MARKET INSIGHT
JUN-JUL 2019

Time to save: moving back the clock on buyer deposits

150 YEARS

HAMPTONS INTERNATIONAL

CONTENTS

THE ECONOMY

Wages ticking up

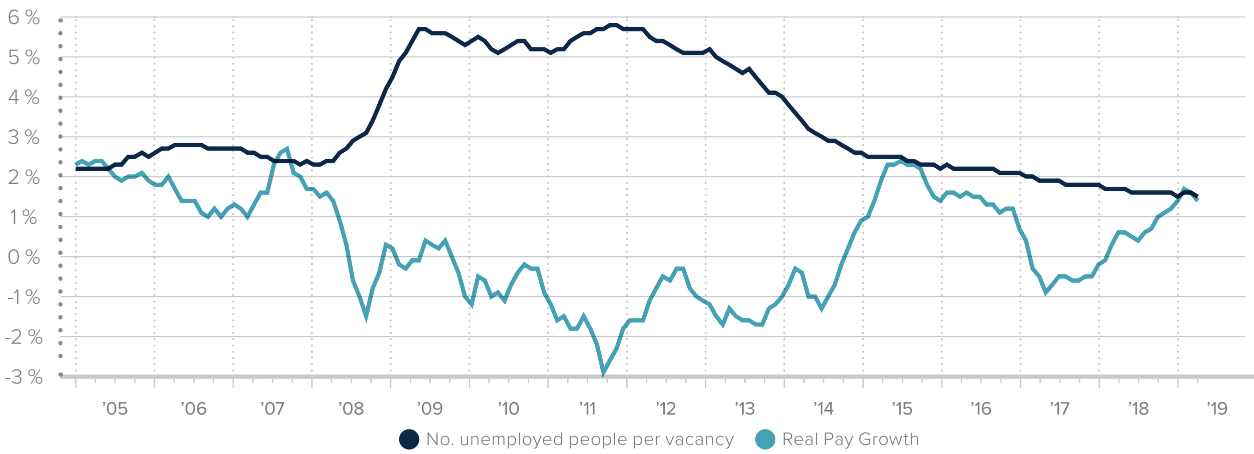
In the first quarter of this year UK unemployment fell to the lowest level since 1974. Against a backdrop of sluggish economic growth this is quite an achievement. Low unemployment levels are helping to boost people's earnings as spare capacity in the labour market dries up, which is good news for those trying to save up for a home. Currently there are 1.5 unemployed people per job vacancy, significantly down from a peak of 5.7 back in the middle of 2009, and with fewer people available to fill the advertised jobs, it's finally putting pressure on wage growth.

Incomes are currently rising by 3.2% year-on-year, significantly higher than the 1.8% growth recorded two years ago. The good news is that wages are outpacing inflation too, meaning households should have a bit more money left in the bank at the end of the month. In fact, real incomes (after adjusting for inflation) are rising around 1.4%, up from 0.6% in March 2018 and significantly higher than -0.5% in March 2017 when inflation was really biting into household incomes. As a result, real pay is rising at the fastest rate since the beginning of 2016 - which is good news for households.

Since 2008 house prices have risen considerably more than incomes, and this has really squeezed affordability and put purchasing a home out of reach for many. But over the last nine months incomes have risen faster than house prices in Great Britain, following a period of 67 months (5.5 years!) where house price growth outpaced earnings growth. So now the tables have turned it's a welcome boost to those looking to purchase a home by helping them save up a little faster, but even more so, it's a welcome boost to the economy too and should help support future economic growth.

Real wage growth

Source: ONS



FOCUS

Less time needed to save for a deposit

Saving for a deposit remains the biggest hurdle to buying a home. In fact, for the typical first-time buyer in England and Wales, saving for a 15% deposit now takes 10 years and three months, or 15 years and nine months if they're looking to purchase their home in London. In other words, a single first-time buyer starting to save now could buy their home early in 2029.

It may sound like a considerable time to be saving – that's because it is! On the bright-side, it is getting easier – a whole six months quicker than in 2016 when it took 10 years and 9 months to save for a 15% deposit in England and Wales. This decrease is because house price growth has slowed and incomes are rising more quickly.

> *Over the last two years, eight out of the country's ten regions have seen a fall in the amount of time it takes a single first-time buyer to save for their deposit.*

While London tops the list as the place where it takes the longest time to save, the South East and South West follow behind at 13 years and six months and 13 years respectively.

