Market Insight

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The Growth of Renting

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HAMPTONS INTERNATIONAL

Focus

Why recent policy changes won't stop the growth of renting

Landlords are buying fewer homes. Since the introduction of the 3% Stamp Duty Land Tax (SDLT) surcharge in April 2016, landlords have sold 50,000 more homes than they bought. And now, they make up a smaller part of the market. Investors bought 12.3% of homes in 2017, down from 16.4% in 2015.

Despite landlords selling more homes than they bought, the private rented sector continued to grow in the 12 months after the introduction of the stamp duty surcharge. Between April 2016 and 2017 the number of households renting increased by 164,000, 3% more than 2016. This is one reason why we forecast the sector to continue growing and reach six million households by 2025. By 2022, 20.5% of households will be renting in Great Britain, up from 19.4% today.

This may come as a surprise when investor activity has fallen, but there are greater forces at play. Higher demand for rental accommodation is being driven by longer term changes in demographics and the housing market, many of which aren't unique to the UK. House prices consistently growing above incomes has meant we've seen a steady decline in home ownership and growth in demand for renting.

There are many routes homes can take to the rental market

Often homes that their owners have previously lived in find their way onto the rental market. Couples who decide to move in together, relocate for work or simply keep a home as an investment are common reasons. We tend to see a larger number of these homes move into the rental market when price growth and activity slow in the sales market. In 2017, we estimate that 80,000 homeowners who tried to sell their home decided to put those sales on hold and rent their property out instead.

Many landlords also inherit property. Statistics from the ONS show at least 200,000 homes change ownership through inheritance each year. Many of these homes will be sold or used by their heirs, but recent research from UK Finance shows that 16% of landlords acquired their property without a purchase, which would include inheritance.

In recent years we've seen the growth of a new part of the rental market too, the professional build-to-rent market. Generally, blocks of flats purpose-built to rent, owned and operate by large institutional investors, like pension funds. Build-to-rent only accounts for a small part of the market today, but we estimate there are more than 100,000 units in the pipeline and more to come.

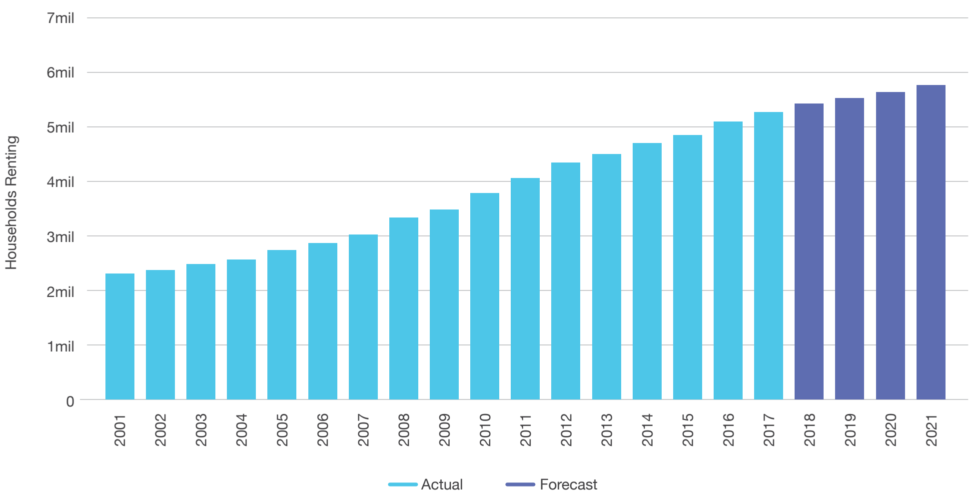
These three sources of rental property, which are not dependent on individual landlords purchasing new homes, explain how the sector can expand while landlord purchase numbers are sluggish.

The sector is also anchored by substantial amounts of housing wealth, insulating it from change

There is an incredible amount of wealth tied up in housing. Cash owners outnumber those who need a mortgage, and their numbers have increased for 23 out of the last 25 years. The same is true for landlords as most individual landlords have no debt on their rental property. 65% of investor purchases were made with cash in 2017, that's £21 billion worth of property. This volume of cash has largely been built up through high house price growth over the past 25 years.

