

MARKET INSIGHT
APR-MAY 2019

*The rise of the
international buyer*



150
YEARS

HAMPTONS
INTERNATIONAL

CONTENTS

Economy	01
Clouded in uncertainty?	
<hr/>	
International buyers	02
More than half of homes in prime central London bought by foreign buyers.	
<hr/>	
Market metrics	04
<hr/>	
How much rent do tenants pay?	06
Tenants spent £59.1 billion on rent in 2018, the first annual fall in over a decade.	
<hr/>	
Help to Buy	08
More than half of new build homes backed by Help to Buy.	

THE ECONOMY

Clouded in uncertainty?

Clouded in uncertainty were the words used by the Chancellor to sum up the latest official economic forecasts, which he unveiled as part of a subdued Spring Statement. The Office for Budget Responsibility (OBR) cut their UK GDP growth forecast for 2019 from 1.6% to 1.2%, reflecting the recent slowdown in the economy. It is clear that Brexit related uncertainty is expected to remain a drag on business investment through 2019, while slower global growth will dampen trade.

Given the uncertainties facing the UK, it is perhaps surprising that the country's economy is expected to outpace Italy or Germany's this year. With global economies slowing, particularly in the EU, and Brexit on the horizon, growth forecasts for the UK even at 1.2% look pretty respectable.

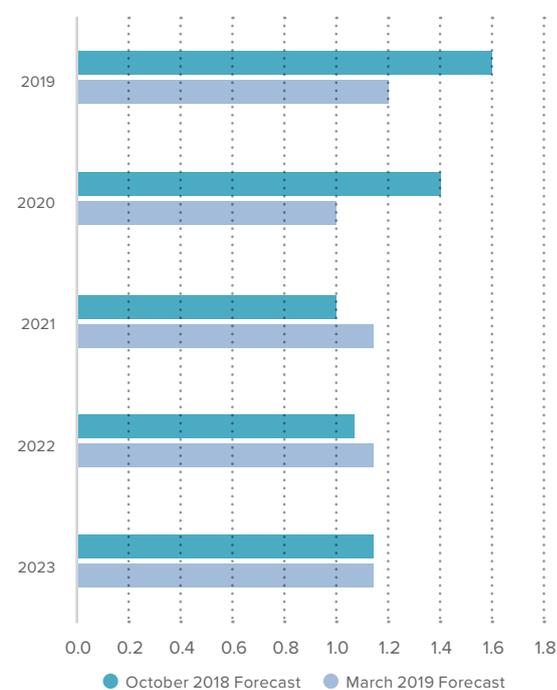
The fact that employment is at record levels and real wage growth is nearing a two-year high, leads us to believe that the economy isn't doing too badly - this said, it is slowing. The rolling three-month average of UK growth (GDP), a less volatile measure than the monthly figures, showed just 0.2% economic growth in January. But how much of this slowdown is due to Brexit uncertainty rather than long-term structural changes is hard to tell.

Despite the fairly cheery outlook, the caveats behind the forecasts make it a little more uncertain. The OBR's forecasts are based on the UK leaving the EU on the 29th March with a smooth transition deal, which at the time of writing, is looking less likely than ever. If the UK doesn't leave the EU with

a deal in place on the 29th March, further short-term downgrades are likely to be on the horizon.

As the saying goes, "every cloud has a silver lining". And the good news is that despite the short-term downgrade for 2019, the OBR expect the economy to grow more than they'd previously expected in the future. Whatever short-term pain the economy may feel, it will start to grow again.

OBR's GDP Forecast Source: OBR



INTERNATIONAL BUYERS

More than half of homes in prime central London bought by a foreign buyer.

Overseas investors are taking advantage of Brexit uncertainty, a stagnant property market and the weak pound to purchase high end homes in Great Britain. The shift in demand from UK buyers to foreign buyers since the EU referendum in 2016 continued, particularly in the capital. 57% of homes bought in prime central London were purchased by an international buyer in H2 2018, the highest level in six years and above the 40% recorded pre-referendum (H2 2015).

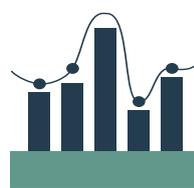
House prices, particularly at the top end of the housing market, have been falling for some

time, and foreign buyers seem to be making the most of these discounts as the market bumps along the bottom. These discounts, along with the weak sterling, seem to be outweighing Brexit uncertainty when it comes to foreign buyers deciding on where to buy a home.

