Market Insight

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50s Are the New 40s

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That's Life - 50s are the new 40s

The typical property lifecycle is changing as rising house prices limits the number of younger homeowners.

The overall owner occupation rate has fallen from 65 per cent to 63 per cent between 2011 and 2016, while the proportion of households who rent has increased from 33 per cent to 35 per cent. That is not an insignificant change over just five years, but what is more interesting is the age profiling.

In Q2 2011 half of owner occupiers in the UK were under 50 years old, by 2016 that proportion had fallen to 45%. The most common age to be an owner occupier has shifted a decade from the 40s to the 50s in just five years.

Part of the reason for this is that the availability of finance has become more difficult. The financial crash in 2008 meant that credit was rationed severely which really hit borrowers – particularly in the younger age groups who needed higher percentage loans. Finance availability has improved gradually and by 2013, 95 per cent loans had once again become available as mortgage lenders' risk appetites increased.

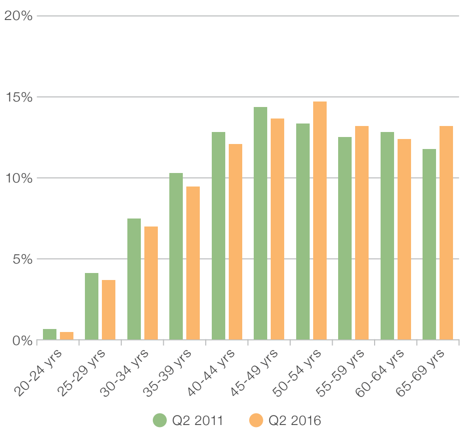
But other mortgage regulation governing the affordability of a mortgage at a higher interest rate over the subsequent years came into the equation, cutting off some demand. And then, as house prices began to increase once more, raising even a 5 per cent deposit became more difficult.

And just as owner occupation has come later in life, renting is no longer the preserve of the young. The proportion of renters has increased by 2 percentage points, but the age profile has moved more slowly yet it is still quite striking over such a short period. But this has been a longer process. Five years ago a quarter of all renters were in their twenties, now it's fallen to 22 per cent with the most common age to rent rising from the late twenties to early thirties.

It's an ongoing issue as house prices increase while incomes do not, yet the desire to own one's own home has not diminished, one cheaper route is to part own and part rent a property. Shared ownership has been around for a long time but has remained only a small proportion of the total market.

Overall this tenure accounts for just 1 per cent of all households, but there is increasing interest in it. Over the last five years there has been a 36 per cent increase in the number of households who part own and part rent, compared with just a 6 per cent increase in the total number of households in any tenure.

