



GARRINGTON

MARKET REVIEW

Q1 2017



# THE UK HOUSING MARKET

"After a year of surprise political and economic events, cautious optimism is once again returning to the property market. Many buyers and sellers have needed time to reflect and adjust to a new, yet unpredictable reality, and are now showing revived determination to progress their property plans in 2017."

Jonathan Hopper — Managing Director

## A SERIES OF UNEXPECTED EVENTS

### Opportunities versus Threats

Benjamin Franklin famously said: "Out of adversity comes opportunity", and there is no doubt that the twists and turns of 2016 politics have left the UK property market facing a heady mix of threats and opportunities in the year ahead.



## REVIEW OF THE YEAR

### Key events in 2016

#### STAMP DUTY SURCHARGE INTRODUCED

The year began with a rush to buy investment property. Sales peaked in March to beat the new **3% surcharge** for second property buyers introduced in April. **174,000 transactions** completed in March alone, **74% higher** than a year earlier. The additional charge subdued investor appetite in the following months. As affordability stress tests are implemented and buy-to-let tax relief changes are introduced in April, investor activity looks set to remain lower than in recent years. The Council of Mortgage Lenders has reported that lending to property investors in the 6 months since the new surcharge was **45% lower** than in the same period a year earlier.

#### THE EU REFERENDUM

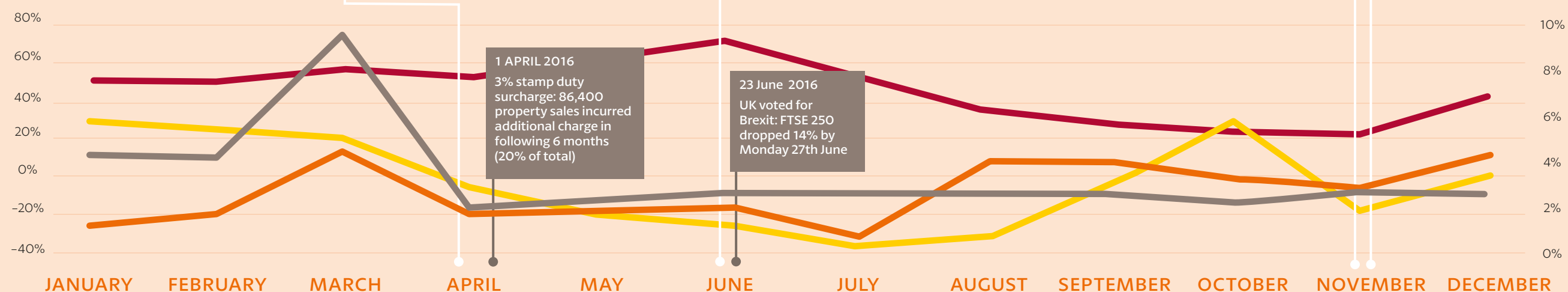
The UK was left reeling in June by the unexpected outcome of the EU Referendum. Demand for property, already low, was weakened further. However, as the year progressed, **economic fallout proved less severe** than feared and some confidence returned. Coupled with **stock levels remaining low**, house prices continued to rise across the country. By the end of the year, **average prices were 6.6% higher** than 12 months previously. With high stamp duty costs and lower investor demand already impacting the market, central London felt the impact of the vote more acutely. However, currency weakness is making the market attractive to overseas buyers.

#### THE US ELECTION

In a year of surprises, the election of Donald Trump would perhaps have been considered the most unlikely. As he takes up his presidency, some American buyers may **consider UK property to be an appealing alternative to the US** in these uncertain times. The fall in the Pound since Brexit means that US buyers will find **UK property around 16% cheaper** than in June 2016.

#### AUTUMN STATEMENT

Homebuyers and investors, particularly in London, were left disappointed that the Autumn Statement made **no change to stamp duty charges**. However, in a positive move, Phillip Hammond used his first budgetary speech to highlight the Government's focus on the **UK's housing shortage** and included measures to **boost infrastructure** to stimulate and **encourage housebuilding**. New supply would ease pressure on all rungs of the housing ladder. Meanwhile, the proposed end to tenant fees charged by letting agents will pass the burden to landlords who will hope to raise rents to compensate.



