MARKET INSIGHT SPRING 2020

Aligning expectations

HAMPTONS INTERNATIONAL

CONTENTS

Aneisha Beveridge
Head of Research
beveridgea@hamptons-int.com

Alison Blease
Head of Research PR
bleasea@hamptons-int.com

ECONOMY

Budget boost

It's fair to say that Rishi Sunak's first Budget was unlikely to be the one planned by former Chancellor Sajid Javid earlier on in the year. But this year's Budget was effectively split into two– the first part revealing spending measures to help protect the economy from the threat of coronavirus, whereas the second part included a package of measures to boost spending on public services and infrastructure.

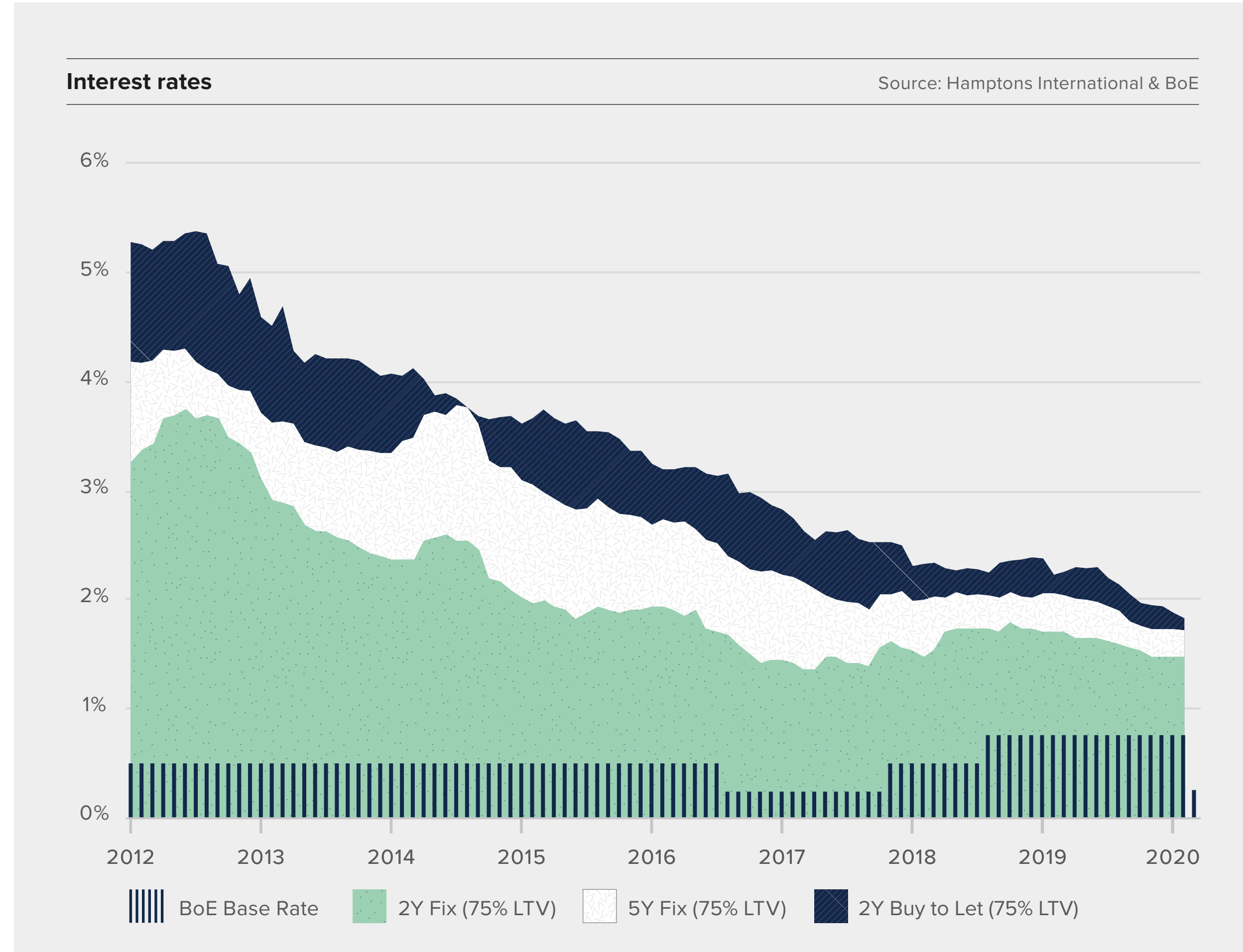
Rishi Sunak said that while coronavirus was undoubtedly a key challenge and that for 'a period of time it will be tough', it also represented a 'temporary disruption' for the economy. And with this in mind, he focussed the second half of his announcement on 'planning for prosperity tomorrow'.

The new spending plans represented the biggest sustained fiscal loosening since the pre-election Budget of March 1992. The government committed to a £30bn spending package, or 1.3% of GDP in 2020-21 which is made up of a £12bn emergency package to shore up the economy from the effects of coronavirus, and a further £18bn to help "level up" the UK.

