Chestertons Monthly

RESIDENTIAL PROPERTY MARKET REVIEW

January 2020

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"Welcome to our latest monthly review of national and London residential property markets."

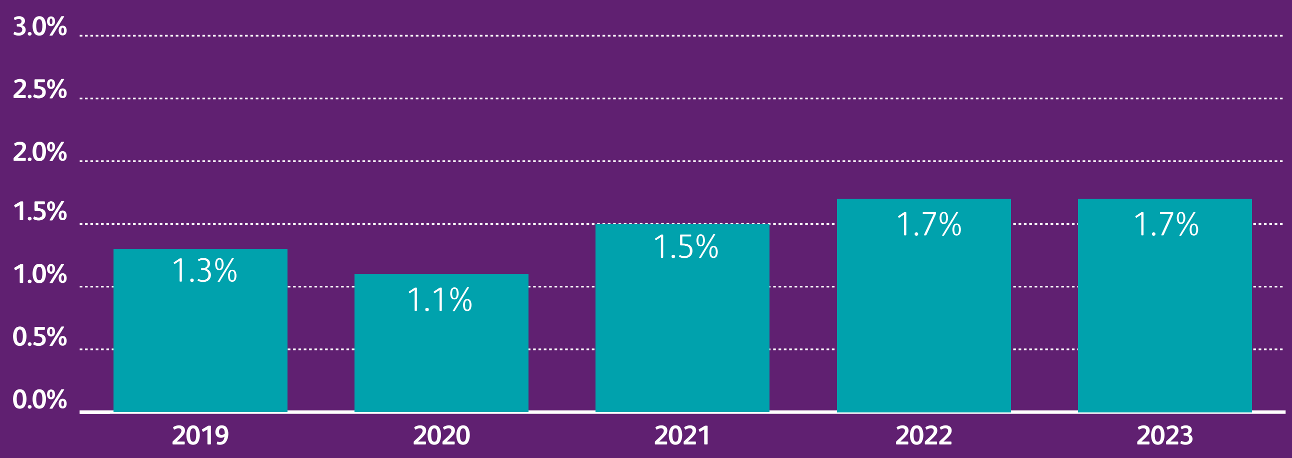
ECONOMIC OVERVIEW

GDP Growth

Despite the December CBI/PwC Quarterly Financial Services Survey recording an improvement in optimism about the overall business situation for the first time in twelve quarters (and at the fastest pace since June 2015), economic growth remains sluggish. Rolling three month growth to October slowed to just 0.1%, the worst three month performance for more than a decade.

The annual growth rate (Q3 2019 v Q3 2018) of 1.1% was also weak, however the 2020 forecast growth rate of 1.1% (Treasury Forecast Panel) is on a par with the OECD's projected growth rate for the Eurozone and is better than that of other major developed economies such as Germany (0.4%) and Japan (0.6%). The IMF has also forecast that the UK economy will grow faster than the Eurozone and all of the G7 economies except Canada and the US over the next two years. Moreover, employment is expected to remain at near record levels and average earnings growth is forecast to outpace inflation. However, much depends on the outcome of trade negotiations with global partners once the UK leaves the EU.

Figure 1: UK GDP growth outlook



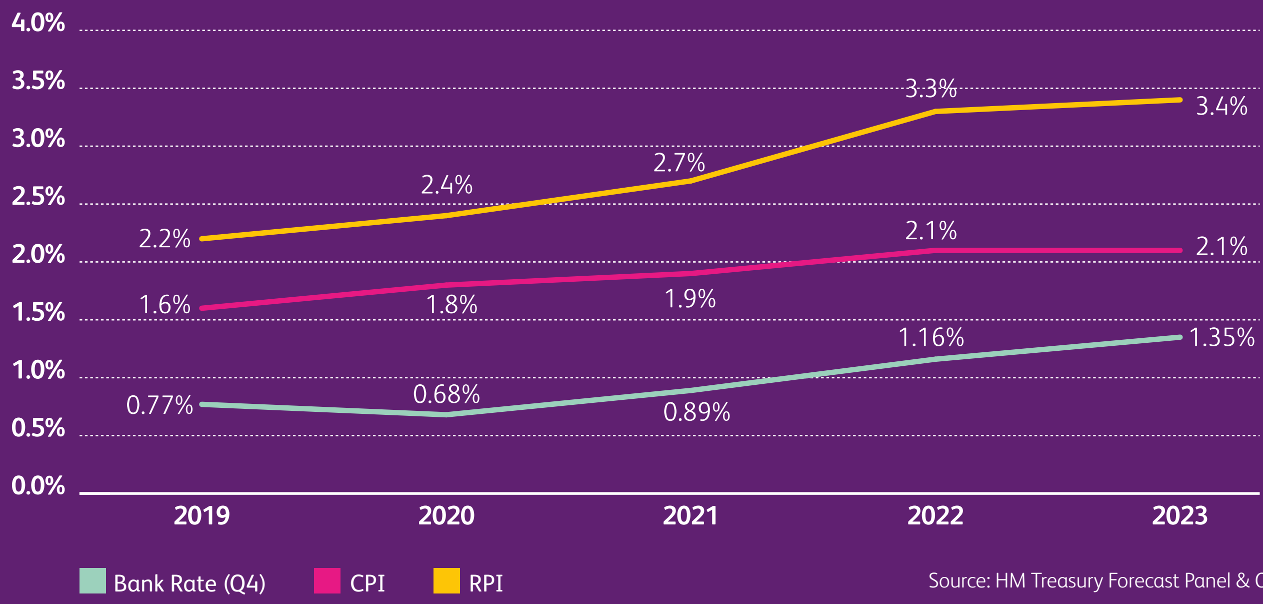
Source: ONS; HM Treasury Forecast Panel

Inflation & interest rates

The annual rate of inflation (CPI) slowed again in December, to 1.4%, while the RPI was also stable at 2.2%. The Bank of England's Monetary Policy Committee (MPC) Meeting held Bank Rate at 0.75% at its January meeting.

UK 3 month Libor rates have dropped this month to reach 0.69% as at 28th January, with 5 year swap rates also falling to 0.54% at the same date.

Figure 2: Inflation & Bank Rate forecasts



Source: HM Treasury Forecast Panel & ONS

Employment and earnings growth

The latest UK employment rate has reached a record high of 76.3%, 0.6 percentage points higher than a year earlier and 0.5 percentage points up on the previous quarter. The unemployment rate stands at 3.8%, 0.2 percentage points lower than a year earlier but largely unchanged on the previous quarter.

