MARKET INSIGHT
AUG-SEP 2019

Londoners on the move

150 YEARS

HAMPTONS INTERNATIONAL

CONTENTS

THE ECONOMY

Spend or save?

Since the UK voted to leave the EU in 2016, businesses, markets and households have all reacted rather differently. Markets moved swiftly, resulting in the weakening of the pound. Meanwhile, businesses, have put plans on hold to see what Brexit really means. Households, on the other hand, have continued spending despite the rise in uncertainty.

Instead of cutting back consumers are still spending, beating many economists' expectations. But in order to fund this spending households have borrowed more and saved less. During the first three months of the year households spent £6bn more than they earnt – a record tenth consecutive quarter of households being net borrowers.

The proportion of income that households set aside to save has fallen too. The household saving rate fell to just 4.1% in Q1 2019, considerably lower than the 7.8% recorded before the referendum in Q1 2016. In fact, the household saving ratio is at a near record low since the 1960's.

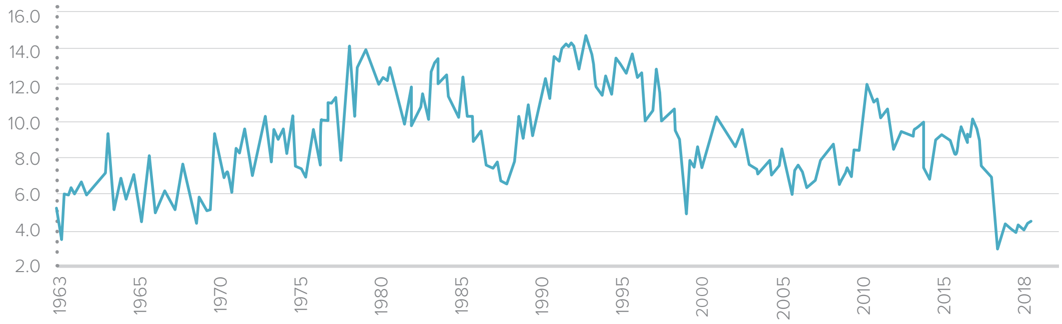
So what does this mean for the housing market? Saving up to purchase a home is the biggest barrier to homeownership in the UK, and it doesn't just affect first-time buyers, but movers too. Saving less will increase the time it takes for households to save to save up for a move and this will continue to weigh on activity in the housing market.

The other concern, however, is that the fall in savings reduces household's resilience in the event of an economic downturn. Consumer spending benefitted from strong income growth during the second half of 2018, but the outlook for the labour market doesn't look quite so rosy.

With businesses now tailoring their behaviour towards the rising probability of a No Deal Brexit, an uninspired economy and a challenging global environment, the recent record-breaking strength of the labour market may weaken during the rest of 2019. The Bank of England deputy governor, however, thinks households may have reached a turning point and will start rebuilding their savings, having drawn on them following the Brexit vote when inflation ate into people's earnings.

Household saving ratio (%)

Source: ONS



FOCUS

Prime Londoners on the move

Londoners are on the move and heading out to the country. Over the last 12 months, 43% of prime London movers said goodbye to the capital, a record proportion, and significantly higher than the 33% low of 2013. A prime London leaver doesn't just include someone leaving areas of Prime Central London such as Kensington and Chelsea and Westminster but incorporates those leaving prime hotspots in outer London too, such as Richmond and Wimbledon.

Where prime London movers move to

The majority of prime London leavers moved to another town nearby, but a rising proportion are choosing the rural life and moving to the country. In fact, 39% of prime London leavers moved to the country in the last 12 months, up from 37% in 2017.

Town or country, access to the capital is an important consideration and it comes as no surprise that the South East remains the destination of choice for many. 43% headed to the region over the last 12 months, spending an average of £646,140 on their new home.

However, falling prices in the capital have meant that prime London leavers are now spending less than in 2017. Over the last 12 months, buyers spent £478,760 on average, down from £497,660 in 2017.

First-time buyers

The fall in spend figures also reflects the increasing proportion of first-time buyers moving out of prime London. During the last 12 months, 52% of those households leaving prime London were buying their first home, up from 39% in 2017. This is the first time that this group of buyers has accounted for the largest proportion of buyers moving out of prime London.

While affordability remains a key driver for many of these moves, buyers can get much more for their money out of London than in. Lifestyle choices including space, schools and quality of life are high on purchasers' lists too. And flexible working, faster broadband and better transport links have helped make a move out of the capital more possible than ever.