These pledges will be partly funded by higher taxes, but they are mainly being financed by the government's decision to increase net borrowing - forecast to rise to £66.7bn by 2022, up from £38.4bn in 2019.

But policies aimed at helping the housing market were far and few. There will be £1.1bn allocated from the housing infrastructure fund to help build 70,000 homes in areas of high demand, as well as an extra £12.2bn for the Affordable Homes Programme. But changes to stamp duty were put on the back burner.

However, the government stuck to their manifesto by introducing a 2% stamp duty surcharge on homes bought by non-UK residents. This will come into play from April 2021 but is less than the 3% they originally proposed. This means the stamp duty bill for an international buyer purchasing a £1.5million home will rise from £93,750 to £123,750 under the new proposals. And if they already own another home, their bill will increase to £168,750. The discount international buyers can reap from the weak pound will mean that the overall impact of the surcharge will be subdued, but it could deter investors who are more reliant on yields.



However, Budget day started with an emergency interest rate cut by the Bank of England. The monetary policy committee (MPC) unanimously cut the base rate from 0.75% to 0.25% to help prevent any temporary disruption caused by Covid-19. While a quarter of households with variable rate mortgages will benefit immediately, the overall impact on the housing market will be limited. It's likely to be a short-term cut, and with competition in the mortgage lending world fierce, mortgage rates are already low. But it could provide a small boost to the economy, which may help consumer confidence and mean that some households have a few extra pounds left in their pocket at the end of the month.

£18bn

pledged by the Government to level up the UK

FOCUS

Aligning expectations

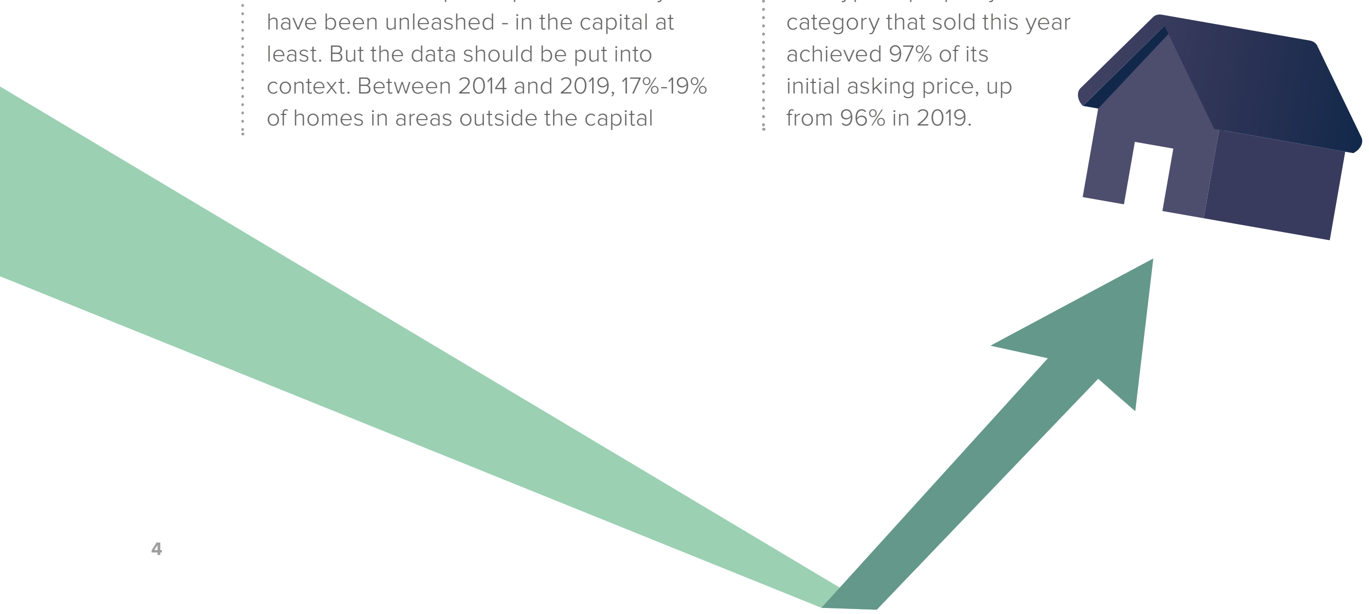
At the start of the year the Boris bounce was the most talked about phenomenon in the property market - and also the most hotly-disputed. Some observers contend that the Conservative election victory boosted activity and prices - and that this long-awaited leap in confidence will be sustained. While others question the extent of the recovery, given the threats posed by the coronavirus epidemic and the uncertain outcome of the Brexit negotiations.

These arguments will continue, but meanwhile, it has emerged that 16% of the homes sold in London, in the year to date, sold for more than their initial asking price – which is the highest level since 2016. Elsewhere in England and Wales, 14% of homes fetched more than their asking prices.