For those living in the North it is a better story – eight years and six months for would-be first-time buyers looking to purchase in the North West, or six years and six months in the North East – half the time it takes to save for a home in the South East.

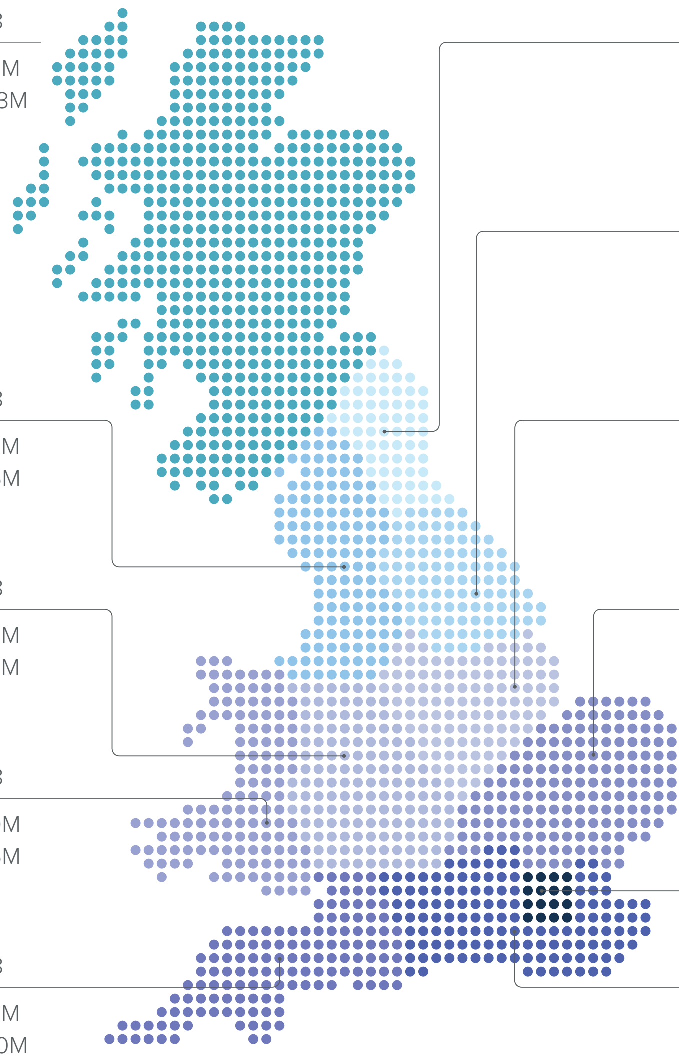
Sharing the burden helps too. A full-time working couple in England and Wales can save in half the time it takes a single first-time buyer. In just four years and nine months a couple buying together will have saved the deposit needed to purchase their first home.

By sharing rent and every day household costs, a couple buying in London take on average seven years and six months to save for a deposit, while in the North East – the quickest place to buy – it would take them just two years and nine months.

It's actually quicker to save up for a deposit now, than it was ten years ago too – a whole year quicker in three out of ten regions for a single first-time buyer. London, the South East and the South West were the only areas where it took longer for a single person to save for a deposit in 2018 than it did in 2008.

Time to Save for a 15% Deposit

Source: Hamptons International



England & Wales

	2016	2018
Couple	5Y 0M	4Y 9M
Single	10Y 9M	10Y 3M

North East

	2016	2018
Couple	2Y 9M	2Y 9M
Single	6Y 6M	6Y 6M

Yorkshire & Humber

	2016	2018
Couple	3Y 6M	3Y 6M
Single	8Y 3M	8Y 0M

North West

	2016	2018
Couple	3Y 6M	3Y 6M
Single	8Y 6M	8Y 6M

East Midlands

	2016	2018
Couple	4Y 0M	4Y 0M
Single	9Y 9M	9Y 0M

West Midlands

	2016	2018
Couple	3Y 6M	3Y 6M
Single	9Y 6M	9Y 3M

East

	2016	2018
Couple	5Y 3M	5Y 0M
Single	11Y 9M	11Y 0M

Wales

	2016	2018
Couple	4Y 0M	4Y 0M
Single	9Y 3M	8Y 6M

London

	2016	2018
Couple	7Y 9M	7Y 6M
Single	16Y 0M	15Y 9M

South West

	2016	2018
Couple	3Y 9M	3Y 6M
Single	13Y 6M	13Y 0M

South East

	2016	2018
Couple	6Y 0M	5Y 9M
Single	13Y 6M	13Y 6M

Couple Single

MARKET METRICS

Transactions (HMRC)

Source: HMRC

Transactions are pretty flat in Great Britain. In the first quarter of 2019 there were -0.4% fewer sales than in Q1 2018 according to Land Registry. March was a little more promising, with a 0.4% year-on-year rise in completions in Great Britian, driven by a 2.0% annual increase in England. We expect transactions to remain similar to 2018 levels for the rest of the year.

