GARRINGTON

MARKET REVIEW

Summer 2018

CHANCE FAVOURS THE PREPARED PURCHASER

"Two years on from Brexit and while the market continues to throw out mixed messages, with every dark cloud there is a silver lining. Today's market is rife with hidden and new opportunities for open-minded and savvy buyers prepared to look beyond the headlines."

Jonathan Hopper – Managing Director

ACTIVITY REMAINS BUOYANT ACROSS MANY OF THE UK'S PRIME MARKETS

There are conflicting messages regarding the state of the UK's housing market but, as always, the true story is in the detail of assessing the myriad of submarkets.

Provisional figures from HMRC suggest that just over 290,000 homes were bought in the first three months of 2018 across the UK. While this is 5.5% below the level recorded in the same period of 2017, it is not correct to say that the whole of the market is in slowdown. Indeed, many parts of the country continue to see an active and buoyant market. The most active region so far this year has been the East Midlands where one in 135 homes have sold, while London is currently seeing the lowest rate of turnover with just one home in 175 changing hands.

The prime markets have felt the burden of high stamp duty costs and economic uncertainties more than the mainstream ones over the past year, although on the whole, prime sales are still holding up. During 2017, there were 5.4% more properties sold over £1m, and 0.8% more sales over £2m across England and Wales than in 2016. Momentum was stronger outside of London, where sales over £1 million increased by 11.3% and those over £2 million rose by 8.4%.

While transaction levels in prime central London have been more muted in recent months, there are indications of renewed interest in the uppermost echelons of the market this year. Using data from LonRes, analysis shows that sales of properties over £5 million increased by 8% compared to Q1 2017.

There are plenty of prime markets across the country which have seen strong levels of activity during the first months of 2018. To form a clearer picture on how the market is really performing, we have assessed areas in which more than 10% of transactions were prime and which have also outperformed the regional average rates of turnover and price growth in the first quarter of 2018.

NOTABLE PRIME MARKETS, Q1 2018

LOCATION	TURNOVER	ANNUAL PRICE GROWTH	% PRIME SALES
North Somerset	0.83%	14.2%	13%
Monmouthshire	0.81%	4.4%	25%
Bournemouth	0.77%	5.7%	11%
Devon	0.77%	6.2%	10%
Rutland	0.76%	23.6%	36%
City of Bristol	0.73%	9.2%	13%
Cheshire East	0.70%	5.8%	26%

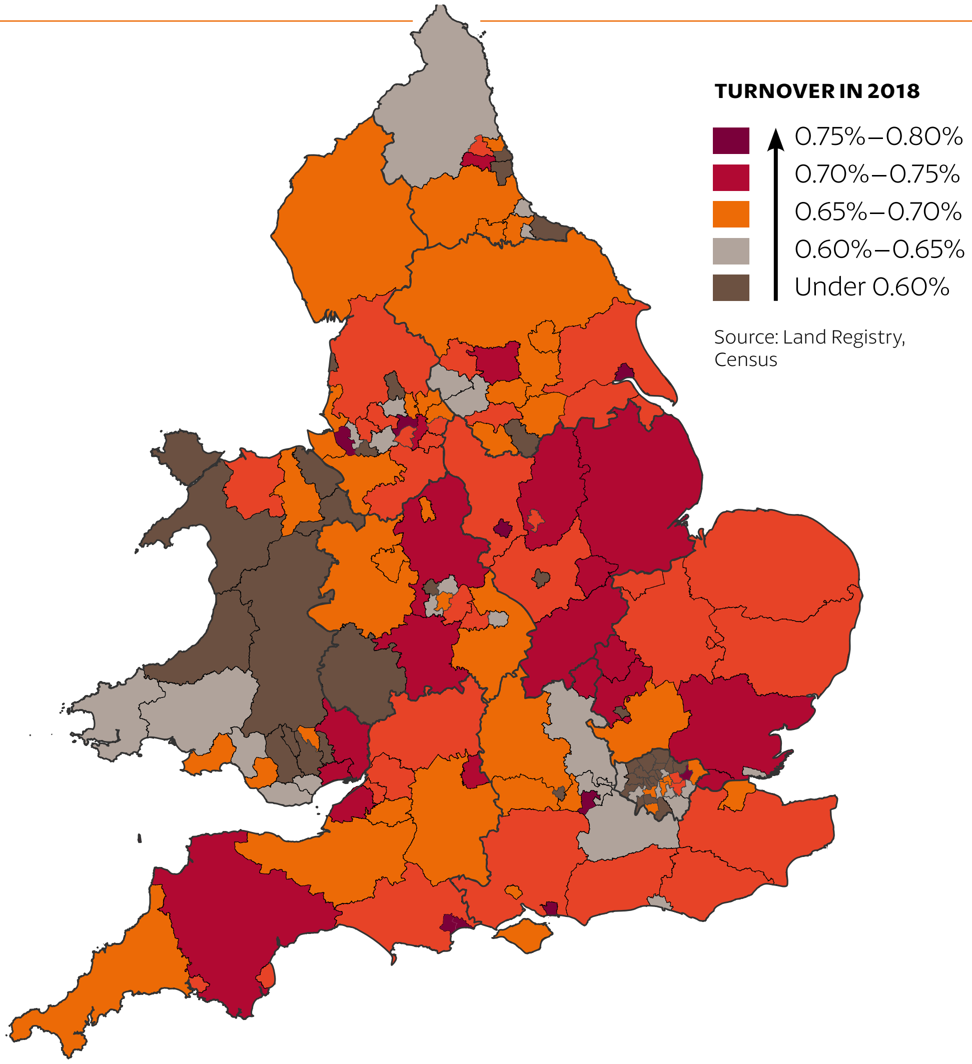
Source: Garrington Research using Land Registry and Census

