Market Insight

February/March 2017

Cashing in

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London sellers doubled their money

Londoners who sold their homes in 2016 made an average profit of more than £256,000 over the purchase price, more than doubling their money.

On average there was a 8 year gap between buying and selling, making the average annual profit £90,000. Property prices in London have of course outstripped those in the rest of the country, but to put this into context the average profit made by London homeowners adds up to more than the average house price in England. The current average cost of an English house is £234,000, meaning that the profit on a London sale could fund a second home – with £22,000 change.

The average profit per year also hits home the pace of price rises in London. On average London buyers have stayed in their homes for less time so boosting further the annual profit made.

Taking London out of the equation, sellers across England and Wales made an average profit of 65% - about £71,000 between buying and selling. The typical gap between transactions is eight years, making the average annual profit almost £9,000.

Sellers in the East and South-East of England also made strong cash gains, totalling on average £104,000 in eastern England and £120,000 in the South-East.

The data demonstrate the wealth gains made by home movers able to take advantage of a rising market since the 2008 financial crisis. But on the other side of the coin it illustrates the increasing difficulty for first time buyers in London and the widening differential between London and the rest of the country.

Indeed there are still parts of the country where sellers have made a loss on sale. Despite rising prices across the whole of England and Wales, in parts of the country these have not been sufficient to outweigh the fall in prices caused by the financial crash. Across the whole country, one in 10 vendors made a loss on their home sale in 2016.

The effect of more rapid house price growth in London has been to encourage demand out to the suburbs. That has in turn led to faster price growth in these outer areas, fuelled both by buyers who cannot afford to buy in the capital and by householders using the additional gains on sale of their London home to buy larger homes further out of the city.

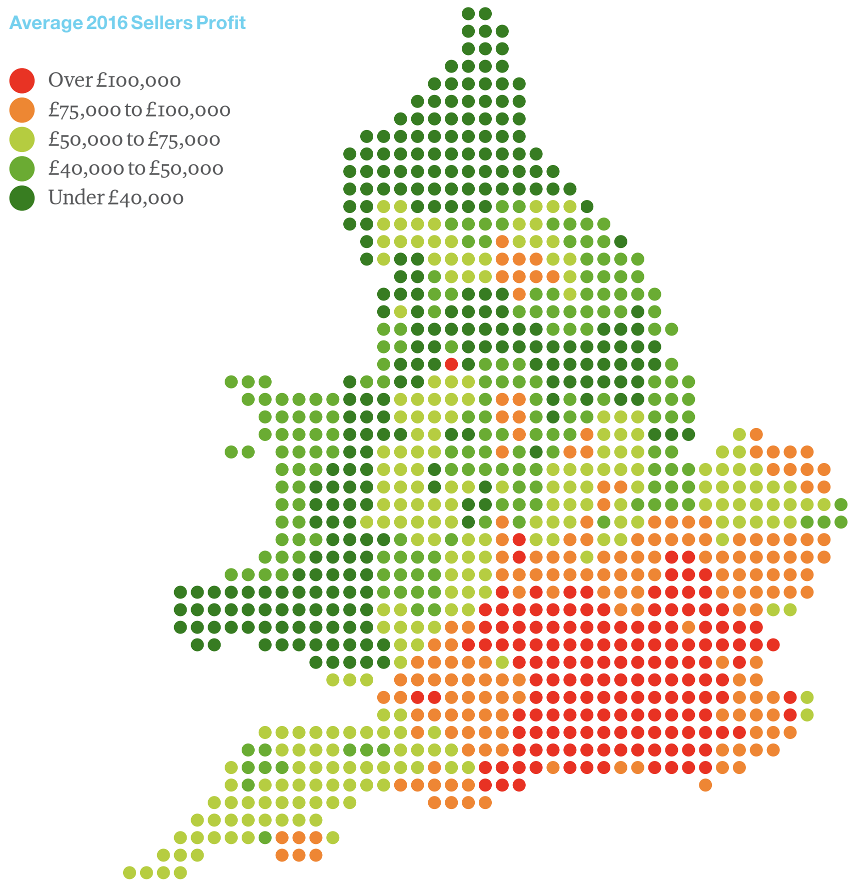
Vendor Profit

	Avg. Vendor Profit	Avg. % Increase	Avg. Gap between Buying & Selling	Avg. Annual Profit
East Midlands	£47,659	54%	8.6	£5,559
East	£103,768	76%	8.0	£12,936
London	£256,136	122%	7.2	£35,600
North East	£26,642	40%	9.1	£2,926
North West	£41,095	64%	8.4	£4,868
Scotland	£51,750	113%	8.3	£6,214
South East	£120,261	74%	8.1	£14,890
South West	£74,616	66%	8.8	£8,503
Wales	£38,522	61%	9.3	£4,138
West Midlands	£49,915	53%	8.3	£6,044
Yorkshire & Humber	£40,531	63%	8.9	£4,560
England	£90,229	108%	8.1	£11,081
E&W (ex London)	£71,083	64%	8.7	£8,170

Source: Hamptons International

> "The average profit made by London homeowners adds up to more than the average house price in England.