▼ -0.4% YTD

▲ 0.4% YOY

Mortgage Approvals

Source: Bank of England

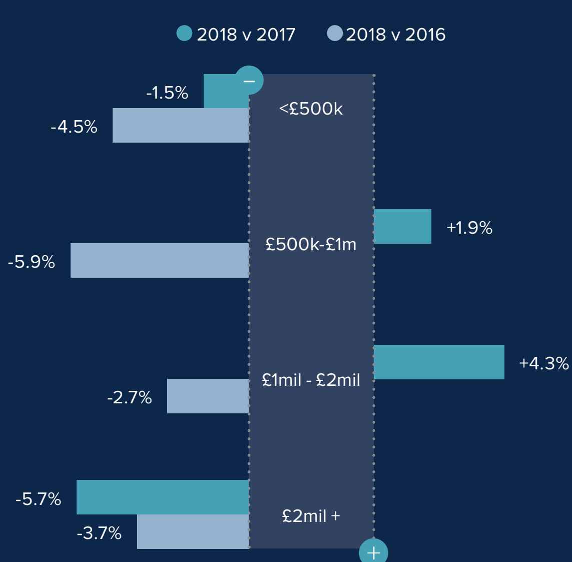
Bank of England mortgage approvals, which are a good indicator of future transactions, showed a more resilient start to 2019. Mortgage approvals rose by 2.0% in Q1 2019 compared with Q1 2018. However, the increase was mainly driven by a 4.6% increase in re-mortgage activity compared with just a 0.1% rise in house purchase approvals. As uncertainty continues to linger, more households are choosing to stay put and re-finance rather than move.

▲ 2.0% YTD

▲ 1.1% YOY

Sales

Source: Land Registry



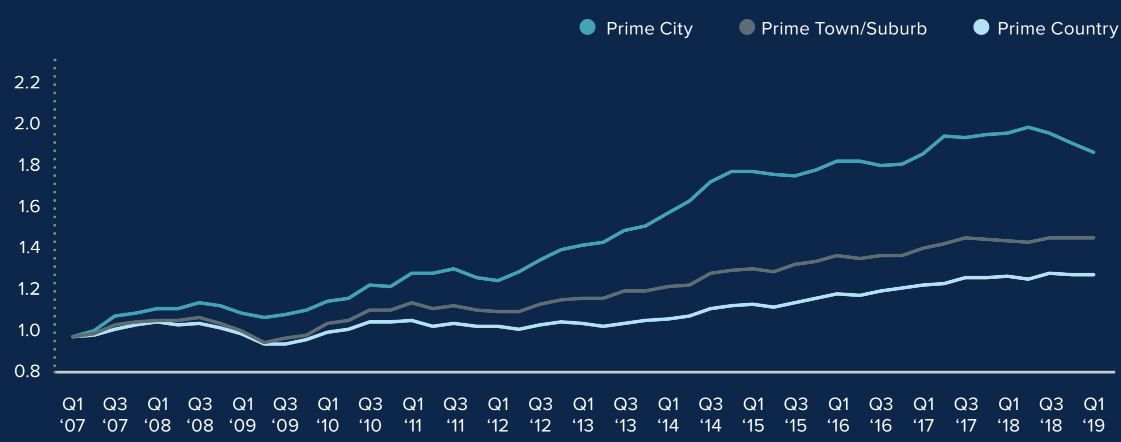
Interest Rates

Source: Bank of England

Mortgage Interest Rates	Apr-19 Interest Rate	YoY Change
2Y Fix • 75% LTV	1.67%	-0.05%
2Y Fix • 90% LTV	2.19%	-0.17%
5Y Fix • 75% LTV	2.03%	0.02%
2Y Variable • 75% LTV	1.60%	-0.04%
Standard Variable (SVR)	4.29%	0.12%
Buy to Let 75% • LTV Fixed	2.29%	0.01%