Footnote: Turnover and % prime sales are for Q1 2018. Annual price growth shows change between Q1 2017 and Q1 2018

% OF PRIVATE HOMES SOLD IN Q1 2018

REGION	TURNOVER IN 2018
East Midlands	**0.74%**
South West	**0.73%**
East	**0.73%**
North West	**0.70%**
West Midlands	**0.70%**
Yorkshire and The Humber	**0.69%**
South East	**0.69%**
North East	**0.65%**
Wales	**0.63%**
London	**0.57%**

Source: Land Registry, Census



Notable prime markets

Our analysis shows that the heightened activity trend, led by buyers in search of greater value for money, is extending up the ladder and into prime markets. As such new areas which might not have traditionally been viewed as prime markets, such as Rutland and Monmouthshire, have emerged as strong performers. Results in the currently outperforming markets are explained by their relative affordability. While other high value markets (such as West Berkshire, Richmond and Poole) have performed well in terms of turnover, slower than average price appreciation in these areas has kept them off the notable performers list.

THINGS TO BE AWARE OF IN 2018

April Mortgage interest tax relief Entered its second phase in April 2018, resulting in a 50% reduction in tax relief on mortgage payments by landlords.

May Bank of England base rate While remaining on hold in May, the base rate is still expected to rise to 0.75% before the end of 2018.

October Brexit negotiations The target date for agreeing a Brexit withdrawal treaty is October.

Autumn Budget Further announcements to boost housebuilding possible. Any repeal in the burdening stamp duty costs for investors and high-end buyers?

Stock
40 properties
available per branch
compared to 39 a year ago

Demand
308 buyers
registered per agent
compared to 397 a year ago

Pricing
4.4% growth
across UK
in year to February 2018

Transactions
down 5.5%
in Q1 2018
compared to Q1 2017

Source: NAEA (March 2018), ONS, HMRC

HOLIDAY LETS: AN ALTERNATIVE INVESTMENT?

Have holiday lets defied the investor gloom?

Recent regulatory and taxation changes have seen some investors switch from the traditional buy-to-let sector to the furnished holiday home let market[1]. With holidaymakers increasingly more discerning, concerned about carbon footprint and 'experiential' in their spending habits, demand for quality luxury accommodation in highly sought-after rural and coastal locations is high and returns can be lucrative, despite the higher void levels.

Since 2010, the number of holiday homes across England and Wales has increased by 29%; around one in every 400 properties is now a holiday home. The rise across Yorkshire and The Humber and the North East has been even greater. Only across the West Midlands have numbers fallen. While Brexit has caused uncertainties in the residential sector, across England and Wales the number of private sector short stay accommodation businesses registered rose by 5.5% between 2016 and 2017.

