MARKET INSIGHT

NOVEMBER/DECEMBER 2017

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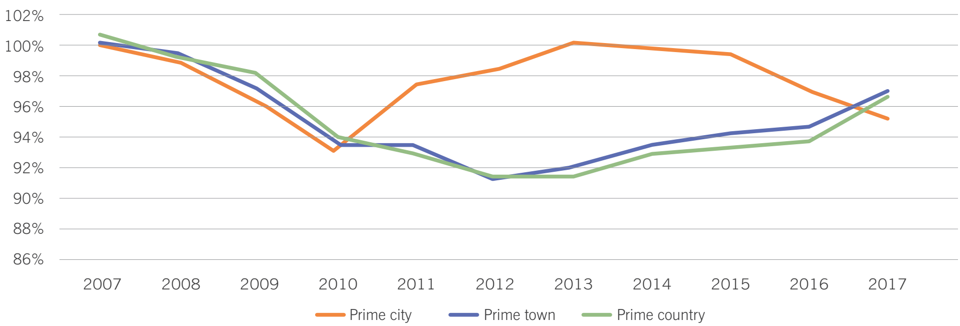
FOCUS

Prime pickings

When looking at the different market sectors it's the London market that has most emphasis on Prime. But there are prime markets all over Great Britain, in cities, towns, suburbs and in the country. These markets have features that differentiate them from mainstream markets – price is the obvious factor – but that is really a reflection of other area characteristics. Prime property is in the most desirable areas, often close to the best schools and is populated by wealthier individuals and families. Their higher purchasing power supports prices, but so too does the enduring desirability of the area. That supports demand relative to other areas and preserves a price premium through good and bad times.

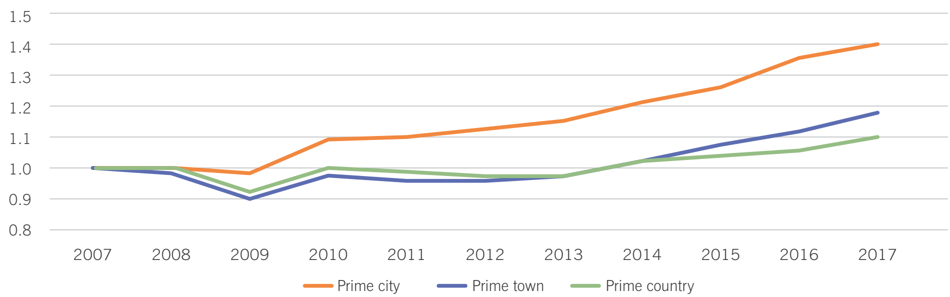
While demand for property in prime areas may be more resilient, like the rest of the housing market, prime sectors are still subject to cycles. Prime country and town markets suffered from price falls in 2008/9 just like the rest of the country, but prices in the

Asking to achieved price



Source: Countrywide Research

Prime house price index (2007=1)



Source: Countrywide Research & Land Registry prime city markets were more robust, partly because overseas buyers saw the UK as a safe haven in the euro crisis. Since the 2007 financial crash prime city markets made a much faster recovery than the town or country markets growing 40% since 2007 compared with 18% in prime town and suburb markets and 11% in the country.

Prime city markets are more attractive to investors. Indeed 13% of prime city properties were bought to rent out in 2017, compared with 9% and 7% in the town and country respectively. There are even a greater proportion of purchases of second homes in the city – 8% compared with 4% in towns and 7% in the country.

Even though prime city property is the most expensive and is bought by those with the deepest pockets, it is not immune to affordability, acting as a check on prices. As prices have galloped away, expectations about how much further they can rise has begun to fall. Add to that the change in stamp duty in 2014, which hit the most expensive properties (and especially those in the prime city markets) hardest, it's not surprising that price growth has slowed.

