GARRINGTON

MARKET REVIEW

Winter 2019

OPPORTUNITIES EXIST – BUT HOW TO IDENTIFY THEM?

"There is no precedent for the current economic and political climate in the UK, so it is not surprising that so many people choose inaction over action. But for those with the means and the will to step into the market, we reveal the best places to seek out opportunity in 2019."

Jonathan Hopper—Managing Director

PRIME CENTRAL LONDON

In such an international market, the uncertainty around Brexit has disproportionately impacted buyer demand. Coupled with affordability concerns and high costs of purchase, the London market has been more acutely affected than elsewhere. Price growth has been slowing for over two and a half years now which is much longer than in previous downturns (from annual rate of growth peaking to its lowest point). However, this slowdown is proving much less severe than in the past.

London slowdown, not crash

Historically, prices in London tend to slow for around 14 months before beginning to improve. The previous longest downturn was during the global financial crisis from 2007, where price growth slowed for 21 months before picking up. However, while the rate of price growth fell by 33 percentage points in the 2007 financial crisis, to date in the current cycle the rate of price change has only slowed by 15 percentage points. Furthermore, the rate of price change has remained fairly consistent for the last 6 months which, under normal circumstances, might indicate the start of a turnaround. This may suggest that buyers are delaying purchases because of uncertainty around Brexit rather than due to finances being restricted, as was the case during the credit crunch.

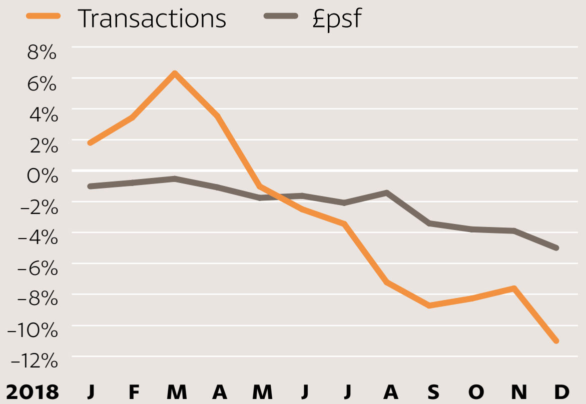
Fundamentals remain strong

While price growth in other parts of the UK has not dipped to the same extent, London has an underlying resilience. There is no reason to doubt that prime London will pick up again once some stability returns, despite the current turmoil. London has weathered threats before and not only survived but prospered. Its competitive position, with world renowned business, shopping, style, education facilities, entertainment and heritage cannot be underestimated. London's tech sector is strong and growing. The capital retained its title as Europe's leading tech hub in 2018 (according to research by London & Partners and PitchBook), attracting more investment than any other region in Europe. Meanwhile London was voted the most popular global city for Europeans to work, (Investment Group) and also the most popular city for international students (QS Higher Education Group).

For now, buyers remain price sensitive, but latent demand is building and, as history has shown, those most established and solid central London markets (such as Mayfair, Belgravia and Knightsbridge) may well be first to see renewed activity as political stability returns.

