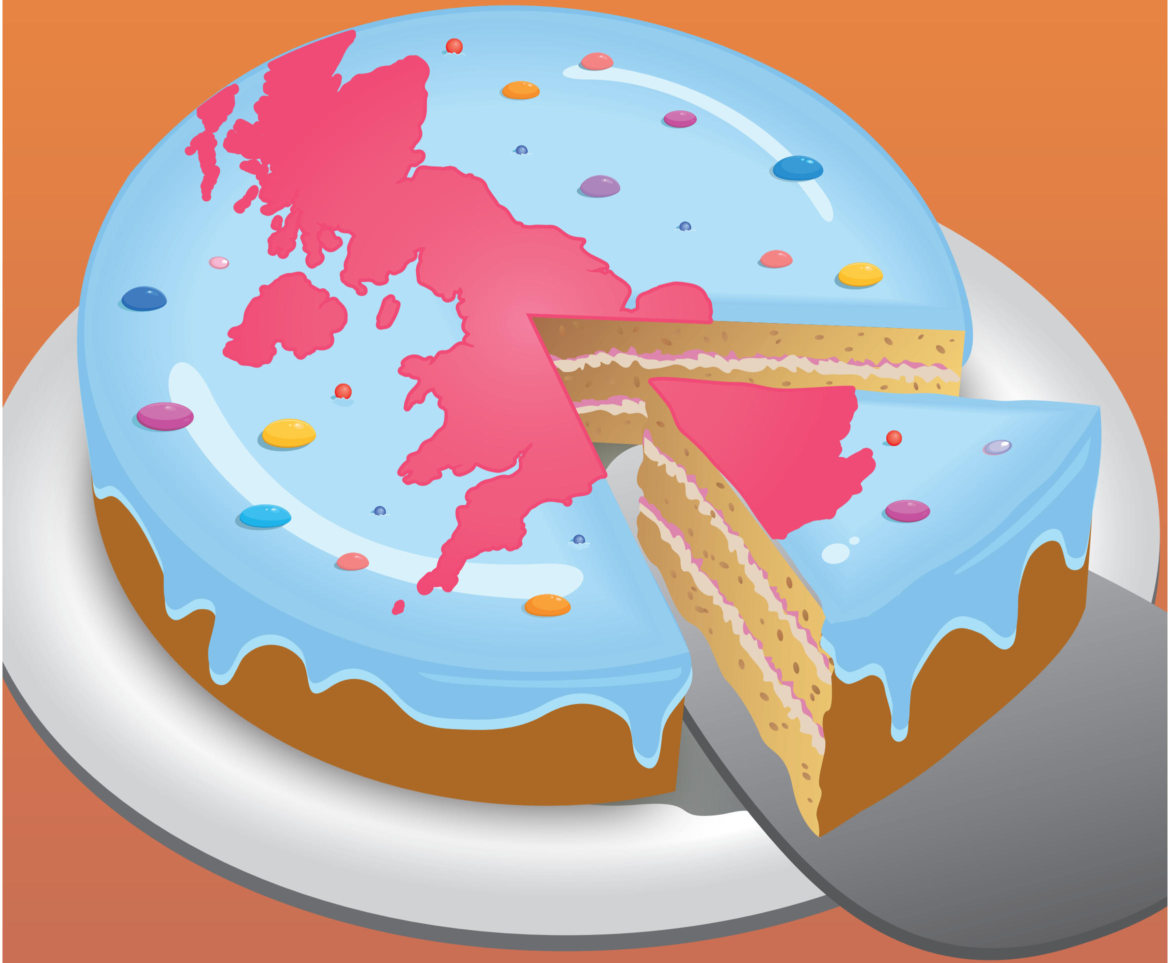
Market Insight

June/July 2018



Bigger slice of the action

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Focus

North/South divide

The housing headlines over the last decade have been consistent - the country is split in a North-South divide. House price growth in London and the South has slowed, while the North has won out. Between 2016 and 2017 we saw a shift in price growth from South to North, with most regions in the Midlands and the North overtaking those in the South. In London for example prices in 2017 rose by 3.1% (down from 10% in 2016), while in the North by 3.6% (4.4% in 2016).

The simple truth is that affordability issues combined with onerous tax changes have forced many would-be London buyers to look further afield for a new home, and investors to seek out cities such as Manchester and Liverpool in the North West where they feel there is more growth to come.

While the pace of growth may slow, we expect the North West and West Midlands to be among the top regional price growth performers over the coming year and are forecasting an increase of 2.5% and 2% respectively.

It's interesting to see how fortunes have changed. Recent Hamptons International research shows that back in 2014, 14 of the top 15 UK local authorities for price growth were in London. Compare this to last year when Cambridge, Swale in Kent and Forest Heath in Suffolk, took the three top spots, ousting the City of London, Waltham and Newham, who'd held these places just three years earlier.

While the North-South gap is narrowing, the North still has some catching up to do. House prices in the South currently average £335,500 while some areas of the North East remain below pre-crash levels.

Looking ahead we expect price growth over 2018 to be lower than in 2017, as the market continues to weather uncertainty from the economic and political backdrop and consumers navigate possible interest rate rises over the year. Across Great Britain we forecast prices to rise by 1%.

