

MARKET INSIGHT
DEC 2018-JAN 2019

*The Budget:
A focus on property*



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LIGHT AT THE END OF THE TUNNEL?

Better than expected economic news suggests that austerity may be coming to an end.

On Budget Day the Chancellor, Philip Hammond, was able to draw on several better-than-expected tax receipts to announce that austerity was “finally coming to an end”. The upgraded forecasts for growth and lower government spending meant that Mr Hammond could inject funding into the NHS, as well as bring forward increases to income tax thresholds. The decision to raise the Personal Allowance a year earlier than expected will boost disposable incomes to £12,500, and the Higher Rate Threshold to £50,000, all from April 2019. Good news for tax payers!

But the Chancellor’s third budget was also underpinned with the warning that should Brexit go wrong, the pain felt across the public sector will continue. So, what is the outlook for the future of the UK economy?

The Office for Budget Responsibility (OBR) have taken a more optimistic view of the UK economies potential, but not in the short-term. They said the big picture was “a relatively stable, but unspectacular trajectory for economic growth”. It’s worth pointing out that their forecasts are based on a smooth exit from the EU.

Economic growth was revised down from 1.5% to 1.3% for 2018 due to Q1’s weak data. Yet because of the strong labour market, which is running out of spare capacity, the OBR assume that the economy will be able to sustain slightly higher growth over the next few years. Employment levels are expected to remain

high, but this is due to the rise in the number of older people working. However, on a global scale, economic growth for the UK is quite weak and the forecasts show that this is unlikely to change anytime soon.

OBR Economic Forecasts Source: OBR

	March 2018 Spring Statement	November 2018 Budget	Change
GDP Growth			
2018	1.5	1.3	-0.3
2019	1.3	1.6	0.4
2020	1.3	1.4	0.1
2021	1.4	1.4	0.1
2022	1.5	1.5	0.0
Unemployment Rate %			
2018	4.4	4.0	-0.4
2019	4.5	3.7	-0.8
Inflation %			
2018	2.4	2.6	0.1
2019	1.8	2.0	0.2
Earnings %			
2018	2.8	2.6	-0.2
2019	2.4	2.5	0.1

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AUTUMN BUDGET

What the Budget means for the property market.



Help to Buy regional price caps will come into effect from **2021**

October saw Philip Hammond's last Budget before the UK leaves the EU. While housing was most definitely on the agenda, what the chancellor presented consisted of tweaks rather than ground-breaking policy measures. Here is a summary of what was announced:

Help to buy

Help to buy – a government backed equity loan scheme whereby buyers can borrow up to 95% of a new homes value with a government-backed loan of up to 20% (40% in London) – has been extended by two years. Now scheduled to come to an end in 2023, the chancellor also announced that

Help to Buy would no longer be available to non-first time buyers.

At the same time, he announced Help to Buy regional price caps, which will come into effect from 2021. Presently, anyone buying under the scheme is subject to a price cap of £600,000 regardless of where they live in England and Wales. But from 2021 it's all set to change. The government are setting caps at a local level, which means that buyers will be restricted to a maximum of 1.5 times the current forecasted average first-time buyer house value in each region. A maximum of £600,000 will remain in London.

Stamp duty

Since the last Budget in November 2017, first-time buyers have been exempt from stamp duty on properties up to £500,000, with full relief on the first £300,000. Almost a year on and the chancellor announced that this is to be extended to first-time buyers of shared-ownership homes. Backdated to last year's November Budget, this will help any first-time buyer purchasing - or who has purchased - a shared-ownership property within the price bracket.

Published alongside the Budget there was further reference to an additional stamp duty tax of 1% on foreign buyers. Initially mentioned by Theresa May at the Conservative Party Conference, this remains a proposed measure, subject to a consultation scheduled for the New Year. Certainly, a proposal to watch out for.

Buy-to-let

The Budget brought about more tinkering of taxation for landlords, when Philip Hammond announced changes to Lettings Relief and Capital Gains Tax. Currently landlords who let out a former home are able to claim two different types of tax relief - Private Residence Tax and Lettings Relief - which help to reduce their capital gain.

Under the terms of Private Residence Tax Relief owners currently get full tax relief on the years they lived in their home, and for the last 18 months

of ownership regardless of whether or not they lived there. From April 2020, the government is reducing the tax relief on those 18 months down to nine. Changes to lettings relief mean that from April 2020 the government will only allow this tax break to homes where the owner lives with their tenant.