2018 IN THE RESIDENTIAL MARKET OF PRIME CENTRAL LONDON

ROLLING 12 MONTH AVERAGE



Source: Lonres

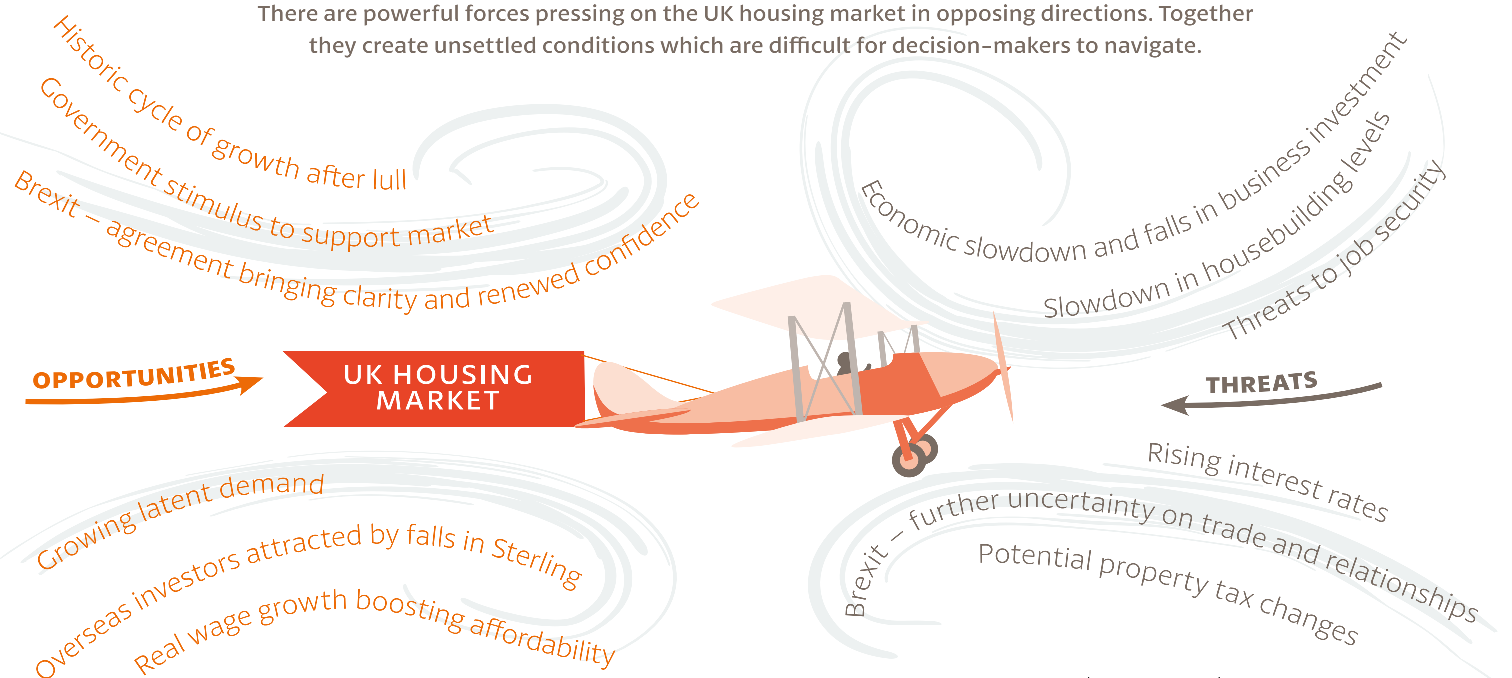
MONTHS OF SLOWDOWN IN LONDON'S HOUSING MARKET CYCLES

	FROM	MONTHS
Dotcom bubble	APR 2000	12
Price rebalance	DEC 2002	13
Price rebalance	AUG 2004	14
Global financial crisis	JUL 2007	21
Weaker economy	APR 2010	14
Stamp duty changes	AUG 2014	10
EU Referendum & Brexit	MAR 2016	30

Source: Garrington Research, showing when annual rate of price growth peaked and the following number of months of slowdown until the annual rate of price change started to improve.

A HEADWIND OF THREATS
A TAILWIND OF OPPORTUNITIES

There are powerful forces pressing on the UK housing market in opposing directions. Together they create unsettled conditions which are difficult for decision-makers to navigate.



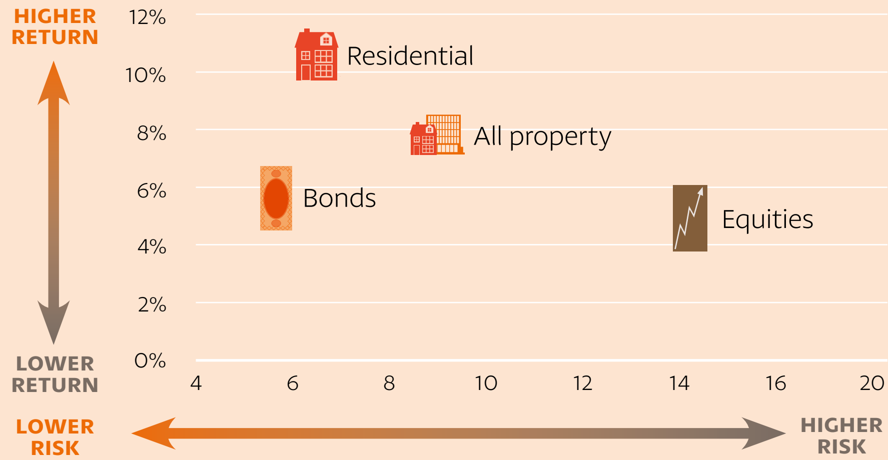
Source: Garrington Research

Is residential still a good bet?