Meanwhile, thanks largely to the fall in the value of sterling, 2017 was a record year for the UK's inbound tourism industry. Forecasts for 2018 indicate that overseas visits to the UK will top 40 million for the first time. Of these, over 1.6 million are likely to stay in self-catered accommodation. The US is the number one overseas market for the UK whilst research by Anholt-GfK indicates the brand position of the UK remains unchanged for the 23 million visitors from other EU countries despite Brexit. With holiday lets popular for their flexibility and home comforts, the sector is increasingly offering a viable alternative form of investment.

5.5%
increase in private short stay accommodation businesses
2017 versus 2016

29%
increase in the number of holiday homes across England and Wales
2017 versus 2010

6.8%
growth in the value of the UK tourism industry
2017 versus 2016

£4 billion
value of self-catering holidaymakers across England
2016

8 million
number of self-catering holidays taken
2016

Source: ONS, Valuation Office Agency and Visit Britain

[1] A furnished holiday let (FHL) must be within the UK, have furniture for 'normal' occupation that the tenants must be entitled to use and the letting of the property should be carried out commercially with a view to profit. Properties must be available to let at least 210 days of the year and let for at least 105 days. Lettings that last more than 31 days must not account for more than 155 days of the year. HMRC

HOLIDAY HOMES ON THE RISE

Increase in number of holiday homes by region
2017 compared to 2010

28.7% ENGLAND AND WALES

Source: Valuation Office Agency

Growing holiday home markets and price premiums

In a continuation of the analysis that we carried out a year ago, we have looked at the districts that have a higher than average proportion of holiday homes. We have assessed the growth in prime sales in each of these areas between 2016 and 2017 to find the rising prime holiday home markets.

Our analysis reveals an array of flourishing holiday home markets across many different parts of the country. The Lake District is the current star performer with the districts of South Lakeland and Eden taking the top two positions as lead holiday home hotspots. Indeed, National Parks and Areas of Outstanding Natural Beauty have been very popular this year with the Malvern Hills and New Forest (part of South Hampshire Coast AONB), among others featuring in the top ten.

Prices continue to rise in most traditional holiday home locations

We have also reviewed the pricing levels paid in the traditional prime holiday home locations, which we first highlighted in our Summer 2017 report. With the exception of North Norfolk and Rock in Cornwall, all of the other areas in our sample data have increased in value over the last year. Stow-on-the-Wold takes the top spot, with prices rising by almost 12%. Of note is that the best performing areas are within a two hour drivetime of London. This reflects the trend that Garrington is seeing from cash-rich London buyers seeking an accessible holiday home investment which can still be used for the occasional weekend break.

HOLIDAY HOME HOTSPOTS OF 2018

DISTRICT	REGION	% OF SALES CLASSED AS PRIME IN 2017/18	GROWTH IN PRIME SALES IN PAST YEAR
South Lakeland	North West	25.3%	3.4%
Eden	North West	16.0%	3.0%
Christchurch	South West	21.1%	2.2%
Malvern Hills	West Midlands	21.9%	1.8%
Pembrokeshire	Wales	12.2%	1.7%
New Forest	South East	10.8%	1.6%
Rutland	East Midlands	29.7%	1.3%
East Riding	Yorkshire & The Humber	11.7%	1.2%
West Dorset	South West	13.9%	1.2%
Isle of Anglesey	Wales	12.7%	1.2%

Source: Garrington Research using Land Registry data
Data compares the period April 2017 to March 2018, with April 2016 to March 2017

CHANGE IN VALUE OVER PAST 12 MONTHS

Stow-on-the-Wold	11.8%
Sandbanks	8.0%
Southwold	5.2%
Whitby	1.9%
Salcombe	1.6%
Burnham Market/Brancaster	-2.2%

