

NATIONAL HOUSING MARKET

RESIDENTIAL RESEARCH

WINTER 2018/19

Carter Jonas

THE UK RESIDENTIAL MARKET

PRICING

The latest data from the official house price index (ONS) indicated a 3.5% annual growth rate. This was much punchier than the other reliable indicators from Nationwide and Halifax which showed 2% and 2.5% over the same period (and both of which have since declined further to 1.6% and 1.5% respectively). Needless to say, this level of growth has been fairly

consistent over the last six months and there is no reason to believe that this will change going forward. According to Treasury consensus forecasts, most analysts believe that house price growth of around 2.2% will be the trend for 2019. Many of the same factors which have put downward pressure on price growth through 2018, are expected to continue at least in the near-term.

ACTIVITY

The most up to date data from the Land Registry on property transactions this year finds that as of September, transactions across the UK are down around 3.6% over the same period last year. This decline in sales volumes is mirrored by the Bank of England's own data on mortgage approvals, where the first nine months of 2018 have shown a decline of around 3.5% compared with the same nine months last year.

Figure 1 UK house price growth, with forecast growth for 2019

Source: HM Land Registry, HM Treasury consensus forecasts

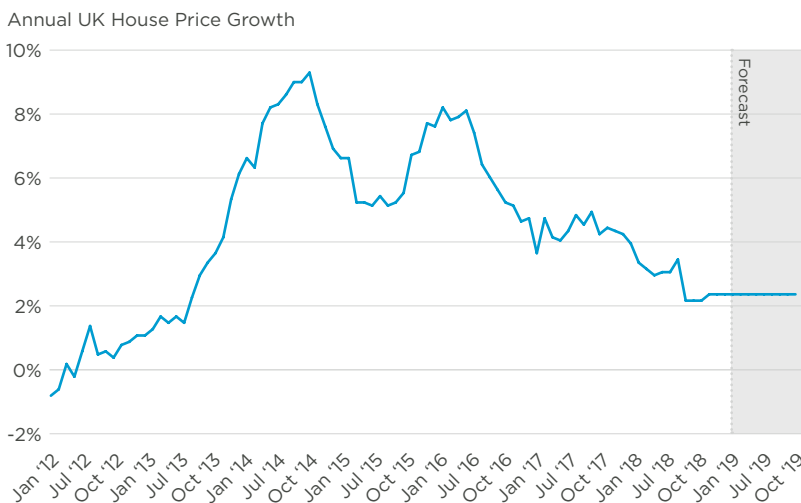
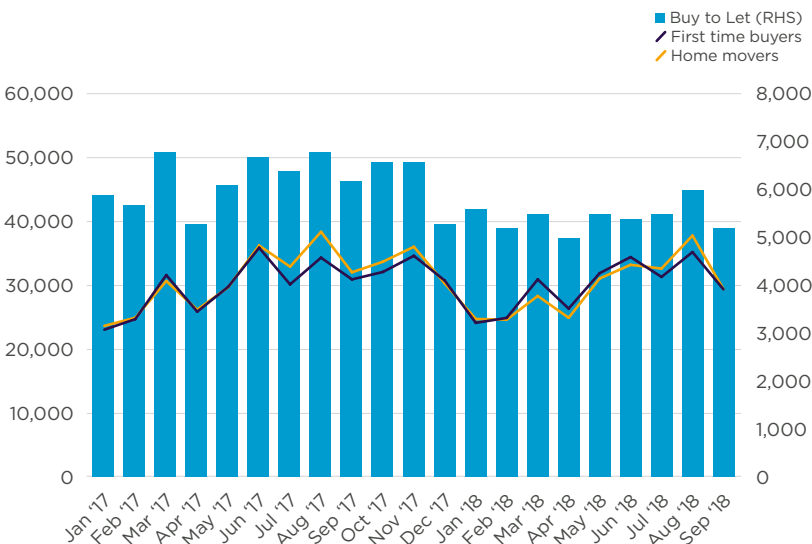


Figure 2 Monthly mortgage approvals

Source: UK Finance



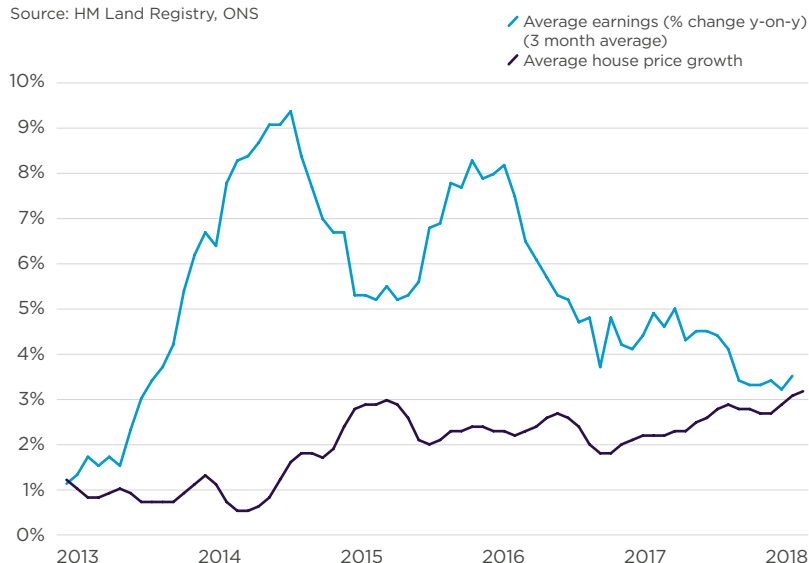
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MOST ANALYSTS BELIEVE THAT HOUSE PRICE GROWTH OF AROUND 2.2% WILL BE THE TREND FOR 2019.