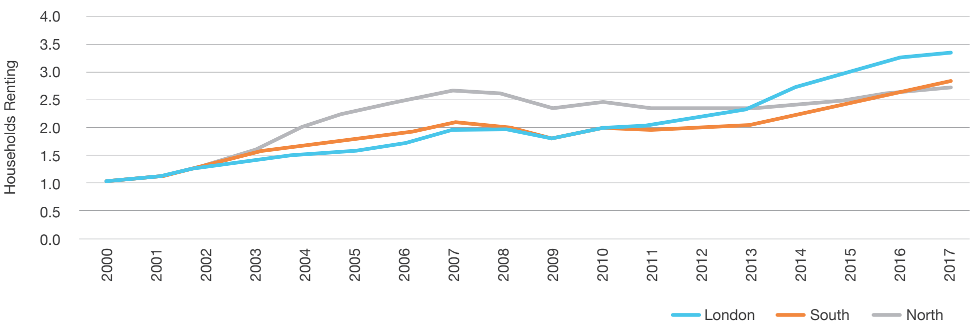
Local Authorities with the highest price growth

2017	2016	2015	2014
Cambridge	Barking and Dagenham	Slough	City of London
Swale	Havering	Luton	Waltham Forest
Forest Heath	Stevenage	Hillingdon	Newham
Hinckley and Bosworth	Basildon	Gravesham	Merton
Oadby and Wigston	Bedford	Thurrock	Bromley
North Norfolk	Bexley	Three Rivers	Croydon
Corby	Thurrock	Dacorum	Richmond upon Thames
Cotswold	Broxbourne	Barking and Dagenham	Barking and Dagenham
Rossendale	Hastings	Dartford	Southwark
Kettering	Harlow	Reading	Watford
Manchester	Luton	Redbridge	Kingston upon Thames
Blaby	Medway	Harlow	Hackney
East Northamptonshire	Slough	Rushmoor	Sutton
Cheltenham	Salford	Cambridge	Tower Hamlets
Dover	Watford	Watford	Ealing

Source: ONS

North South London Midlands

North/South Divide (2000 = 1)



Source: ONS & Hamptons International

Economy

On hold

The Bank of England voted to hold the base level of interest at 0.5% in May. This wasn't surprising given the deluge of weak economic data that was announced in the weeks preceding the vote. But it was enough to change the policymaker's minds from raising interest rates – which it had been rumoured they would – to holding tight and staying put.

Two out of the nine Monetary Policy Committee (MPC) Members voted for an interest rate rise in May, unchanged from their last vote. It appears the remaining MPC members are happy to adopt a more cautious 'wait and see' approach until they see firmer signs that the economy is gaining momentum.

The news of wage growth picking up lured markets into thinking that a rate rise in May was a sure thing. But the weeks following revealed less promising signs that the economy was set to grow.

Manufacturing, construction and retail sales all felt the pain of squeezed household incomes and saw weak growth. Inflation slowed to 2.5% in February, which was much lower than expected and the demand for credit fell too.

But the final straw was the latest GDP figures which showed that UK economic growth rose a meagre 0.1% between Q4 2017 and Q1 2018 – the weakest growth in over five years and much lower than the 0.3% expected.

As the May vote passed, August looks like the month when the MPC are most likely to raise the cost of borrowing. Markets are signalling a 40% chance of an interest rate hike in August.

May's Super Thursday also saw the Bank downgrade its forecasts for economic growth in the UK from 1.8% to 1.4% this year. On the plus side, inflation is expected to fall quicker than originally thought, reaching its 2% target by 2020. And even though real income growth is expected to remain subdued, higher levels of investment and exports should help give the economy a bit of a boost.

Sales

Two-year anniversary of stamp duty surcharge for second homeowners

The number of new landlords coming to the market is falling. In the two years since stamp duty was increased on second home purchases, the number of buy-to-let landlords has fallen by 88,000.

All the evidence points to landlords selling up and buying less. Our research shows that since April 2016 landlords have sold 50,000 homes more than they've bought and this at a time when the number of households looking to rent is on the rise. Between April 2016 and April 2017, the number of households renting increased by 164,000. And by 2025 we forecast there will be some six million households renting across the country.

While taxation changes have created a degree of caution for some would-be investors, for others it has been a case of adapting and seeking out new opportunities. And there are opportunities to be had.

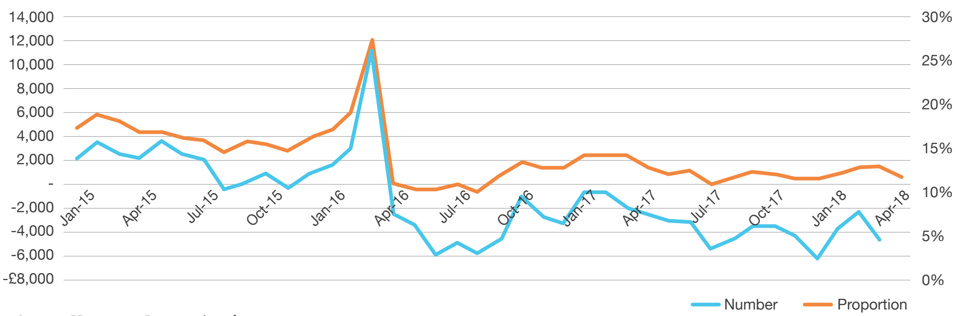
As well as buying under company names and buying in cash, many are investing further North, in search of lower stamp duty and higher yields. In 2017 Liverpool topped the league table for the highest proportion of sales to investors (44%), followed by Manchester (40%) and Newcastle with 38%.