This legislation will hit accidental landlords – those forced to rent out their property when they're not able to sell – particularly hard. And these make up a sizeable proportion of landlords. Our analysis shows that in London alone some 12.5% of homes available to rent had previously been up for sale last year.

Retail to Residential

In an effort to help transform our declining town centres, the chancellor announced a £675 million Future High Streets Fund. The fund will finance a task force to draw up long-term strategies aimed at turning around high streets including the redevelopment of underused retail and commercial areas into residential.

Affordable housing

To meet the Prime Minister's promise of 'fixing the broken housing market', the chancellor reiterated that the government will lift the cap on the amount local councils and housing associations can borrow to fund the building of social housing.

Help to buy – At a glance



Stamp duty – At a glance



MARKET METRICS

Transactions (HMRC)

Transactions in England, Scotland & Wales are down -3.6% in the first nine months of 2018 compared with the same period in 2017. In September there were -12.0% fewer homes sold than in September 2017 - a reversal of the 5% YoY increase in transactions in August.



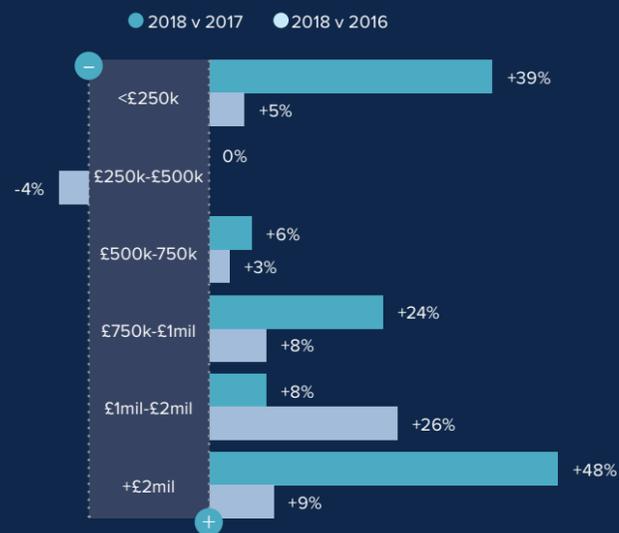
Mortgage Approvals

Bank of England mortgage approvals are a good indicator of future transactions, and are showing some resilience. The number of mortgage approvals rose 0.9% in September year-on-year. However, this was driven by a pickup in re-mortgaging (+3.1% YoY) compared with house purchase approvals (-0.7% YoY).



Stock Levels

Source: Hamptons International



Interest Rates

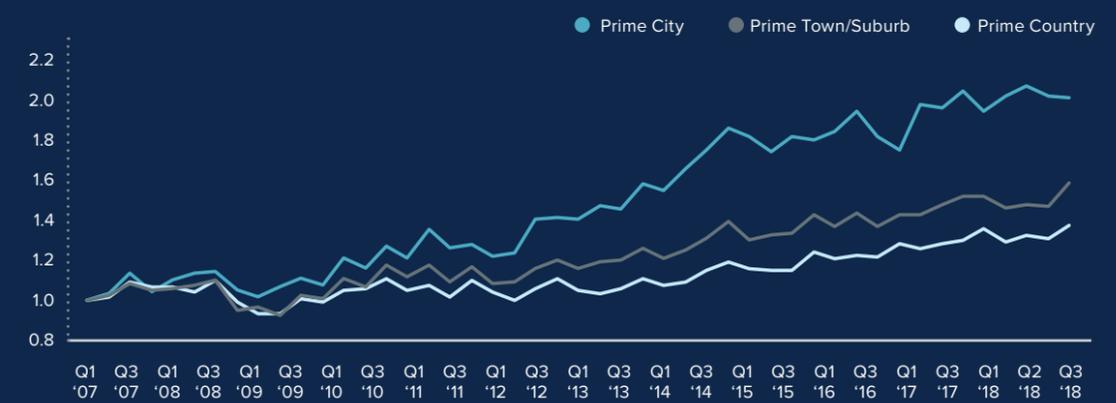
Source: Bank of England

Mortgage Interest Rates	Oct-18 Interest Rate	YoY Change
2Y Fix • 75% LTV	1.76%	0.21%
2Y Fix • 90% LTV	2.22%	-0.14%
5Y Fix • 75% LTV	2.07%	-0.03%
2Y Variable • 75% LTV	1.69%	0.23%
Standard Variable (SVR)	4.39%	0.08%
Buy to Let 75% • LTV Fixed	2.32%	-0.20%

