

MARKET INSIGHT
WINTER 2020

The road ahead



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ECONOMY

The advantages of winning big

On the 12th December 2019 the Conservatives won their biggest majority at Westminster since 1987. Not only will this have important consequences for the future path of the UK economy and our relationship with Europe, but with the rest of the world too. After all there will be no second referendum, and as promised, Boris Johnson will pursue Brexit. But whilst the result offers Boris Johnson more hope of getting his Brexit deal passed by parliament in January, there are still many political hurdles ahead before the current transition period comes to an end in December 2020.

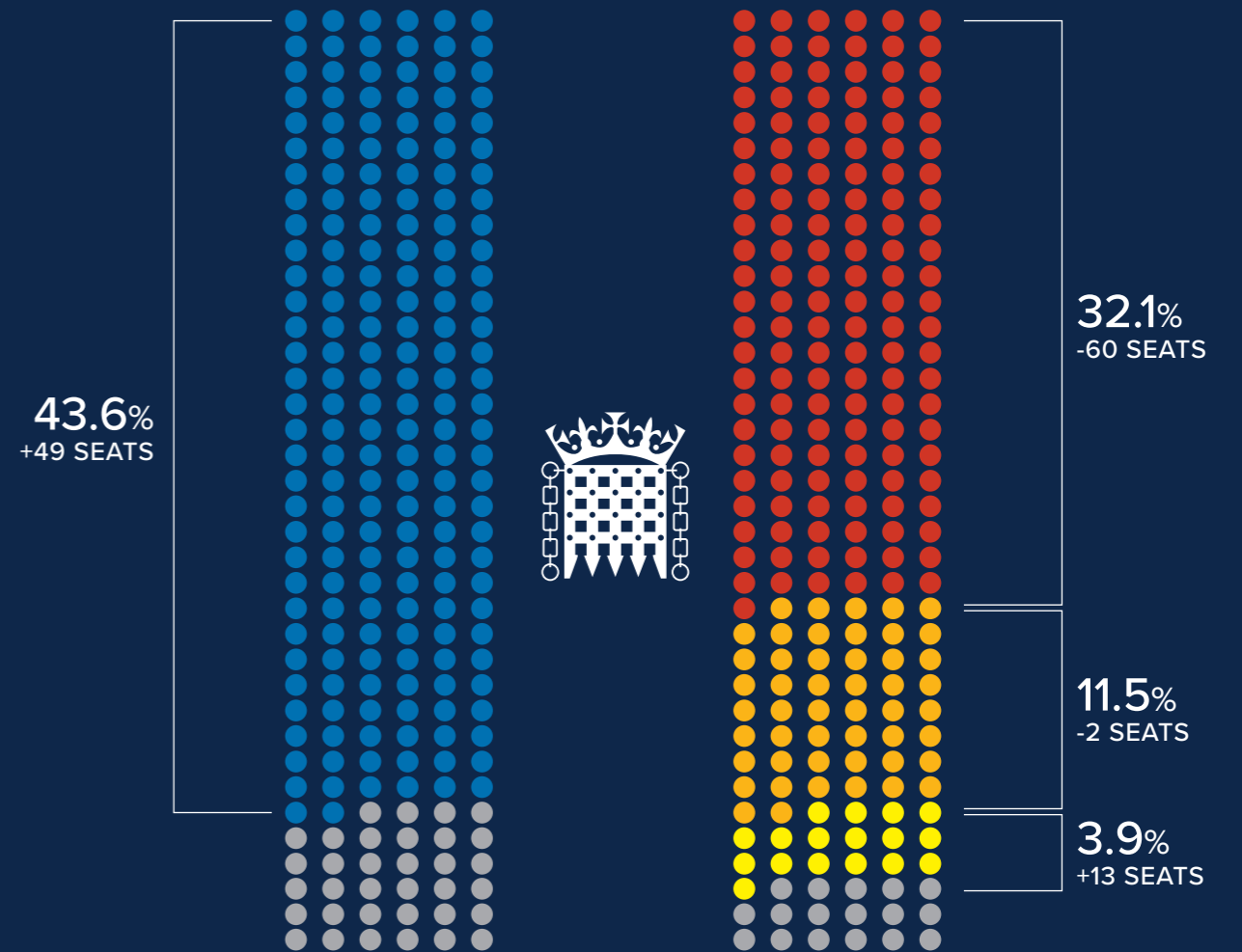
The size of the Conservatives majority, however, offers Mr Johnson a lot more scope to shape the future of Brexit. The clear majority now means that the prime minister could pursue a closer future relationship with the EU than what's suggested in the current withdrawal agreement. This may involve accepting more EU regulation in return for frictionless access to the EU market, which is something more in line with our current agreement, but a compromise that may upset the Brexiteers.

The extent of his majority, however, may also offer Mr Johnson more room to ignore the hardcore Brexiteers who want to leave the EU by the end of 2020 without fail. It's widely acknowledged that agreeing a trade deal with the EU within a year is near impossible, so an extension up to the end of 2022 would certainly buy him more time.

