MARKET INSIGHT
FEB-MAR 2019

Looking ahead:
2019 and beyond

150 YEARS

HAMPTONS INTERNATIONAL

CONTENTS

ECONOMIC OUTLOOK

While Brexit may be casting a shadow over the economy, it's not the only thing at play.

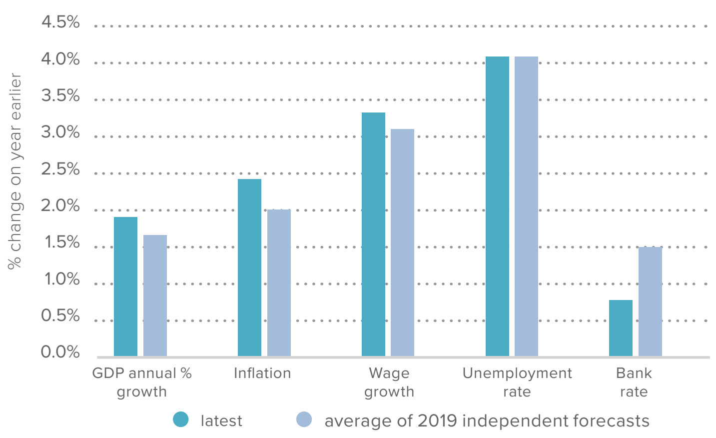
The ongoing uncertainty about the form that Brexit may – or may not – take continues to cast a shadow on the outlook for the economy. Delays in investment, while business has waited for certainty, hasn't helped the economy's productivity and that limits the speed at which it can grow. While we wait for news on the final negotiations with the European Union, financial markets are wobbly and as a buffer have already priced in higher interest rates. But Brexit isn't the only thing at play. Global economic conditions are weakening too – particularly in Europe and China and that has an effect on the UK's potential to grow.

It's easy to fall into gloom mode, but there are still aspects of the economy to be happy about. The labour market is in strong shape – with employment at the highest levels since 1971 and wages are growing at their fastest pace in a decade. Interest rates are low, inflation is modest and finance is available. Even though the next move in interest rates will be up, these moves are still likely to be small and slow. Forecasters think that interest rates will reach 1.5% by Q4 2019.

There are significant risks to the economy if Britain leaves the EU without a deal and these can't be ignored, but after the government lost the parliamentary vote, it seems that it's even less likely that no deal will be the outcome. In the short-term, uncertainty is affecting growth – the Bank of England has revised down its expectation for growth in Q4 2018 and Q1 2019 to just 0.1%. But once the terms of the deal are known, business investment will be able to move ahead giving a boost to growth, albeit with a delay.

Independent economic forecasts are in relatively close agreement about the pace of economic growth this year – but based on the assumption that the UK will leave with a deal that allows a transition period to adjust and agree new trading arrangements outside of the union. The average view is that the economy will continue at a modest and unstartling pace. We are used to that and would welcome it in exchange for the shock of an unplanned exit from the EU.

Steady as she goes Source: ONS



FORECASTING THE HOUSING MARKET

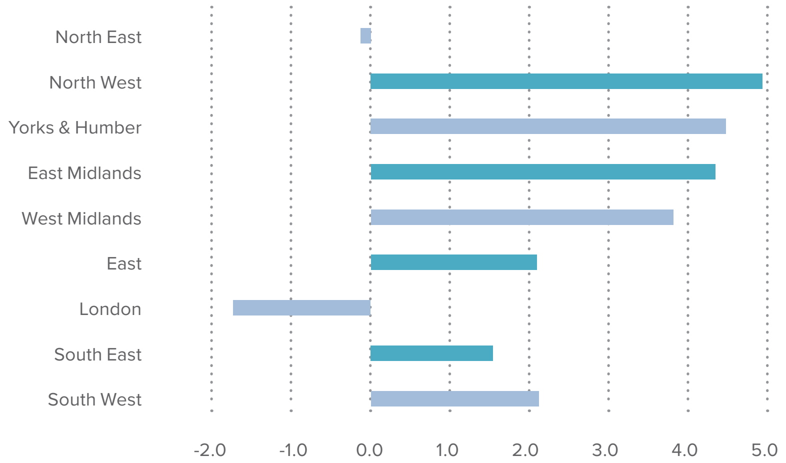
The headline figures mask regional variations.

Brexit, whatever form it takes, will impact the housing market through its effect on household income and sentiment. But cyclical and policy changes over the last few years are also at play. House prices over the last decade have risen faster than incomes, raising the affordability hurdle, not just for first-time buyers, but for movers too. This, combined with rising stamp duty costs and mortgage affordability restrictions, has been weighing on activity for some time - Brexit has just been the final straw.