LHS  
 ■ Transactions  
 ■ Demand  
 ■ Stock\*  
 RHS  
 ■ UK house prices

\* National Association of Estate Agents (NAEA)

Source: Office for National Statistics, HMRC (transactions seasonally adjusted), NAEA (showing year on year change)

Chart shows year on year change. Transactions data is based on seasonally adjusted figures. Demand is based on the change in buyer registrations per branch while stock shows change in stock levels per branch, both from NAEA data.

End of year figures estimated by Garrington Research using OBR forecasts.

# INTERNATIONAL TRADERS

Rising buying costs redefine foreign purchaser demand

Stamp duty was a big story in 2016. Even without the 3% surcharge on second homes, new stamp duty rates imposed in December 2014 depressed the upper end of the central London market in 2016. Sales across prime central London were 18% down on 2015 levels and 34% down on 2014 (LonRes).

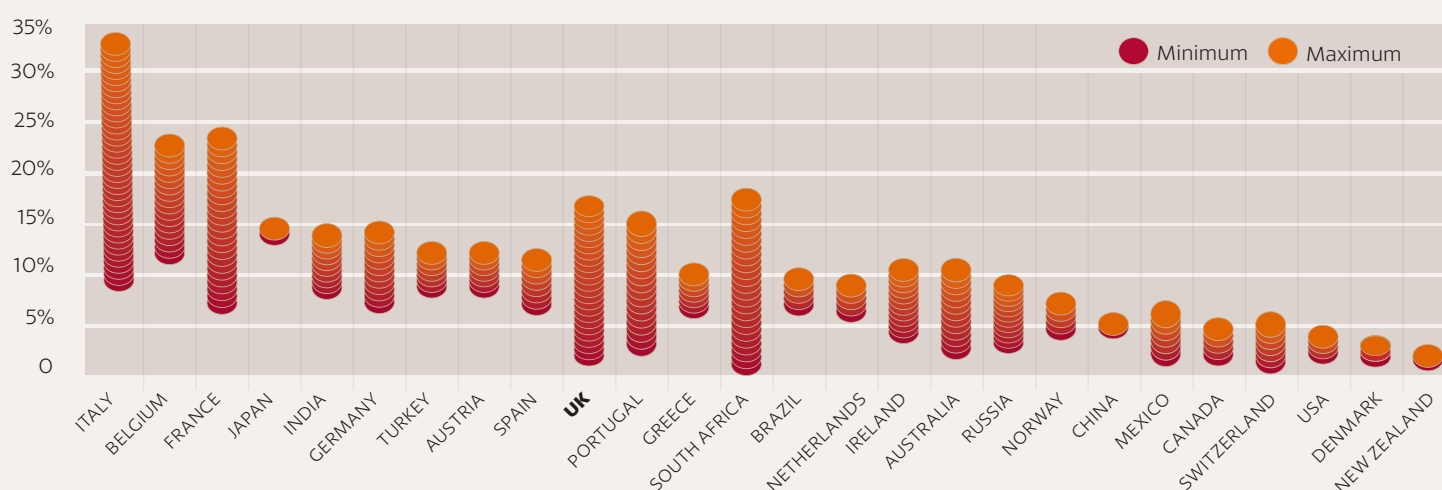
Comparatively speaking, the UK still offers purchasers some of the world's lowest

buying costs. For those seeking a lower value property for a main residence, purchase costs can be as low as 1% of purchase price. However, some purchasers in London now face some of the world's highest buying costs, up to 15.6% of the purchase price. Central London takes the brunt because of the large number of high priced transactions. In Europe, only purchasers in France, Belgium and Italy face the prospect of a higher tax bill.

Despite recent tax changes, overall demand from international buyers for UK homes has remained robust, further supported by attractive exchange rates. However, the profile of property being acquired has dramatically changed. Super-prime second homes as a sheer indulgence are no longer the order of the day for international buyers, who instead are increasingly focusing on lower value investment properties, in turn supporting fringe areas of London and select regional markets.

## INTERNATIONAL COMPARISON OF BUYING COSTS

shown as a percentage of purchase price



Source: globalpropertyguide.com, Garrington Research. Chart shows the range in purchase costs to a buyer expressed as a % of the sales price of a residential property.

Buying costs are from the perspective of the non-resident in the country where they are buying. They include registration fees and stamp duty, real estate agent and legal fees and any sales and transfer taxes incurred by the buyer.