But what about non-Brexit related policies? Given the fact that the Tories have won round working-class voters in traditionally Labour-supporting constituencies for the first time in decades, they may have to adjust their fiscal policy in order to retain those constituents trust. This could involve loosening the purse strings and boosting spending on new infrastructure, the NHS and other public services. All of which would move the Conservative party closer to the centre ground in order to appeal to more people, shifting the party towards one nation policies.



2019 GENERAL ELECTION % OF VOTE WON



● Conservative ● Labour ● Lib Dem ● SNP ● Other

Source: BBC

FOCUS

The road ahead

Two missed Brexit deadlines, one Brexit extension, the resignation of one Prime Minister and the election of another. Little wonder the UK's housing market struggled over 2019. During the first nine months of 2019, there were 1.1% fewer transactions than the same period in 2018 and 7.2% fewer than in 2016.

Every region – other than Scotland - recorded a fall in transactions over the year. But the North fared better than the more expensive regions of the South East, London and the South West.

And price growth slowed over the year too. ONS figures showed a marked deceleration from 2.9% in September 2018, to 1.3% in September 2019. London and the South, the regions most affected by affordability constraints and tax changes, have borne the brunt of the slowdown. The North West recorded the strongest price growth, with the average house price rising 2.8% year-on-year in September 2019.

But what of 2020? With a comfortable Conservative majority, December's general election provides us with a clearer and more certain path towards Brexit and a better understanding of the wider impact this will have on the economy. But that doesn't mean it will be plain sailing. There's much still to be agreed, including thorny trade negotiations, before the current transition period comes to an end in December.

And while the government's majority should boost much needed confidence for businesses and the wider economy, it's no magic fix for the housing market. The fact is, the slowdown in the housing market has not been down to political uncertainty alone. Affordability remains the biggest underlying issue and this seems unlikely to change any time soon.

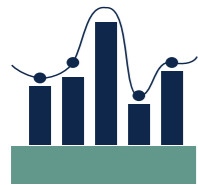
Year-on-year house price growth (Sep-19)

	2016	2017	2018	2019
East Midlands	6.8%	6.1%	5.6%	0.1%
East of England	10.4%	5.6%	1.5%	-0.2%
London	7.3%	2.6%	-1.5%	-0.4%
North East	1.2%	2.2%	2.1%	2.0%
North West	5.1%	5.1%	3.4%	2.8%
Scotland	1.7%	2.8%	4.8%	2.4%
South East	8.1%	4.9%	1.4%	0.7%
South West	5.7%	5.2%	3.8%	0.5%
Wales	3.4%	5.7%	4.6%	2.6%
West Midlands	6.7%	5.3%	5.3%	1.6%
Yorkshire and Humber	4.1%	4.9%	2.7%	2.2%
UK	6.1%	4.7%	2.9%	1.3%

Source: ONS & Hamptons International



FOCUS *continued*



In 2020

we expect house prices in Great Britain to continue rising at a similar level to 2019

Although the good news is, that in getting a Brexit deal over the line by the end of January limits the likelihood of the UK economy falling into recession, which in turn will provide a stable platform for the housing market in the year ahead. And we shouldn't underestimate the power of confidence.