Average 2016 Sellers Profit



UK economy finishes 2016 on a high

Theresa May's speech will make little difference to the immediate future for the UK's economy or housing market.

Clarity that we will leave the single market will give greater certainty about migration and the reach of the EU law, but on trade, imperative to the UK's economic success, there is still just as much uncertainty about what the future will hold.

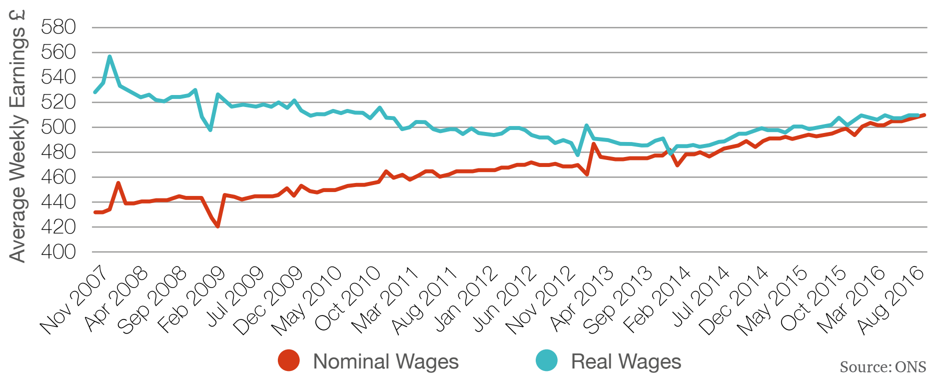
The next steps will be key to achieving the best deal for Britain in negotiations. Much of that is outside of the Uk's control, but knowing that we will not be part of the single market will mean businesses can begin to plan for the future with a clearer head.

The encouraging news is that the economic growth in the UK in 2016 means that we end the year 2.2% wealthier than at the end of 2015. This is the fastest growth among the major developed economies in the world. That performance is not to be sniffed at, but it is worth bearing in mind that this is already history.

The impact of the vote to leave the EU is only just beginning to affect the UK through inflation and without a significant uptick in Sterling it will continue to do so. The increase in consumer prices to 1.6% in November was above expectations and because it has been driven by rises in food prices rather than discretionary items, will eat into household budgets.

On the positive side, wages are increasing. The annual rate of wage growth increased to 2.8% in the three months to November. That is good news, but rising inflation is bearing down on real wage growth. After so many years of falling real wages and more inflation on the way, households will find things tougher in the months to come. Average wages today are 4% lower than in 2007 after adjusting for inflation. For the UK economy that is not such good news. Consumption and spending has been the dominant driver of the UKs economic growth and with greater pressure on household finances, continuing strength in this sector is in jeopardy.

Nominal and Real Wages



Source: ONS

Homeowners dominate Prime London

Owner occupiers consistently make up the largest proportion of buyers in the Prime Central London market.

Since 2011 home-movers and first time buyers together have accounted for at least 40% of sales, the largest group. Home movers alone accounted for 31%. In 2016 first time buyers made up 9% of buyers in Prime central London, broadly similar to the 8% accounted for by developers. Those buying second homes account for 20% of prime London purchases while investors account for about the remaining third.

Unsurprisingly first time buyers in Prime Central London are less important than in the past when prices were lower. Since 2011 the average price of a prime central London property has increased by 60% or £640,000, from £1,069,000 to £1,710,000. But the increase in earnings in the highest earning group has increased by about one tenth of this at 6%. This would seem to account for some of the fall in the first time buyer share, although the increase in stamp duty on properties above £1m from December 2014 is likely to be more important.

Even though first time buyers in Prime London have a 45% deposit on average, the additional stamp duty burden is likely to weigh more heavily on them.

For a select few first time buyers, their ability to service a mortgage doesn't affect whether they're able to buy. Nationally around 4% of people buying their first home paid for it in cash last year, but in Prime London neighbourhoods it was 10%. These cash rich first timers paid on average £840,000, usually sticking to small flats in cheaper places.

It's likely that 2017 will bring more first time buyers and owner occupiers back to Prime Central London. A combination of higher Stamp Duty for investors, falling prices and stagnant rents mean for now, some landlords and developers are looking elsewhere. Prices in areas that are traditionally favoured by owner occupiers are likely to continue outperforming neighbourhoods where investors have bought into.

Breakdown of Buyers in Prime Central London

	First-time Buyers	Investors	Second Home Owners	Home Movers	Developers
2016	9%	32%	20%	31%	8%
2015	8%	23%	13%	44%	12%
2014	12%	29%	19%	33%	7%
2013	11%	36%	13%	30%	11%
2012	16%	25%	12%	40%	8%
2011	23%	35%	14%	26%	3%

Source: Hamptons International Research

The rental market is strong

Overall the prospects for the rental market are fairly healthy, there are risks but it could be helped by economic uncertainty.

These are mainly to do with regulations and policies affecting landlords. The uncertainty about the availability of credit and additional taxation on purchase, sale and ongoing tax reliefs is still to play out. Wider uncertainties about economic performance, particularly growth in wages and employment, are also crucial.