For landlords investing in the North it's all about rental returns. Rental income accounts for 71% of a landlord's total return in the North compared to 54% in the South.

But that's not to say there aren't opportunities to be had in the South too. Yields here may be lower, but capital gains re main higher. In 2017 the average London landlord made a gain of £263,000, over 10 times that of a landlord in the North East. While landlords selling up in the South East in 2017 were most likely to make a profit (96%).

And with less stock on the market, rents in the capital have been rising too. London has gone from having the slowest rate of rental growth in England to having the fastest.

Net number of UK homes bought by Landlords



Source: Hamptons International

Lettings

Landlords re-mortgaging for home improvements

A record number of landlords are re-mortgaging to release money to spend on their properties instead of trading up. In the last 12 months, out of the 171,421 landlords who re-mortgaged their buy-to-let property, 9,523 did so to take money out to spend on their investment. This is up from 8,459 in 2017 and three times more than in 2016 (2,967).

The additional transaction costs incurred from the stamp duty changes for second-homeowners means more landlords are choosing to improve their properties, and hold on to them for longer to maximise gains.

In the last 12 months 5.6% of landlords who re-mortgaged released cash to spend on their property, up from 1.9% in 2016. The greatest increase was in the East of England where, in the last 12 months, one in 10 landlords (10.4%) who re-mortgaged, released money to spend on home improvements, a rise of 6.8% in the last two years.

Every region across the UK has seen a rise, but regions in the South have seen the biggest growth in landlords releasing cash. In London, 7.4% of landlords re-mortgaging released money for home improvements, up 4.4% in the last two years.

Landlords in London also took out the most money to spend on buy-to-let improvements, £35,470 on average. This is over three times the amount an average landlord in Yorkshire & the Humber withdrew (£11,150). Across Great Britain as a whole, the average landlord re-mortgaging to make improvements took out £22,850. With fewer landlords buying properties, more are choosing to invest in their buy-to-lets to maximise their yields rather than trading up.

Landlords re-mortgaging to raise money for home improvements

Source: Hamptons International

Year	Total number of buy-to-let re-mortgaging	Number of landlords re-mortgaging for home improvements	% of landlords re-mortgaging for home improvements
2006	145,500	2,375	1.6%
2007	155,720	2,019	1.3%
2008	114,740	1,998	1.7%
2009	32,850	427	1.3%
2010	35,000	420	1.2%
2011	52,600	504	1.0%
2012	59,200	533	0.9%
2013	76,300	687	0.9%
2014	95,900	767	0.8%
2015	132,300	1,455	1.1%
2016	153,000	2,967	1.9%
2017	152,100	8,459	5.6%
Last 12 months	171,421	9,523	5.6%

Stat of the Month

Price growth hotspots

Mortgage Interest Rates

	2Y Fix 75% LTV	2Y Fix 90% LTV	5Y Fix 75% LTV	2Y Variable 75% LTV	Standard Variable (SVR)	Buy to Let 75% LTV Fixed
Apr-18 Interest Rate	1.72%	2.37%	2.03%	1.57%	4.14%	2.37%
YoY Change	0.37%	-0.06%	-0.06%	0.18%	-0.40%	-0.17%
2-year Change	-0.19%	-0.38%	-0.61%	-0.04%	-0.42%	-0.84%

Source: Bank of England

Lending Interest Rates

	£5,000 Personal Loan	£10,000 Personal Loan	Credit Card	Overdraft
Apr-18 Interest Rate	8.00%	3.79%	18.27%	19.66%
YoY Change	0.15%	-0.02%	0.30%	-0.04%
2-year Change	-1.41%	-0.54%	0.34%	-0.01%

Source: Bank of England

Deposit Rates

	Instant Access Savings	1Y Fix Cash ISA	2Y Fix Cash ISA	1Y Fixed-rate Bond	2Y Fixed-rate Bond
Apr-18 Interest Rate	0.21%	1.25%	1.09%	0.79%	1.05%
YoY Change	0.06%	0.26%	0.11%	0.13%	0.15%
2-year Change	-0.19%	0.18%	-0.07%	-0.12%	-0.15%

Source: Bank of England

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We continue to expand to be one of the most valuable and innovative residential property groups in the world. Our name is synonymous with an unrivalled level of expertise and the finest properties. Our services include: Sales, Lettings, Residential Development, Valuation, Land and Professional Services, Property Management, Mortgage Finance, Corporate and Relocation Services and Interior Solutions.

Aneisha Beveridge
Research Analyst
beveridgea@hamptons-int.com
+44 (0)20 77963 0618