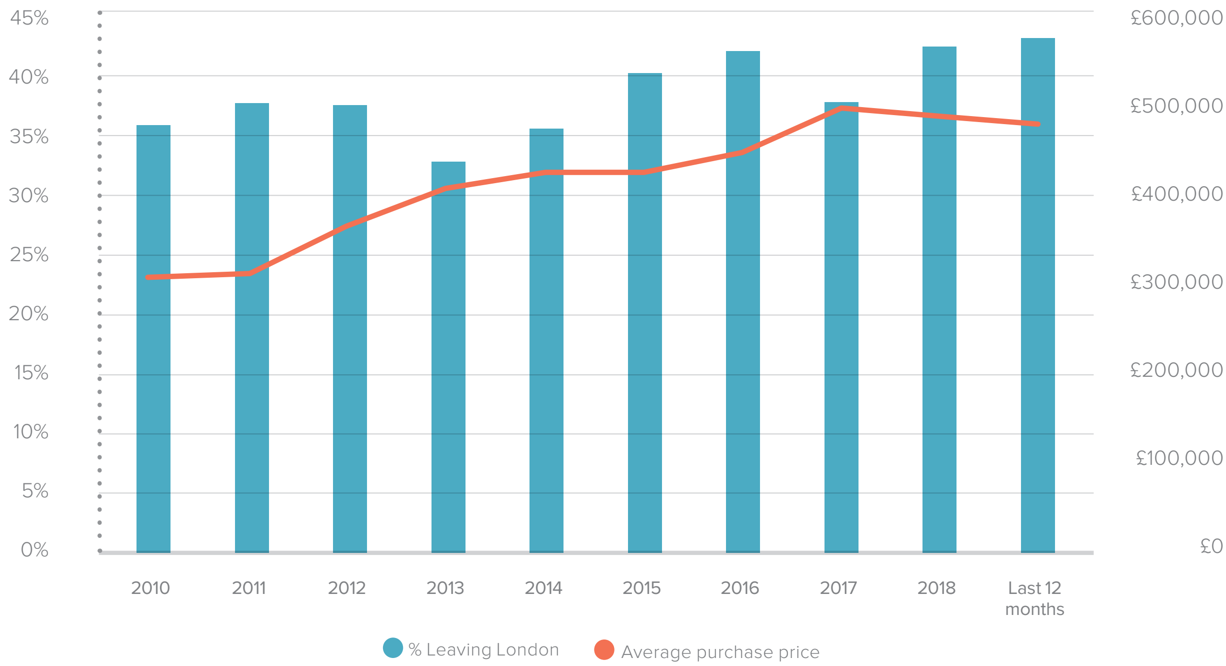
Prime London buyer hotspots

Hertsmere in South Hertfordshire is the local authority most reliant on buyers moving out from prime London. Forty-five percent of its total buyers came from prime areas of the capital with the group spending £463,290 on average.

Bath and North East Somerset came a close second with 41% of its buyers moving from prime London, in the past 12 months. Mendip, which includes the town of Glastonbury and is less than an hour's drive to Bristol and Bath is on level pegging at 41%. Properties here cost an average of 25% less than the average price of a home in Bath.

Percent of prime London movers leaving the capital

Source: Hamptons International



Prime London buyer hotspots

Source: Hamptons International

Local Authority	Region	% of homes purchased by a prime Londoner	2Y change	Average Price
Hertsmere	East	45%	11%	£463,290
Bath & North East Somerset	South West	41%	-6%	£339,230
Mendip	South West	41%	34%	£254,980
Elmbridge	South East	32%	0%	£581,400
Vale of White Horse	South East	29%	14%	£352,270
Mole Valley	South East	28%	16%	£494,840
Windsor and Maidenhead	South East	28%	12%	£487,620
St Albans	East	27%	1%	£517,210
Spelthorne	South East	27%	-1%	£370,470
South Bucks	South East	24%	-2%	£602,800

MARKET METRICS

Transactions (HMRC)

Source: HMRC

So far this year transactions in Great Britain are 1.4% lower than the same period in 2018. However given the economic uncertainty the monthly figures remain volatile. Following a promising March and April, May was a weaker month with transactions falling 5.9% year-on-year. As uncertainty continues to linger, more households are choosing to stay put and re-finance rather than move.