## As PCL's star wanes, a silver lining emerges for occupiers

With little price gain in the last year and fewer transactions, yield focused buyers have been looking outside of central London to places like Borough, Pimlico or Hammersmith where above average growth and higher yield investments can be found. Meanwhile, perceived value and strong returns are attracting investors to newly emerging areas in outer London.

With fewer investors in central London, domestic occupiers are facing less competition for properties and opportunities for savvy purchasers are emerging. Low levels of price growth has made property more attractive while LonRes report that in the final quarter of 2016, just 26% of properties achieved their asking price.

“Market volatility has created a range of compelling purchasing opportunities in London for well-informed buyers” **Nicholas Finn**  
— Executive Director

# FINDING VALUE IN LONDON

Seeking out the new hotspots

## Investors go east in search of opportunity

Pioneering investors will focus their attention on outer London in the year ahead. While domestic occupiers in central London should take advantage of the gap left behind, opportunities for investors are opening up in outer London. We ranked London boroughs by a combination of price growth, activity levels and average prices so we could single out the places with greatest momentum. Capital growth in these areas still lags well behind rates achieved in prime London from 2009 to 2015 – which is why we believe these areas have further potential.

The Elizabeth Line (formerly Crossrail 1), along with other infrastructure and development projects, has already boosted growth in western London, and there is more to come. However, it is the eastern parts of the capital which have highest potential for outperformance in 2017, from Redbridge in the north east to Sutton in the south. At the top of our scoreboard is Havering. The Elizabeth Line will cut the journey time from Romford to central London to just over half an hour and with more affordable house prices than in equally connected places, both investors and

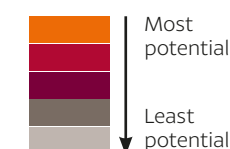
homeowners are looking to tap into the momentum which is building in the borough.

Barking & Dagenham came second. Values here have risen strongly since the trough of the market. Prices grew faster than any other borough in 2016 and transaction numbers were remarkably resilient.

While others work out which way the world is heading, well-informed buyers in search of homes to live in or investment properties will find a range of compelling opportunities across London in 2017.

## PROPERTY SUPERNOVA

After years of burning brightest, the core boroughs have burnt themselves out – and new stars are rising in the east.



Source: Garrington Research using Land Registry data

RANK & BOROUGH	PRICE GROWTH SINCE 2009	ANNUAL PRICE GROWTH	ANNUAL CHANGE IN TRANSACTIONS
1 Havering	79%	18%	-11%
2 Barking & Dagenham	94%	18%	-10%
3 Sutton	85%	13%	-13%
4 Redbridge	83%	11%	-15%
5 Bexley	84%	17%	-20%
6 Croydon	86%	15%	-18%
7 Bromley	79%	8%	-16%
27 Wandsworth	91%	3%	-28%
28 Southwark	108%	7%	-26%
29 Haringey	108%	5%	-26%
30 Kensington & Chelsea	102%	-5%	-24%
31 Lambeth	115%	6%	-28%
32 Hackney	117%	5%	-37%
33 City of London	106%	-9%	-46%