The mass of cash in the market alongside increasing institutional interest is acting as an insulation to changes in policy. Creating a firm foundation on which the sector can continue to grow, particularly as the demand for rented homes will continue to rise.

Our forecasts for growth of the number of households renting



Source: Hamptons International & English Housing Survey

Economy

Is the living squeeze over?

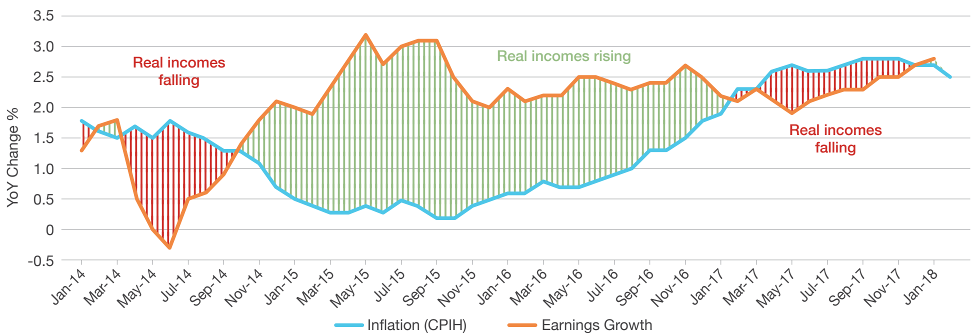
Inflation, which measures the average change in prices of goods and services, slowed to 2.5% in February. The Consumer Prices Index including housing costs (CPIH) measure of inflation fell from 2.7% in January to 2.5%, the lowest level since March last year. This is good news for households as it means the average costs of goods and services aren't rising as quickly as they were.

The fall in inflation was mainly caused by prices for transport, food, restaurants and hotels rising less than last year. February's fall suggests that the UK has past peak inflation and price rises will ease over the next few months. Inflation rose last year on the back of sterling's decline following the EU Referendum as the cost of imports rose. But now we're further down the line, the index is comparing prices in February 2017 with prices in February 2016, which means that average prices aren't being compared with pre-referendum lows which inflated the figures.

The good news for households is that the latest data for earnings and inflation suggests that the squeeze on incomes could be coming to an end. Inflation has been rising faster than earnings over the last year, which has squeezed household's disposable incomes. But with wage growth rising to 2.8% in January when inflation slowed to 2.7%, we could start to see real incomes rise again soon if the trend continues.

We shouldn't get too excited just yet, though. Wages have got a lot of catching up to do and any future fall in inflation is likely to be slow and gradual. Overall, this is good news for households and means that families might have a little more left over at the end of the month.

Inflation and earnings growth



Source: ONS

Sales

Help to Buy

In April the current Help to Buy (Equity Loan) scheme will be five years old and seems to be becoming a progressively bigger part of our housing market.

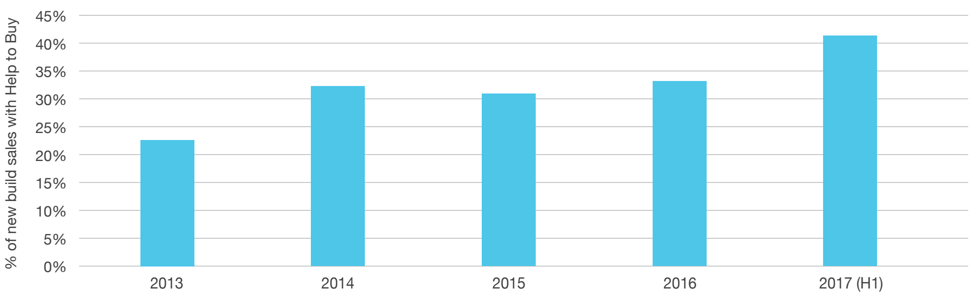
Since April 2013, 120,864 homes have been bought using Help to Buy, making up £35bn worth of property and £8.4bn of equity loans. The latest Land Registry data shows 423,000 new homes sold in England between April 2013 and June 2017, meaning that over the five years Help to Buy has been in existence, it has made up 29% of new home sales. As the programme has gained momentum the take up has increased, and today Help to Buy is a bigger part of the new homes sales market than it's ever been.