As we move into 2019, the UK's property market continues to face a headwind of threats both domestic and overseas. But, a series of tailwinds could also reset the balance towards recovery and growth once more clarity emerges. With such unsettled conditions, the question is where will people put their money? The alternatives to property: equities, gilts and bonds are not immune from the effects of uncertainty but the long-term credentials of residential property investment remain strong. Over the last 17 years, MSCI report that UK residential property is one of the highest returning, lowest risk of all asset classes. Only bonds have provided a lower risk investment, albeit with average returns less than half the average return for UK residential property.

At times like these with uncertainty reigning, buyers will be increasingly looking for security in their purchases. Speculative investment on uncertain places is unlikely to appeal to the majority of buyers, other than those looking at very long-term opportunities. Whatever happens in the property cycle in 2019 and beyond, it makes sense to find places which are likely to outperform the average and provide such a security blanket. Even if the market were then to drop in places, the level of risk is lower and we have taken steps to identify such places within the remainder of this report.

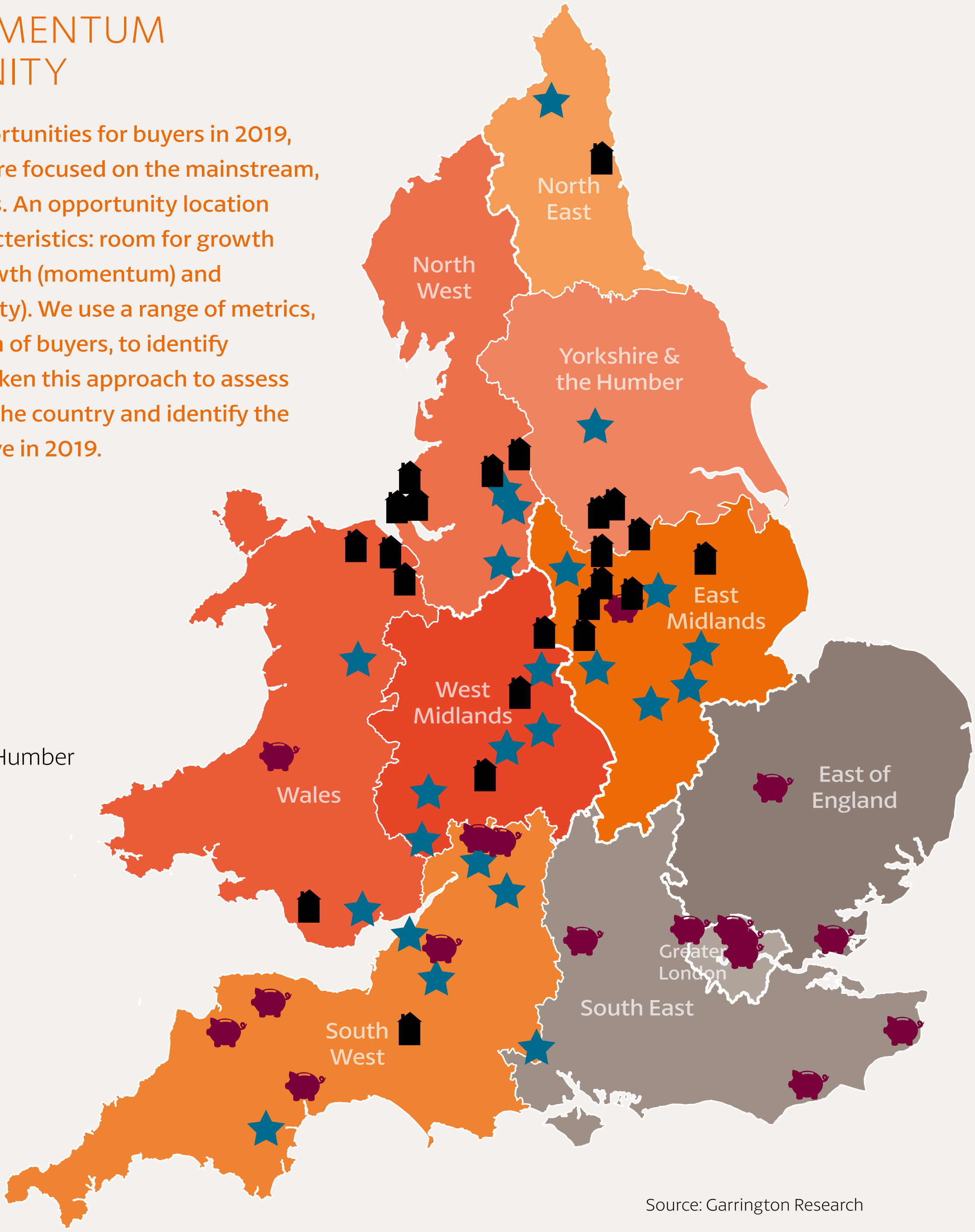
RISK AND RETURN FROM UK PROPERTY
LAST 17 YEARS