That is clear from the ratio of asking to achieved prices. As buyers factor the higher stamp duty costs into their negotiations, along with weaker price expectations, the ratio of asking to achieved sale prices has been falling in prime city markets. Now it is the prime town and country markets that are seeing the most growth.

As always looking at the average across the whole country disguises the regional dynamics. But that too shows how price movements ripple across the sectors, from the most to least. The prime city markets lead and as they become more expensive, price growth slows as demand shifts to towns and suburbs and country markets where there is greater value for money.

Top performing sector

Region	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017
South East	City	City	City	City	City	Town	Town	Town	City	Town	Rural
South West	City	City	City	City	Rural	Town	Town	City	City	Town	Rural
East	City	City	Town	Rural	Rural	Town	City	City	City	City	Town
East Midlands	Rural	Rural	Rural	Town	Town	City	City	City	City	City	Town
West Midlands	Rural	Rural	Town	Town	Town	City	City	City	City	City	Town
North West	Rural	Town	Town	City	City	City	City	City	City	City	Town
York & Humber	Rural	Rural	Town	Town	City	City	City	City	City	Town	Town
North East	Rural	Rural	Town	Town	City	City	City	City	City	Town	Town
Wales	Rural	Rural	Rural	Town	City	City	City	City	Town	Town	Town

Source: Countrywide Research

ECONOMY

Gathering interest

It's been more than a decade since there was an increase in interest rates in the UK. Back in July 2007 the Bank of England base rate increased from 5.5% to 5.75% – a number that is hard to take in now we have had rates at 0.5% or below for eight and a half years. But there is increasing chatter about a rate rise on the horizon.

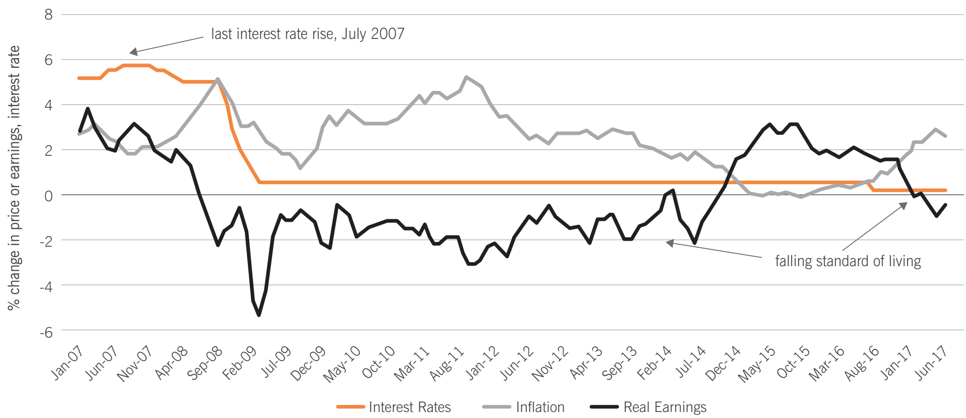
The reason is that inflation is increasing rapidly. It reached 2.9% in August, just another 0.1% and the Governor will have to write a letter to the Chancellor to explain why. In more normal times inflation at this rate would lead to a rate rise without question. Yet despite it being way off the 2% target, the decision for the Monetary Policy Committee (MPC) isn't so clear cut today.

Why? Because there are few signs that inflation today is caused by the economy gathering pace, rather it's because the fall in Sterling makes imported goods dearer. And there are few signs of pay rises fuelling price growth either. Wage growth is lower than inflation, creating an effective pay cut, squeezing household budgets, reducing consumer demand and dampening inflation.

But change is on the horizon. The markets have fully priced in a rate rise by February but the consensus is moving to a rate rise in November, possibly to move earlier and avoid having to raise rates more in the future. The beginning of a return to more 'normal' conditions could help to lift confidence.

Even if rates do begin to rise, they won't do so quickly. A decade on from the financial crash, the economy is still relatively fragile, worsened by the uncertainty of Brexit. So while higher rates might not be welcome for people with debt, a small rise will make little difference but will, more importantly, signal that the UK economy is back on track towards normality.