Source: Garrington Research using Land Registry data

Compares average price paid per square foot in 2017/18 to 2016/17

HOLIDAY LETS AS AN INVESTMENT CHOICE

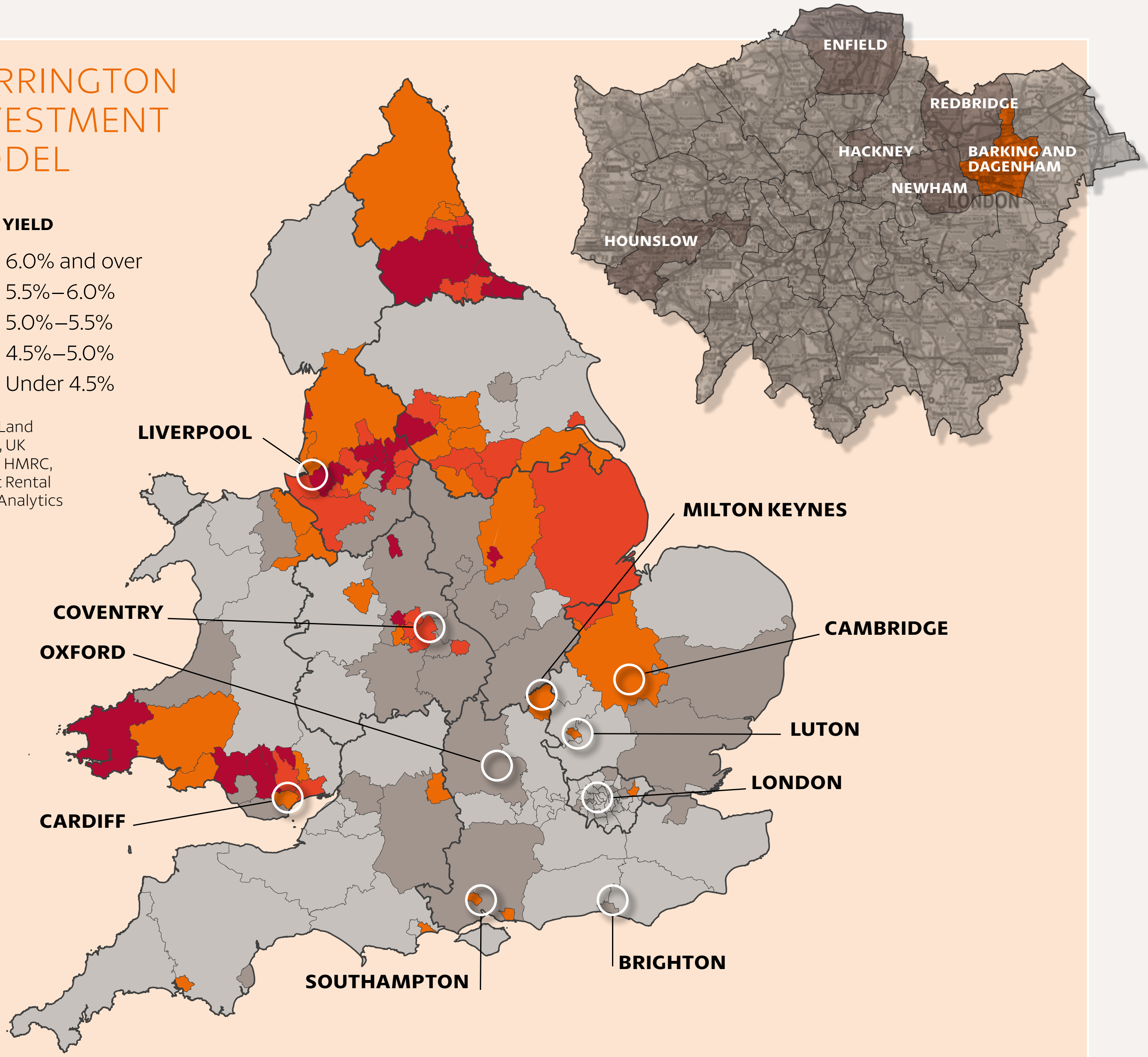
Furnished holiday lets offer many advantages for potential investors. Due to their status as a trading business, according to HMRC, qualifying furnished holiday lets are exempt from mortgage tax relief changes and owners can claim full capital allowance. Investors can also benefit from profit sharing and pension contributions along with capital gains advantages as holiday lets are considered a business asset not an investment, at the point of sale. There are high returns to be made, indeed double digit net returns are not unusual provided the correct marketing strategy is in place. Investors should take professional advice on the various costs associated with a holiday let.