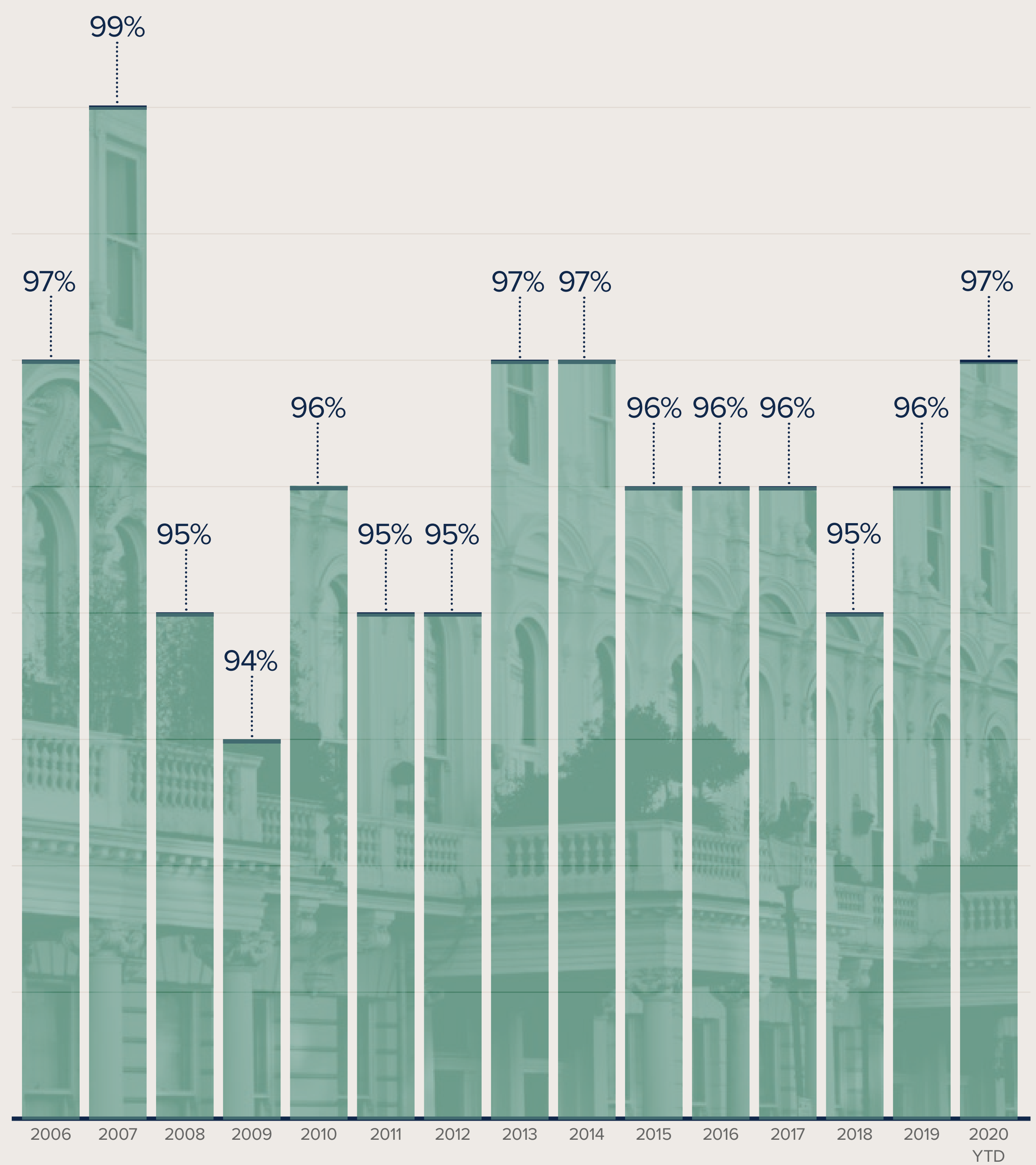
These figures appear to be evidence that some of the pent-up demand may have been unleashed - in the capital at least. But the data should be put into context. Between 2014 and 2019, 17%-19% of homes in areas outside the capital sold for more than their asking price. Meanwhile, at the market's peak in 2014, 28% of London homes were changing hands for more than their asking price.

> *This may not sound like a significant change, but it is a sign of a shift in sentiment, that buyer and seller expectations may be coming closer together following a stand-off that has lasted for several years*

Nevertheless, it also appears that more buyers of £1 million-plus homes in both London and the rest of the country are overcoming their concerns about stamp duty and deciding to make a move. The typical property in this category that sold this year achieved 97% of its initial asking price, up from 96% in 2019.



Ratio of initial asking price to achieved price for +£1mil homes in England & Wales Source: Hamptons International