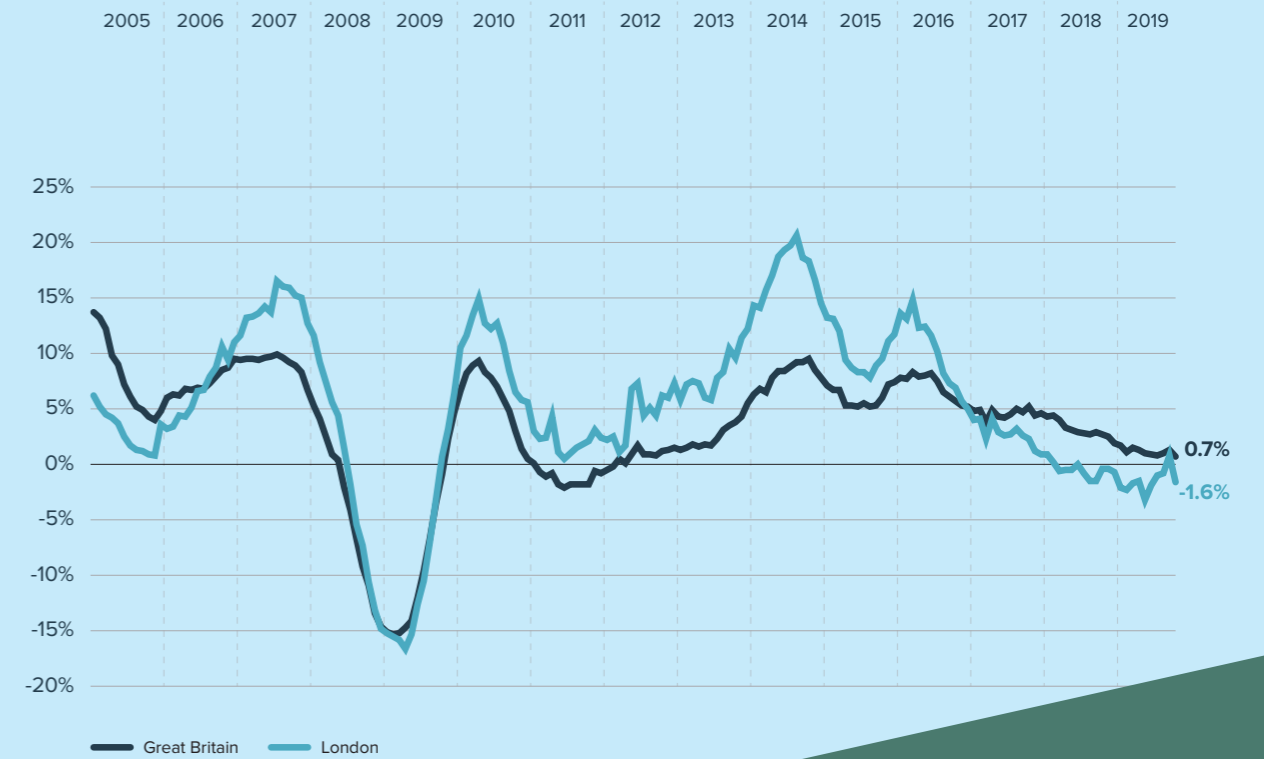
In the short-term, we expect a small bounce back in activity, particularly in London and the South, where the market has been slowing for some time and where homeowners have been sitting it out. But without any meaningful change in housing policy or any significant improvement in the economy, any post-election bounce could be relatively short-lived.

The ongoing uncertainty regarding future trade relationships, a slowing global economy and in turn muted GDP and wage growth will mean continued caution for home movers, particularly in the second half of the year. While, at the time of writing, there were no plans in the manifesto to tinker with

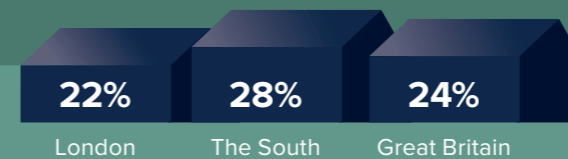
stamp duty (excluding for international buyers), rumours abound. And if there are tweaks, this could have a marked effect on longer-term activity.

As far as house prices go, we expect house prices in Great Britain to continue rising in 2020 at a similar level to 2019, but the regional balance could shift. If Brexit goes smoothly, the added certainty could spark more of a recovery in London house prices whereas areas in outer London and prime commuter belts may have a bit more adjustment to come. However despite continued price falls in the capital over the last 19 months, affordability is still an issue, and this will continue to keep a lid on price growth over the next few years. Realistically, any real increase in house price growth probably won't be seen until 2021.

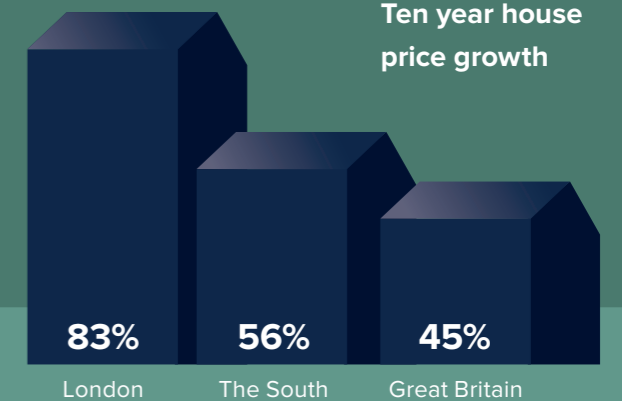
YEAR-ON-YEAR HOUSE PRICE GROWTH



Five year house price growth



Ten year house price growth

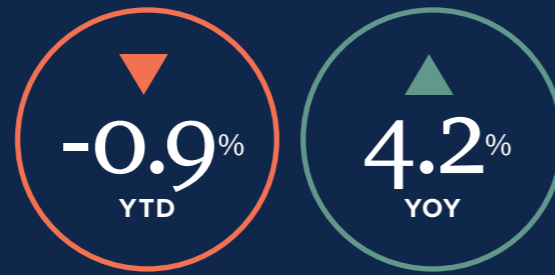


MARKET METRICS

Transactions (first nine months of each year)