Forecasting is tricky in the current climate but we assume the UK will leave the EU on 29 March 2019, with a deal and a smooth transition up until late 2020. During that period the UK will remain part of the EU in all but name and voting rights.

It's useful to put the market in context before looking forward. Nationally, house price growth has been slowing since the 2016 referendum and activity levels are still on the floor compared with pre-crisis levels. But there is a very mixed set of regional markets. Average annual house price growth in the UK has slowed to 2.7%. In London, house prices have been falling since March and are now 1.7% lower than 12 months ago. Yet in the North West prices rose consistently over the same period and are 5% higher than last year.

Annual % change in house prices Source: ONS



The Outlook and Forecasts

Looking ahead we expect a 0.5% fall in house prices in 2019, with a modest recovery thereafter. We expect prices to fall in most parts of the country in 2019, with conditions in London, the East and the South weaker in the short-term. Overall we do not expect any significant increase in transaction levels as caution, low liquidity and fewer landlord purchases bear down on the market.

London has been hardest hit by affordability and sentiment has been weakened too. International buyers are still attracted by the capital, but their decisions will be driven by movements in currency in the coming months. We expect house prices in London's mainstream market to fall -2.0% in 2019, but for the prime market to revive, with price growth of 1.5%. The East of England has been remarkably buoyant for several years, partly due to spill-over from London. Less housing wealth leaving the capital will restrain demand in the prime commuter spots in the East. Combined with rapidly deteriorating affordability, we expect prices will fall by about -2.0% during 2019.

Similarly, we expect prices in the South East to fall by 1% this year, before returning to growth in 2020. We expect a 0.5% fall in the South West, although it looks relatively good value compared to surrounding areas. A home here costs 47% less than a home in London, down from just a 28% gap in Q1 2004.

Price growth was strongest in the Midlands in 2018. Affordability here is not as tight as in the South and it is less exposed to the London housing market, but it is not immune to changes in sentiment. The Midlands (East and West) is particularly exposed to manufacturing which could see job losses depending on the Brexit outcome.

House prices in the North East have only recently returned to pre-financial crash highs and still have some catching up to do. We expect prices to increase by 1% despite hard local economic conditions. However, future price growth will be dependent on some areas unlocking their potential through regeneration or infrastructure developments.

Price growth in the North West and Yorkshire and Humberside has been slowing, but they are well placed for growth over the next few years. There is still capacity for household finances to stretch and higher demand from landlords seeking the best yields should support demand.

House Price Forecasts (Q4 on Q4 Price Growth)

Source: Hamptons International based on ONS data

	2017	2018 (F)	2019 (F)	2020 (F)	2021 (F)
GB	4.2%	2.5%	-0.5%	1.0%	2.5%
North East	2.7%	2.0%	1.0%	2.5%	3.5%
North West	5.9%	3.5%	0.0%	1.5%	2.0%
Yorks & Humber	4.0%	3.0%	0.5%	1.5%	2.5%
East Midlands	6.1%	5.0%	-1.0%	0.5%	1.5%
West Midlands	6.0%	4.5%	-0.5%	0.5%	2.0%
East	5.2%	1.5%	-2.0%	-0.5%	2.0%
South East	4.1%	1.0%	-1.0%	1.0%	2.5%
South West	5.7%	3.0%	-0.5%	2.5%	3.0%
Wales	5.1%	4.5%	1.0%	2.0%	3.5%
Greater London	1.5%	-0.5%	-2.0%	1.0%	2.5%
Scotland	3.6%	4.0%	0.5%	2.0%	2.5%
Prime Central London	0.5%	-4.0%	1.5%	2.0%	4.5%

MARKET METRICS

Transactions (HMRC)

Source: HMRC

The number of property transactions in November 2018 was 7.5% higher than in November 2017. But uncertainty and longer transaction times can make the data volatile. Over the 11 months to November 2018 there were 2% fewer property sales than in the same period in 2017 compared with 3% fewer in the year to October. As the year has gone on the cumulative annual difference in transactions has narrowed since the summer; from over 4% in the year to June.