Annual growth in average weekly earnings remains unchanged at 3.2% for total pay (including bonuses) but has slowed to 3.4% from 3.5% for regular pay (excluding bonuses). However, the annual growth in total pay was weakened by unusually high bonus payments paid in October 2018 compared with more typical average bonus payments paid in October 2019. In real terms, annual growth in total pay was 1.6% and for regular pay was 1.8%.

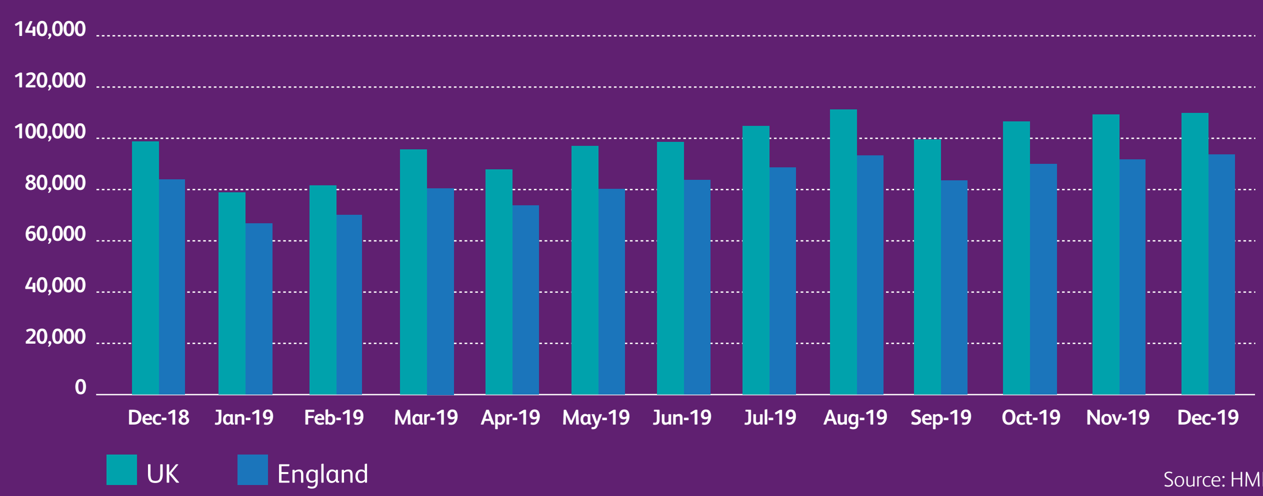
SALES MARKET

National sales

Residential sales across the country fell by just 1% in 2019, an impressive result given reported stock shortages, affordability issues and underlying political uncertainty. The ready availability of low cost mortgages certainly helped to underpin buyer demand as did the Help-to-Buy scheme which saw a 6.6% increase in the number of purchases in the year to June 2019.

The Bank of Mum & Dad (BoMaD) was also a major factor, contributing an estimated £6.6bn according to Legal & General, which represents a 10% increase on the 2018 total, and facilitating the purchase of 259,000 homes. This effectively made BoMaD the 11th largest mortgage lender in the UK last year.

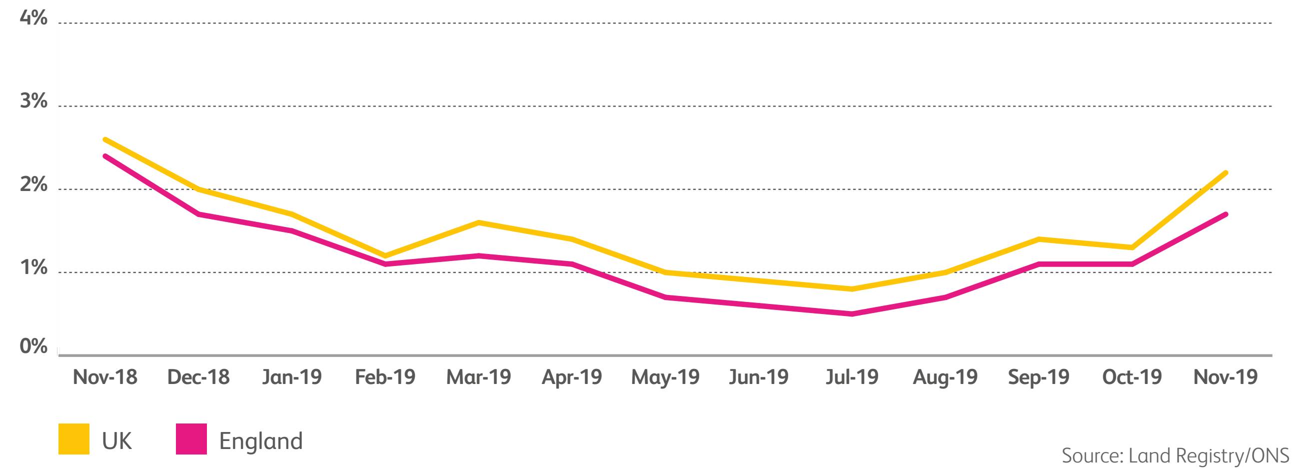
Figure 3: Monthly residential property transactions (non-seasonally adjusted)



Source: HMRC

A post-Election bounce in activity is apparent from Rightmove who reported that between the 13th December and 15th January they received over 1.3 million buyer enquiries, a rise of 15% compared to same period a year ago. Nearly 65,000 properties were listed on their portal between the 8th December and the 11th January, with most coming onto the market after the 12th December election. This is the largest monthly rise Rightmove has ever recorded at this time of year.