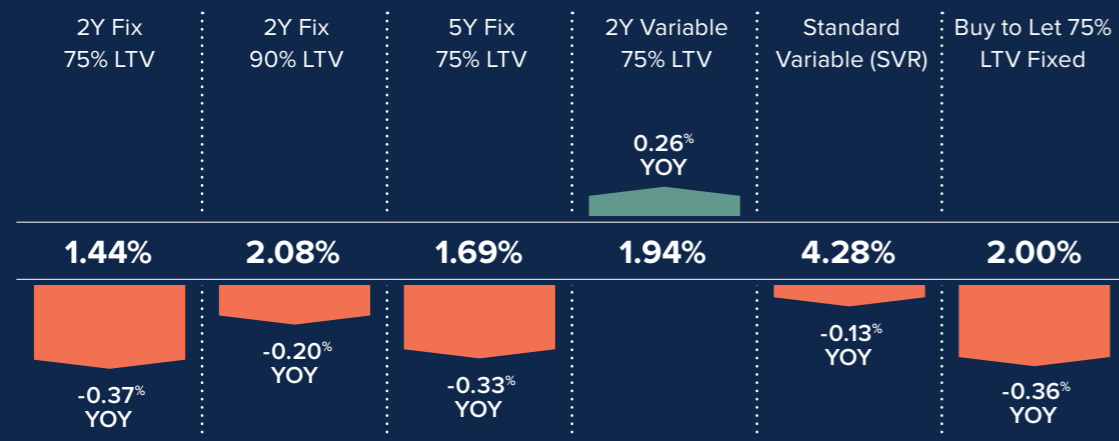
Source: HMRC

The number of homes sold in Great Britain has been falling for the last few years. During the first 9 months of 2019 there were -0.9% fewer transactions than during the same period of 2018 as political uncertainty and affordability issues have continued to weigh on the market. However transactions sit nearly 6% below 2016 levels as many households have moved on a need rather than a discretionary basis.



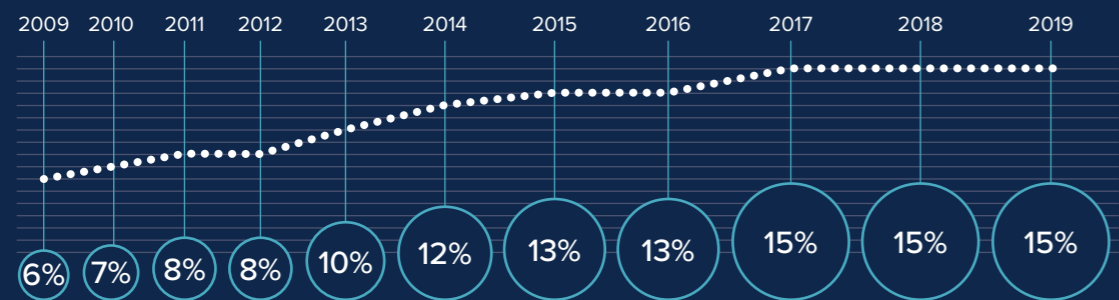
Mortgage Interest Rates (November 2019)

Source: Bank of England



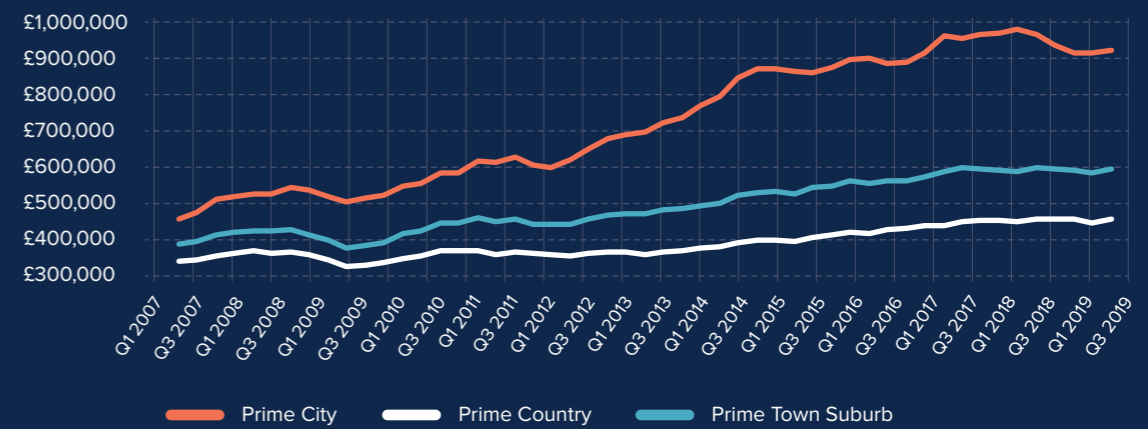
% of Homes Sold Over £1million in the South

Source: HMRC



House Price Growth (Q1 2007 = 1.0)