Source: IPD

POTENTIAL, MOMENTUM AND OPPORTUNITY

Our research highlights opportunities for buyers in 2019, regardless of whether they are focused on the mainstream, prime or investment markets. An opportunity location needs to exhibit these characteristics: room for growth (potential), current price growth (momentum) and economic growth (opportunity). We use a range of metrics, depending on the motivation of buyers, to identify outperformance. We have taken this approach to assess the health of regions across the country and identify the markets that look set to thrive in 2019.



Source: Garrington Research

REGION RANKED

Vibrant

1 West Midlands
2 Wales
3 North West
4 Yorkshire & the Humber
5 East Midlands
6 South West
7 North East
8 London
9 South East
10 East

Stalling

2019 HOTSPOTS:
AREAS SET TO OUTPERFORM

Local mainstream housing markets
Investment locations
Prime markets

Beyond the North/South divide

It has been well-documented that the south has been hit hardest by uncertainties surrounding Brexit and affordability which have translated into lower transaction rates and falling sales prices in some parts. But what might the remainder of 2019 look like? Regardless of the outcome of Brexit, where do the best opportunities for buyers lie? This analysis seeks to look beyond the usual North/South divide to review the credentials of housing markets at different geographies and identify places of opportunity for buyers looking to purchase this year.

Regional 'winners'

There were different 'winners' in each of our three categories: Potential, Momentum and Opportunity. The region with most potential for growth is the North East, perhaps unsurprising given that current prices are still 8% below their previous peak and average house prices are just five times earnings (compared to over eight times earnings, on average, across the country as a whole).

Meanwhile, the region which is currently experiencing the greatest momentum is the West Midlands. Properties this year have sold, on

METHODOLOGY 2019 HOTSPOTS: AREAS SET TO OUTPERFORM

	REGIONAL	LOCAL MAINSTREAM HOUSING MARKETS	INVESTMENT LOCATIONS	PRIME MARKETS
POTENTIAL	• House price to earnings ratio • House price difference from previous peak	• House price to earnings ratio below average • House price difference from previous peak below average	• A strong existing rental market (% households in PRS greater than average)	• House price difference from previous peak below average
MOMENTUM	• Days to sell, average 2018 • Current rate of house price growth • Current annual change in rate of transactions	• House price growth above average • Change in rate of transactions above average	• Current levels of rental growth above average • Average flat yields above 3.5%	• Strong current rate of price growth • Change in rate of transactions above average
OPPORTUNITY	• Annual employment growth • % of jobs created as a result of Foreign Direct Investment in last 3 years	• Employment growth above national average	• Employment growth above national average	• Value of top 10% of sales above regional average • Substantial number of prime sales

average ten days quicker than across the rest of the country and the rate of house price growth is almost double the national average. While transaction levels are still below last year's levels, the rate of decline is slower than the national average. Although ranking fifth in the potential category, by also securing joint top place in the opportunity category, the West Midlands takes the overall crown as the region most poised to see outperformance in growth in 2019.