Deposit Rates	Oct-18 Interest Rate	YoY Change
Instant Access Savings	0.27%	0.15%
1Y Fix Cash ISA	1.42%	0.00%
2Y Fix Cash ISA	1.32%	-0.18%
1Y Fixed-Rate Bond	0.87%	0.13%
2Y Fixed-Rate Bond	1.33%	0.17%

House Price Growth (Q1 2007 = 1.0)

Source: Hamptons International & Land Registry



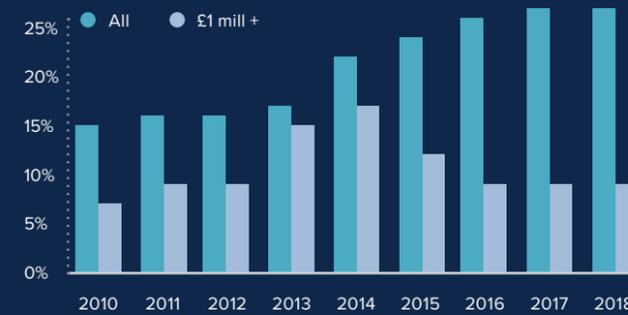
Price Growth

Source: ONS



Sold Above the Asking Price

Source: Hamptons International



Days to Sell

Source: Hamptons International

Instruction to Offer Accepted	GB	London
2012	54	40
2013	48	29
2014	38	25
2015	54	34
2016	34	30
2017	36	46
2018 YTD	36	47

LANDLORD PURCHASES FALL BY £5.2 BILLION IN 3 YEARS

In adapting to a new tax environment – landlords are buying fewer properties and spending less too.



64,260
homes were purchased in H1 2018 by landlords in Great Britain.

13%▼
year-on-year and 31% less than in H1 2015.

The total value of homes bought by landlords has fallen considerably over the last few years. In H1 2018 landlords spent £12.1 billion purchasing rental properties, £5.2 billion - or 30% less - than in H1 2015, when the figure reached £17.3 billion in Great Britain.

As a result, the total value of homes purchased by landlords has reached the lowest level in five years, having peaked in H1 2016 at £21.2 billion, when second homeowners rushed to beat the 3% stamp duty surcharge which was introduced in April 2016. In London, landlords spent £3.5 billion purchasing rental homes in H1 2018, 40% less than in H1 2015 and 22% less than H1 2017.

The fall in the total value of landlord purchases has mainly been caused by the fall in the number of investors purchasing buy-to-let properties. But it's also a consequence of landlords adapting to their new tax environment, and spending less on the properties they do buy, as they increasingly head further North. In H1 2018 landlords purchased 64,260 homes in Great Britain, down 13% year-on-year and 31% less than in H1 2015.

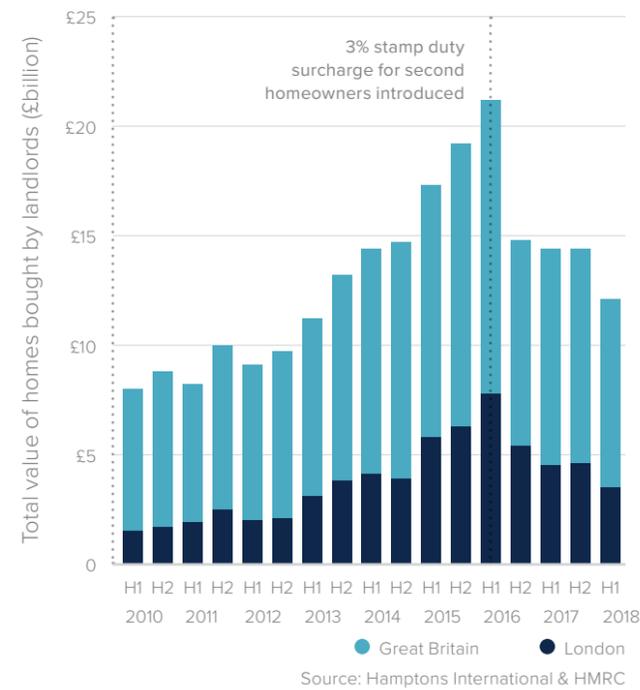
However, the average price of a home bought by a landlord fell to £174,580 this year - 7% less than in 2016 - despite average house prices rising over that period. This fall has been additionally fuelled by more landlords purchasing cheaper buy-to-let homes further North, in search of lower stamp duty bills and higher yields.