Source: Hamptons International & Land Registry



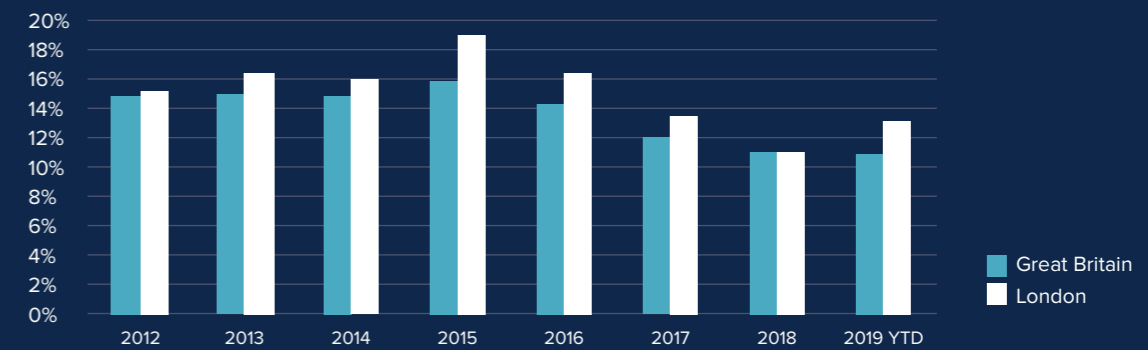
Price Growth

Source: ONS



% of Homes Bought by Landlords

Source: Hamptons International



LETTINGS

Overseas based landlords on the rise

The proportion of homes let by overseas based landlords is on the rise. During the first 10 months of 2019 international investors accounted for 11% of homes let in Great Britain, up from 7% in 2018. This represents the first year-on-year increase since 2010 when 14% of homes were let by non-UK based landlords.

London and the East of England saw the biggest year-on-year rise – up 11% - followed by the South East and North West at 7%. London also had

the highest proportion of homes let by overseas based landlords (18%), up from 10% during the first 10 months of 2018. Meanwhile Wales, with the lowest proportion at 2%, was the only region to record a fall compared with 2018.

A fall in the value of sterling lies behind much of the increase in activity, which in many cases has offset the additional 3% stamp duty surcharge payable on second home purchases.

For a US dollar buyer purchasing in 2019, the cost of an average home

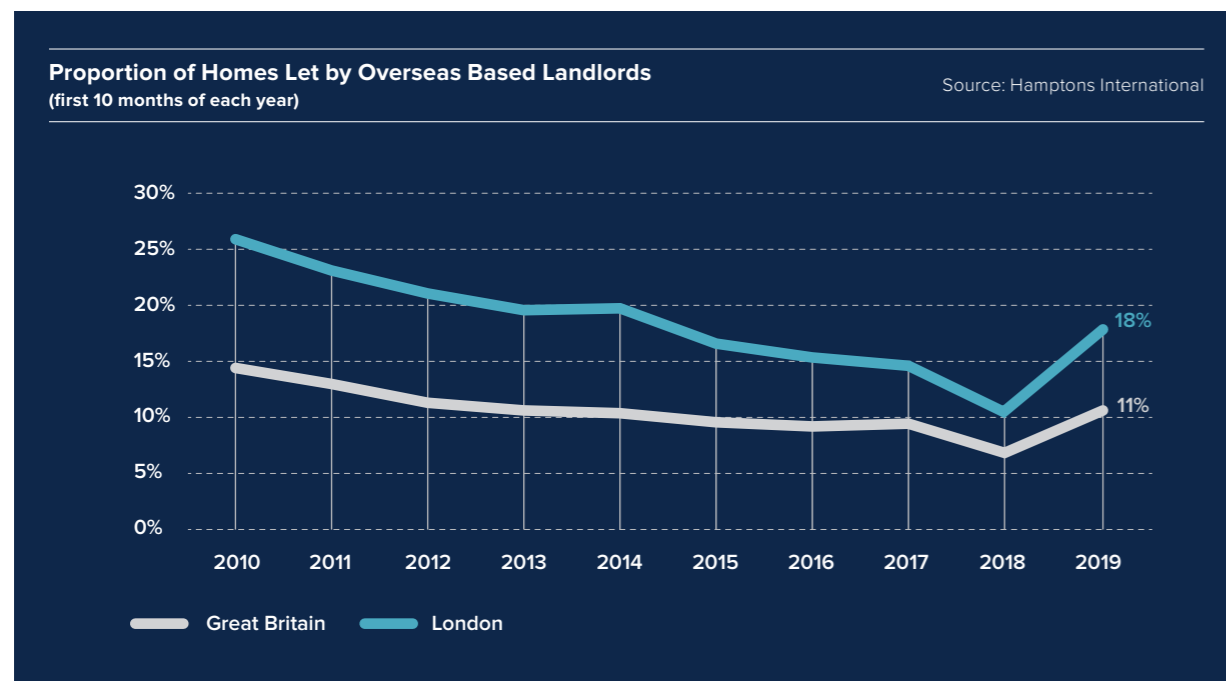
in Great Britain was £53,065 or 23% less than it was in 2014 - this is solely due to a fall in the value of the pound, and excludes house price falls recorded in some areas. Meanwhile the stamp duty bill on this second home purchase would be £9,140.

In London the savings are even greater. Here the cost of an average property bought for £469,640 in 2019 with a stamp duty bill of £27,570, would save a US dollar buyer £107,030 compared with 2014.

