Market Insight

April/May 2018

Leaving London behind

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Focus

An hour from London – the growth spots

Value for money, space and quality of life are among the most commonly cited reasons families leave London. With more buyers moving out of the capital - 42% last year compared with 33% in 2013 - we look at some of the most attractive areas for those who need to remain within commuting distance.

Seeking value

The hard factors contributing to many moves are clear - a historically low Bank of England base rate, subsequently low mortgage rates and rising inflation. Some London households are taking advantage of relatively cheap mortgage lending to maximise square footage while they can. Others are no doubt simply looking to reduce their monthly outgoings in response to higher living costs with inflation reaching a six-year high.

Proximity to London

Most areas closer to the Greater London boundary come with higher house prices, but buyers eager to keep their commute to a minimum might be pleasantly surprised to discover price growth nearer the capital was slower last year than further afield. Average prices of homes with less than a 45-minute commute into zone one rose just 4% in the last 12 months, whereas prices with a travel time of more than an hour rose 7%.

But the average cost of a home is still significantly less the further from the capital you move. The average price of a four-bedroom home 25 miles from zone one is £735,480 compared with £459,540 for a home 70 miles away - 38% less. But there's an exception with homes within a 20-minute commute of zone one where the average price is only £458,070. These areas tend to be on the edge of the Greater London boundary where fast trains from further afield into London make their last stop before reaching zone one. Areas such as Watford, Slough and Dartford fall into this category.

Small areas soar in price

With nearby countryside and a slower pace of life it's easy to see the attraction of villages, particularly for those seeking larger properties on bigger plots. In fact, 94,000 households over the previous year moved out of a city or suburb into the countryside. Prices in villages within commuting distance of London have risen with so many buyers leaving the city. But more limited housing stock is likely to have contributed to some of the price growth in these rural areas.

The villages Lenham in Kent and Cressing in Essex had the highest increases in values for four-bedroom properties last year, each surging by 17% year-on-year. The average price of a four-bedroom home in Lenham, 57 minutes from zone one, reached £507,375, while prices in Cressing, 56 minutes from zone one, stood at £428,438. Homes in the Bedfordshire village Kempston Hardwick, just more than an hour from London, rose by 16% to £384,200.

Traditional hotspots

However, the traditional commuter towns to the West also remain popular. Henley-On-Thames, Maidenhead and Woking, where the average price of a four bedroom home costs over £750,000 have all seen pries of more than 10% in the last year.

Areas such as Esher, Cobham and Oxshott, where family homes cost over £1million on average, have seen much slower price growth in the last year, with average prices rising just 0.1% in the same period compared with 6% growth in homes costing between £400,000 and £500,000.

The true cost

House prices are an important factor when leaving the capital, but buyers planning on commuting to London will need to factor in substantial train fares. For instance, annual season tickets commonly cost between £5,000 and £6,000 for passengers travelling about 45 minutes out of London.

Furthermore, cancellations and significant delays to services can add hours to a week's commute. However, the benefits of moving away often outweigh the negatives for those seeking more choice and a different quality of life outside London.

Price of a four bed home

Source: Hamptons International Research

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Economy

Time to raise interest rates, but slowly!

The pace of the UK's economic growth picked up steadily throughout last year, and while the overall annual growth rate was lower in 2017 than in 2016, the Bank of England is now hinting that it can begin to take away some of its support. The latest summing up of the UK economy in the Bank of England's Inflation Report confirmed the expectation that rises in interest rates are on their way. While the Bank doesn't believe that the economy is about to take off, it does think that the stronger global economy will help the UK and that should stimulate investment and help it to grow faster in the future.

The trick is to make sure that we can achieve higher growth without higher inflation, which is already higher than target at 3%. The Monetary Policy Committee has overlooked high inflation for several months, so why raise now? The difference is that unemployment has reached a trough. The Bank believes that there's not much slack left in the economy and further growth could lead to more inflation. So, it needs to keep some control but without stifling recovery.

With unemployment at such low rates, employers have to pay more to get workers. According to the Bank of England's survey of companies, private sector employers are expecting pay settlements to be around 3.1% in 2018, compared with 2.6% in 2017. That's good news for workers and for the economy as there will be more money to spend. There is still a lot of catching up to do though, so households won't feel suddenly rich. High inflation has been eroding their spending power for a long time.

When can we expect rates to rise? And how far will they go? We have been expecting a rise in May for some time and the markets now seem to agree but the good news is that the pace of rate rises will be very slow, reaching just 1.5% by 2022. That should certainly ensure that growth and recovery aren't stifled.