▲ 7.5% YOY

▼ -2.0% YTD

Mortgage Approvals

Source: Bank of England

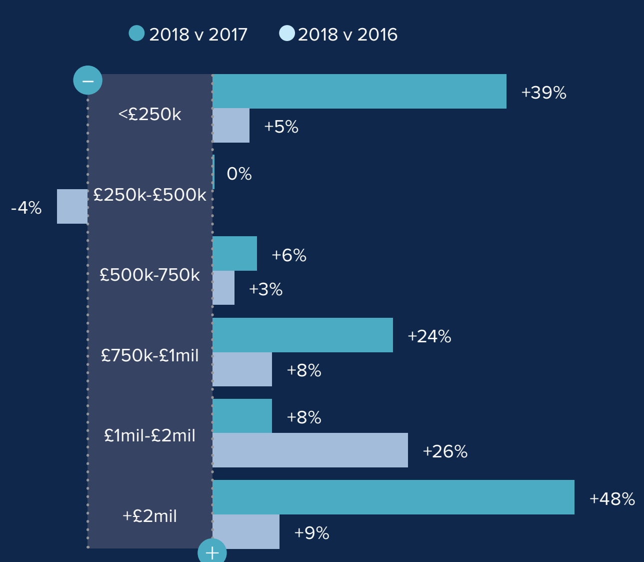
The number of mortgages approved for house purchase was 4% lower in November than October, At 63,700 it was just 2% below 2018's average monthly count of 65,200, which supports other data in suggesting that the level of house sales will remain flat in the coming months. Remortgaging was 10% down compared with a year earlier, but that reflects a strong November in 2017, rather than a shift in market trend. The number of remortgage approvals was almost exactly the monthly average for the whole 2018.

▼ -1.4% YOY

▼ -2.2% YTD

Stock Levels

Source: Hamptons International



Interest Rates

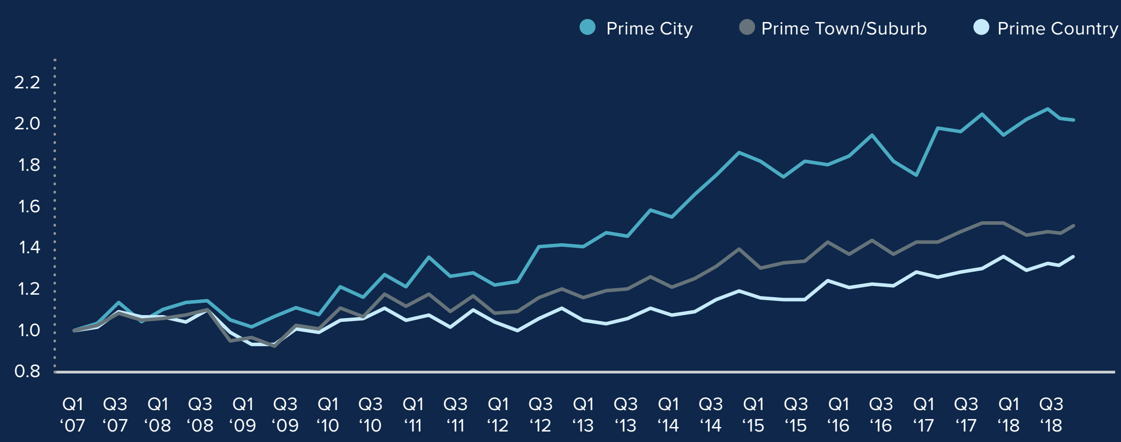
Source: Bank of England

Mortgage Interest Rates	Dec-18 Interest Rate	Dec-17 Interest Rate	YoY Change
2Y Fix • 75% LTV	1.69%	1.53%	0.16%
2Y Fix • 90% LTV	2.2%	2.15%	0.05%
5Y Fix • 75% LTV	2.02%	1.98%	0.04%
2Y Variable • 75% LTV	1.66%	1.68%	-0.02%
Standard Variable (SVR)	4.41%	4.24%	0.17%
Buy to Let 75% • LTV Fixed	2.35%	2.49%	-0.14%

Deposit Rates	Dec-18 Interest Rate	Dec-17 Interest Rate	YoY Change
Instant Access Savings	0.27%	0.20%	0.07%
1Y Fix Cash ISA	1.41%	1.26%	0.15%
2Y Fix Cash ISA	1.43%	1.38%	0.05%
1Y Fixed-Rate Bond	0.9%	0.75%	0.15%
2Y Fixed-Rate Bond	1.29%	1.07%	0.22%

House Price Growth (Q1 2007 = 1.0)

Source: Hamptons International & Land Registry



Price Growth

Source: ONS

▲ 2.7% GB YOY

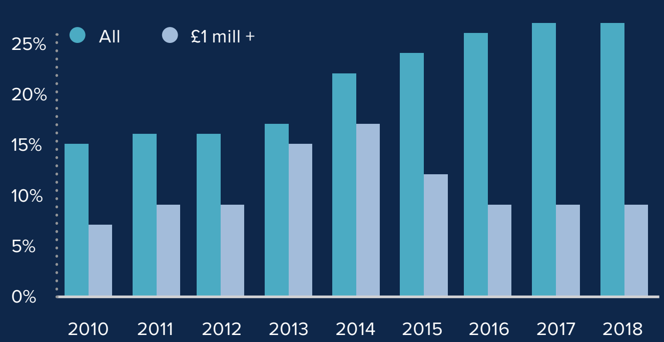
▼ -1.7% LONDON YOY

▲ 1.5% SE YOY

▲ 2.1% 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

INTERNATIONAL LANDLORDS

Slower capital growth, higher taxation and a drop in rental returns have made for a more cautious overseas investor.