Deposit Rates	Apr-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

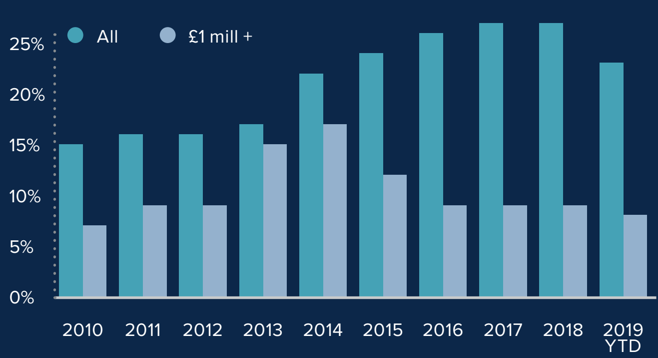
▲ 0.5% GB YOY

▼ -3.8% LONDON YOY

▼ -1.8% SE YOY

▲ 1.2% SW YOY

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	54	34
2016	34	30
2017	36	46
2018	37	48
2019 YTD	36	49

LETTINGS

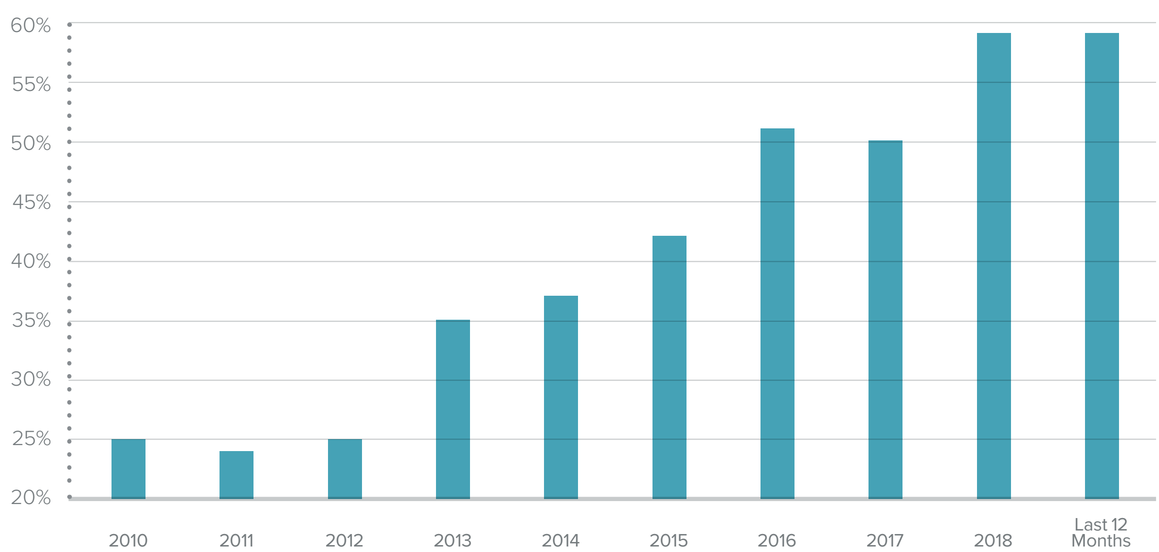
Change of strategy

April marked the three-year anniversary of the stamp duty surcharge introduction for second home purchases. However, this wasn't the only tax change introduced by the government in recent years that has affected investors over the last few years. The government have also started phasing out the tax relief available on mortgage interest payments, as well as tweaking the amount of relief available on wear and tear, all of which are eating into investors returns.

Following these tax hikes, landlords have been adapting their strategy to find new ways to make their returns. The clampdown on taxation and mortgage lending has meant that yield is becoming increasingly important. Landlords are now having to seek higher yields, rather than rely on capital growth to make their total returns.

Lower entry costs combined with higher yields outside of the capital are enticing investors to look further afield than they have previously. Historically, London landlords bought their investment properties near where they lived. In 2010, just one in four (25%) London-based landlords purchased their buy-to-let outside the capital, with 75% investing in

Proportion of London-based landlords who bought buy-to-lets outside the capital Source: Hamptons International



London. However, high house price growth and a clampdown on taxation is pushing investors to look further afield.

> *Nearly three in five (59%) London-based landlords purchased their buy-to-let property outside the capital during the last 12 months, 17% more than in 2015.*

By buying homes outside of the capital, landlords can save on stamp duty too. A landlord buying in London during the last 12 months faced a £24,600 stamp duty bill on average, compared to £5,330 for an investor buying outside the capital. The average stamp duty bill for an investor buying in London is now £11,760 more compared to pre-stamp duty changes (Q1 2016), but only £3,910 higher for an investor purchasing outside London.

