July 2017 property price update

Independent, free, expert advice on housing
Buying, selling or investing in today's variable market means you need to take a great deal of care before making a decision. It's essential to secure independent, up-to-date advice you can trust. Kate and her team from **Propertychecklists.co.uk** make it easy to access the information and support consumers' needs via FREE of charge eBooks, checklists, articles and one-to-one advice.

Summary of property price reports

Report Headlines

Rightmove	*"Sales still strong, but prices fall in June for first time since 2009"*
NAEA Propertymark	*"Only three per cent of properties being sold above asking price"*
RICS	*"Activity metrics continue to deteriorate"*
Nationwide	*"House price growth regains momentum in June"*
Halifax	*"Annual house price growth eases to 2.6%"*
LSL Acadata HPI	*"A new north-south divide as northern regions drive transactions"*
Hometrack	*"Annual rate of growth increases to 4.7%"*

Key facts:
Average prices across the indices vary from mortgaged only prices from the Nationwide HPI *(June 17)* of £211,301, through to marketing prices *(ie not necessarily sold)* from Rightmove *(June 17)* of £316,109, a 50% difference. Average sold prices from the UK HPI stand at £236,519 *(Apr 17).*

UK, England and Wales data

	High	Low	Current Month Apr-17	Current Month May-17	Current Month Jun-17	Annual Change	Annual Average (05 - 17)		
Rightmove	£241,474	£213,570	£313,655	£317,281	£316,109	1.8%	4.4%	Asking prices	E & W
Nationwide	£184,131	£147,746	£207,699	£208,711	£211,301	3.1%	2.7%	Mortgaged only	UK
Halifax	£199,766	£157,767	£219,649	£220,706	£218,390	2.6%	2.4%	Mortgaged only , seasonally adjusted	UK
LSL Acadata HPI	£231,829	£197,145	£301,606	£303,200	n/a	4.8%	4.1%	Actual prices, includes cash sales	E & W
UK HPI	£194,764	£159,340	£236,519	n/a	n/a	5.7%	3.4%	Sold prices, includes cash sales and new builds	E

Kate Faulkner comments on the national market:
It's clear from all the indices and the latest media 'chatter' on house prices about to fall off a cliff, that property prices continue, in the main, to slow. Rightmove's lead indicator on how sellers are feeling suggests that asking prices have reduced for the first time since 2009, although there is a ray of light coming from Nationwide and Hometrack, suggesting a slight uptick this month. In reality, what we are seeing is a natural slowdown from the recovery in the South and East, while in the rest of the UK prices have done well in the last few years, albeit not as robust as their southern and eastern counterparts. Moving forward, it's likely that in particular, the mortgage indices will see some falls with the new stringent affordability tests moving from 3% above base to 3% above a lender's SVR.

Market analysis by country and region

Property Prices - Countries	Highest average house price pre-credit crunch 2007/08	Lowest average house price during recession 2009	Market low +/- versus market height	Latest month's data Apr 17/ Q1 17	How much higher/ lower are latest prices vs height in 2007/8	Year on year change in price in Apr 17	Annual average increase since 2000	Highest yearly average increase since 2000 Date	% Increase
England	£194,764	£159,340	-18.19%	£236,519	21%	5.7%	7.0%	Jan-03	26.4%
Wales	£150,316	£123,104	-18.10%	£147,921	-2%	4.2%	6.3%	Jul-04	33.4%
Scotland	£145,641	£120,994	-16.92%	£145,735	0%	6.8%	n/a	Feb-05	19.0%
Northern Ireland (Q1)	£224,670	£97,428	-56.64%	£124,007	-45%	4.3%	n/a	Q1 07	51.5%

Property Prices - Regions	Highest average house price pre-credit crunch 2007/08	Lowest average house price during recession 2009	Market low +/- versus market height	Latest month's data Apr-17	How much higher/ lower are latest prices vs height in 2007/8	Year on year change in price in Apr 17	Annual average increase since 2000	Highest yearly average increase since 2000 Date	% Increase
North East	£139,400	£117,079	-16.01%	£123,234	-12%	0.6%	5.8%	Jan-04	34.8%
North West	£152,427	£124,654	-18.22%	£152,765	0%	4.1%	6.6%	Jul-04	33.0%
Yorkshire & The Humber	£150,233	£123,833	-17.57%	£155,357	3%	4.9%	6.8%	Jun-04	29.3%
East Midlands	£159,537	£129,876	-18.59%	£178,844	12%	6.5%	6.8%	Feb-03	33.9%
West Midlands	£165,807	£136,966	-17.39%	£183,250	11%	6.0%	6.4%	Jan-03	29.5%
South West	£212,666	£171,356	-19.42%	£243,215	14%	6.8%	6.7%	Jan-03	29.8%
East	£209,624	£168,263	-19.73%	£280,690	34%	8.1%	7.3%	Jan-03	28.9%
South East	£238,670	£191,156	-19.91%	£315,334	32%	5.9%	6.7%	Jun-00	25.0%
London	£298,596	£245,351	-17.83%	£482,779	62%	4.7%	8.0%	Apr-00	28.3%