Yet with household finances tightening, the incentive to take on additional debt and buy a home is falling, which should push demand to the rental sector and support rents. However, as rising inflation increases the costs of living and income growth remains low, the rate at which rents rise is likely to be curtailed.

In 2016 rents held up better in the North of the UK, reversing the trend of previous years. Data from Countrywide's Lettings index shows that growth in the average rent achieved has been driven by Northern England. Taking the North East, North West and Yorkshire & Humber regions together, rents have risen faster there than in any other part of Great Britain. A quarter (25%) of tenants renewing their contract in Northern England saw their rent increase, up from 16% last year. That says something about the balance of demand and supply in the North, and suggests that there is still room for healthy yields for investors.

Overall we expect rents to rise broadly in line with income across the country as a whole. There will likely be regional variation though with rents rising in London and the South East, but cooling in the East as demand falls away too. Further North, the balance of supply and demand will be key, but in urban centres in particular the rental market will remain important and that will help to support rents and returns for investors.

Rental Growth Forecasts by UK Region

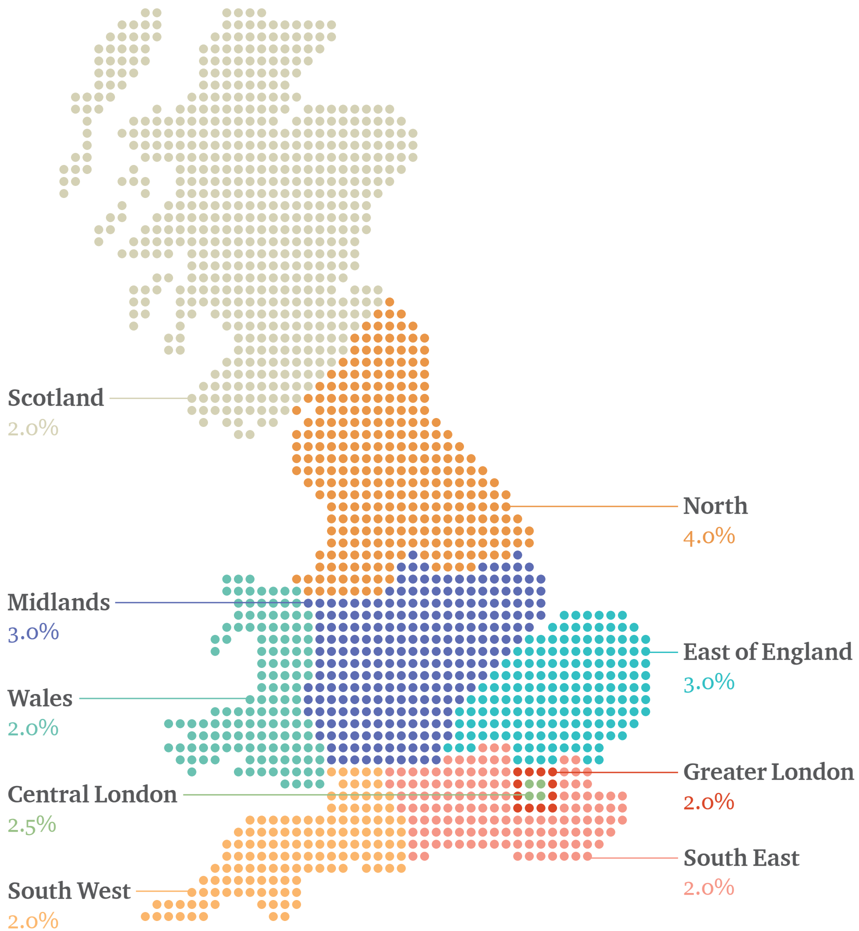
Q4/Q4	*2014	*2015	*2016	2017**	2018**
Greater London	7.7%	4.7%	-1.1%	2.0%	3.5%
Central London	1.6%	0.5%	-3.1%	2.5%	3.5%
East of England	7.0%	6.6%	5.5%	3.0%	3.0%
South East	2.8%	1.9%	2.6%	2.0%	3.5%
South West	3.9%	4.1%	1.2%	2.0%	3.0%
Midlands	1.1%	1.8%	3.3%	3.0%	3.5%
Wales	1.7%	2.7%	1.2%	2.0%	2.5%
North	1.4%	1.4%	3.8%	4.0%	3.5%
Scotland	0.6%	4.0%	0.9%	2.0%	3.0%
GB	3.7%	3.1%	1.5%	2.5%	3.5%

Source: Countrywide Research
*2014–2016 data based on Countrywide Research Lettings Index data | **2017–2018 data based on forecasts

Stat of the Month

We expect rents to rise 2.5% next year, broadly in line with income across the country as a whole.

2017 Rental Growth Forecasts



Source: Countrywide Research

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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.

Johnny Morris
Head of Research
morrisj@hamptons-int.com
+44 (0)207 758 8438

Fionnuala Earley
Residential Research Director
earleyf@hamptons-int.com
+44 (0)207 758 8465