▼ -1.4% YTD

▲ 5.9% YOY

Mortgage Approvals

Source: Bank of England

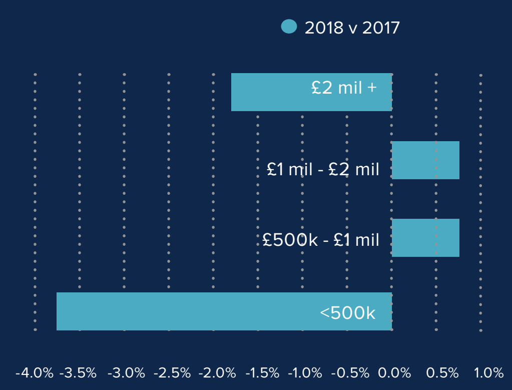
Bank of England mortgage approvals, which are a good indicator of future transactions, showed a more resilient start to 2019. Despite a 4.5% year-on-year fall in mortgage approvals in May, so far this year approvals are 1.1% higher than the same period in 2018. Both the number of households purchasing homes and the number of households re-mortgaging are up year-to-date.

▲ 1.1% YTD

▼ -4.5% YOY

Sales

Source: Land Registry



Interest Rates

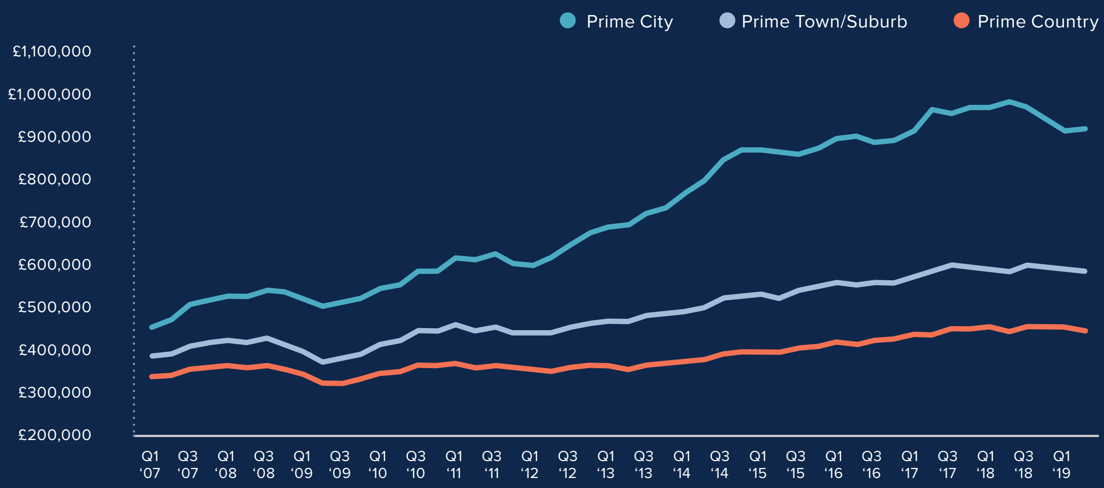
Source: Bank of England

Mortgage Interest Rates	Jun-19 Interest Rate	YoY Change
2Y Fix • 75% LTV	1.65%	-0.09%
2Y Fix • 90% LTV	2.17%	-0.20%
5Y Fix • 75% LTV	1.97%	0.06%
2Y Variable • 75% LTV	1.99%	-0.04%
Standard Variable (SVR)	4.30%	0.24%
Buy to Let 75% • LTV Fixed	2.30%	0.02%

Deposit Rates	Jun-19 Interest Rate	YoY Change
Instant Access Savings	0.44%	0.24%
1Y Fix Cash ISA	1.33%	0.16%
2Y Fix Cash ISA	1.27%	0.21%
1Y Fixed-Rate Bond	0.95%	0.17%
2Y Fixed-Rate Bond	1.03%	0.01%

House Price Growth (Q1 2007 = 1.0)

Source: Hamptons International & Land Registry

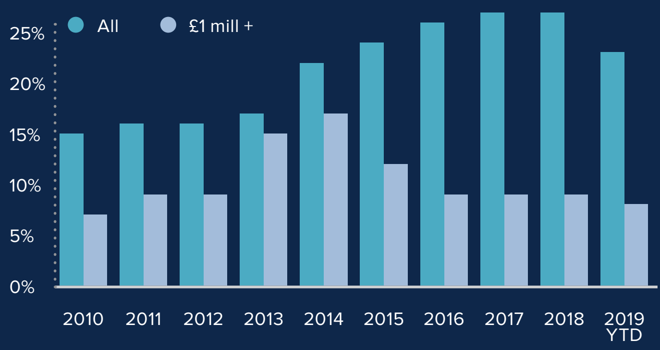


Price Growth

Source: ONS

Sold Above the Asking Price

Source: Hamptons International



Days to Sell

Source: Hamptons International

Instruction to Offer Accepted	GB	London
2012	54	40
2013	48	29
2014	38	25
2015	55	35
2016	34	30
2017	36	47
2018	37	48
2019 YTD	36	49