Inflation, interest rates and earnings



Source:ONS

SALES

International buyers

International buyers have traditionally seen the UK as a safe haven to invest in property. They've seen prime UK property perform better than many other assets and also property in other major cities across the globe.

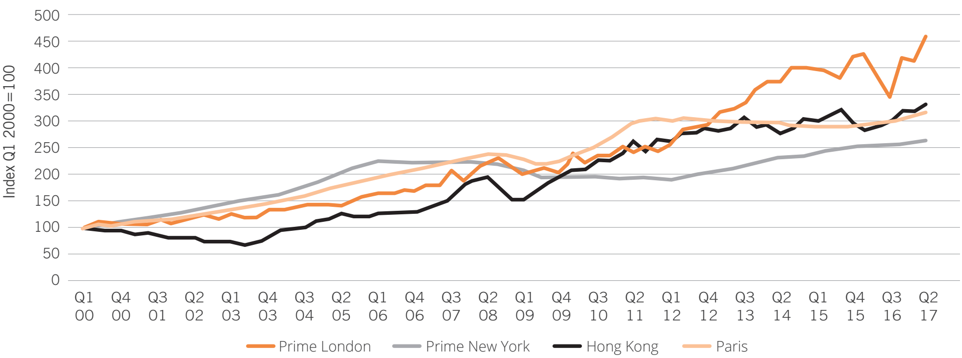
International buyers have historically bought in prime central London, but today they're increasingly looking beyond the most expensive neighbourhoods. The changes to stamp duty in 2014 and 2016 drove demand to outer London where relatively lower prices mean a lower tax bill and expectations of price growth are higher.

In Q2 2017, international buyers were increasingly likely to buy in London's suburbs. The proportion of international buyers in up-market suburbs covered by our network increased from 17% in Q1 to 27% in the second quarter of the year.

Price is a driver – the average price in the suburbs is £489,000 compared with £1,758,000 in prime central London. Combined with the fall in Sterling, that may have opened up opportunities for overseas buyers who hadn't been in the market before. Central London still retains its appeal for many international buyers. Europeans, who almost abandoned prime central London following the Brexit vote, are regaining confidence. The proportion of European purchasers increased by 6% to 15% in prime central London in Q2, retaking their position as the largest group of international buyers.

Regardless of location, currency advantages and a lack of supply in the property market are expected to support demand for international buyers in the UK as they assess the proven historic strength of the investment. Indeed, despite Brexit worries, confidence in London as a place to buy is also reflected in a dwindling number of sellers. The proportion of international sellers in Q2 2017 was 17%, down 3% from last quarter. The number of sellers fell back even more, from 40% of sales in Q1 2017 to 33% in Q2 in prime.

House prices in global cities



Source: Countrywide Research

LETTINGS

Bigger landlords

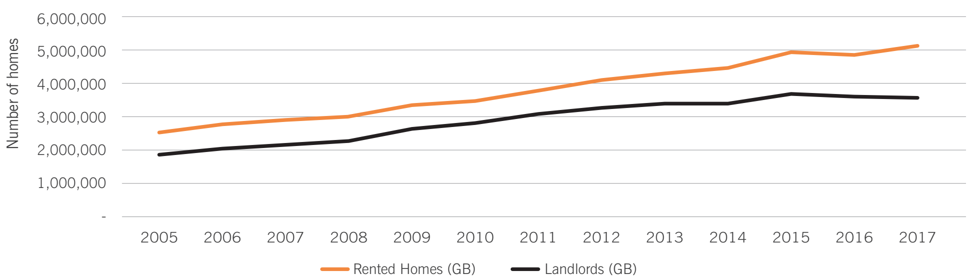
Landlords expanding their portfolios, and buying more homes is increasing the size of the rental market. Recent regulatory and tax changes have made it more complicated and more expensive for amateur landlords to enter the sector. There are 171,000 more homes to rent since 2015, but the number of landlords has fallen by 154,000 in the same period. As a result, the average portfolio size increased to a new high of 1.44 rented homes per landlord, up from 1.24 in 2010. This means there are less landlords owning more properties.