Yet the South East remains the most popular destination outside the capital for London landlords, with 11% of London-based landlords purchasing their buy-to-lets in the South East over the last 12 months. But they are increasingly looking further North in search of higher yields and lower stamp duty bills. 34% of London-based investors bought buy-to-lets in the Midlands and North during the last 12 months, up from just 14% in 2015 and just 4% in 2010.

The change in distance isn't the only difference we have seen. More landlords are purchasing their properties with cash too, to avoid the tapering of mortgage interest tax relief rules, which will be fully phased in from April 2020.

The proportion of landlords purchasing buy-to-let homes in London with cash rose from 33% in 2017 to 48% in 2018 – a 15% increase and now the highest level in seven years. However, much of this cash has come from landlords re-mortgaging to take equity out of homes they already own.

Region	Average Rent	YoY Rental Growth
Greater London	£1,738	3.9%
Inner London	£2,663	2.6%
Outer London	£1,563	4.4%
South East	£1,039	0.6%
South West	£801	1.8%
East	£954	0.9%
Midlands	£682	1.6%
North	£628	1.1%
Wales	£660	0.8%
Scotland	£631	0.3%
Great Britain	£972	2.1%

Rental growth on new lets

Following a sluggish 2018, rental growth rose to 2.1% in Great Britain in April, the highest rate since January 2018, as the cost of a new let increased to £972 pcm.

Every region in Great Britain saw rents rise. London had the highest rental growth with average rents rising 3.9% year-on-year, followed by the South West (1.8%) and the Midlands (1.6%).

Source: Hamptons International

SALES

Glimmers of hope in the housing market

With all the uncertainty swirling around Brexit you would be forgiven for thinking that all is doom and gloom on the housing market front, yet this isn't quite the case. Buyer and seller expectations over pricing are getting closer – particularly in London – which is translating into more homes being sold. Asking to achieved prices, which reflect the percentage difference between the initial asking price of a home and the price it sells for, is a good indicator of the health of the housing market. Notably, the gap in London is narrowing.

In the first three months of this year, sellers in London achieved 99% of their asking price compared to 96% across the rest of Great Britain. However, this hasn't always been the case. Towards the peak of the market in 2014, London sellers were getting on average 4% above their asking price but by 2018, and in a slowing market, this fell back to 97% - the lowest it had been since 2012.

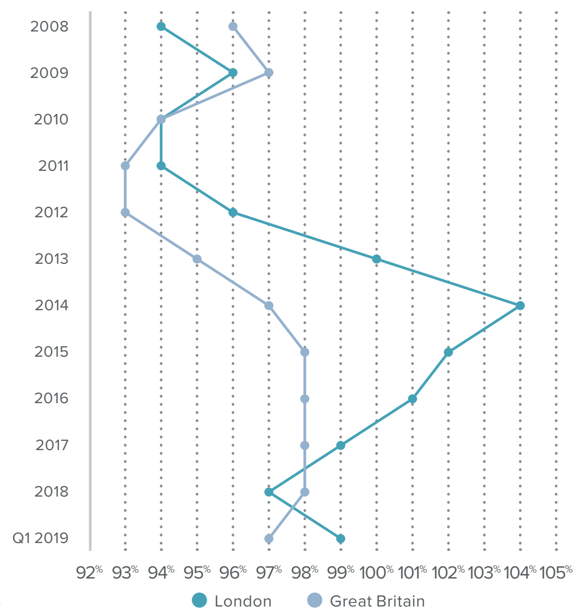
While a 2% rise may seem small, this is a metric that is slow to move and any change is significant. It shows that in spite of the chaos surrounding Brexit, London's housing market has seen a resilient start to the year and it is this narrowing of price expectations that has kept the capital's housing market moving.

The general feeling is that prices in London are bumping along the bottom and for anyone looking to buy in the capital, now is a good time. Meanwhile, outside London where the market fared a little better last year, the average asking to achieved price lingered at 98% between 2015 -2018, falling back to 96% at the start of 2019.

Despite the slowing housing market across Great Britain, more homes sold in some areas of the country in 2018 than they did the year before. In 52 of Great Britain's 297 local authorities more homes sold in 2018 than in 2017. Activity held up best in the Midlands and North last year, but despite falling prices in the capital, six London boroughs sold more homes in 2018 than a year earlier. The City of London saw a 69% increase in sales, while Islington (up 0.8%), Kingston upon Thames (0.5%), Harrow (2.8%), Hammersmith and Fulham (1%) and Haringey (0.9%) also saw an improvement.

Initial Asking Price to Achieved Price

Source: Hamptons International



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