FOCUS *continued*

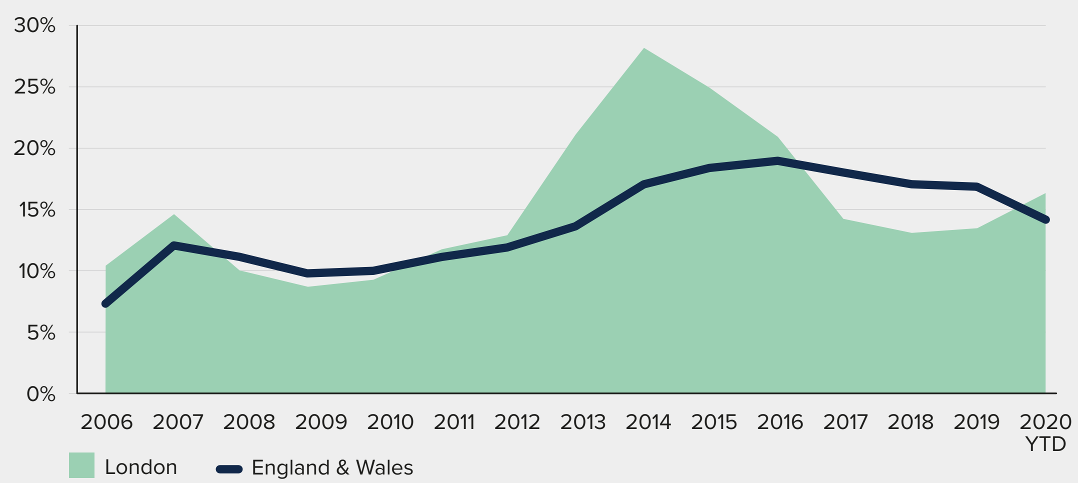
97%

The average asking price achieved in London

This may not sound like a significant change, but it is a sign of a shift in sentiment, that buyer and seller expectations may be coming closer together following a stand-off that has lasted for several years. Some of the people who are selling a home are taking a reality check, acknowledging (possibly with some sorrow) that the value of their property has dropped and that it must be marketed at a price which will attract interest. At the same time, there are many growing families who have needed a larger house for a while and can no longer delay a move in the hope of finding a bigger, bargain-priced pad.

In theory, this new willingness to transact should be causing more homeowners who need to sell, often to downsize, to overcome their hesitation. However so far this year the rise in new instructions has not matched the increase in would-be buyers. Perhaps these would be sellers suspect that the Boris bounce is a temporary trend, or because they cannot accept that their house is worth less than at the market's peak. After all, such a reality check can be tough for those who have invested considerable sums in renovation or extension designed to add value.

Proportion of homes sold above their initial asking price Source: Hamptons International



MARKET METRICS

Transactions

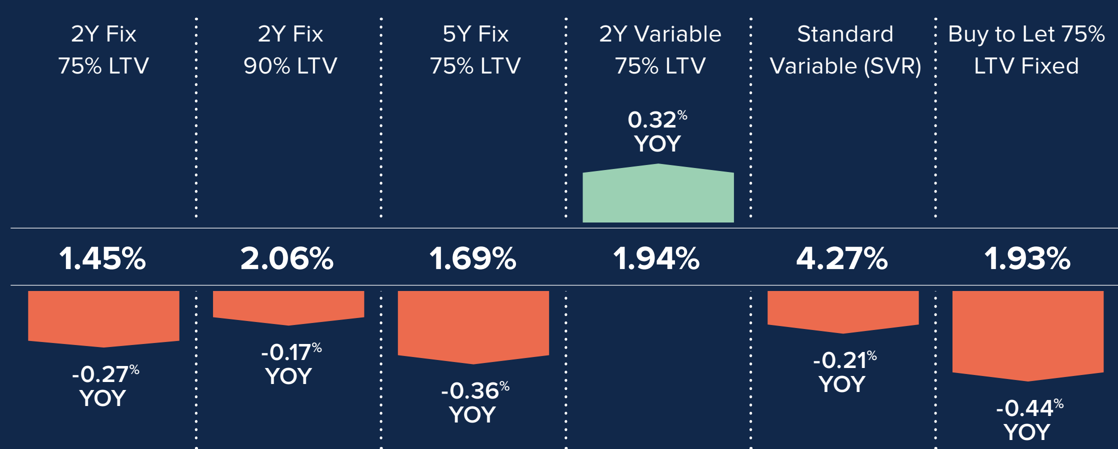
Source: HMRC

Transactions showed a promising start to the year. According to the latest data from HMRC there were 88,850 homes sold in the UK in January, a 12.7% year-on-year increase and the strongest first month of the year since 2014. After a bumpy year, overall transactions ended 2019 1.8% down on 2018. But it seems the start of a new decade may be a turning point.

▲ 12.7% YOY

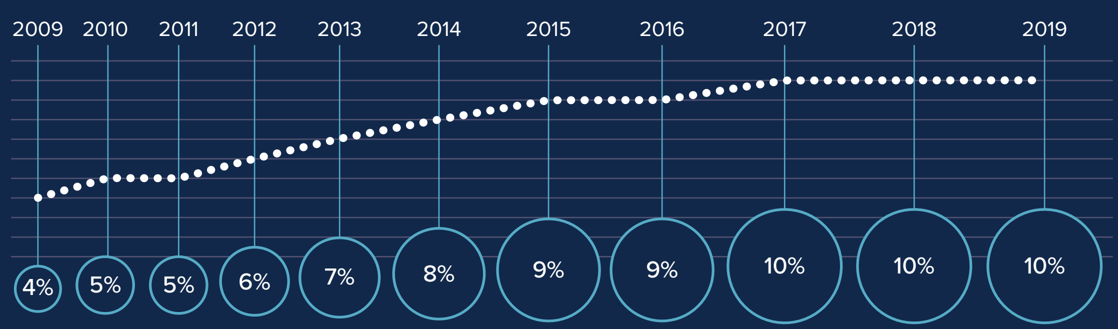
Mortgage Interest Rates (January 2020)