Traditionally, the average landlord only owned a single property, while those who owned multiple properties have been a minority. Today the growth of the sector is being driven by multi-property landlords expanding their existing portfolios rather than new landlords entering the sector. In 2007, single property landlords accounted for 84% of all property investors, while today they are just 73%.

The stamp duty tax on second properties introduced last year has discouraged many landlords from buying additional properties. The effects of the stamp duty have been especially acute in the most expensive cities of the country. To avoid a large surcharge, London's landlords have diversified their portfolios, buying in cheaper areas further away from where they live. Today only 71% of London's landlords bought a buy-to-let property in the same region as opposed to 89% landlords in the North West of England.

Just before the introduction of the stamp duty, the market was flooded with rental properties from landlords rushing to beat the surcharge. High rental stock levels across Great Britain have put downward pressure on rents over the last year, but the effects of this have faded. With fewer landlords buying properties, the supply of available homes to let is starting to fall, supporting rental growth. In August the proportion of homes sold to landlords fell to 11.8%, down from an average of 16.4% in 2015, pre-stamp duty changes. As a result, rents in Great Britain rose 1.6% year-on-year, increasing for the second consecutive month in Greater London. Rents grew the most in the South West (4.7%), Scotland (2.8%) and East of England (2.5%).

Number of rented homes and number of landlords in Great Britain



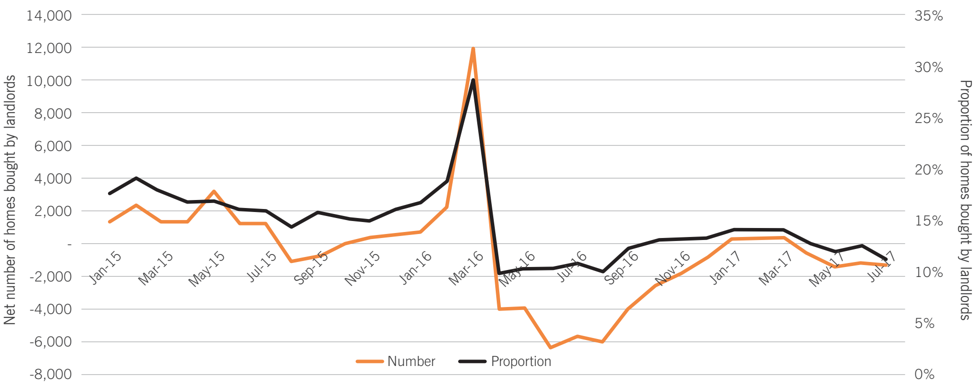
Source: Countrywide Research & DCLG

Source: Countrywide Research

STAT OF THE MONTH

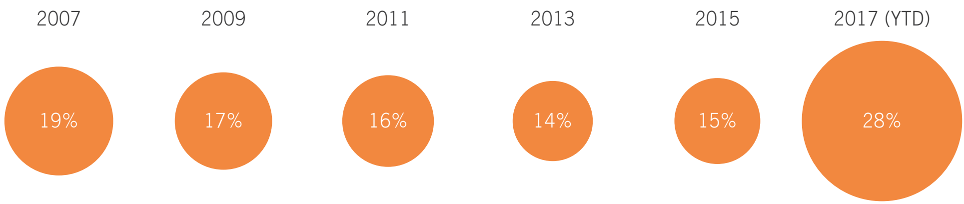
Homes bought by landlords

Net number of UK homes bought by landlords



Source: Countrywide Research

The proportion of postcode districts with no sale to a landlord



Source: Countrywide Research

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