Proportion of Owner Occupiers by Age Group



Source: ONS

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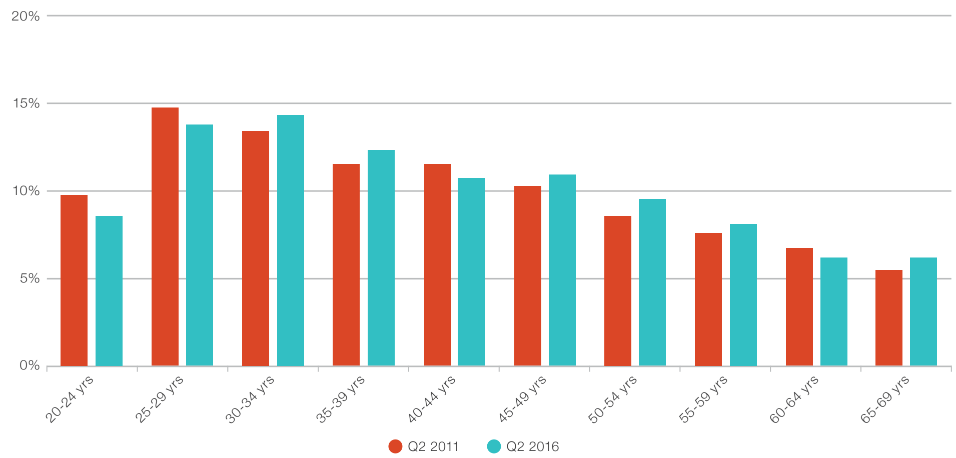
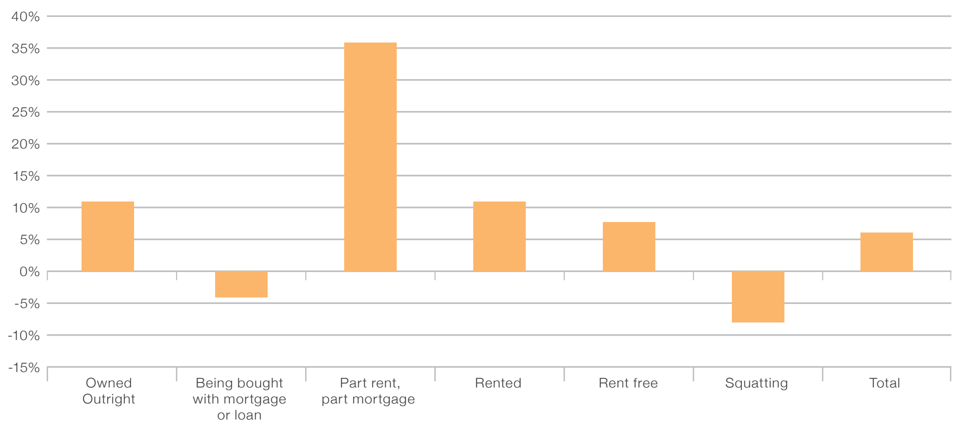
Renters by Age Group



Source: ONS

Change in Household Tenure 2011 - 2016



Source: ONS

So Far, Better Than Expected!

We have cleared the first hurdle, but there are many more to go.

Economic data since the referendum has been surprisingly benign. Despite fears that uncertainty about the UK leaving the EU would affect investment and consumer spending, initial data suggests that hasn't been the case. Retail sales have been better than expected, employment has been stable and real (inflation adjusted) earnings have continued to increase.

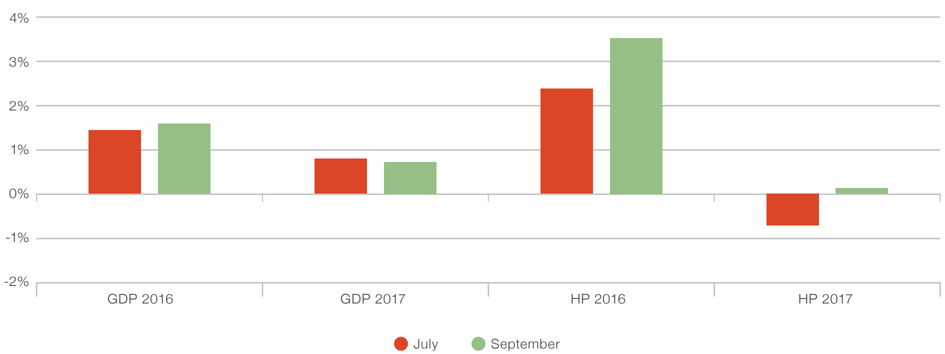
So far then the economic fallout from the referendum result has been much better than expected. That has been reflected in the latest set of forecasts from the OECD, which said that the immediate shock from the referendum had not been as serious as it had expected. It has raised its projection for UK GDP by 0.1 per cent to 1.8 per cent for the year. Other independent forecasters have done the same. Even the chief economist at the Office for National Statistics has said that so far the referendum result has not had a major effect.

That's not the whole story though. While forecasts for economic growth in 2016 may have been revised up, those for 2017 have been revised down. Some small business confidence surveys are reporting a weakening trend and some large businesses have again reported reluctance to make decisions about locating in the UK – at least for the time being.