Source: Bank of England



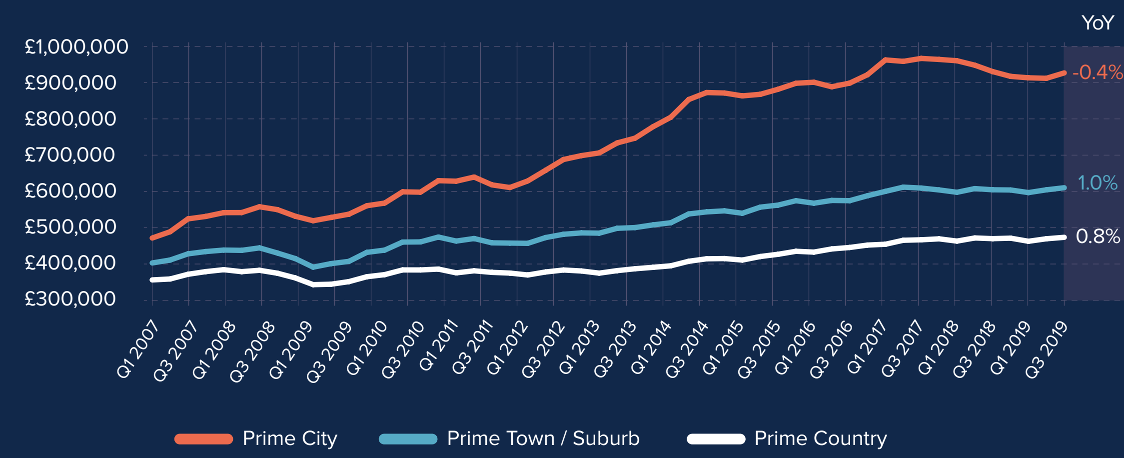
% of homes sold +£1million in London

Source: HMRC



Average House Price

Source: Hamptons International & Land Registry



Price Growth

Source: ONS

▲ 1.2% GB YOY

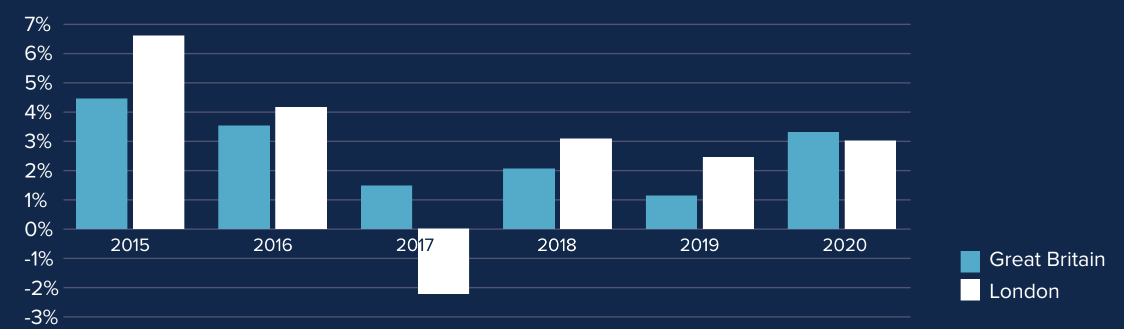
▲ 2.3% LONDON YOY

▲ 1.2% SE YOY

▲ 2.2% SW YOY

Rental Growth (Feb of each year)

Source: Hamptons International



LETTINGS

Average landlord portfolio size increases to ten year high

More Britons are leaving the rental business, as a result of a series of tax and regulatory reforms targeting buy-to-let. The number of landlords has fallen to a seven-year low, while, at the same time, rents are on the rise. Over the past 12 months, the average rent in Great Britain has risen by 3.6% to £998-a-month.

There are now 2.66 million landlords, the lowest since 2012 when they numbered 2.58 million. Buy-to-let reached a peak of popularity in 2017, when 2.88 million people were landlords. During the 2017-2018 tax year, the phased cuts to landlords' mortgage tax relief began to bite, compounding the impact of the stamp duty surcharge on second properties that was introduced in 2016.

These and other tax changes were designed to eat into landlords' profits, making it less likely that they would compete with first-time buyers for smaller properties. A tightening of the capital gains tax rules for landlords who have lived in their buy-to-let property at some point, which takes effect in April, is a continuation of this policy.

The departure of landlords is shrinking the private rented sector which provides accommodation for 4.5 million households, according to government data. There are 156,410 fewer rental homes than in 2017. However, there are signs that landlords who want to stay in the game are expanding their portfolios, suggesting the sector may be professionalising. This trend also underlines the availability of attractively priced mortgage finance and a perception that property may be a more reliable way to save for retirement than the stock market.

