the time that it takes to sell a home. In April this was an average of 51 days, which is 23 days longer over the same period last year. Last month 28% of the homes that found a buyer had been on the market before the start of the year. This compares with just 17% in April 2022.

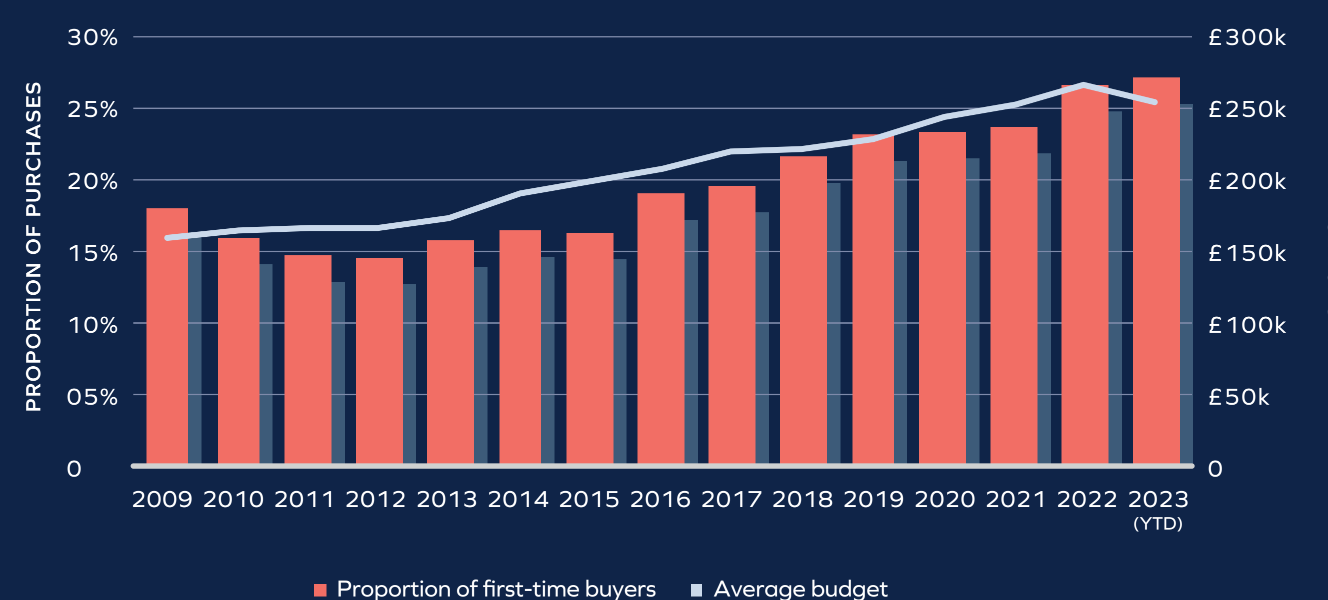
HOW LONG SELLERS HAD OWNED

Source: Land Registry & Hamptons



SHARE OF HOMES BOUGHT BY FIRST-TIME BUYERS

Source: Hamptons



3

Higher mortgage rates are limiting how much buyers can afford and are prepared to pay. This is the reason why 51% of homes that changed hands in April had been reduced in price, against 32% in 2022. However, this figure is likely to fall gradually in the coming months given that more of the homes for sale in Spring had come onto the market priced for 2023.

4

Competitive pricing ensures a faster sale: 13% of homes that came onto the market with Hamptons in March sold within a week. This is the second highest share on record and compares with 11% in March 2022 and just 5% in March 2019.