The number of overseas landlords looking to invest in Great Britain is falling. In 2018 the share of homes let by international investors more than halved, from a high of 14.1% in 2010 to just 5.8% in the first 11 months of 2018.

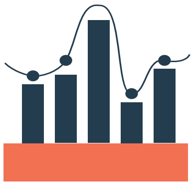
London has been hardest hit. In 2010 – when our records began – 26% of homes let in the capital were owned by an overseas landlord but by the end of 2018 this has had fallen to 10.5%, with a 5% drop in the last two years alone. Lower expectations of house price growth, a higher tax burden and as sterling falls, a drop in rental returns, have combined to make for a more cautious investor.

Despite the decrease, London still has the largest proportion of international investors, some 10.5% compared to Great Britain's 5.8%. Outside the capital, Yorkshire & the Humber is the region of choice for international landlords (6.7%) and where, since 2010, they've dropped by just 4%.

Elsewhere across the country, the share of international landlords has fallen by 10% (since 2010) in the South East and by 6% in both the North East and East Midlands.

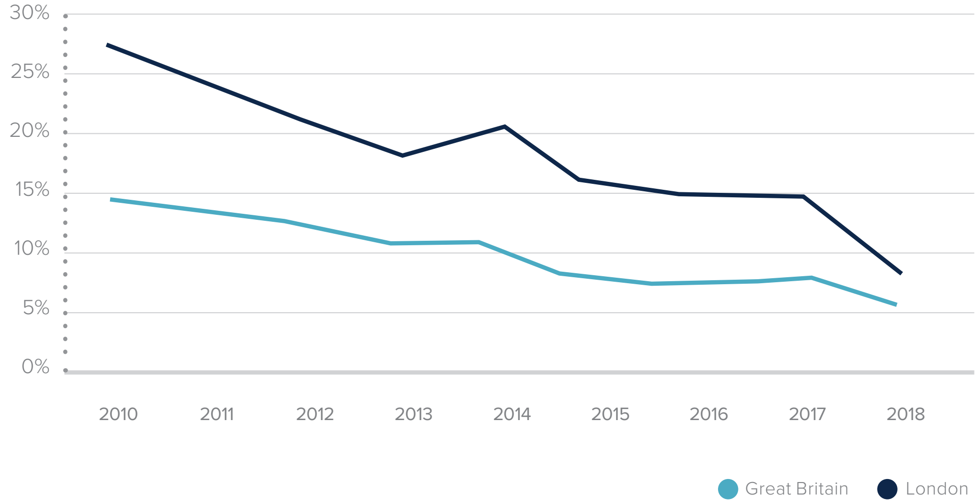
Proportion of homes let by an overseas based landlord (Jan-Nov 2018)

Source: Hamptons International



5.8%

of new lets in Great Britain were owned by an international landlord



> *At 34% Western Europeans are the biggest investors in rental property across the country, followed by Asia at 20% and North America at 13%.*

However, since 2010 the proportion of Western European based landlords has fallen by -2.1%, but these falls have been compensated for by a pickup in Asian landlords (+2.1%) and Middle Eastern investors who account for 11% of overseas based landlords, a 1.4% rise on 2010.

Sterling's depreciation since 2016 has undoubtedly made it cheaper for international buyers to purchase property in Great Britain, but falls in sterling have also meant that conversion of pounds back to local currency have cut overseas landlord's monthly income too.