Between 2005 and 2011, about 15% of landlords owned more than one home. By 2013, 18% were in this category, rising to 21% in 2016. In 2019, the figure was 30%. The average landlord is now the owner of 1.93 homes. The landlords with the largest portfolios – 2.05 homes on average – are investors in the North East. Investors in Yorkshire and the Humber and London own an average of 2.03 homes and 2.01 homes, respectively. By contrast, investors in Scotland or Wales are least likely to have big portfolios and own an average of 1.83 homes.

Scotland and Wales are also the regions where rents are growing at the slowest pace. In January 2019, the average rent in Wales was £652 pcm, it is now £659 pcm, 1.2% higher. In the South West, however, the average has jumped by 6% from £784 pcm to £831 pcm over the past 12 months. In Greater London, there was an increase of 4.1%, from £1,714 pcm to £1,783 pcm. The North is the cheapest place to rent, with a monthly average of £646 pcm, up from £625 pcm.

The number of private rented homes and number of landlords in Great Britain

Source: EHS, Gov.Scot, Stats Wales & Hamptons International

Average rent of new lets (pcm)

Source: Hamptons International

Region	Ave. Rent (Jan-19)	Ave. Rent (Jan-20)	YoY Rental Growth
Greater London	£1,714	£1,783	4.1%
South West	£784	£831	6.0%
South East	£1,037	£1,070	3.2%
East	£943	£982	4.1%
Midlands	£678	£694	2.4%
North	£625	£646	3.3%
Scotland	£639	£653	2.2%
Wales	£652	£659	1.2%
Great Britain	£963	£998	3.6%

Average landlord portfolio size

Source: Hamptons International

SALES

A revival made in Chelsea

The number of people from abroad shopping for a property in the suburbs of Greater London declined during the second half of 2019, as sterling emerged from its post-referendum lows. However, the resurgence of the pound did not deter the search for a trophy home in the capital's most expensive postcodes, such as Chelsea, Kensington and Mayfair, where demand rebounded. The renewal of interest may have been driven by the prospect of the additional stamp duty surcharge for non-UK residents, a Conservative manifesto pledge.

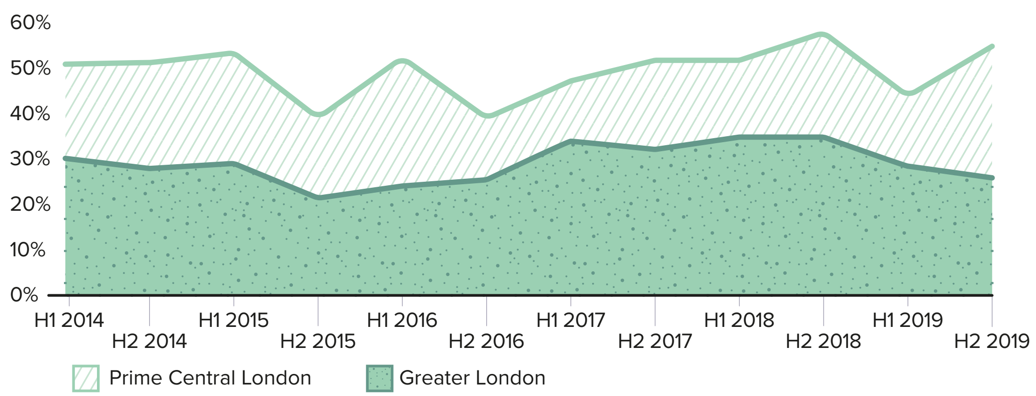
International buyers bought 55% of homes sold in Prime Central London (PCL) between June and December 2019, close to the record of 58% set in the second half of 2018. During the first six months of 2019, against a background of heightened Brexit uncertainty and other global concerns, 44% of properties in PCL were bought by international buyers.

Asians, in particular the Chinese, led the spending spree in the PCL neighbourhoods in the second half of 2019, accounting for 16% of all buyers. Europeans joined the fray, acquiring a similar percentage of homes. Middle Eastern house hunters were not far behind, snapping up 12% of the homes that changed hands. The Americans were also back, buying 5% of homes sold, 2% more than in the first half of the year.