A property that would have cost an EU buyer £1million in H1 2016 effectively cost £124,000 less in H2 2018 due to the sterling's depreciation alone. This represents a 12% discount, ignoring house price falls in some prime locations, which offer further savings.

Proportion of homes purchased by international buyers

Source: Hamptons International



57.0%
of homes in PCL bought by foreign buyers in H2 2018



In Greater London the proportion of homes bought by an international buyer also rose to the highest level in six years. In H2 2018 foreign buyers bought 36% of homes in Greater London, up from 31% in H2 2017. This proportion is 15% higher than in H2 2015 (pre-referendum) when 21% of homes were purchased by an international buyer.

The pickup was caused by a drop off in UK buyers combined with an increase in EU buyers. 14% of homes in Greater London were purchased by EU buyers in H2 2018, up from 8% in H2 2017 and 10% in H2 2015 (pre-EU referendum).

“ Over the last year the proportion of homes purchased by buyers from India (+3%), Russia (+1%) and Hong Kong (+1%) has also increased. ”

However, it's not just Prime Central London that international buyers are targeting. 29% of

prime homes in the suburbs and super-burbs, including areas such as Richmond, Wimbledon and Hampstead, were purchased by a foreign buyer in H2 2018. This proportion has risen 12% since the EU referendum in June 2016.

Although international buyers are less prominent further outside of the capital and into the country, their levels have also been rising. International buyers purchased 8% of homes in prime country locations last year, up from 6% in 2017.

However the future role of international buyers in the housing market will depend, to a degree, on what form the proposed changes to stamp duty for foreign buyers takes. The government's proposal of a 1% stamp duty surcharge on top of existing rates is unlikely to dissuade foreign buyers purchasing prime homes in England, but it could impact those purchasing cheaper homes, particularly as investments. Currency movements, uncertainty and future expectations of house price growth are more important factors.

The changing cost of a £1million home (Jan 2016 = £1million)

Source: Hamptons International & Bank of England



MARKET METRICS

Transactions (HMRC)

Source: HMRC

Transactions in Great Britain showed a modest start to 2019. There were 79,400 completions in January, 0.9% more than the same period last year. This comes as a slight surprise given transactions finished last year -2.4% lower than in 2017.



Mortgage Approvals

Source: Bank of England

Bank of England mortgage approvals are a good indicator of future transactions, and showed a promising start to the year with a 1.0% year-on-year rise in January 2019. The increase was mainly driven by re-mortgage activity, which rose 3.3% year-on-year. Whereas house purchase approvals dipped -0.7%.



Stock Levels

Source: Hamptons International



Interest Rates

Source: Bank of England

Mortgage Interest Rates	Feb-19 Interest Rate	YoY Change
2Y Fix • 75% LTV	1.73%	0.19%
2Y Fix • 90% LTV	2.22%	-0.01%
5Y Fix • 75% LTV	2.05%	0.06%
2Y Variable • 75% LTV	1.62%	0.01%
Standard Variable (SVR)	4.31%	0.08%
Buy to Let 75% • LTV Fixed	2.17%	-0.15%

Deposit Rates	Feb-19 Interest Rate	YoY Change
Instant Access Savings	0.41%	0.21%
1Y Fix Cash ISA	1.42%	0.30%
2Y Fix Cash ISA	1.25%	-0.07%
1Y Fixed-Rate Bond	1.15%	0.34%
2Y Fixed-Rate Bond	1.29%	0.24%

House Price Growth (Q1 2007 = 1.0)

Source: Hamptons International & Land Registry



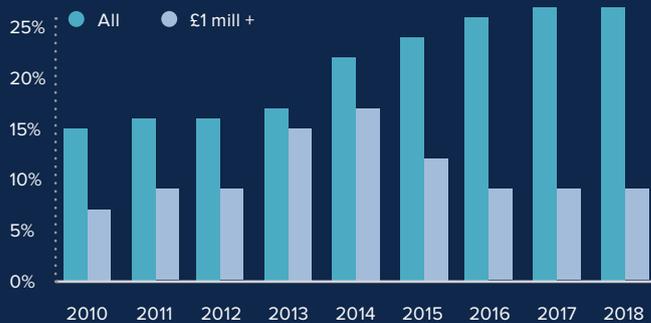
Price Growth

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	37	48

HOW MUCH RENT DO TENANTS PAY?