“*In the first nine months of 2018, a staggering 61% of London based landlords purchased their buy-to-let properties outside of the capital.*
”

This is 10% more than last year and over double the proportion in 2012. As a result, the average landlord based in London spends a quarter less on their buy-to-let property than they did in 2016.

This just goes to show that even though the taxation clampdown on landlords introduced in 2016 resulted in fewer landlord purchases, many landlords appear to be adapting their investment strategy to the new environment quite well.

Total value of homes purchased by landlords in Great Britain & London



Proportion of London based landlords purchasing rental properties outside the capital



RENTAL GROWTH

Rental growth accelerated to 2.0% in October, the highest level since February. Every region recorded higher rents, with the East leading the way. Rental growth in London also picked up, driven by a 2.7% annual rise in Inner London rents.

New Let Rents October 2018

Region	October 2018	October 2017	YoY Rental Growth
East of England	£965	£929	3.9%
Greater London	£1,714	£1,690	1.4%
Outer London	£1,543	£1,528	1.0%
Inner London	£2,614	£2,545	2.7%
Midlands	£687	£677	1.4%
North	£648	£635	1.9%
Scotland	£660	£653	1.1%
South East England	£1,049	£1,020	2.8%
South West England	£808	£791	2.2%
Wales	£671	£658	2.0%
Yorkshire/Humber	£679	£668	1.6%
Great Britain	£977	£958	2.0%

Source: Hamptons International

FIRST-TIME BUYERS ON THE UP

First-time buyers are playing an increasingly important role in today's housing market.

Despite affordability barriers, first-time buyers are playing an increasingly important role in today's housing market. So far this year, 36% of homes in Great Britain have been bought by first-time buyers – the highest level in over a decade. In London they're even more active, with first-time buyers purchasing nearly half (47%) of homes in the capital this year, and spending £440,800 on average.

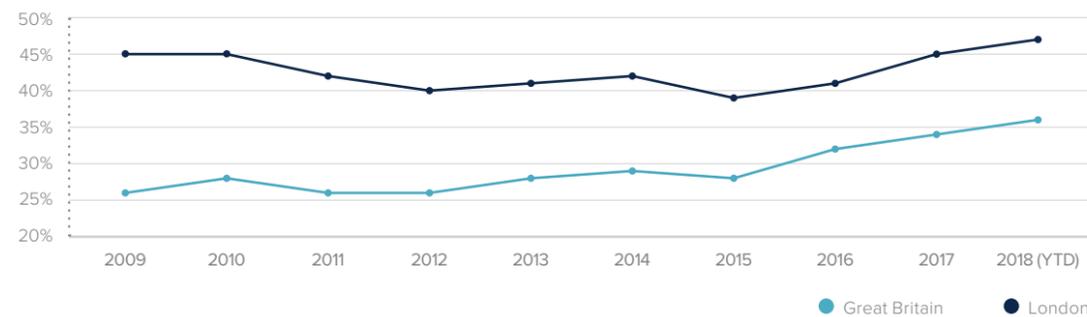
More aspiring homeowners based in London are looking outside the capital to buy their first home. So far this year, 31% of London based first-time buyers ended up buying their home outside the capital, up from 16% in 2013. That means nearly one in three London based first-time buyers end up purchasing their first home outside London, but the proportion of those would-be first-time buyers leaving the capital has nearly doubled in the last five years.

Most first-time buyers fleeing the capital remain close by, to retain their links with London life. 53% of first-time buyers leaving London move to the East, with 30% moving to the South East. Areas such as Thurrock, Basildon and Luton top the list, where 37%, 24% and 18% (respectively) of homes purchased this year are by London based first-time buyers. These areas have good transport links and tend to be cheaper than other locations in the South or West.

However, many are having to move even further afield to maximise their budgets. Some first-time buyers are making the decision to leapfrog the London suburbs as a place to buy their smaller first home, and instead move even further afield to purchase a future proofed larger home and avoid stamp duty costs on subsequent moves. Popular destinations further afield include Reigate and Banstead, Tonbridge, Milton Keynes and Southend-On-Sea.

Proportion of homes bought by first-time buyers

Source: Hamptons International



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