London – longer term investment choice

In our regional league table, London is in eighth place. Prices here have soared to 60% above their previous peak. The average price of a property is now 13 times average earnings and affordability constraints are a concern for many buyers. This, coupled with Brexit uncertainty, felt most acutely in the region, has put the brakes on price growth this year while transaction levels are almost 10% lower than a year ago. Despite this, the fundamentals of the London market remain sound with London sharing the lead in the opportunity category because of its strong employment growth and significant levels of overseas direct investment.

In the latest Z/Yen Global Financial Centres Index, London is ranked as the world's second leading financial centre, just two points behind New York. Importantly, it also features in the top 15 cities whose influence is expected to rise in the next two to three years, despite Brexit. While the market may remain slow this year with limited short-term gains, the longer-term potential and prospects for the captial could stave off any significant stalling.

LOCAL MAINSTREAM HOUSING MARKETS	INVESTMENT LOCATIONS	PRIME MARKETS
Amber Valley	Bath and North East Somerset	Bromsgrove
Bassetlaw	Cambridge	**Cardiff**
Bridgend	**Cardiff**	Cheshire East
Cardiff	Ceredigion	Derbyshire Dales
Chesterfield	Cheltenham	Harborough
City of Derby	**City of Derby**	Herefordshire
Denbighshire	Dover	Leeds
East Staffordshire	Exeter	Lichfield
Flintshire	Gloucester	**Manchester**
Gateshead	Hastings	Mendip
Lincoln	Hillingdon	Monmouthshire
Liverpool	Islington	New Forest
City of Nottingham	Lewisham	Newark and Sherwood
Powys	**Lincoln**	North Somerset
Rochdale	**Manchester**	North West Leicestershire
Rotherham	North Devon	Northumberland
Salford	**City of Nottingham**	**Powys**
Sandwell	**Salford**	Rutland
Sefton	Southend-on-Sea	Solihull
Sheffield	Southwark	South Hams
South Derbyshire	Torridge	South Kesteven
Stockport	Weymouth and Portland	**Stockport**
Vale of Glamorgan		Stroud
Wirral		
Worcester		
Wrexham		

Source: Garrington Research.
Bold denotes appearance in multiple categories

Outperforming national trends

Drilling down into the data, we ran a similar assessment at the Local Authority District level, but this time identifying each metric as either below or above the national average. Pulling the results together we were able to highlight places with above average potential (fewer affordability constraints and room for growth), above average momentum (current market growing at an above average rate with stronger levels of transactions) and above average opportunity (above average level of jobs growth). These places are, in our view, most likely to outperform national trends in 2019.

26 Local Authorities in total across the country met the criteria. In a continuation of the regional results, all of the Local Authorities highlighted were within the Midlands, North and Wales. A significant number were within the East Midlands, including Derby and Nottingham, where it has been announced that the HS2 rail link will provide a £4 billion boost to the local economy and create 74,000 new jobs.

With the arrival of MediaCityUK in Salford, in the North West, demand for properties has soared, boosting transaction levels while prices are rising by more than twice the national average.

Prime hotspots for 2019

High-end purchasers are not immune to wider economic malaise and the flight of equity, from London and other wealthy areas, means these buyers are also seeking value and potential for growth. Using the same methodology on the country's prime markets illustrates where the combination of factors (room for growth, above average levels of activity and price appreciation) will come together to drive the prime market. There is a clear pattern, evident on the map on page 4, showing the prime places that look set to fuel growth in 2019. These fall across the country, from the North (i.e. Northumberland), through the Midlands (i.e. Rutland) and into the South West (i.e. North Somerset) but are largely outside of the previous hotspots of London and the South East.