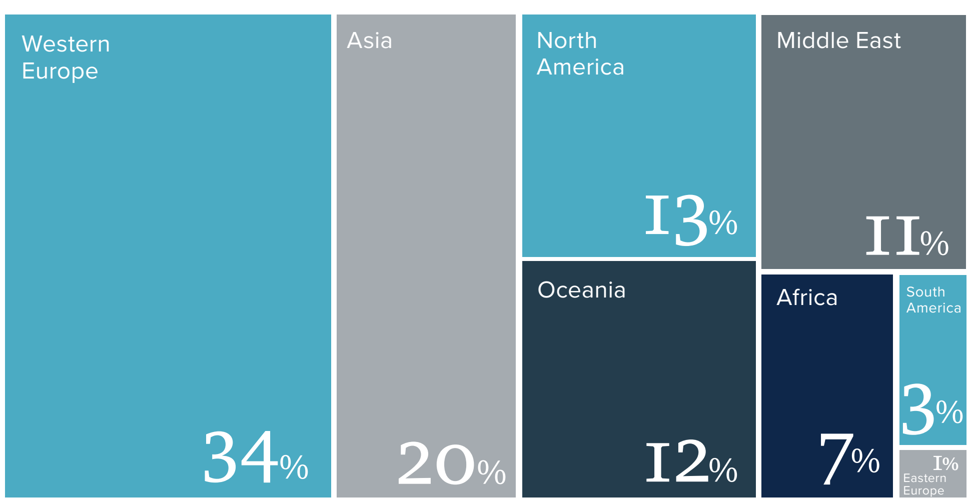
Proportion of overseas based landlords by region

Region	Proportion of overseas based landlords (2018)	Change since 2010	Change since 2016
London	10.5%	-15%	-5%
Yorks & Humber	6.7%	-4%	0%
South East	6.1%	-10%	-3%
Scotland	6.1%	-5%	-2%
South West	5.6%	-5%	-1%
East	5.6%	-3%	-2%
North West	5.4%	-3%	-1%
North East	5.3%	-6%	-2%
West Midlands	4.4%	-2%	-2%
East Midlands	3.5%	-6%	-1%
Wales	3.3%	-3%	-3%

Source: Hamptons International

Where overseas based landlords come from (Jan-Nov 2018)

Source: Hamptons International



10.5%
of homes let in the capital were owned by an overseas landlord

PROFITING FROM THE HOUSING MARKET

Despite a slowing market the average seller made £88,470 in 2018.

£237,190

The average London seller made this profit last year

Reports of a slowing housing market have been widely reported, but in 2018 the average seller sold their home for £88,470 more than they paid for it having owned it for an average of nine years. This is slightly down on the £90,580 which the average seller in England and Wales made in 2017.

Londoners made the biggest gain at £237,190 – over two and a half times more than the average profit in England and Wales and a little more than the cost of the average UK home. At £24,190, sellers in the North East made the smallest average profit.

Except for London and the South East, every region across England and Wales saw a rise in the proportion of sellers making a profit on their home. In 2018, 91% of sellers across the country sold their home for more than they bought it for, up from 90% in 2017. However, as house price growth slowed, the proportion of sellers making a profit in London fell from 98% in 2017 to 97% in 2018.

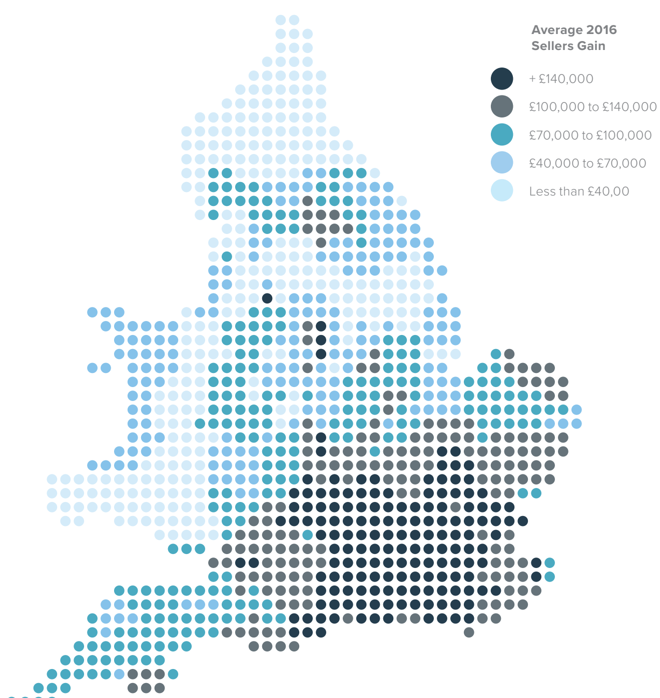
In a change from 2017, sellers in the East of England took the top spot from London with 98% making a profit. As well as making the smallest average profit, sellers in the North East were least likely to make a gain.

In terms of profit made, the top 10 biggest gains were all in London. In Kensington and Chelsea sellers made an average profit of £992,340 - over 11 times more than the average gain made in England and Wales.

Outside the capital South Buckinghamshire was the local authority where the average seller made the largest profit (£260,993).

Average 2018 seller gain

Source: Hamptons International & Land Registry



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

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

150 YEARS

HAMPTONS INTERNATIONAL