“London and the East of England saw the biggest year-on-year rise – up 11%”

Western Europeans made up the largest group of overseas landlords at 33%. Meanwhile North American landlords accounted for 14%, but recorded the biggest rise since 2014.

Landlords based in Eastern Europe (1.7%), Africa (1.5%) and Oceania (1.2%) also recorded increases over the same five year period. Meanwhile the proportion of overseas landlords from the Middle East fell the most. Middle Eastern investors made up 9% of all overseas based landlords in Great Britain, 2.4% fewer than in 2014.



Rental Growth on New Lets

The average rent of a newly let property in Great Britain rose to £999pcm in October 2019, 2.2% higher than the same period last year. Rising rents in the South drove rental growth - average rents increased 3.9% in the South East, 3.8% in the East and 3.0% in the South West. London lagged slightly behind, with the average rent rising to £1,763 pcm, up 2.8% year-on-year. Meanwhile the North was the only region to record falling rents (-0.6%), the first annual fall since May 2018.

Region	Average Rent (Oct-19)	Average Rent (Oct-18)	YoY Rental Growth
Greater London	£ 1,763	£ 1,715	2.8%
South West	£ 833	£ 809	3.0%
South East	£ 1,090	£ 1,049	3.9%
Scotland	£ 680	£ 661	2.9%
Midlands	£ 689	£ 687	0.3%
North	£ 644	£ 648	-0.6%
East	£ 1,002	£ 965	3.8%
Wales	£ 697	£ 672	3.7%
Great Britain	£ 999	£ 977	2.2%

Source: Hamptons International

SALES

Is cash no longer king?

Affordability barriers, a decline in equity rich downsizers and investors hit by additional taxation have all combined to bring about a fall in the proportion of cash buyers across Great Britain.

The proportion of homes bought with cash – by which we mean those purchasing a home without a mortgage – fell to 28% in H1 2019, the lowest level since records began in 2007 and significantly lower than the peak of 36% recorded in 2009. Over the last two years alone the proportion of homes purchased with cash has fallen by 5% in Great Britain

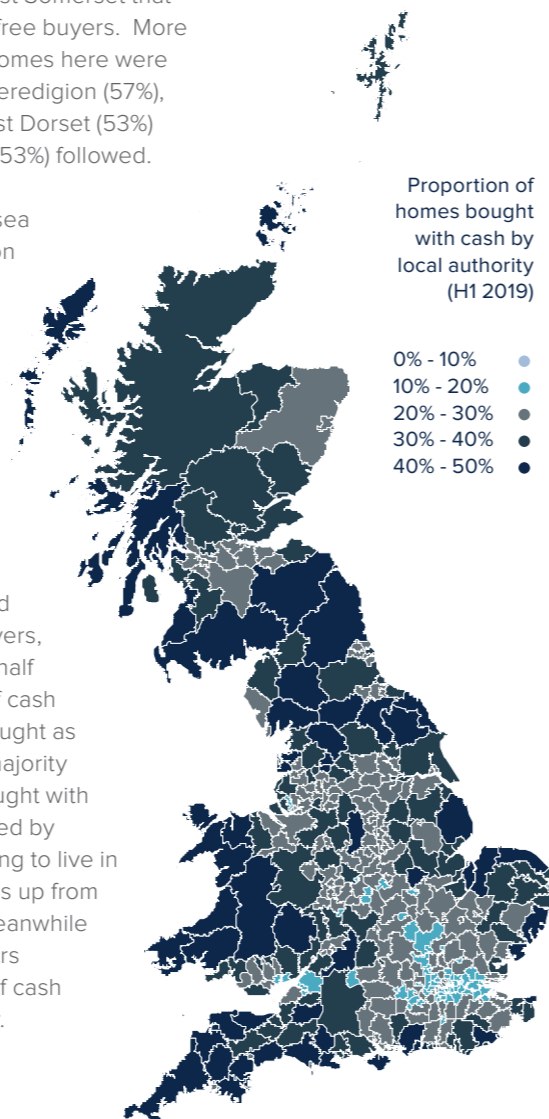
Every region recorded a fall in the proportion of cash buyers over the last two years with the West Midlands seeing the biggest decline – a 9% fall since H1 2017. London followed closely behind with the share of cash buyers falling 7% compared to two years earlier.

ONS data shows that the average home bought in Great Britain with cash during the first six months of 2019 cost £217,810, a rise of 1.4% on H1 2017 figures. But in London – the region with the lowest proportion of cash sales at just 19% – the average price of a home bought with cash cost £489,820, 3.6% less than in H1 2017.

The South West remains the region with the highest proportion of cash sales; 34% of homes were purchased with cash in H1 2019. And within the South West, it's West Somerset that attracts mortgage-free buyers. More than half (58%) of homes here were cash purchases. Ceredigion (57%), Torridge (53%), West Dorset (53%) and North Norfolk (53%) followed.