### Methodology

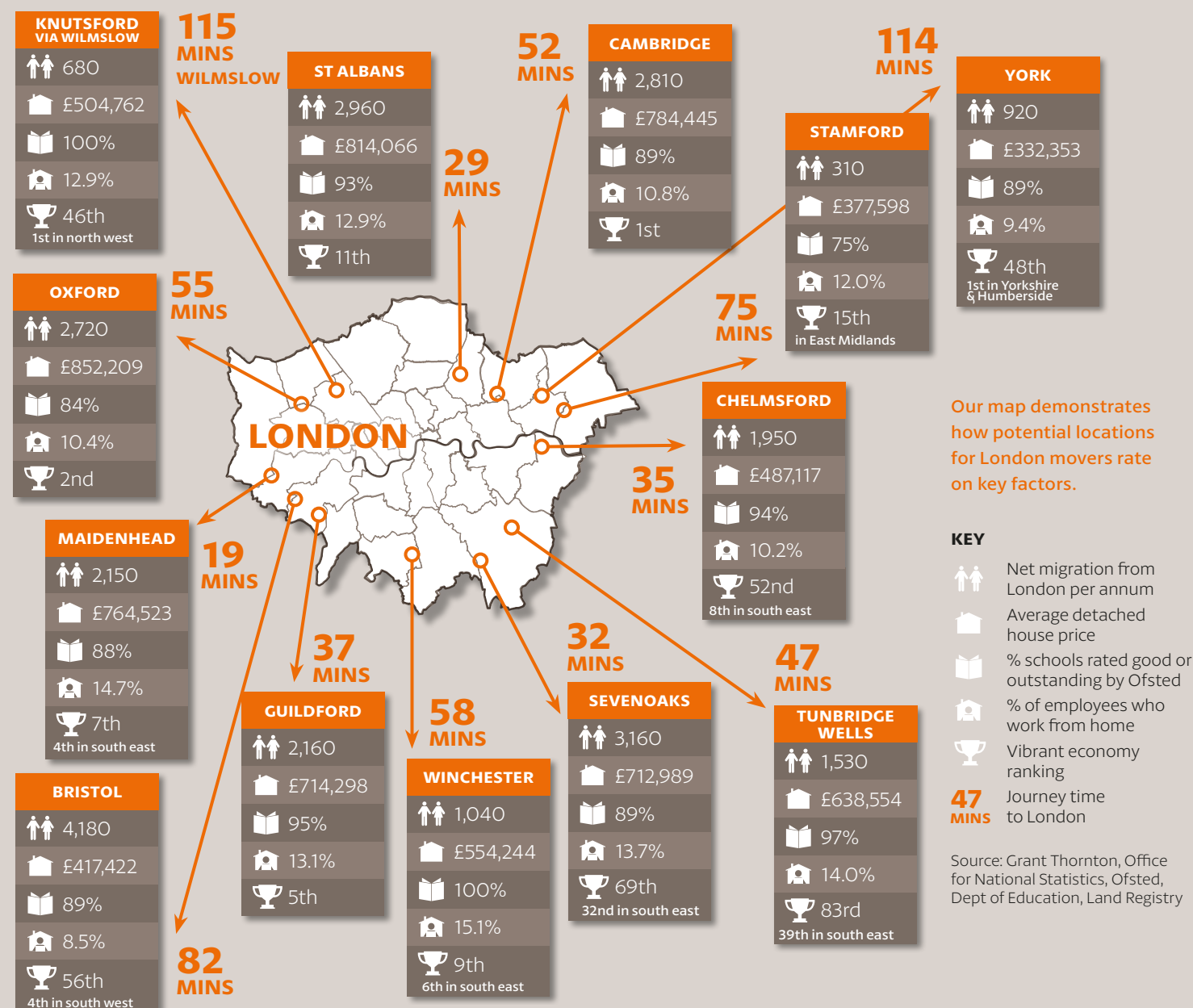
The analysis uses three indicators to measure opportunities for growth in 2017:

- 1 Current annual rate of house price change (to show areas of momentum)
- 2 Change in level of transactions in the year (to show areas of activity)
- 3 Values compared to the trough of the market in 2009 (to show areas with room for growth)



# MOVING OUT OF LONDON

A comparison of alternative locations across England



## Choosing where to live next

With price growth in London slowing, a number of homeowners are capitalising on gains in their property value in recent years and relocating. Indeed, latest data shows that around 280,000 people move out of London each year. Driven by the quality of life and affordability, many people can purchase a detached home for the same value of an average priced flat in London (£420,210).

While many movers will still commute to London, the rise of flexible working means more opportunity to work from home. Up to 15% of residents primarily worked from home as at the last Census and this figure is now likely to be even higher. This has opened up opportunities to live in other parts of the country that might not previously have been considered. York, Knutsford and Stamford, for example, are all more than 100 miles from London but still offer an accessible journey to London.

With fewer locational constraints, where should you choose to live? The Grant Thornton Vibrant Economy Index measures the success of local economies, not only in financial and prosperity terms, but also considering dynamism and opportunity; inclusion and equality; health, wellbeing and happiness; resilience and sustainability; and community, trust and belonging. This provides a full picture of the success of a local economy and community. Many of the areas that performed strongly in the index are located across the south and east of England, with Cambridge and Oxford topping the list. There are also pockets of vibrancy in other areas. Cheshire East (the Local Authority which covers Knutsford) and York were both the strongest performing locations within their respective regions.