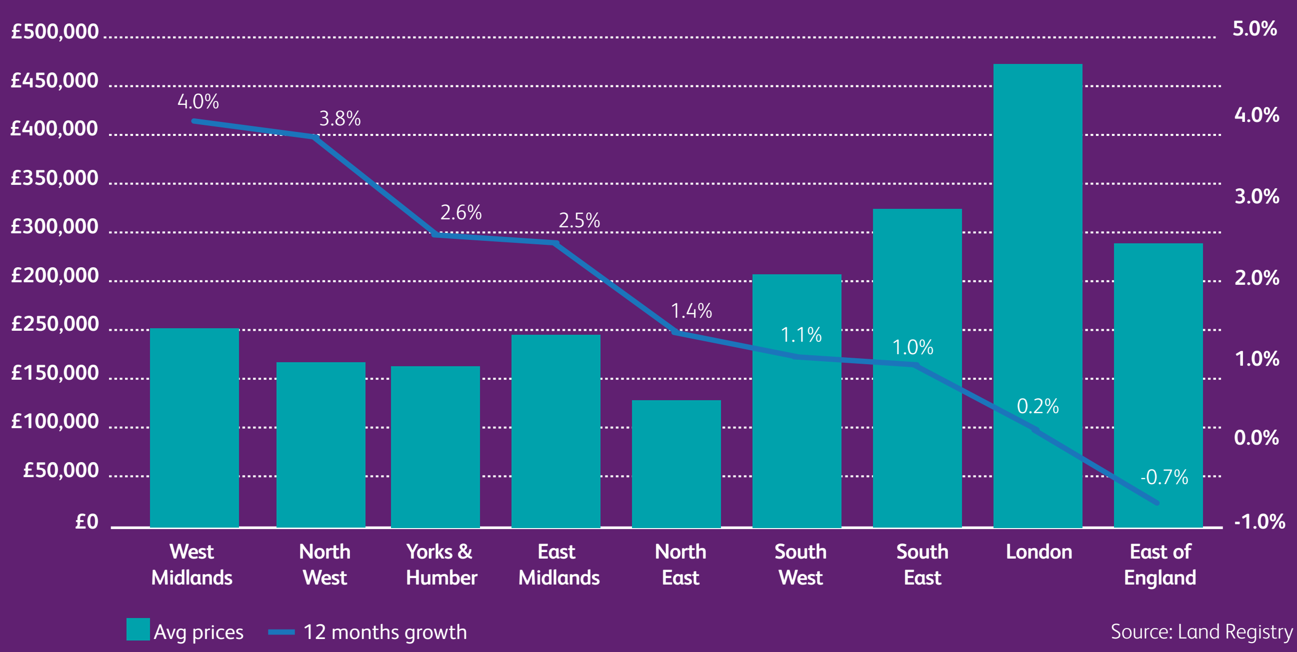
Figure 4: Average annual house price growth: UK & England



Source: Land Registry/ONS

National house price growth accelerated in the 12 months to November 2019 to reach 2.2% across the UK and 1.7% in England. The average house price in the UK now stands at £234,306 compared to £251,222 in England. London (-0.2%) was the only region to record a fall in prices while house prices are rising fastest in the West Midlands (4.0% p.a.) and the North West (3.8% p.a.). Only the East of England (-0.7%) saw prices fall over the period.

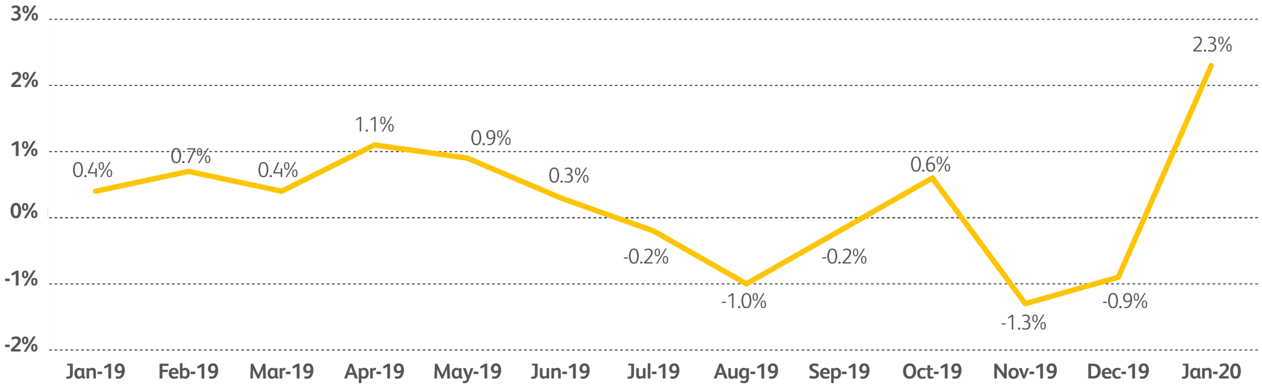
Figure 5: Average regional house price & annual price growth (Nov 2019)



Source: Land Registry

There are signs that house price growth may be about to accelerate. Rightmove reported that asking prices for newly listed properties on its website in January were 2.3% higher than in December, the largest monthly rise ever recorded at this time of year. Asking prices were also 2.7% up on January 2018. Higher value properties recorded the highest increase both monthly (3.1%) and on an annual measure (3.9%).

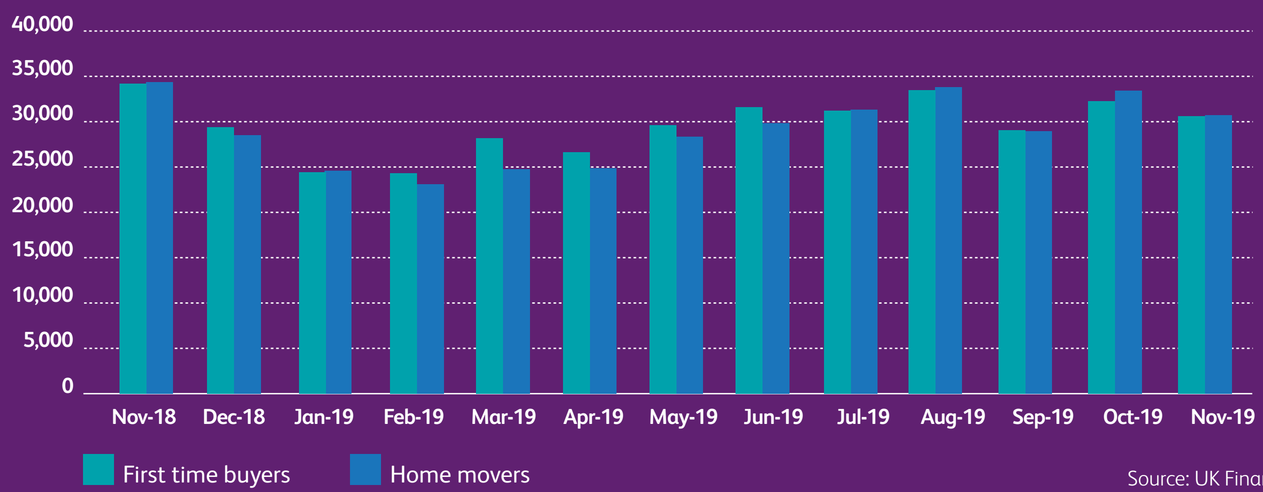
Figure 6: Monthly change in average asking prices



Source: Rightmove

New mortgage lending fell last November: loans to first time buyers were 5.1% down on the previous month and 10.5% lower than in November 2018, while loans to home movers fell by 8% over the month and by 10.6% over the year. Re-mortgaging was also lower in November – by nearly 7% in both volume and value compared to the previous month and by 4.2% compared to a year earlier in volume terms. However, re-mortgaging by value was slightly higher (+1.3%) compared to November 2018.