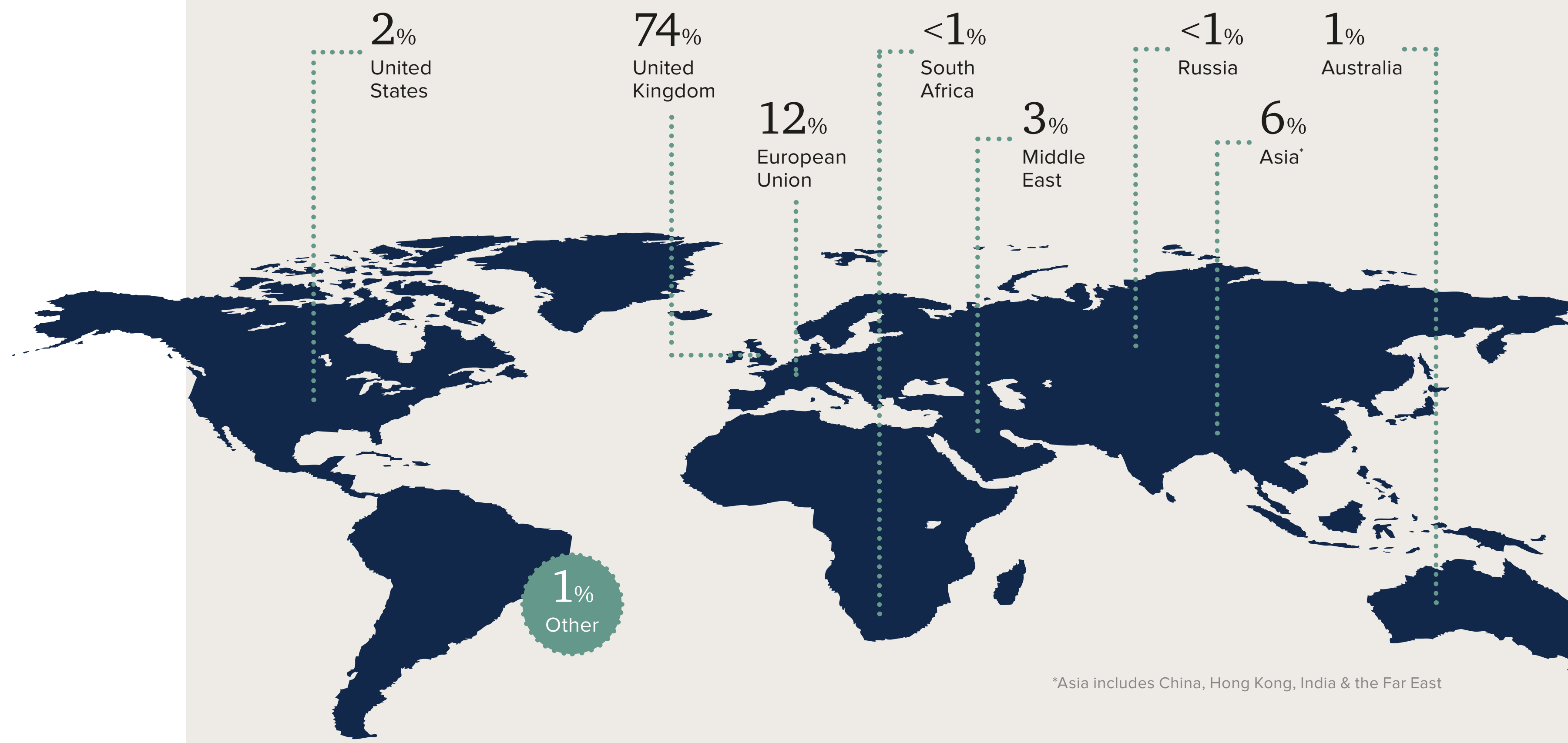
In Greater London, by contrast, international buyers accounted for 26% of transactions in the second half of 2019, down from 35% in the last six months of 2018. A drop in Asian house hunters – who bought 6% of the homes sold - was largely responsible for this decrease. In the second half of 2018, they purchased 12% of the properties on the market in Greater London.

For buyers from the EU, however, the suburbs with their leafy streets and period

Proportion of homes bought by International buyers Source: Hamptons International



Where do London buyers come from? Source: ONS & Hamptons International



*Asia includes China, Hong Kong, India & the Far East

homes, held an undiminished appeal. Their purchases - 12% of all deals - were down by just 1% in the second half of 2019. They shrugged off the recovery of sterling which meant that a £1 million home effectively cost close to £60,000 more in December 2019 than a year earlier.

The extra cost of such a property to a Chinese buyer was £54,840, while an American would have been forced to stump up £35,230 more. But this £1million pad was still something of a bargain, thanks solely to currency movements which reduced its cost (to a dollar purchaser) to £856,610, which is £143,390 cheaper than in January 2015, at the PCL market's peak. Note also that this saving doesn't take into account the fall in the value of such a home between 2015 and 2019.

FOCUS SPECIAL

The new contenders for millionaires' row

7.5%

fewer +£1million sales in England & wales in 2019

Despite the slowdown, especially in the South, there were record numbers of £1 million-plus home sales in 47 local authorities. Locations in London and in the North, including some unexpected names, consolidated their status in the £1-million-plus property league in 2019.

These results were in marked contrast to performance in other places: in England and Wales, £1 million-plus deals fell by 7.5% during the year. In London, the proportion of such transactions was at its lowest since 2013, as a consequence of Brexit concerns and stamp duty.

Several places joined the £1-million plus league for the first time in 2019, such as fourth-placed Sheffield where 27 homes changed hands for seven-figure sums, 14 more than in 2018, thanks to demand for houses in this Yorkshire city's smarter suburbs. The average house price in Sheffield is £167,000.