Market expectations of the Bank Rate

Source: BoE

Sales

International buyer activity in Prime Central London highest in five years

The proportion of homes sold to international buyers in London dipped slightly to 31% in H2 2017, a 1% fall on the previous half. But this comes despite a spike in international buyers in Prime Central London (PCL) as the exclusivity of the best addresses in London and its place as one of the world's most prestigious cities is still a big draw.

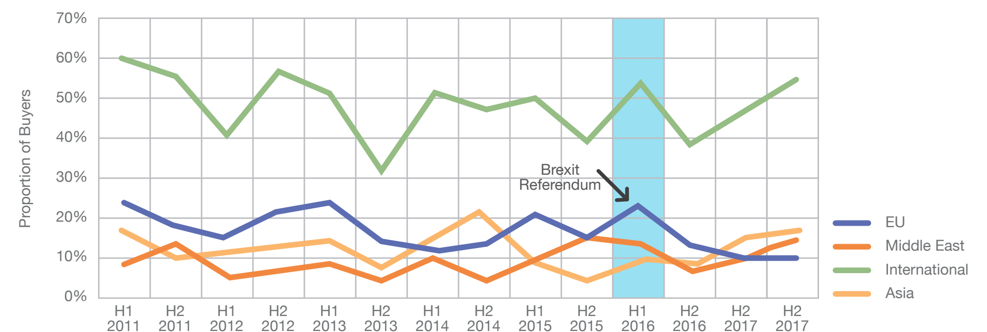
In PCL, the proportion of homes sold to international buyers rose to 55% in H2 2017, the highest level in five years. This is up 8% on H1 2017 and 16% up on H2 2016 before the EU referendum on the 23rd of June 2016. The increase was driven by a rise in the proportion of Middle Eastern buyers who bought 15% of homes in PCL, up 5% on the previous half year. Buyers from Asia have also taken advantage of sterling's weakness, which makes it cheaper for them to buy property in the UK. The proportion of sales to Asian buyers in PCL has risen from 9% in H1 2016 to 16% in H2 2017.

However, uncertainty about the UK's departure from the EU is adding to nerves. Even though EU buyers still make up the second largest group of buyers in PCL, they've been gradually withdrawing since the EU referendum. The proportion of homes bought by EU buyers has fallen from 23% in H1 2016 (pre-Brexit vote) to 10% in H1 and H2 2017. This comes despite the exchange rate moving in favour of the euro, making it even cheaper for EU buyers to buy homes.

Since January 2016 the euro has appreciated more against sterling than other currencies, giving euro buyers a further advantage. This fall in EU buyer activity suggests their reticence is more likely to be down to uncertainty surrounding Brexit.

In wider central London, the proportion of homes sold to international buyers in H2 2017 fell to its lowest level since H2 2013 to stand at 17%. Similarly, the proportion of international buyers in the suburbs and super-burbs fell 1% between H1 and H2 2017. International buyers seem to be focussing their attention on PCL in search of the most prestige property and biggest hopes for capital appreciation as the market begins to bottom out.

Proportion of international buyers in PCL



Source: Hamptons International Research

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Lettings

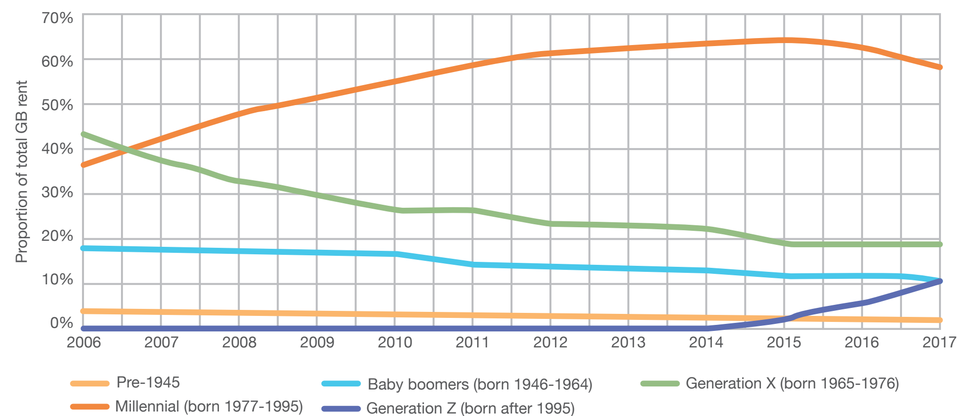
A growing rental sector

The total rent bill in 2017 rose to the highest yet, due to more people joining the rented sector and average rents increasing. Last year tenants in Great Britain paid a record £51.6 billion in rent, an increase of £1.8 billion on the previous year and more than twice what they paid in 2007. Despite average rents falling in 2008, the total amount of rent paid by tenants has risen in every year for the last decade.