It's hardly surprising. So far nothing has actually changed. The UK is still in the EU and will remain so for some years yet. The clock will only start ticking when Article 50 is invoked in the first half of next year.

Until then we do not know what type of exit the UK will make, nor the types of trade deals we can negotiate. The question for the economy is how long the ongoing uncertainty can be tolerated and what the longer term effects on the UK will be.

Avergae Independent Forecasts for GDP and House Prices



Source: Bank of England

Holding Steady

Support to housing market activity may help keep the sales market stable post-Brexit.

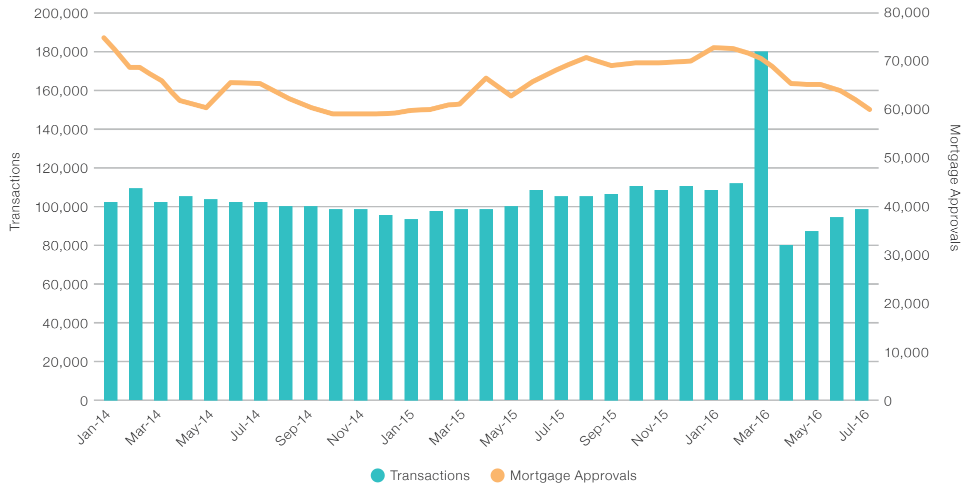
Just like the rest of the economy, the effect of the referendum on household transactions has been less than anticipated. The latest data on transactions is for August and it shows that activity has been broadly stable after accounting for the seasonal pattern of home buying. Activity is however 6 per cent lower than in August 2015. That may still be reflecting a small part of the distortion in activity due to the spike in sales to beat the second home stamp duty surcharge in April.

But, data on mortgage approvals has weakened more recently which may signal a softening in sentiment that will feed into the number of deals that will actually complete. Mortgaged transactions only account for about two thirds of all transactions but they do lead final deal numbers by a couple of months.

Yet that's not guaranteed. The Bank of England was expecting a significant drop in the average numbers of mortgage approvals and has been happily disappointed. That may in part be due to the fall in mortgage rates available since the summer.

Two and five-year fixed mortgage rates – which cover the majority of new mortgage lending – have been dropping since May. With the new monetary easing and particularly the Term Funding Scheme, the expectation is that mortgage rates may fall a little further over the coming months and that will help to support overall activity.

Housing Transactions and Mortgage Approvals



Source: Countrywide Research

Ask, but don't get quite as much…

Fewer homes in London are let at above their asking price.

There's always a bit of negotiation on rents, just as with house sales, and when there is lots of demand for property the rent agreed is often above the initial asking price. But the latest data from Countrywide Lettings index shows that in Central London fewer homes are being let for above their asking price. Just 8 per cent of homes were let at above asking price, falling from 17 per cent in the same period last year. This is the lowest proportion seen in August since 2011. Greater London as a whole saw 13 per cent of homes let above asking price, 4 per cent lower than the same period last year.

Why is this? If property sales are easing one might expect there to be more demand for rental homes and hence a bigger proportion of lets over the asking price.