Figure 7: Mortgage approvals for house purchase



Source: UK Finance

The market share of riskier mortgages has reached its highest proportion since the financial crisis. Figures from the Bank of England show that the share of mortgages at or above 90% loan-to-value in the third quarter of last year rose to 5.9% — the highest recorded since the fourth quarter of 2008. The Bank has indicated that it will intervene if it feels the risk level becomes unacceptable.

Meanwhile, the Financial Conduct Authority is looking into the equity release market in response to claims of miss-selling. The equity release market experienced its third-busiest quarter on record in Q3 last year with the Equity Release Council reporting that almost £11m in property wealth was unlocked by homeowners aged 55 and over.

London sales market

Annualised data from Land Registry for the first nine months of 2019 point to a 12% reduction in the number of sales compared to 2018, while Rightmove reported a 21% reduction in the number of properties listed on its website in the second half of the year compared to the same period in 2018.

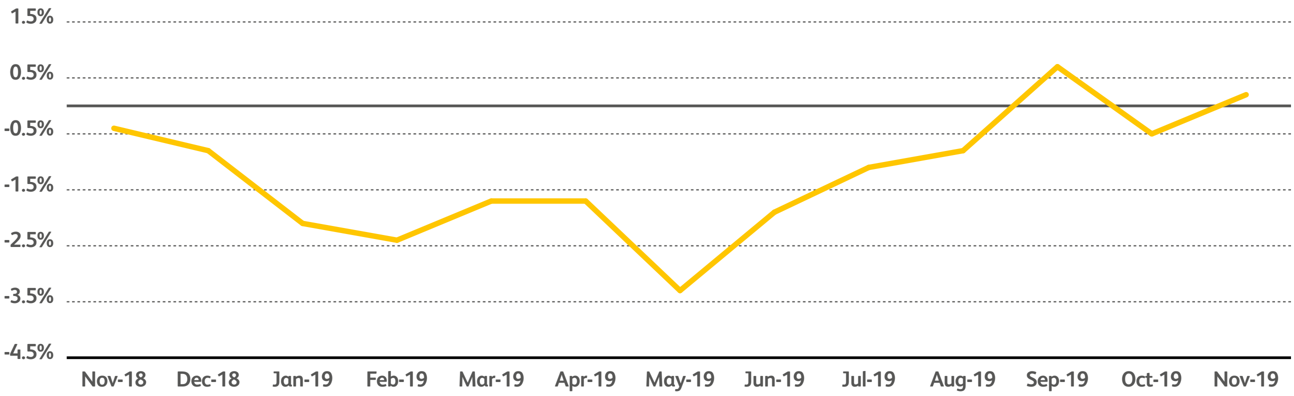
The market was hampered by a shortage of properties available to buy, affordability issues for buyers and a less active Buy-to-Let investment market. On top of this, political uncertainty surrounding Brexit, the election of a new Prime Minister and the General Election made buyers and sellers more hesitant.

Average house prices in Greater London rose marginally (0.2%) in the year to November 2019, taking the average house price to £475,458 according to the Land Registry, which is 1.9 times above the average for England. Terraced properties recorded the highest increase (0.8%) while average flat prices fell by 0.2% over the period.

Following last year's slide in prices, later asking price data suggest that a recovery may be underway. The Election result is already showing signs of providing a much-needed confidence boost to the London market by removing the threat of the more extreme policies proposed by other political parties such as rent controls and higher taxation for investors. In the 28 days following the General Election result, Rightmove experienced a 15% increase in the number of properties listed for sale compared to the same period a year earlier.

Rightmove also recorded 2.1% surge in the price of property coming to market between 8th December and 11th January, the largest monthly rise ever recorded at this time of year in Greater London. At 3.1%, the annual rate of increase was the highest in more than three years, while the number of sales agreed also rose – by 19% – compared to same period a year ago.

Figure 8: Annual price growth in Greater London



Source: Land Registry

Prices fell in 13 boroughs in the year to November but rose in 19 others according to the Land Registry. Camden (6.8%) recorded the strongest increase while the prime central locations of Westminster (-12.6%) and Kensington & Chelsea (-8.8%) experienced the sharpest decline over the same period.

Figure 9: Annual price growth by London borough (Nov 2019)