POTENTIAL INCOME FROM HOLIDAY LETS

	POTENTIAL INCOME FROM HOLIDAY LETS £K	ANNUALISED OCCUPANCY
2 bed	£52.8	73%
4 bed	£56.6	69%
6 bed	£65.0	71%
8+ bed	£83.2	65%

Source: Unique Home Stays, 12 months to end April 2018

GARRINGTON INVESTMENT MODEL



GROSS YIELD

- 6.0% and over
- 5.5%–6.0%
- 5.0%–5.5%
- 4.5%–5.0%
- Under 4.5%

Source: Land Registry, UK Finance, HMRC, Dataloft Rental Market Analytics

KEY INPUTS

Demographics

The average age of first-time buyers keeps rising which means more people are renting for longer. Our model targets areas with a high proportion of younger people who are more likely to be in the rental sector.

Size of private rental sector

Our model targets areas where there is already a sizeable proportion of people renting.

Employment

Employment growth is a key indicator of the vitality of the local economy. Investment opportunities will be better where the jobs market is growing. Strong jobs growth should flow through to higher earnings and higher demand for housing.

Local economy

Judging the size of the local economy and targeting areas with higher GVA per head is another way to assess different regional economies.

Residential yields

Yields vary across the country. For investors focused on income returns, the yield level is an important way to assess opportunities.

Modelling investor opportunities

The property investment market has faced a number of hurdles recently with legislative and tax changes affecting financial viability. With higher upfront costs investors are likely to have a keener eye on longer term investments, making it even more important to find the right opportunities.

There are a range of factors investors should take into consideration. Yields are of course a good starting point; how much annual income is received for your capital outlay? Unfortunately it is never as easy as just picking a high yielding location. High yields can reflect high risk, for instance in locations where the local economy is stalling and house prices have been stagnating and typically have low levels of liquidity. A vibrant local economy with good jobs growth and a large young demographic should be part of the matrix of opportunities too.

To this end, we have put together an investor model which encompasses these different variables; balancing the yield profile of a location with local demographics and health of the local economy. Analysing data across 58 key cities across England and Wales, the matrix makes it easier for investors to assess opportunities.

Investor opportunities: top performers

Top of the leader board is Oxford. While yields here are low, the strength of the local economy boosts its rating in the model. Oxford performs really well on the strength of recent jobs growth, a younger population and high proportion of people who rent privately. While students will help to boost the young demographic, many stay on in the city after graduating and give Oxford a young and typically highly-skilled workforce.

London remains on the list

Evidence from large-scale investors shows us that some investor activity has shifted out of London in favour of regional markets. With high house prices in London and low yields, there is an increasing logic to look elsewhere for opportunities. However, this needn't mean that London should be off the investment radar entirely. The size and scale of the economy, plus a typically younger population and high proportion of renters means there are always likely to be opportunities.

Applying a similar investor matrix across London ranks the boroughs of Newham, Lambeth and Tower Hamlets top. Newham and Tower Hamlets are less established investor locations but have higher yields. This is combined with a young demographic (58% of Tower Hamlets' population are aged 18–44) and local economies which are still changing rapidly (Newham ranks in the top three for recent employment and earnings growth). Lambeth, while a more established market (and therefore with a higher yield), scores well on all the other matrix factors.

INVESTOR MODEL: TOP OPPORTUNITIES

RANK	CITY
1	Oxford LET Strong recent jobs growth, a young demographic and high proportion of people rent privately.
2	Luton Spurred largely by the aviation industry, jobs growth here has been the 2nd highest across all the cities.
3	Liverpool LET Scores well due to its high yield levels plus young demographic and already sizeable private rental sector.
4	Brighton LET Ranked 3rd on proportion of households already in private rental. Scores well on jobs growth and young demographic too.
5	London Size and scale of London economy and high proportion of young workers who are drawn to the Capital mean opportunities remain but house prices are high.
6	Cambridge Like Oxford, benefits from its young student demographic who often tend to stay in the city after graduation.
7	Southampton LET Good performance across all factors within the model.
8	Coventry While jobs growth has been lacklustre recently, yields here are high and at the top end of the spectrum.
9	Milton Keynes Ranked 1st for jobs growth, driven by its growing reputation for technology and start-ups.
10	Cardiff LET Ranks 2nd for both its younger demographic and sizeable private rental sector.

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Garrington work on behalf of private and/or corporate clients who want to buy, rent or invest in property both in London and throughout the UK.

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