LETTINGS

The rise of the over-50s renter

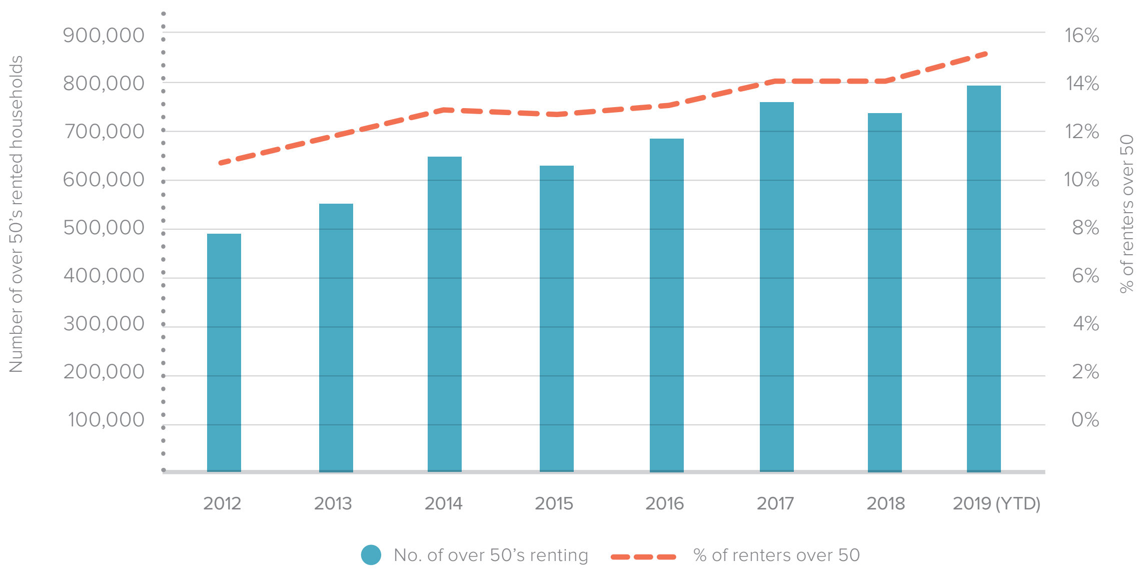
Generation Renters are usually characterised by millennials who are unable to purchase a home and are stuck in the rental market. However, this term doesn't just apply to people in their 20s as growing numbers of over-50s are renting too.

The number of older renters has reached record levels across Great Britain, with over-50s now accounting for more than one in 10 rented households. So far this year over-50s made up 15% of rented households, up from just 11% when our records began in 2012. Nearly a third of this group are pensioners.

We estimate that this year over-50s rented 791,580 homes in Great Britain, 61% more than in 2012 and 8.2% more than last year. As a result, over-50s will pay £9.2 billion on rent this year, up from just £5.1 billion in 2012. This means that £1 in every £7 paid by tenants in Great Britain now comes from a tenant aged over 50, compared to £1 in every £9 spent in 2012.

Number and % of rented households over 50 – Great Britain

Source: Hamptons International & EHS



The South East has the highest proportion of older renters, where nearly one in five (19%) tenants are over 50. The South West (16%), North West (16%) and Wales (15%) follow. Meanwhile, the East of England, London and Yorkshire and Humber (11%) have the lowest proportion of tenants over 50.

During the last 12 months the average tenant over 50 paid £1,000pcm in rent, 3% more than other tenants in Great Britain. Most tenants over 50 live in two-bedroom properties, with 26% choosing a three-bedroom property and 19% living in a one-bedroom home. However, across Great Britain 48% of tenants over 50 live alone.

So why have we seen this shift? Older tenants might be renting for many reasons. In some cases, they simply can't afford home ownership. But for those who do own a home, renting enables them to free up cash for retirement or to pass down to younger generations. And for some it's the sheer convenience of renting over owning.