Kensington & Chelsea was the only London borough to feature in the top 10. 53% of homes in the borough were purchased with cash in H1 2019 at an average price of £1.26 million.

Ten years ago investors accounted for 32% of cash buyers, but during the first half of 2019 only 24% of cash purchases were bought as a buy-to-let. The majority (68%) of homes bought with cash were purchased by homeowners wanting to live in the property. This is up from 61% in H1 2009. Meanwhile second homeowners accounted for 5% of cash purchases last year.



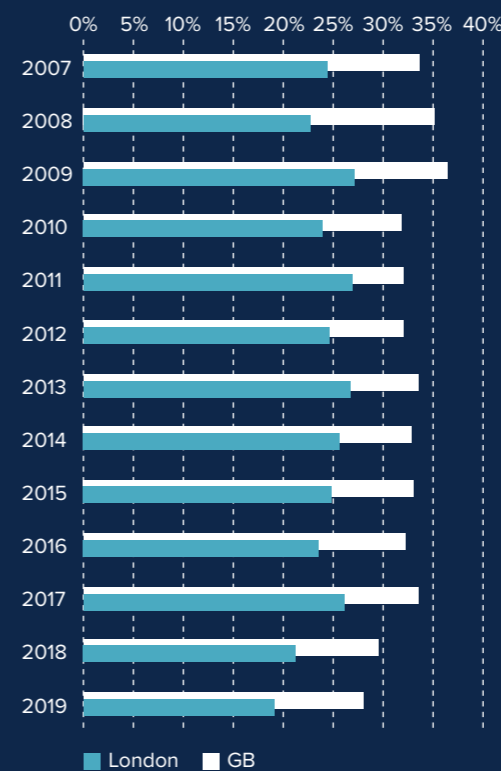
Source: ONS & Hamptons International

Proportion of Homes Bought with Cash by Region

Source: ONS & Hamptons International

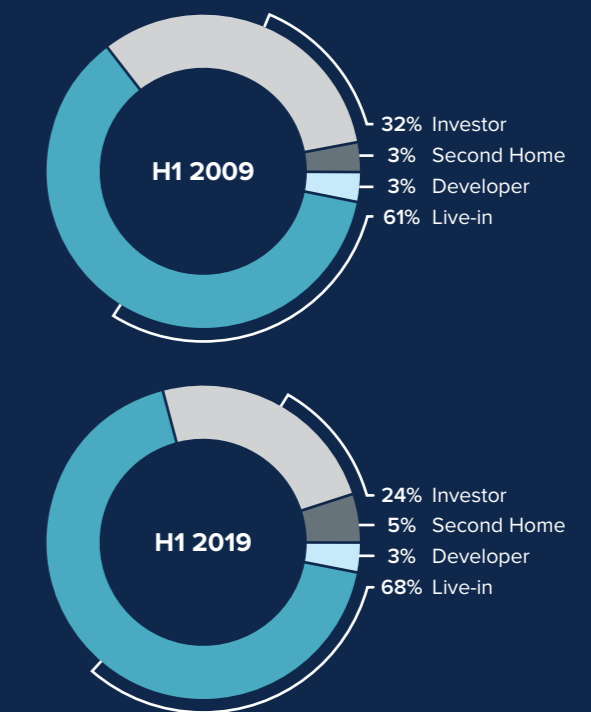
Region	% of cash buyers (H1 2019)	Change in proportion of cash purchases (since H1 2017)	Average cash purchase price (H1 2019)
South West	34%	-6%	£250,830
Wales	32%	-6%	£156,240
North East	31%	-5%	£116,610
Scotland	30%	-1%	£138,090
North West	29%	-5%	£149,890
Yorkshire & the Humber	29%	-6%	£155,310
East Midlands	27%	-6%	£185,200
South East	27%	-6%	£306,380
East of England	26%	-6%	£274,860
West Midlands	23%	-9%	£172,050
London	19%	-7%	£489,820
Great Britain	28%	-5%	£217,810

Proportion of Homes Bought with Cash (H1 of each year)