# FOCUS ON INVESTMENT

## INVESTMENT OPPORTUNITIES OUTSIDE LONDON

Many areas outside of London are still seeing price growth and strong yield performance.



Glasgow	7.4%	8.7%
Bournemouth	7.0%	6.5%
Newcastle	6.8%	9.2%
Leicester	6.8%	5.1%
Birmingham	6.6%	6.6%
Leeds	6.6%	6.3%
Portsmouth	6.5%	7.6%
Sheffield	6.3%	8.7%
Nottingham	5.9%	6.5%
Cardiff	5.8%	4.7%
Edinburgh	5.8%	4.6%
Manchester	5.8%	7.2%
Oxford	5.6%	5.8%
Liverpool	5.1%	4.8%
Belfast	4.9%	6.4%
Bristol	4.8%	9.2%
Southampton	4.8%	5.5%
Aberdeen	4.7%	-0.1%
Cambridge	4.1%	6.1%

Source: Zoopla

## Residential investment in 2017

In 2017, landlords and potential investors will face several further challenges. Affordability testing for buy-to-let mortgages has been introduced from the beginning of the year. It will restrict the size of buy-to-let loans relative to the value of properties and also limit the size of loans relative to the rental yield. These stress testing methods for landlords will be particularly restrictive for heavily geared landlords and is one of the factors causing heightened demand in cities offering higher yields such as Leeds, Bournemouth and Manchester.

In addition to this, from April, tax relief on mortgage interest payments will start to be phased out over the next three tax years. According to a recent Council of Mortgage Lenders survey, around half of the country's 1.9 million private landlords (49%) own their properties outright with no mortgage debt. This is down from 77% in 2010, which suggests that many landlords have more debt and will therefore feel the effect of the changes more acutely, in turn affecting the onward viability of such investments.

## Watershed moment for the private rental sector?

In response to recent tax reforms, some investors have already switched to a limited company ownership structure for future property purchases. This avoids losing mortgage interest relief as companies can still fully offset such costs against rental income. Corporation Tax is also falling to 19% in the 2017/18 tax year, and is scheduled to gradually fall further to 17% by 2020, further adding to the appeal. However, for existing investors stamp duty is payable on the transfer of properties to a corporate structure in addition to the tax payable on any capital gains made since the properties were acquired.

Although cash-funded purchases, either by individuals or through funds may be more prevalent in 2017, those without the means to buy outright may look for alternative means. Crowd funding sites have emerged as a new way to invest in residential property with only small amounts of outlay, although these are coming under increasing levels of scrutiny from both the press and financial regulators. The proposed ban on letting agent fees for tenants, potentially pushes further costs onto landlords and some landlords will hope to pass these costs on to tenants.

Without question, the sector is changing and maturing, with the Government making no secret of the fact that it wants to encourage corporate landlords to become a dominant force in the private rental sector. However, despite the challenges, residential property remains a viable asset class to many individual investors. In the next couple of years, such investors will seek alternative ways to fund and manage portfolios and it is highly likely that the sector will look very different as a result. Is this a watershed moment for the private rental investment sector?

# THE GARRINGTON TEAM

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Director



**JOHN  
ADAMSON**  
Chairman



**LYNNE  
WEST**  
Operations  
Manager



**AMY  
MARSHALL**  
Client Services



**AARON  
STIFF**  
Marketing



**PUJA  
RAWAL**  
Client Services

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**HILDA  
HERTERICH**



**WADIH  
CANAAN**



**MELLONY  
MORGAN**



**JAMES  
RAWES**



**MANDY  
BISSELL**  
Also South East

## SOUTH EAST



**TOBY  
RIDGE**



**DANIEL  
ROWLAND**



**ANDREA  
HEWITT**



**MIKE  
BOWDEN**



**NICK  
KING**



**PHILIPPA  
MILLS**

## SOUTH

## SOUTH WEST

## CENTRAL

## EAST



**MICHELLE  
DAISLEY**



**JENNIFER  
MULLUCKS**



**SIMON  
GARDNER**



**KATE  
VINCENT**



**DAVID  
LEWIS**



**JULIAN  
RICH**

## MIDLANDS

## NORTH WEST

## NORTH EAST



GARRINGTON

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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