> *£9.2billion paid in rent by over 50's*

Furthermore, some of these older renters don't consider upsizing a worthy investment. With sluggish price growth and the cost of moving so high, more households are choosing to rent rather than spend their money on stamp duty and conveyancing fees. This is particularly true during times when house prices aren't rising quickly because it becomes more difficult to recoup moving costs.

Is this trend set to continue? Put simply, yes. The affordability problem isn't going to disappear anytime soon. So with more people set to rent for longer, tenants are going to continue getting older.

	Average Rent (May-19)	YoY Rental Growth
Greater London	£ 1,716	3.1%
South East	£ 1,061	2.4%
South West	£ 814	4.0%
East	£ 945	-0.5%
Midlands	£ 686	1.6%
North	£ 628	1.1%
Wales	£ 666	-0.1%
Scotland	£ 651	3.2%
Great Britain	£ 977	2.6%
Great Britain (Excluding London)	£ 782	1.6%

Rental growth on new lets

Rising rents in the South are driving rental growth in Great Britain. The average cost of a new let in Great Britain rose to £977 pcm, a 2.6% year-on-year increase. The South West recorded the strongest rental growth, with rents rising 4.0% year-on-year. Meanwhile rents in Greater London increased 3.1% year-on-year, however this is compared with a short period of weak average rents back in May 2018. Wales and the East were the only regions to record small rent falls.

Source: Hamptons International

SALES

Do the sums still stack up for flippers?

Buying and selling a home in quick succession, or flipping as it's often referred to, began in earnest in the 2000s. But as house price growth stalled, so has the number of flippers. Last year, 18,630 homes were flipped in England and Wales, 69% less than the 60,340 flipped at the height of the practice in 2004.

Flippers who typically, buy, renovate and sell on, play an important role; not only do they improve the quality of housing stock in a local market, but bring empty homes back into use too. In order to maximise profits, they tend to operate best when house prices are rising; a less buoyant market offers speculators fewer opportunities.

Today, flippers make up a smaller part of the total housing market. In 2004, 4.8% of homes sold in England and Wales were bought and sold within a 12-month period, last year it was just 2.1% - slightly up (by 0.1%) on 2017.

In 2018, flipping accounted for £3.9 billion worth of sales, half the value recorded in 2004, with the average flipper selling their property (pre-tax) for £30,150 more than they paid for it. While this represents an average gain of 22%, it is less than the 32% made in 2004 when prices were rising at a faster rate than today.

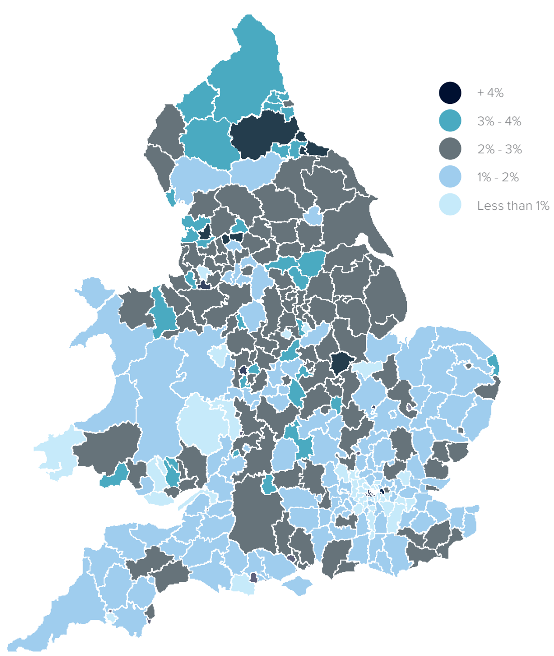
In fact, since 2004 the number and proportion of homes flipped has fallen in every region, with London seeing the biggest drop – down 81%.

However, comparing 2018 with 2017, shows a small rise in flipping across all regions apart from London. The North East saw the biggest increase with the proportion of flipped homes rising from 3.3% in 2017, to 3.6% in 2018. This in contrast to London which fell from 1.5% in 2017, to 1.4% in 2018.

Burnley tops the league table for flipping in England and Wales. Last year 11.2% of homes sold in Burnley were bought in the previous 12 months; Wolverhampton (6.1%), Hyndburn in Lancashire (5.4%) and Hackney (5.1%) followed. Hackney was the only London borough to appear in the top 15 local authorities' league table last year and represents the first appearance of a London local authority for two years.

% of homes flipped (2018)

Source: Hamptons International & Land Registry



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