For the last 11 years millennials (born 1977-1995) have been paying the majority of the total rent in Great Britain. This equated to £30.2 billion in 2017, or 59% of all rent, this is down from a peak of 64% in 2015 when they paid £31 billion. Today millennials account for a similar proportion of renters as they did in 2011. As millennials age, more are becoming home owners, so the total amount they're paying in rent has started to drop. But the Generation Rent title still applies, any fall will be much smaller and slower than in previous generations as fewer become homeowners.

While the two youngest generations make up the largest proportion of the rental market, older renters remain a significant proportion of tenants. Despite a high proportion of baby boomers (born 1946-1964) owning their own home, many still rent. Last year this age group paid £5.5 billion, 10% of all rent, the same as Generation Z (born after 1995). This reflects that on average individual baby boomers pay more rent each month than any other Generation, because they typically rent larger homes in more expensive places.

Generational share of total rent bill

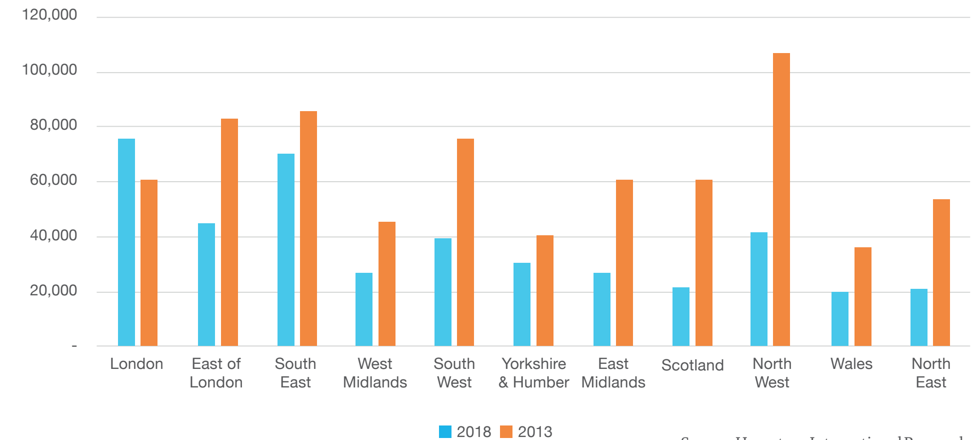


Source: Hamptons International Research

Stat of the Month

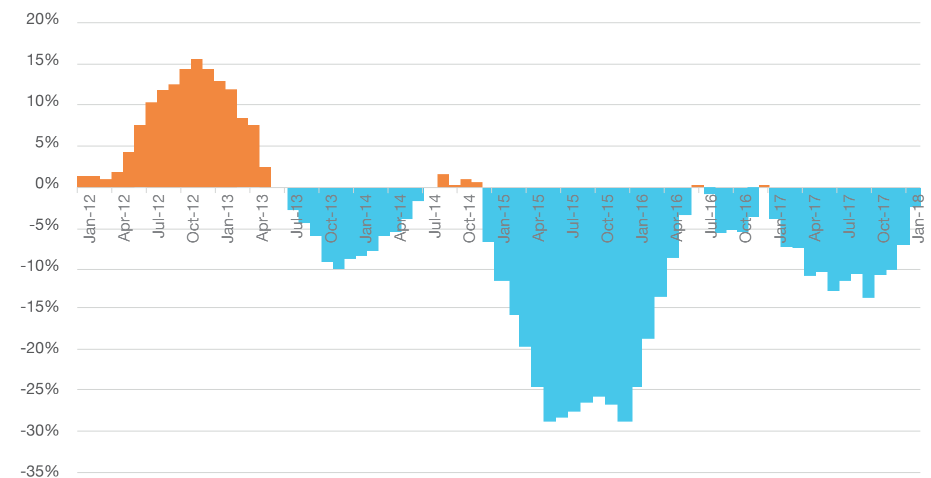
Homes on the market

Number of homes on the market



Source: Hamptons International Research

Year-on-year change in the number of homes on the market



Source: Hamptons International Research

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