The answer is more supply. A combination of more supply as landlords rushed to buy property before the stamp duty surcharge came in and a change in housing market sentiment after the referendum means that supply has matched or grown faster than tenant demand.

In London and the South East the number of homes available to rent in August grew by 26 per cent and 22 per cent, respectively, compared with the same period last year. That compares with growth in tenant demand of just by 8 per cent in London and 3 per cent in the South East. Unlike the sales market where the commitment to a property is bigger, rental prices adapt very quickly to changes in market conditions and that means asking prices are finely tuned to tenant demand.

Proportion of Homes Let above Asking Price

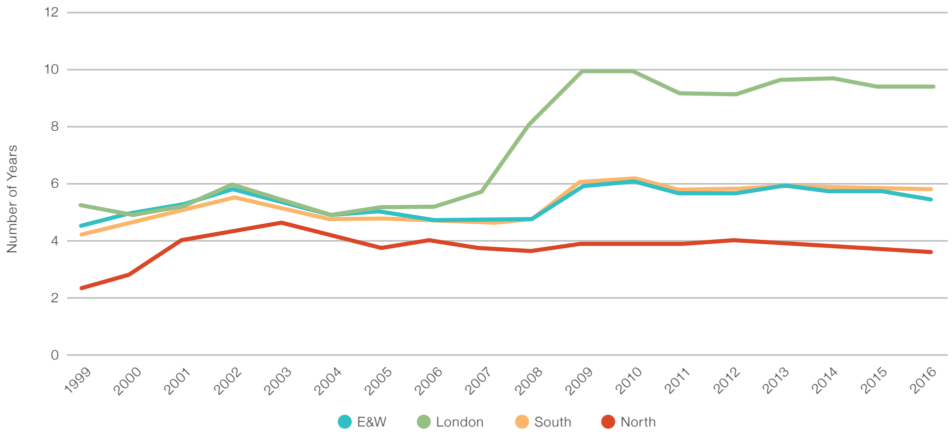
Region	Aug - 15	Aug - 16	Change
Greater London	17%	13%	-3.7%
Central London	17%	8%	-8.9%
East of England	13%	15%	2.3%
South East	14%	14%	0.1%
South West	12%	15%	3.1%
Midlands	10%	11%	0.9%
North	10%	10%	-0.3%
Wales	11%	8%	-2.7%
GB	12%	12%	0.2%

Source: Countrywide Research

Time to Save

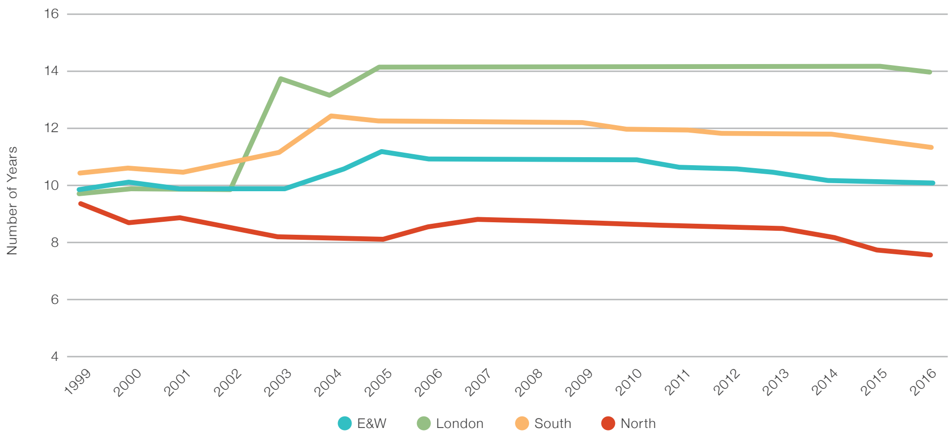
Saving up is hard to do but it is getting a little bit easier.

Time to Save - Couple Working Full-Time



Source: Hamptons International Research

Time to Save - Single First-Time Buyer



Source: Hamptons International Research

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