41% of new home sales in the first six months of 2017 involved Help to Buy, quite a jump from 33% in 2016. The number of development sites offering Help to Buy has steadily increased over 2017, meaning we will likely see more sales using the scheme in 2018 too. Our analysis shows that 75% of new sites are now offering the scheme on some or all their homes, up from 70% in 2016. Most of this increase has been driven by smaller housebuilders deciding to offer the scheme for the first time.

With the increasing adoption of Help to Buy, it's hard to see how the industry would reduce its reliance on the scheme without significantly pulling back sales activity and thus build rates. Does that mean the house building industry is permanently hooked on Help to Buy? This is a particularly important question today, as five years on the interest free period for first buyers using the scheme is coming to an end.

Those of the 14,000 households who bought in 2013 who haven't sold on or paid off their equity loan (the majority) will start paying interest on their loans from April. There has been plenty of speculation on what previous buyers will do when they must start paying more in interest. The truth is we won't know until the end of 2018 how people's behaviour is changing, but it will certainly impact the re-sale market and have wider implications for the sector.

Proportion of new homes sold using Help to Buy



Source: Hamptons International

Lettings

Landlord profit

Despite slowing house price growth and higher entry costs, investor gains still grew in 2017. Last year, the average landlord who sold their rental property made a gross gain of £86,651, having owned their property for an average of 8.7 years. That's based on the difference between the price they bought their property for and the price they sold for. House prices have risen in eight out of the last nine years, which has driven investor gains. As a result, the average gain from a landlord is up slightly from £86,302 in 2016.

But there are huge regional variations. Sellers in London gained £253,981 on average in 2017, over four times more than those selling outside the capital. In fact, one in four landlords (28%) who sold their property in London did so for at least twice what they paid for it an average of 8.1 years ago.

With the highest house prices and strongest capital growth over the last nine years, landlords who sold in London and the South East made the biggest gains. Eight of the ten places where landlords made the highest percentage gains were in London. Kensington & Chelsea continues to top the list where landlords made the biggest actual gain, with an average gross capital gain of £696,665.

Despite slower house price growth, the likelihood of making a profit on a buy-to-let property is still strong, and that's just taking capital gains into account rather than rental income too. 88% of landlords who sold last year made a profit. Landlords in the South East were most likely to make a profit, with 97% making a gain, whereas landlords in the North East were least likely to make a gain.

Average 2017 landlord seller gain

	Average profit (purchase price – sale price)	Proportion of sellers making a profit	Proportion of sellers doubling their money
London	£253,981	96%	28%
South East	£108,073	97%	15%
East	£84,265	94%	13%
South West	£57,249	91%	11%
West Midlands	£40,381	85%	11%
East Midlands	£38,776	87%	12%
North West	£34,519	80%	12%
Yorkshire & the Humber	£32,671	78%	11%
Wales	£30,938	79%	13%
North East	£23,874	75%	9%
England & Wales	£86,651	88%	14%

Source: Hamptons International

Stat of the Month

Price growth hotspots

Top 10 performing London boroughs and Southern local authorities over the last 10 years

London Borough	Average Price	10Y Price Growth	5Y Price Growth
City of Westminster	£1,917,980	135%	42%
City of London	£1,004,090	102%	85%
Hackney	£642,810	95%	61%
Kensington & Chelsea	£1,987,680	94%	32%
Southwark	£601,130	93%	55%
Camden	£1,233,470	91%	38%
Lewisham	£472,400	91%	67%
Waltham Forest	£469,610	89%	84%
Haringey	£648,510	85%	57%
Hammersmith & Fulham	£986,070	81%	43%

Source: Hamptons International & Land Registry

Local Authority in the South	Average Price	10Y Price Growth	5Y Price Growth
Oxford	£512,220	63%	34%
Brighton & Hove	£407,440	54%	43%
Woking	£497,400	53%	48%
Epsom & Ewell	£504,470	51%	42%
Slough	£373,470	50%	41%
Spelthorne	£420,860	50%	46%
South Bucks	£901,220	49%	34%
Windsor & Maidenhead	£609,880	49%	38%
Chiltern	£616,380	49%	41%
Tandridge	£486,810	48%	35%

Source: Hamptons International & Land Registry

Drawing on over 140 years of experience, Hamptons International is one of the premier international residential agents – with a network of more than 90 offices in the UK and key overseas markets.

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.

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