Interestingly, the majority of this fall in sales volumes has not come from the first time buyer (FTB) sector of the market, where we would normally expect to see falling sales rates when there has been a 'traditional' downturn in the residential market. FTB mortgages have increased by around 1% (UK Finance). Instead, we have seen the Buy to Let (BTL) mortgage market fall yet further this year, down 12% over the same nine months as last year (January-September).

In our previous National Housing Report dated summer 2018, we discussed the variances across the country in transaction activity prior to the additional 3% stamp duty, versus post-stamp duty increase. While it is still the case that variations by region exist, transaction volumes this year are down in almost every region.

Figure 3 House price growth versus earnings growth

Source: HM Land Registry, ONS

**Figure 4** House price and earnings growth forecasts

Source: HM Land Registry, HM Treasury Consensus Forecasts, Carter Jonas Research



WHAT WILL WE SEE IN 2019?

It is very difficult to predict what will happen over the next few months as political uncertainty continues. Nevertheless, for the year ahead we do not anticipate much change in either house price growth or sales levels generally. Consensus forecasts predict 1.5% to 2.5% house price growth and our view for prime house price growth is around 4% for the year.

Of course if Brexit and wider political uncertainty dissipates it is possible that buyers and vendors who had held back will feel more confident re-entering

the market. While this is unlikely to be a flurry of activity, we expect that as the year progresses, rising certainty will translate into a gradual uplift in sales volumes. Meanwhile if earnings growth continues (which it is expected to), and house price growth slows to levels below wage growth, we may see a return to more affordable purchase levels and house price to earnings ratios which are more sustainable and encourage buyers back into the market. However this scenario is likely to take quite some time.

THE LETTINGS MARKET

The lettings market is very often counter-cyclical to the sales market and so has performed well this year although less so in the latter half. There appears to have been less new stock available during the last few months of 2018, as fewer investors buy new properties to bring to the market. What's more, we are seeing a softening in new tenant demand as many current and would-be tenants are choosing to stay put rather than risk potential rent hikes through a move.



AS LANDLORDS SELL OR DON'T ENTER THE MARKET ALTOGETHER, THE LETTINGS STOCK FALLS

Annual UK rental growth of 2.1% has been most recently reported by HomeLet although of course this varies across the regions. Rents were reported to have risen by 4.0% in Greater London and by 3.4% across the South East compared with the East of England where rents grew by 0.8% and the East and West Midlands which show annual rental increases of circa 1.6%.

A number of challenges lie ahead for the market. The upcoming ban on agencies administering a tenant fee will undoubtedly have an impact as costs will need to be clawed back somehow. Furthermore, the current mortgage tax relief reforms are not just affecting the sales market: as landlords sell or don't enter the market altogether, the lettings stock falls and we have seen a tightening in stock through the year. Together these impacts will necessitate rental growth to some degree as demand is expected to continue apace as the sales market remains subdued.

WHAT HAS SHAPED THE SALES MARKET THIS YEAR?

2018 has undoubtedly been a less than stellar year in the UK residential sales market. As discussed earlier house price growth has started to slow, while transaction volumes have been stifled. Here we look at three drivers of the market this year which have helped shape these conditions. While these are not the only factors, we believe these have taken on larger roles throughout the year.

1 BREXIT

Brexit uncertainty has of course caused some caution in the market this year. As we edge ever closer to the March 2019 deadline we have seen more vendors who are nervous to list properties if they don't have to, while at the same time buyers have been more demanding with their offers and asking for greater discounts as they assume that vendors are desperate to sell.

2 AFFORDABILITY

The price of housing across the UK has become wildly out of sync with wages over the last five years, making the process of buying a home out of reach for many and stifling transactions. On average, house prices have grown by around 33% since January 2013 across the UK, while at the same time wages have increased by only around 9%. This has unquestionably created an imbalanced market and held back potential buyers and movers.

3 LEGISLATION & REGULATION

The role of legislation in the UK mortgage market continues to have an overall negative effect on sales and purchases. Three recently-imposed regulations in particular have negatively impacted the market:

- **The additional 3% stamp duty.** While this was imposed 2.5 years ago the negative consequences in the Buy to Let market are still being felt. Since then there are around 35% fewer BTL mortgages issued on a monthly basis.
- **Mortgage tax relief reforms.** Changes to the way in which landlords can claim tax relief on their rental income and mortgage repayments were imposed in April 2017. Although this was over 18 months ago it is certainly the case that as landlords begin to look at their tax and financial liabilities they have begun to opt out of the market altogether, or not enter.
- **New mortgage regulations and stress tests.** Yet again a piece of legislation that was imposed in 2017 but which has taken time to filter into the mortgage and transaction market. Before a bank may issue a mortgage they must show that an applicant is able to afford an interest level well above the current rate. It is probable that in some parts of the country where house price to earnings ratios are very high (London and the South East), this has been partly responsible for sluggish sales and pricing this year.

ABOUT CARTER JONAS

Carter Jonas LLP is a leading UK property consultancy supported by a national network of 33 offices and 800 property professionals. Our team is renowned for their quality of service, expertise and the **simply better advice** they offer their clients.

Sources: Bank of England, Carter Jonas Research, Experian, HM Land Registry, HM Treasury, HomeLet, Ministry of Housing Communities and Local Government (MHCLG), ONS, UK Finance

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