Tenants spent £59.1 billion on rent in 2018, the first annual fall in over a decade.

Last year, the total amount of rent paid by tenants fell for the first time in more than a decade. Despite average rents rising 0.4% in 2018, fewer people renting homes meant the total rent bill shrank by £1.9 billion since 2017. Last year private tenants in Great Britain paid £59.1 billion on rent, down from £60.9 billion in 2017.

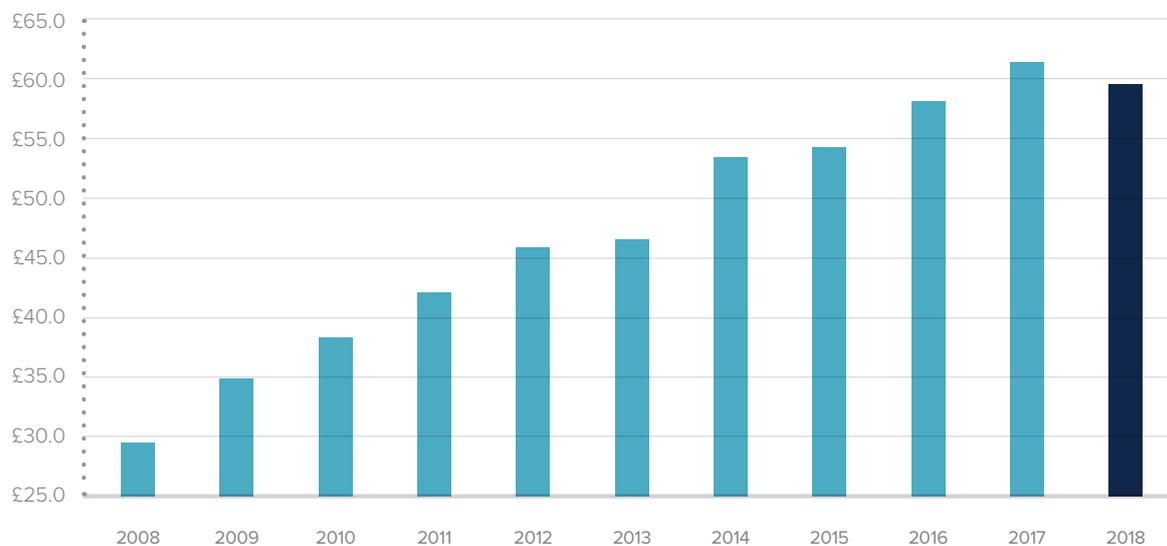
The latest results from the English Housing Survey found that the number of households privately renting fell by 3.5% on the previous year to 4.5 million. Perhaps surprising to some, the fall in the number of renters came amidst more people

purchasing homes. Government schemes such as Help to Buy have backed the change as the number of mortgaged households rose for the first time in a decade.

However, the increase in taxation on buy-to-let purchases and the removal of various tax reliefs for existing landlords has caused some investors to leave the sector, contributing to the fall in the number of homes available to rent. Since the stamp duty surcharge on second homes was introduced in April 2016, we estimate that 120,000 landlords have sold up.

Total rent bill in Great Britain (£ billions)

Source: Hamptons International



Despite fewer properties available to rent, rental growth has remained quite sluggish over the last year. Affordability seems to be an issue for tenants too which has kept a cap on rental growth. This is particularly true in London and parts of the South where rents are most misaligned from incomes.

“ *Nine out of 11 regions in Great Britain saw a fall in their total rent bill over the last year; the East Midlands and the North East were the only regions to see a rise.* ”

London saw the biggest drop off in the total amount of rent paid by tenants. In the capital tenants paid £20.6 billion in rent in 2018, £0.62 billion less than in 2017.

Nevertheless, over the last 10 years the rental bill has increased in every region. The biggest rise in the amount of rent paid by tenants was in London

where the total rental bill grew by £10.53 billion over the 10-year period. After London, tenants in the South East (£14.19 billion) and the East (£3.05 billion) saw their rental bills rise the most. Meanwhile Wales saw the smallest rise in the total amount of rent paid by tenants over the last decade, up £0.07 billion.