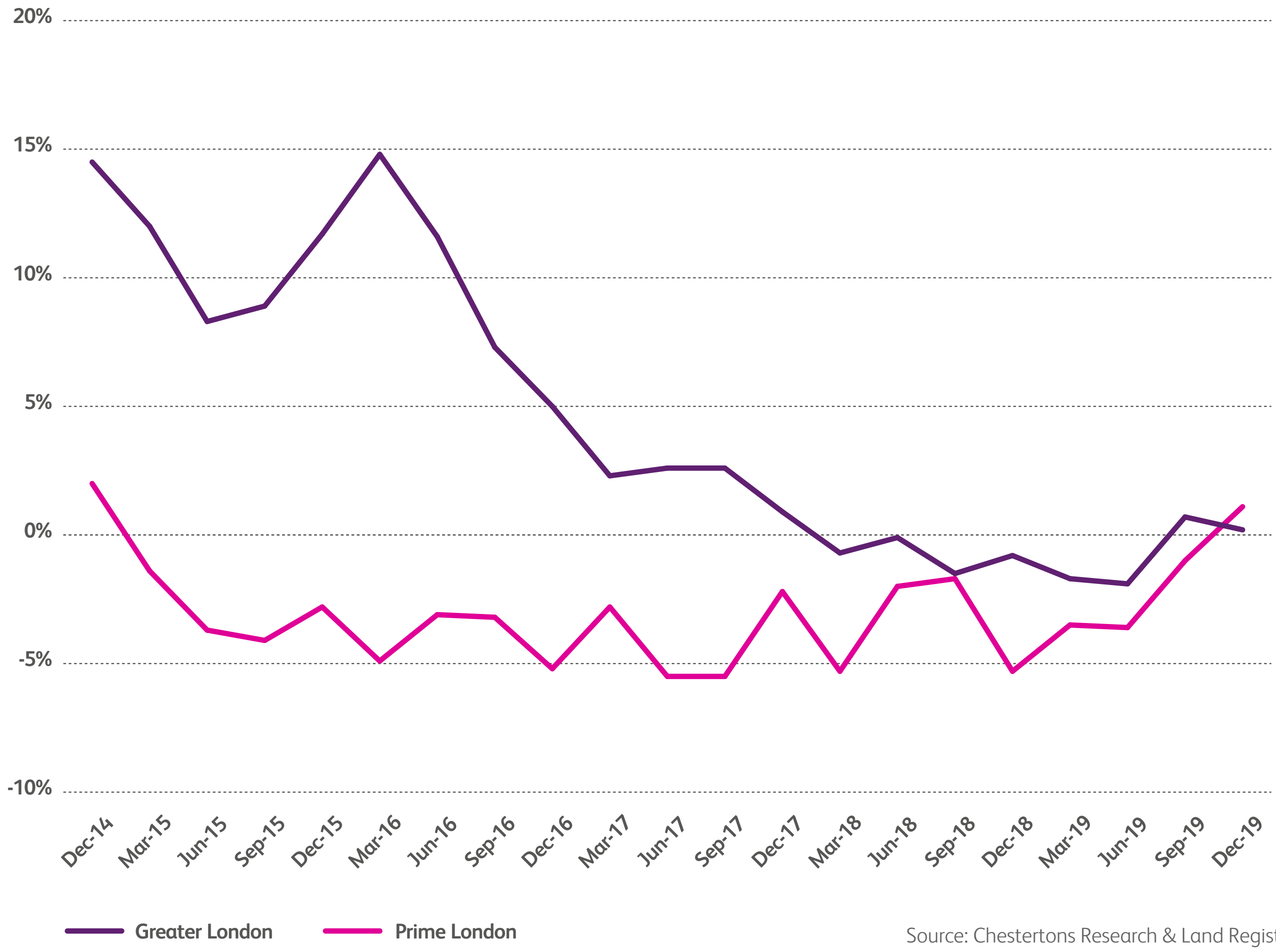
Source: Land Registry

Activity in the prime London locations picked up considerably in the second half of 2019 as committed buyers flocked to snap up properties whose values had dropped, in some cases by up to 20% or more since 2014. Chestertons recorded a 17% increase in the number of newly registered buyers and a 12% increase in offers in the final six months of 2019 compared to the same period in 2018.

Buyers were largely driven to act by a combination of necessity and Brexit fatigue. Low mortgage interest rates and further falls in asking prices also helped persuade buyers to act – at 10th January, data from property portal Lonres showed that 43% of properties on the market in central London had been reduced in price. Overseas buyers additionally benefitted from the continued weakness of the pound for much of the year.

Nonetheless, sales volumes suffered from a shortage of properties available to buy. In prime central London, the number of properties on the market at the end of December was 15% lower than at the same point in 2018 according to Lonres. This led to an increase in the number of multiple bids on properties, sometimes resulting in deals being closed at above asking price.

Figure 10: Prime London v Greater London 12 month price growth



Source: Chestertons Research & Land Registry

Note: Greater London latest figure is for November 2019

In the prime locations, the increase in buyer demand combined with a shortage of available properties resulted in an increase in average prices in 2019. At the end of December, the Chestertons Index reported that average prices for second-hand properties were 1.0% higher than at the end of September, and 1.1% higher than at the end of December 2018, the first time since December 2014 that the annual growth rate has been in positive territory.

New homes market

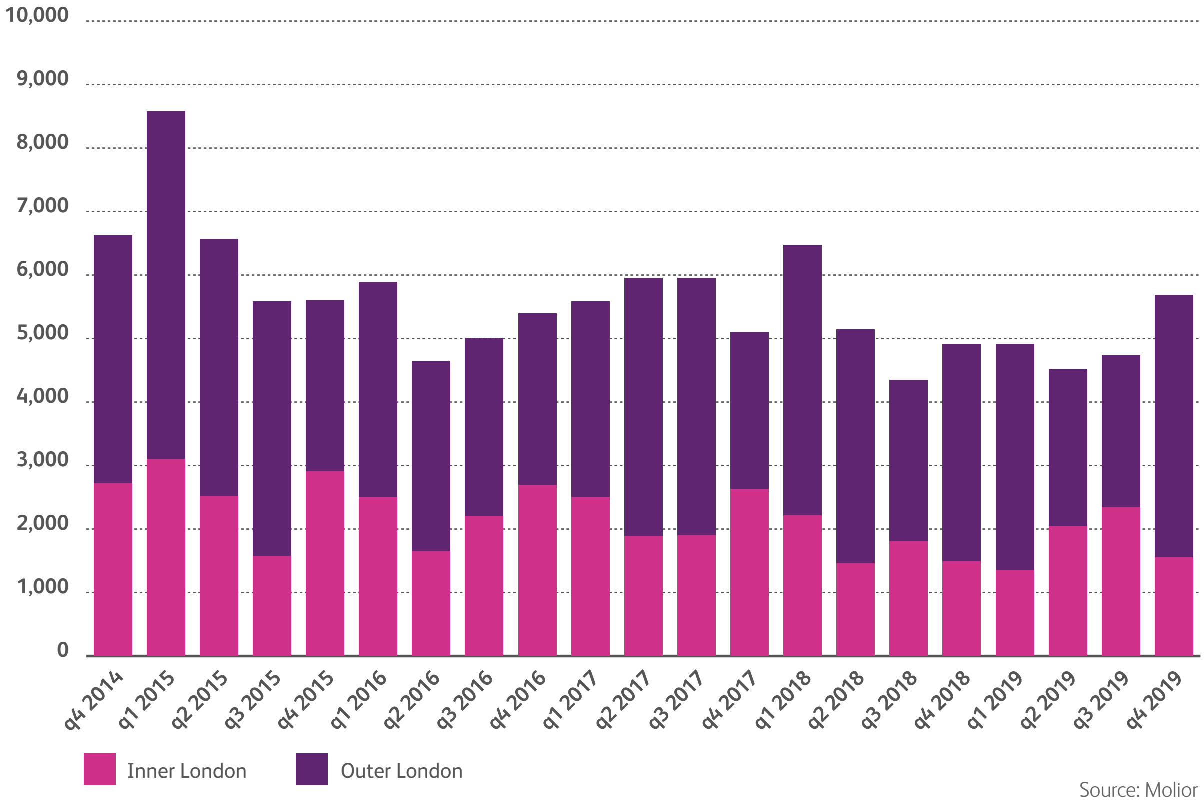
National

The volume of housebuilding in the UK is still way below the annual target set by the Government. Annualised data from the NHBC suggest that just over 165,500 new homes were registered in 2019 which is only 55% of the target amount. Various reasons including planning delays and cost, a lack of available sites suitable for development and landbanking by developers have been put forward as reasons for the shortfall in housebuilding.

One area which is being explored to help boost new development is taking advantage of redundant retail space – either through conversion or demolition and re-utilisation of sites. Schemes involving building on or around existing high street assets, rather than knocking down retail parks and building residential from scratch, are inherently more complicated but may become more important as part of wider pans to regenerate stagnating town centres.