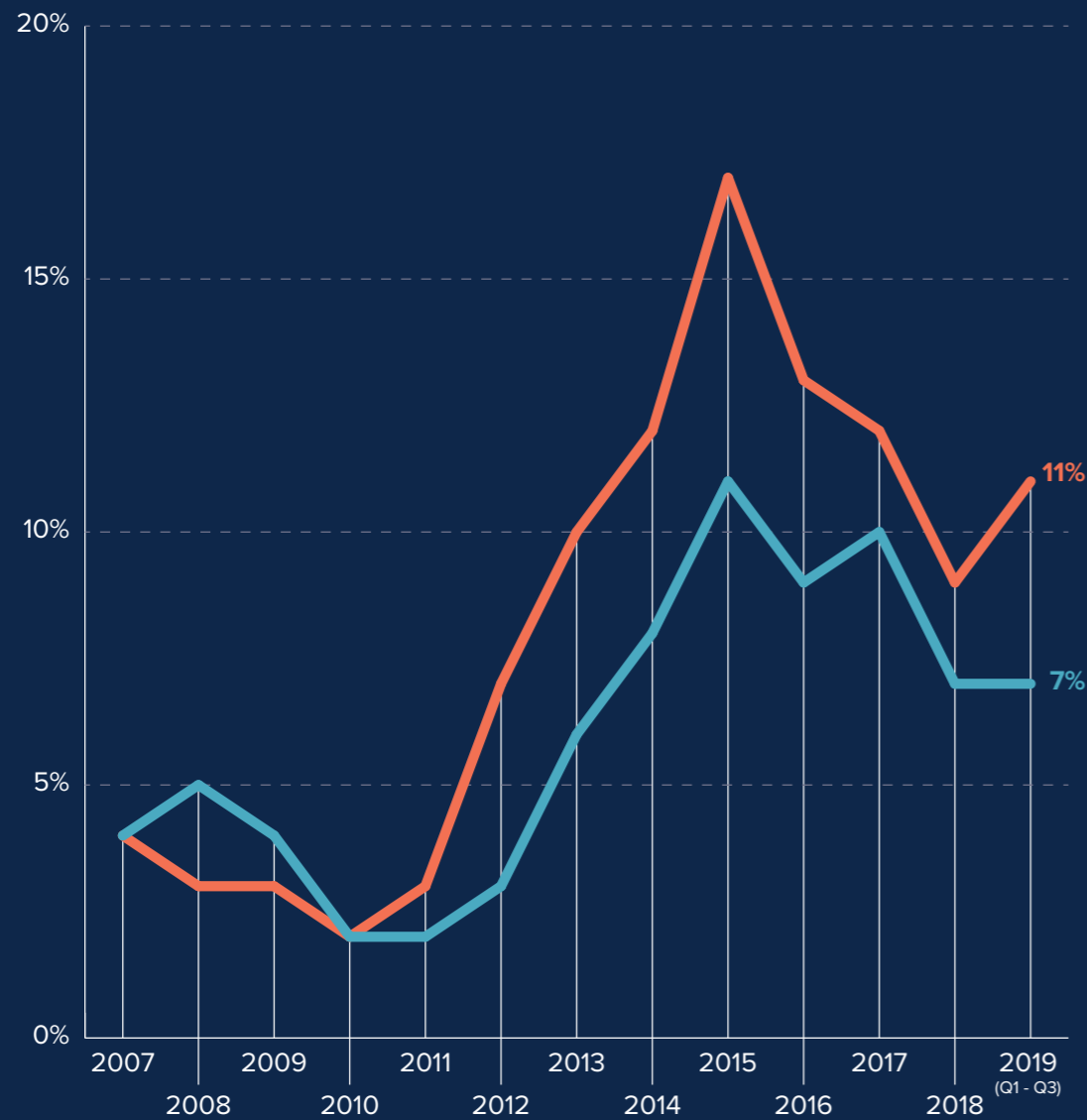
Source: ONS & Hamptons International

Cash Buyer Types



Source: Hamptons International

% OF HOMES SOLD OFF-MARKET

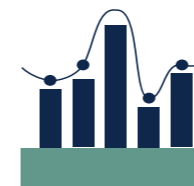


● London ● Great Britain

Source: Hamptons International

FOCUS SPECIAL: OFF MARKET SALES

Behind closed doors



69,940

homes sold off-market in 2019

In the past, it used to only be celebrities and the super-wealthy who sold their homes off-market. However over the last few years, more people in the mainstream market have been using the tactic to sell their home discretely.

Homes sold off-market are sales that take place behind closed doors and occur when the property has not been advertised publicly. There are several reasons why a seller may choose this route, or an estate agent recommend it. Often, it's used as a way to test the market, both in terms of interest levels and price, sometimes before advertising publicly. This is especially the case in a slow market when transaction levels are low, meaning comparable properties for sale are limited making valuations tricky.

However for some sellers, discretion is all - they simply don't want a digital footprint tracking price reductions, their home listed on a property portal, or a sale board on their front lawn. They might also be reluctant to have details of their home, floor plans and internal photographs made public. In these circumstances, an off-market listing can often provide the solution the seller is looking for.

In London, the practice of selling properties off market has risen.

In 2019 11% of homes in the capital were sold off-market, up from 9% in 2018 and considerably higher than the 3% recorded ten years ago. The sluggish market has meant that more homeowners have chosen to adopt a wait and see approach and chosen the off-market route which allowed them to test the waters first. But the

“*Off-market sales are not confined to London, but tend to take place at the higher end of the market*”

figure is still lower than in 2015 when the share of homes sold off-market in the capital peaked— a time when there were more higher value homes selling.

Across Great Britain they remained at 7% for a second consecutive year, with an estimated 69,500 homes selling without being listed on a portal during the first three quarters of 2019. Yet the figure is considerably higher for homes being sold at the top end of the market, last year 18% of homes sold for £1m or more were sold off-market.

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