5

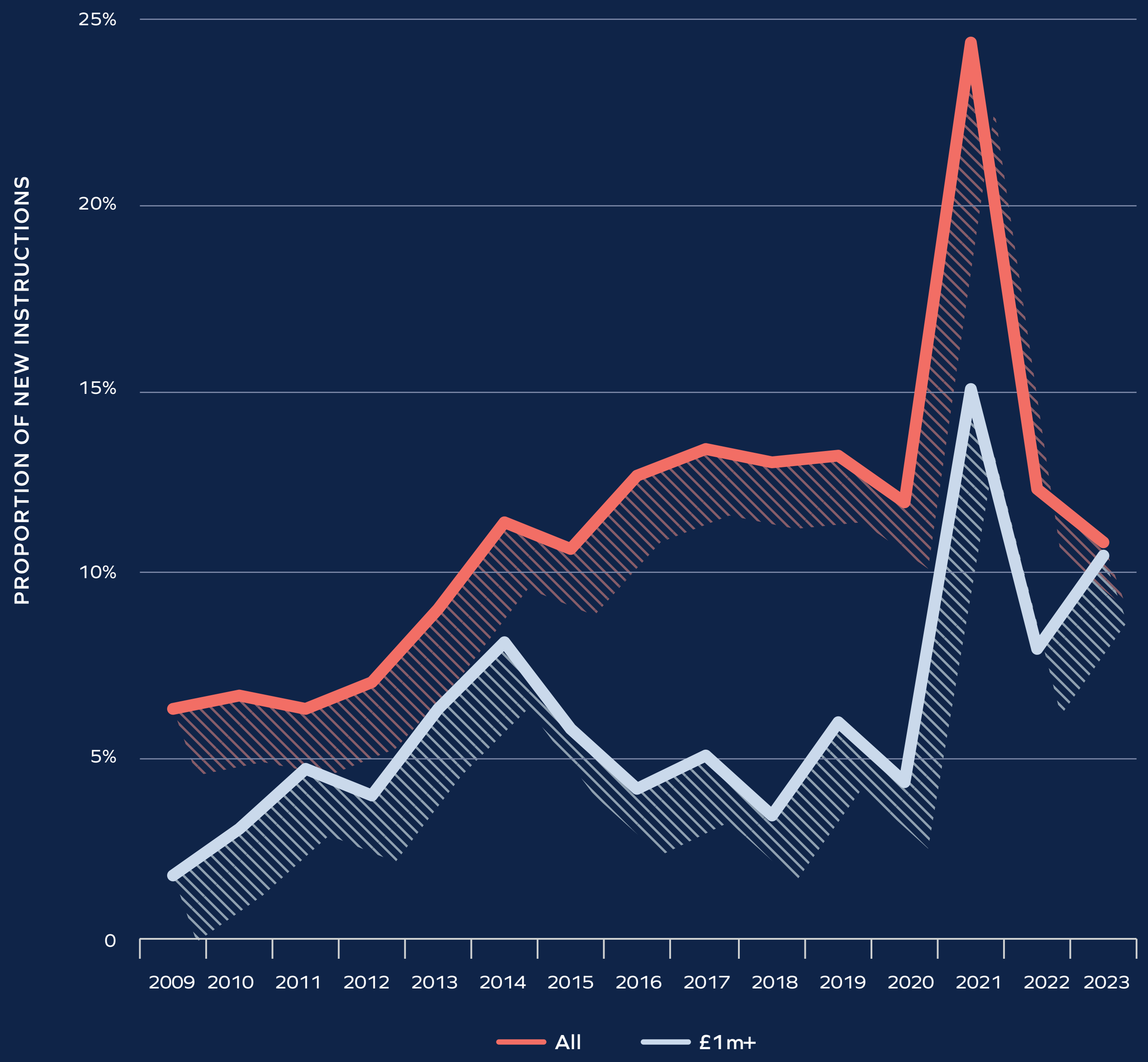
Cash buyers are the most powerful force in the market right now, accounting for 34% of sales in the year to date. This is the highest proportion since 2016. These are likely to be downsizers who have paid off their mortgage or households who have taken out discretionary mortgages in recent years and taking advantage of cheap borrowing.

6

First-time buyers are also still managing to climb onto the ladder - despite higher interest rates – making up a surprising 27% of buyers. They are opting for smaller homes in more affordable locations. 2023 marked the first time in over a decade whereby most first-time buyers purchased one and two-bed homes, rather than larger properties.

HOMES SOLD WITHIN A WEEK

Source: Hamptons



7

More downsizers are emerging to make their first post-Covid move. Downsizers tend to favour slower markets which allow them to line up their next home before selling their current property. The average seller has been in their property for 14.3 years, against 13.5 years in 2022. As many as 32% of those who have listed a home this year last moved 20 or more years ago, compared to 27% in 2022. On average this group are selling their homes for £292k or 355% more than they bought for, and are often releasing some equity.

8

Those who bought within the last five years are largely staying put. This is potentially a reflection of the market having peaked last year. That said, they're still advertising their properties for £77k or 30% more than they originally paid on average. Although, strong house price growth has made trading-up particularly costly.

9

Interest rates may have peaked with the Bank of England reportedly close to the end of its rate-hiking cycle. Mortgages rates which rose sharply in the wake of the mini-Budget could start to decline from their current level of 4-5% towards the end of this year.

10

Last year the ONS house price index showed that house prices were rising faster than flat prices in every local authority in the country. However the difference is narrowing, and in March, there were seven local authorities, predominantly in London, where flat prices were rising faster than house prices. We expect this number to continue rising over the course of 2023.

ESTABLISHED 1869

THE HOME EXPERTS