London

Figure 11: London new homes' sales: Q4 2014-Q4 2019



Source: Molior

The new homes market in London continues to struggle. Although sales of new homes in the final three months of 2019 were just over one fifth higher than in the preceding three month period, they fell by 5% over the year as a whole. At the end of 2019, 48% of units under construction were unsold, equating to just under 30,000 properties. A further 3,900 properties were completed and unsold. Assuming the 2019 sales rate, it would take 1.7 years to sell this backlog.

Oversupply and price sensitive buyers means that many developers have been forced to offer discounts in order to sell units. There has also been a fall in demand from build-to-rent investors, with sales falling by 26% in 2019. As a proportion of total sales, build-to-rent fell from one third in 2018 to a quarter in 2019.

Developers have also responded to softer market conditions by reining back on new development. Construction starts in 2019 were 19% down on the previous year although completions were only 6% lower. Opportunistic overseas investment continues to be supported by the continued weakness of the pound although the proposed introduction of a 3% stamp duty surcharge for non-resident buyers will make some foreign investors think twice.

LETTINGS MARKET

National lettings

Average rents across the UK rose by 3.5% in December 2019 when compared to the same month a year previously according to the Homelet Index, taking the average monthly rent to £953. When London is excluded, the average UK rental value was £793 in December 2019, up 3.9% on last year. Rents rose in all 12 of the regions covered in the research. The North West (8.3%) saw the strongest growth while growth was weakest in the South West (0.8%).

Figure 12: Regional monthly rents & 12 month rental growth at Dec 2019

Source: Homelet

The strength of tenant demand combined with shortages of available rental stock has caused a reduction in average void periods over the past year. Research from tenancy progression and referencing firm Goodlord reveals that London has the lowest average void periods at just 14 days while the East Midlands (25 days) has the highest average.

Figure 13: Average void periods (days) in 2019

Region	Jan-19	Dec-19	2019 ave
Greater London	15	12	14
South West	23	19	18
South East	23	21	20
North West	25	22	21
North East	34	24	23
West Midlands	28	20	24
East Midlands	41	23	25

Source: Goodlord

The lettings market has been subjected to a considerable increase in regulatory control in recent years and we can expect further tightening in 2020. The Government has promised a "Better Deal" for renters, including:

- The abolition of "no-fault" eviction notices under Section 21 of the Housing Act 1988. The Government has consulted on this but no date for implementation has been announced.
- The creation of lifetime rental deposits which tenants can transfer from one rental property to another.

Other important changes coming into force this year include:

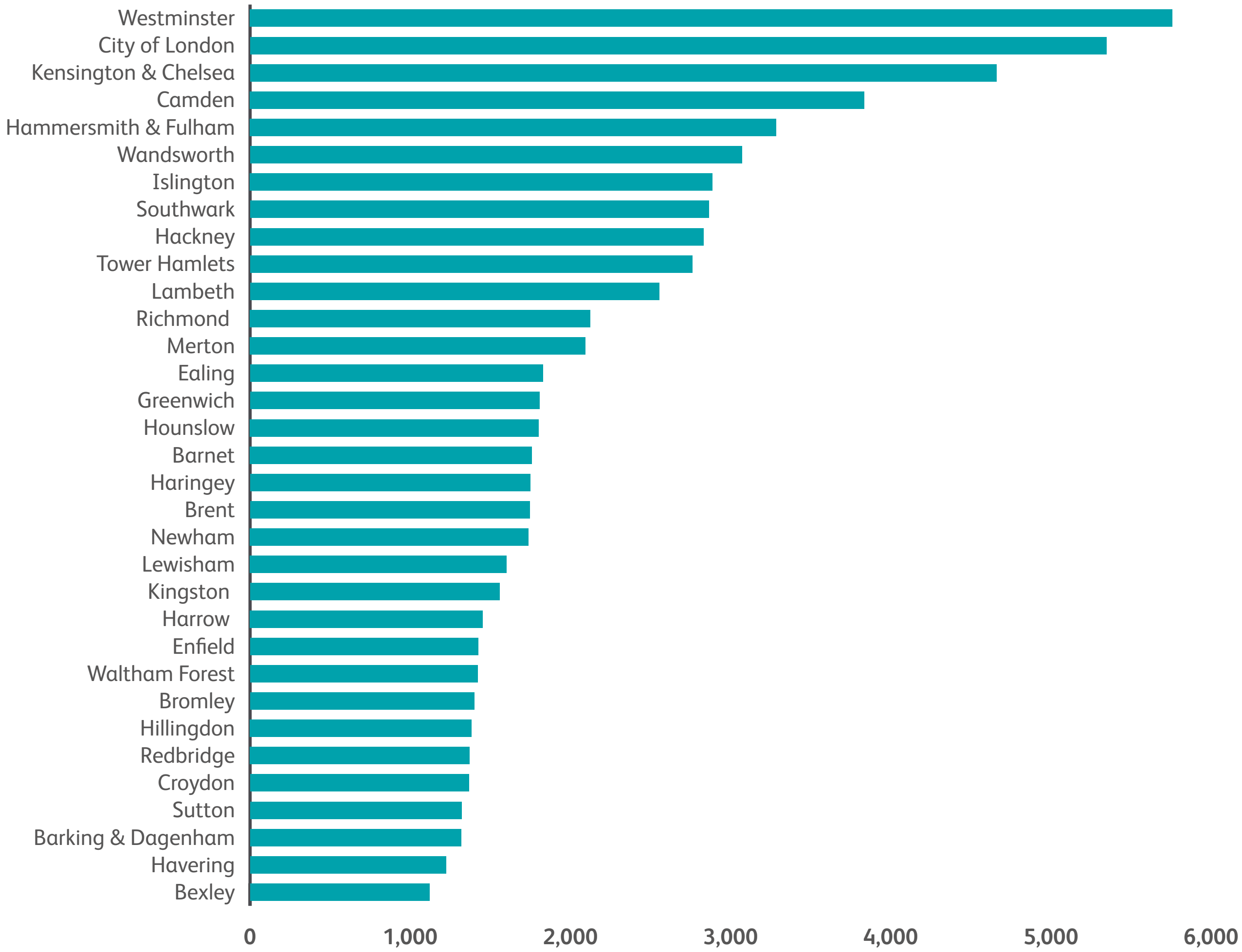
- A likely increase in the number of local authorities introducing mandatory licensing for all rental properties. Licensing, where it is in place, now also applies to properties being sold by landlords. Where a licence is required, evidence must be provided to show that the licensing application has been made before a tenancy can commence.
- From April, Minimum Energy Efficiency Standards (MEES) will apply to all rental properties, whereby properties cannot be let without an EPC rating of E or better.
- From March, the Homes (Fitness for Human Habitation) Act will apply to all rental properties which means that landlords or agents acting on their behalf can be forced to carry out improvement works to properties or risk being sued.
- From June, the extension of the Tenant Fees Act 2019 will apply to all rental properties.
- Further tightening of money laundering regulations from January with the entering into force of the EU Fifth Money Laundering Directive. In addition, new rules on money laundering have been extended to cover letting agents, with an April 2020 deadline for agents to join an official Client Money Protection scheme.