£20.6 billion

Amount of rent paid by London tenants last year

Region	Jan-19	Jan-18	YoY
Greater London	£1,714	£1,704	0.6%
Inner London	£2,644	£2,612	1.2%
Outer London	£1,537	£1,531	0.3%
South East	£1,037	£1,042	-0.5%
South West	£784	£787	-0.5%
East	£943	£925	2.0%
Midlands	£678	£669	1.3%
North	£625	£623	0.4%
Wales	£652	£646	0.9%
Scotland	£639	£634	0.7%
Great Britain	£963	£958	0.6%

New Let Rental Growth

Over the last 12 months, rental growth in Great Britain has slowed. Rental growth has fallen from 2.4% in January 2018 to 0.6% in February 2019. The slowdown over the last year was mainly driven by London rents falling, but towards the end of 2018 rents gradually started rising again in the capital. Meanwhile, the South East and South West both recorded falling rents last month.

Source: Hamptons International

HELP TO BUY

More than half of new build homes backed by Help to Buy



52%

of new build homes sold in the first three quarters of 2018 were backed by Help to Buy

Since the Help to Buy equity loan scheme was introduced in 2013, it has helped over 195,000 households in England purchase their first home or take a second step. Help to Buy has always had its opponents but has recently faced yet more controversy with the news of housebuilders profit-making from the scheme.

There's no doubt about it, since its launch, the role of Help to Buy has grown. Over half (52%) of new build

homes sold in the first three quarters of 2018 were backed by Help to Buy, the highest level since the scheme began. This compared to just 34% of new home sales in 2014. Yet some markets are more reliant on the scheme than others.

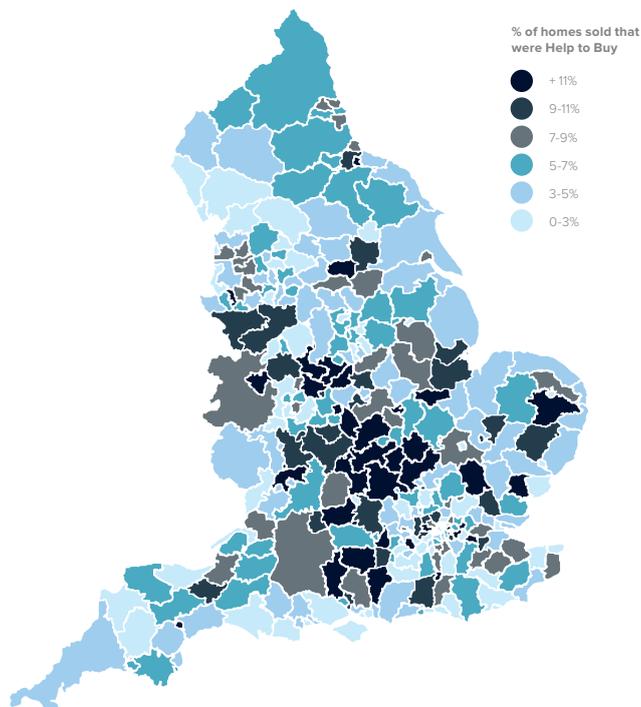
The housing market in the North East has been most dependent on the scheme, with 7.2% of all homes sold last year backed by Help to Buy. The East Midlands (7.0%), East of England (6.8%) and South East (6.6%) followed. While London sat in the middle with 6.5% of homes sold last year using Help to Buy.

However, as many as one in four homes sold in Corby in Northamptonshire last year were backed by Help to Buy. Bedford, Dartford and South Northamptonshire followed with more than one in five buyers using the scheme to help with their purchase. Within the capital, Tower Hamlets topped the list with 18% of sales, followed by Greenwich (13%) and Barking & Dagenham (12%).

Help to Buy is due to come to an end in 2023, and with critics suggesting that the scheme has contributed to driving up house prices, it seems likely that new ways will be needed to support the homeownership dream of the future.

Help to Buy Hotspots (as a % of all sales)

Source: Ministry of Housing & Hamptons International



Aneisha Beveridge

Head of Research

beveridgea@hamptons-int.com

Alison Blease

Head of Research PR

bleasea@hamptons-int.com

This report was published for the purpose of general information and Hamptons International accept no responsibility for any loss or damage that results from the use of content contained therein, including any errors or negligence from third party information providers. It is your sole responsibility to independently check and verify the facts contained within this report. All opinions and forecasts within this report do not in any way represent investment or other advice. Reproduction of this report in whole or in part is not allowed without the prior written consent of Hamptons International.