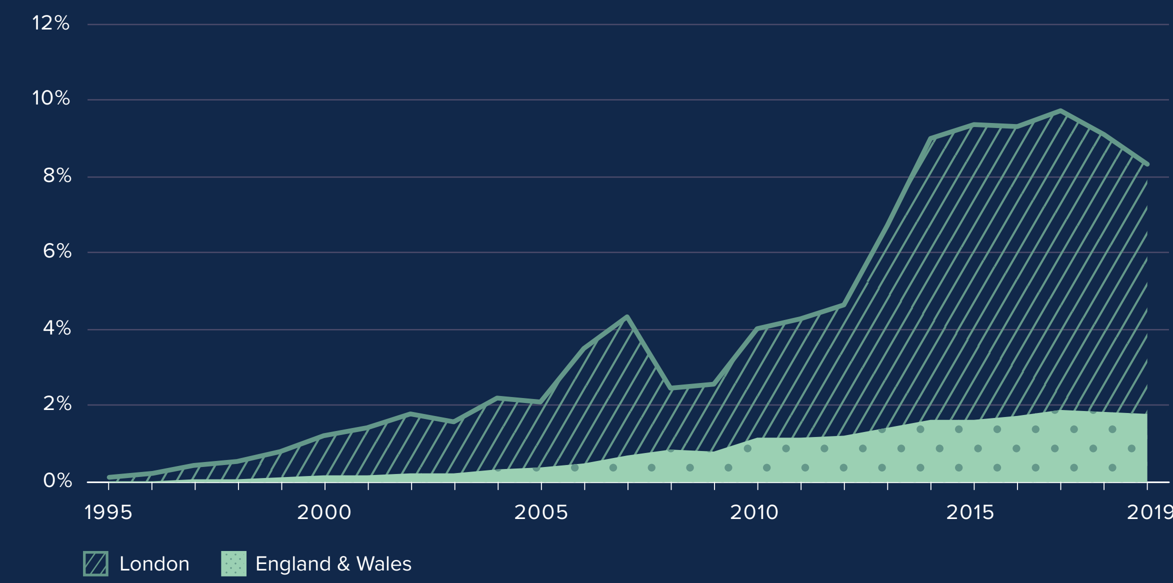
> *The winner of the league, with the largest increase in £1-million-plus sales reflects the changing hierarchy of London neighbourhoods*

Knowsley in Merseyside entered the league, in 45th place, for the first time, with a single £1-million plus sale. The emergence of these contenders suggests growing trust in government policies designed to 'level up' Britain by improving infrastructure in the North,

The winner of the league, with the largest increase in £1-million-plus deals reflects the changing hierarchy of London neighbourhoods. Hackney in East London recorded 376 such sales, 129 more than in 2018, an increase of 14.6%. The area first broke into the league in 2003 at a time when seven-figure valuations were commonplace in Mayfair and Chelsea. Hackney which is close to the City, offers the period housing and hip bars favoured by the young and affluent.

Greenwich (average house price £391,560) in South-East London, is the only other local authority in the capital to record a rise in £1 million-plus sales. There were 104 such deals, up from 93 in 2018, putting this location, with its history and famous parks, into seventh place in the league.

Proportion of homes sold +£1million Source: Land Registry & Hamptons International



Top 15 areas with biggest increase in +£1million sales in 2019 Source: Land Registry & Hamptons International

Local Authority	Region	No. of +£1mil sales	YoY Change	% homes sold +£1mil	Average house price
Hackney	London	376	129	15%	£556,560
Mid Sussex	South East	73	16	3%	£369,960
Bath & North East Somerset	South West	124	14	4%	£337,050
Sheffield	Yorkshire & Humber	27	14	0%	£167,000
Canterbury	South East	23	13	1%	£301,140
Bracknell Forest	South East	40	11	2%	£334,740
Greenwich	London	104	11	3%	£391,560
Derbyshire Dales	East Midlands	12	10	1%	£269,000
Amber Valley	East Midlands	10	9	0%	£174,760
Sefton	North West	16	9	0%	£167,540
Stroud	South West	23	9	1%	£279,880
Lichfield	West Midlands	25	8	1%	£246,580
South Gloucestershire	South West	10	7	0%	£278,250
Test Valley	South East	41	7	2%	£325,730
Thanet	South East	13	7	0.5%	£236,990

The second place on the league is taken by mid-Sussex, the authority that includes in Burgess Hill, East Grinstead and Haywards Heath. Demand for homes in these towns caused the number of £1 million-plus deals to rise from 57 in 2018 to 73 in 2019. The average mid-Sussex house price is £369,960. Bath and North-East Somerset (average price £337,050) is in third place. The number of £1 million-plus deals in this authority was 124, against 110 in 2018, demonstrating the irresistible appeal of Bath's Georgian terraces.

Bath and North-East Somerset is one of eight South West locations in the league. Others include Stroud in Gloucestershire where £1 million-plus deals jumped from 14 to 23 in 2019 and South Hams in Devon where they increased from 47 to 52. South Hams takes in Totnes, a town with an alternative vibe and Salcombe, a destination popular with well-to-do downsizers.

In 1995, when the league was first established, £1 million-plus sales accounted for just 0.1% of all transactions in London and were barely seen elsewhere in England and Wales. A decade later, 9% of deals in London were in this category. Meanwhile elsewhere the proportion was 1.7%. In 2019, regardless of the slowdown, £1 million-plus deals still represented 8.3% of sales in the capital and 1.8% elsewhere. The North-South divide may have narrowed, but only by a little, it seems.

HAMPTONS
INTERNATIONAL