OUTPERFORMANCE IN 2019

REGIONAL WINNERS

HOW THEIR DATA STACKS UP

	POTENTIAL		MOMENTUM		OPPORTUNITY
	House price to earnings ratio	House price difference from peak	Current rate of price growth	Annual change in transactions	Employment growth
BASSETLAW EAST MIDLANDS	6·3	11·7%	6·8%	-4·1%	9·8%
CARDIFF WALES	7·7	21·8%	5·0%	-0·8%	3·1%
DERBY EAST MIDLANDS	5·8	14·3%	7·7%	-2·5%	2·1%
EAST STAFFORDSHIRE WEST MIDLANDS	7·3	17·2%	10·0%	-1·1%	9·4%
LINCOLN EAST MIDLANDS	7·0	19·3%	4·6%	8·2%	6·9%
LIVERPOOL NORTH WEST	5·1	3·3%	3·8%	-4·1%	2·7%
NOTTINGHAM EAST MIDLANDS	6·4	22·3%	5·8%	-2·9%	3·8%
ROCHDALE NORTH WEST	5·6	1·3%	8·7%	6·8%	7·0%
SALFORD NORTH WEST	6·7	22·0%	6·9%	0·0%	6·4%
SHEFFIELD YORKSHIRE AND THE HUMBER	6·6	15·9%	4·4%	-3·0%	4·8%
NATIONAL AVERAGE	8·3	25·3%	3·2%	-4.3%	1·2%

Source: Garrington Research

Still a good investment?

In the 12 months to September, there were 10% fewer loans issued for buy-to-let house purchases than in the previous 12-month period, according to UK Finance. Tax changes, the rising costs of ownership, Brexit uncertainty and increased regulation have changed the profile of landlords and diminished the appetite of some investors for buy-to-let properties. Others chose to consolidate some or all of their portfolios last year.

However, fewer landlords means fewer properties available to let. Over the course of 2018, the RICS has consistently reported lower levels of new instructions compared to the same month in the previous year. At the same time, in every month except March, demand levels were higher than the year before. As a result, those landlords who have maintained their portfolios have seen rents continue to rise at low levels across most regions and achieve healthy levels of yields in many places.

Investment in property remains a solid choice for many investors but for those looking to enter the market or expand their portfolios in 2019, where are the best opportunities?

Where to buy?

Our analysis allows us to consider the housing markets across the country from an investor's perspective, looking for places with an established rental market (potential) which is currently experiencing growth and has good levels of yield (momentum), while also seeing evidence of a growing jobs market (opportunity). The analysis has revealed 22 Local Authority Districts across the country that exceed all the criteria. While these places would form a good starting point for further research, the tool also provides a good method for assessing properties in other areas.

STRONGLY PERFORMING INVESTMENT MARKETS
A SELECTION

MARKET, REGION	RENTAL GROWTH	FLAT YIELDS	EMPLOYMENT GROWTH
Southend-on-Sea **EAST**	5.6%	4.6%	6.9%
Seaside location, commutable to London and more affordable than others. Good transport links and home to Britain's fastest growing airport in 2018.			
City of Derby **EAST MIDLANDS**	5.2%	5.5%	2.1%
The building of HS2 is set to create thousands of new jobs in and around Derby, further boosting demand for rental properties.			
City of Nottingham **EAST MIDLANDS**	7.0%	6.3%	3.8%
Strong demand: a result of high-quality universities, hospitals and large regional employers. Meanwhile, relatively low house prices have pushed up yields.			
Salford **NORTH WEST**	5.7%	5.8%	6.4%
Manchester has a huge student population and some of the highest levels of graduate retention with Salford offering a more affordable choice to the city centre. Huge investment at MediaCityUK.			
Lincoln **EAST MIDLANDS**	7.9%	5.4%	6.9%
Demand for rental properties is supported by a growing economy and student population. Meanwhile, relatively affordable house prices have pushed up yields.			
Gloucester **SOUTH WEST**	6.4%	5.3%	1.3%
Located in an area commutable to other centres of employment (Bristol, Birmingham, Cheltenham) while further investment and regeneration is currently underway in the city.			
Ceredigion **WALES**	8.7%	6.2%	4.3%
Strong demand from students are boosting rents across the Local Authority while average house prices are still relatively affordable, resulting in above average yields.			
Hillingdon **LONDON**	7.5%	4.0%	3.9%
The development of Crossrail has boosted investment and demand for properties across the borough. Journey times to central London will be reduced as passengers will no longer have to change trains.			
Southwark **LONDON**	2.8%	3.8%	8.1%
Strong jobs growth in Southwark is supporting the rental market. CBRE expect jobs growth to 2026 in Southwark to outpace all other London boroughs. At 42%, GDP growth is also expected to be the strongest of all London boroughs.			

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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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