London lettings market

The December Homelet Index reported that average rental values in London stood at £1,630 per month, 71% higher than the UK average and 105% higher when London is excluded from the national average. Rents in the capital increased by 2.1% in December 2019 compared to the same month in 2018.

Affordability is unsurprisingly worse in London than anywhere else in the country. Zoopla estimates that in Q4 2019, rent accounted for 46% of a single person's income compared to the national average of 26.4%.

Figure 14: London borough monthly asking rents for 2-bed flats (as at 22 Jan 2020)



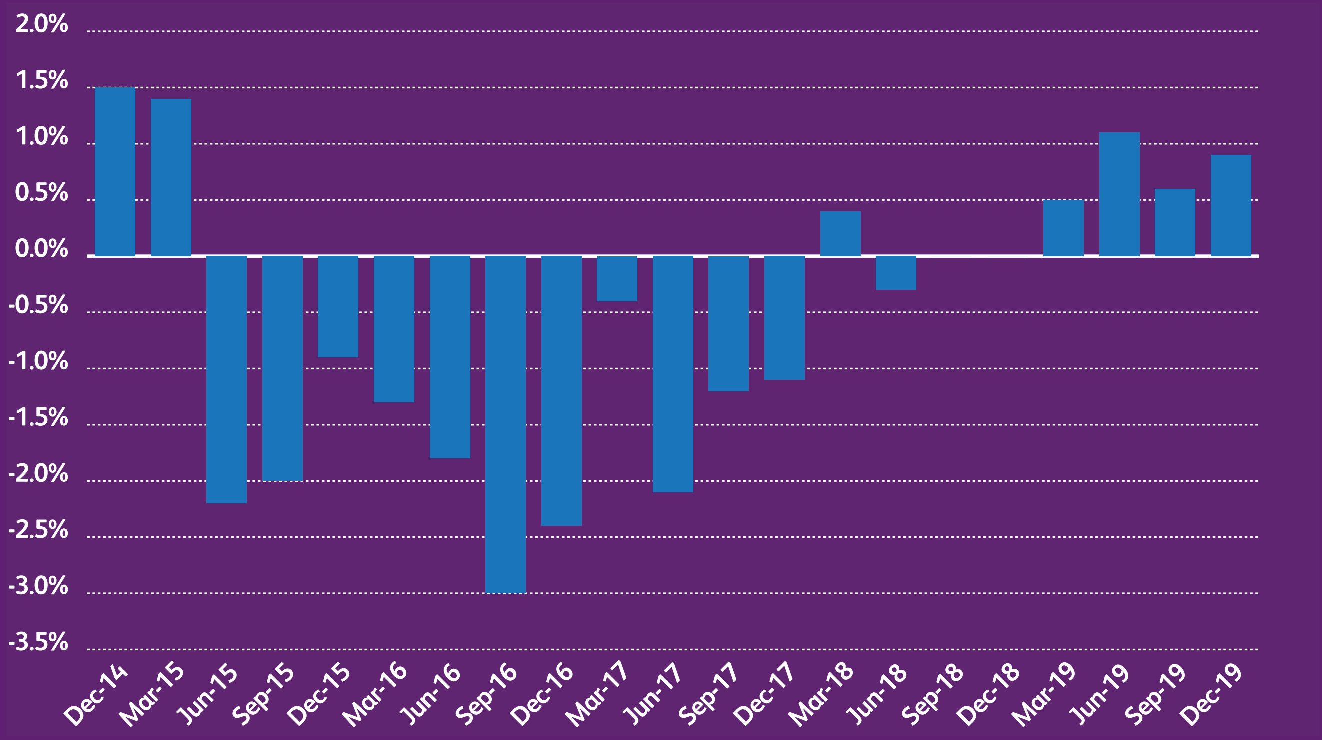
Source: Zoopla

The prime London locations experienced an exceptionally strong second half of the year in 2019, remaining active well beyond the usual summer to early autumn peak period. Over the full year, Chestertons recorded a 16% increase in the number of both newly registered tenants and offers made on properties compared to 2018. The increase is largely explained by an increase in new properties coming onto the market and tenants shopping around for better deals rather than renewing their existing contracts. However, by the end of the year much of the increase in supply had been let and at year-end, availability was actually 6% lower than at the corresponding point a year earlier.

As availability reduced, tenants who had previously been selective and viewed multiple properties before making a decision found themselves having to act quickly to secure one and two bedroom flats in many high value locations or risk missing out. We also noticed an increase in the number of tenants requesting shorter leases and with break clauses, for example12-18 month contracts with a break at six months. This often proved acceptable for those landlords who were waiting for an opportunity to sell and who didn't want to be tied to lengthy contracts.

In the prime locations, sustained strong tenant demand and a dwindling supply of available properties saw rents increase by just under 1% over the final three months of 2019 as measured by the Chestertons Rental Index. Over 2019 as a whole, rents rose by an above inflation 3.4%. Despite the increase in achieved rents, landlords often had to be flexible in order to secure tenants and between October and December asking rents reduced on average by 2% while at mid-January, around 30% of properties available to rent had experienced a reduction in the asking rent according to data from Lonres.

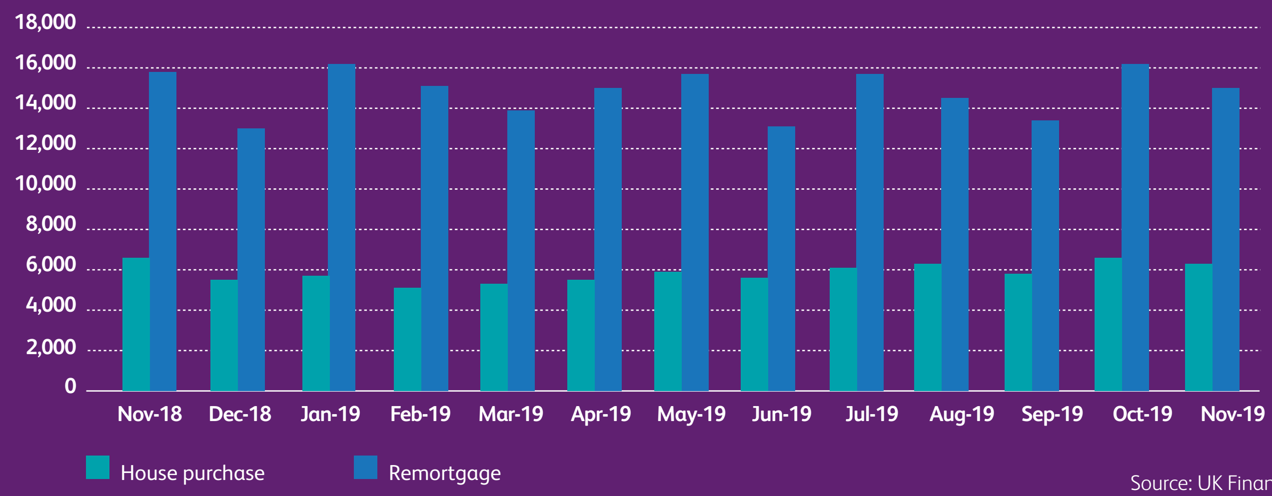
Figure 15: Prime London quarterly rental value growth



Source: Chestertons Research

INVESTMENT MARKET

Figure 14: BTL Mortgage Lending (number of loans approved)

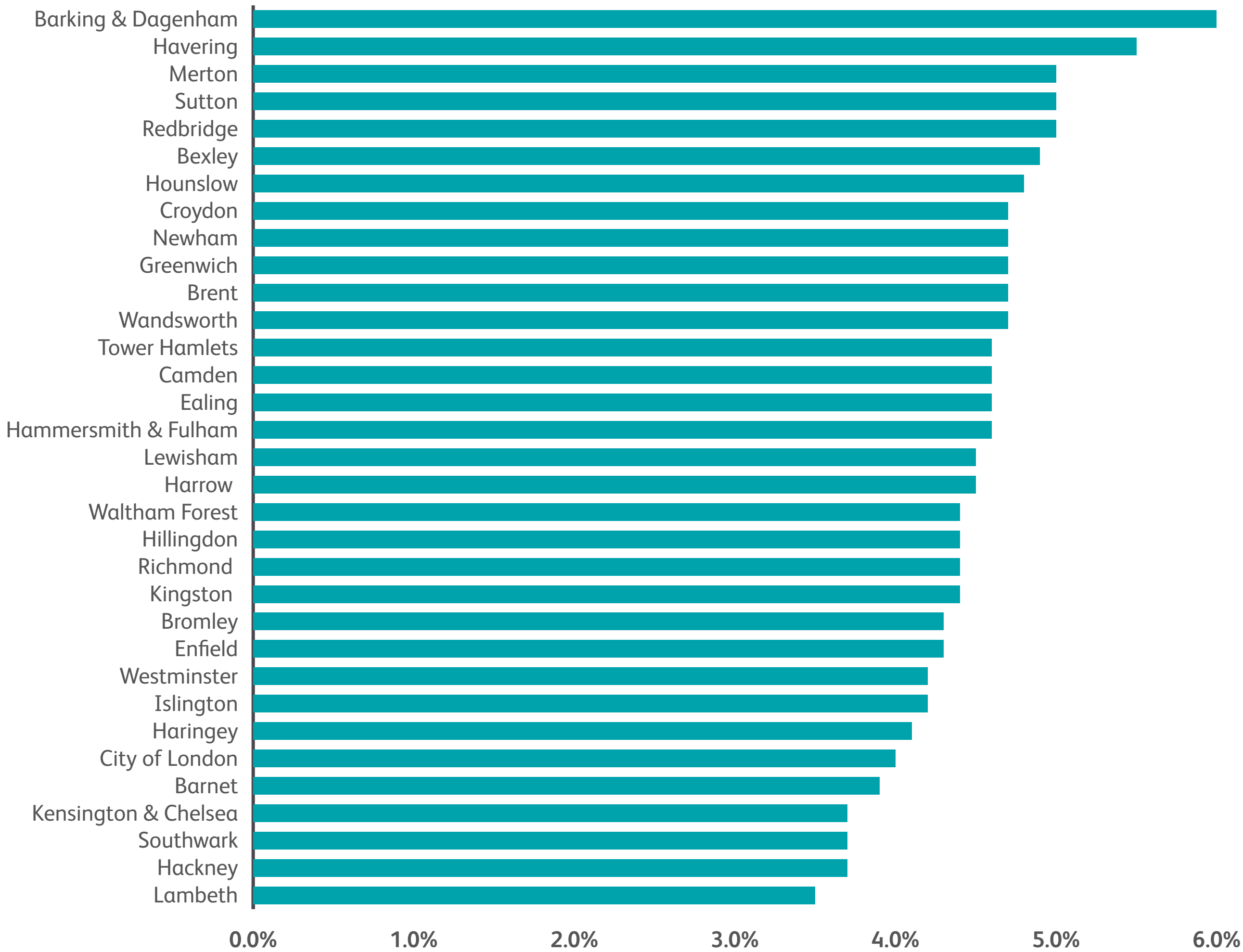


Source: UK Finance

UK Finance data shows that new loans for house purchase fell by 4.5% in November 2019 compared to both the previous month and the same month a year earlier. Although total lending for house purchase in the first 11 months of last year was 2% up on the same period in 2018, recent anecdotal and survey evidence suggests that many smaller accidental/part-time landlords have either sold or want to sell their property investments. Over a third of private landlords are planning to cut the number of homes they rent out or exit the market altogether this year, according to a survey conducted by the Residential Landlords Association. Just 12% of landlords are looking to increase their portfolios. This is damaging for the sector and in December the RICS warned of a crisis brewing in the private rental market as latest data showed a sharp drop in supply over 2019.

Data from UK Finance show that the number of private landlords' properties being repossessed saw a 40% year-on-year rise during Q3 2019. There were 800 repossessions between July and September 2019, up from 570 in the corresponding quarter in 2018. On a positive note, many landlords will have seen yields on individual properties rise over the past year, especially in London where capital values have fallen and rents have risen.

Figure 17: Gross initial yields (2-bed flats, zero gearing at 24 Jan 2020)



Source: Zoopla & Chestertons Research

Meanwhile, the expansion of the build-to-rent sector continues at a steady pace, driven by the large investment funds and institutions. Albeit still relatively small in relation to the whole private rental market, this sector is evolving as it expands and new developments will increasingly offer not just purpose built, professionally managed accommodation but also a community environment, sometimes as part of a wider mixed-use development. Provided rents are pitched competitively, tenants are increasingly likely to gravitate towards this end of the market.

CHESTERTONS

International offices

Africa
Asia
Caribbean
Europe
Middle East

Contact

Chestertons is one of London's largest estate agencies and has a network of over 30 offices offering sales and lettings services, in addition to a strong international presence including Caribbean, Middle East, Monaco, France, Spain, Portugal, Switzerland and Australia. For further information please contact one of the following:

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