Source: UK HPI

Summary of top and lowest performers

Five high growth areas YoY towns/cities	YoY %	Five low growth areas YoY towns/cities	YoY %	Five high growth areas last 10 years towns/cities	%	Five low growth areas last 10 years towns/cities	%
Portsmouth	7.7%	Edinburgh	0.5%	Brighton and Hove	37.4%	Belfast (Q1)	-45.8%
Bournemouth	8.2%	Cambridge	1.0%	Reading	39.1%	Glasgow	-10.0%
Glasgow	8.4%	Cardiff	1.1%	Oxford	43.5%	Bradford	-7.1%
Manchester	8.4%	Reading	1.1%	Cambridge	55.9%	Newcastle upon Tyne	-7.0%
Leicester	9.1%	Newcastle upon Ty	2.6%	London	61.7%	Liverpool	-4.9%

Three high growth areas YoY London	YoY %	Three low growth areas YoY London	YoY %	Three high growth areas last 10 years London	%	Three low growth areas last 10 years London	%
Haringey	9.0%	Islington	-0.5%	City of Westminster	84.9%	Havering	46.4%
Enfield	7.9%	Wandsworth	-2.2%	Haringey	70.6%	Sutton	45.7%
Newham	7.9%	Camden	-2.9%	Southwark	69.5%	Barking and Dagenham	45.3%

Source: UK HPI

Regional commentary report

RICS

"Beneath the national trend, prices continue to slide in London, with the price growth gauge remaining entrenched in negative territory for a fourteenth consecutive month. Away from the capital, house price inflation in East Anglia has moderated noticeably since the start of 2017, with little change now reported in each of the last two months. Elsewhere, prices continue to rise to a greater or lesser degree across all other UK regions/countries." (May 17)

LSL Acadata HPI

"In April 2017, for the third month running, the figures show the West Midlands topping the charts for regional house price growth, at 5.1%, with the East of England remaining in second place, also at 5.1%, and the East Midlands moving up into third place at 4.4%. Greater London has moved up one place into 8th position in terms of regional price change, just ahead of Yorkshire and the Humber at 2.7%. The North East remains in bottom place, with 0.2% price growth." (May 17)

Regional commentary report – cont'd

Hometrack

"Half of cities have faster growth than a year ago. Cities in south eastern England have recorded the greatest slowdown over the year – London 13% to 3%, Cambridge 13% to 2%.

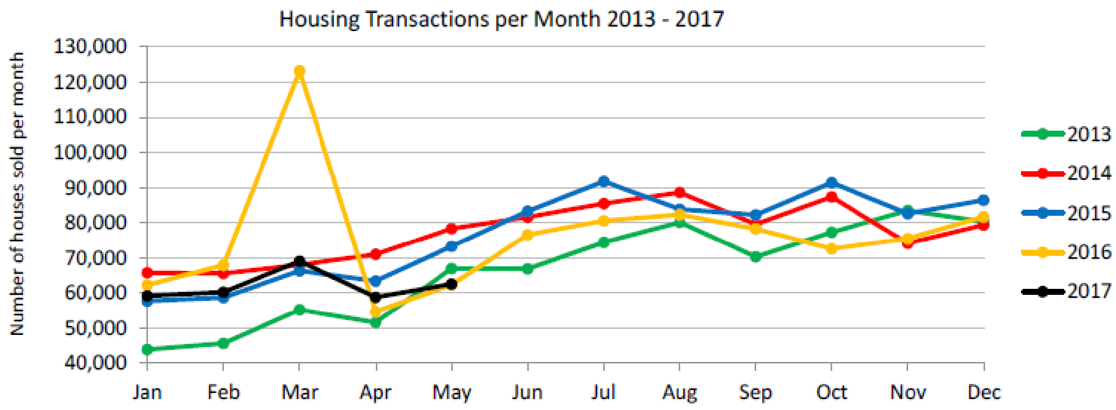
"All cities, with the exception of Oxford and Aberdeen, have registered higher prices in the last three months. Large regional cities recorded the highest price increases over the last quarter - Birmingham (3.8%), Nottingham (3.8%), Manchester (3.3%) and Newcastle (3.5%). House prices in these and other cities continue to rise off a low base supported by a lack of housing for sale and low mortgage rates." (May 17)

Kate Faulkner comments on country and regional differences:

Scotland, with Wales not far behind, are on average, seeing the first signs of positive growth since the highs of 2007/8 which were swiftly followed by dramatic falls. This is good news for both countries, albeit may be short lived if the 'bad property market news' and uncertainty around Brexit continues. Add to this the higher affordability requirements, and this may cause further stagnation, making it difficult for second and third steppers to move with the lack of equity growth. Regionally, for the first time since the recovery, we are seeing year on year performance for all areas, bar the East, being below its long term average – including London, which is running at nearly half its normal growth levels. However, Hometrack state this month that "the annual growth rate in London (3.3%) is at the lowest for 5 years, but with signs of 'bottoming out'. We do not expect the London City index to go negative year on year in 2017." Other indicators suggest though that the East, especially Cambridge has now topped out so it will soon dip below its annual average growth rate too. This is mainly due to previous amazing price performers such as Islington, Wandsworth and Camden recording price falls, while other areas such as Newham and Enfield continue to do well year on year. Haringey is the exception though, remaining one of the highest growth areas year on year, and still keeping the title of one of the top price earners over the last 10 years. It's interesting to see from the Hometrack index that although some cities such as Nottingham and Manchester are seeing some good growth, this is nothing like the levels seen in the South/London and such rapid rises are unlikely to be able to be supported while the economy falters and uncertainty reigns – and of course the media go back to digging up their knowledge of property crash reports!

Property transactions

Most commentary focuses on what is happening to property prices, but as anyone in the property industry knows, property prices are driven by what happens to supply and demand, which is why performance is so localised, pretty much to a property on a street.



TRANSACTIONS ANALYSIS BY REGION

REGION	Feb - April			Feb - April	
	2015	2016	2017	2015/17	2016/17
NORTH EAST	6,784	7,747	7,475	10%	-4%
NORTH WEST	20,077	24,429	21,229	6%	-13%
YORKS & HUMBERSIDE	15,152	17,853	16,148	7%	-10%
EAST MIDLANDS	14,557	18,030	15,154	4%	-16%
WEST MIDLANDS	15,290	18,488	16,194	6%	-12%
EAST OF ENGLAND	20,609	24,722	20,107	-2%	-19%
GREATER LONDON	22,222	25,489	18,032	-19%	-29%
SOUTH EAST	30,962	35,743	28,696	-7%	-20%
SOUTH WEST	19,507	23,511	19,584	0%	-17%
WALES	8,050	9,846	9,127	13%	-7%
ENGLAND & WALES	173,210	205,858	171,746	-1%	-17%

Source: LSL Acadata HPI

LSL Acadata HPI — *"The number of housing transactions in May 2017 in England & Wales is estimated at 62,500, based on the Land Registry numbers and methodology of accounting for domestic property sales. This is up by 6% on April's total, which is a marginally smaller rise than the typical seasonal increase of 10% that occurs in May, as based on data from the last 20 years." (May 17)*

NAEA Propertymark — *"The number of sales agreed per branch rose from eight in April to 10 in May, which was the same level seen in March. Over a quarter (26 per cent) of properties sold in May were to FTBs, a rise of one percentage point from April." (May 17)*

Lloyds Bank — *"Property sales in 2016 were 7% lower than in 2015, according to the latest research from Lloyds Bank. There were 848,857 home sales in England & Wales in 2016, compared to 915,096 in the previous year. All regions saw a decrease in sales in 2016 compared to 2015, with the largest falls in Greater London (-20,660 sales, -18%) and the South East (-23,422 sales, -10%). Both East and West Midlands fared the best with just a one percent decline, followed by North West (-2%).*

"Despite the recent dip in home sales, there has been an improvement compared to five years ago when the market started to recover from the financial crisis. The number of sales in England & Wales as a whole increased by 29% (188,386 sales) from 2011-2016 with the majority of regions seeing increases of between 23% (South East) and 46% (North West). The exception – and the worst performer by some distance - was Greater London with a rise of just 2% in the past five years.

"Even with the fall in property sales, the first-time buyer housing market continues to grow. In 2006, just over a third (36%) of all house purchases financed by a mortgage were made by first-time buyers. In 2016, this proportion is estimated to have reached almost half (49%), the highest level since 1996.

Table 1: Property sales and % changes by region, 2006-2016

	Sales 2006*	Sales 2011*	Sales 2015*	Sales 2016*	2006-2011 % Change	2006-2016 % Change	2011-2016 % Change	2015-2016 % Change
North	70,776	33,162	44,781	41,088	-53%	-42%	24%	-8%
Yorkshire & the Humber	124,143	55,765	79,724	77,384	-55%	-38%	39%	-3%
North West	150,075	66,019	98,780	96,552	-56%	-36%	46%	-2%
East Midlands	103,237	52,156	75,373	74,547	-49%	-28%	43%	-1%
West Midlands	115,772	56,402	81,728	80,921	-51%	-30%	43%	-1%
East Anglia	60,683	34,227	44,303	42,213	-44%	-30%	23%	-5%
Wales	57,885	30,308	42,905	41,610	-48%	-28%	37%	-3%
South West	136,213	74,405	105,098	96,446	-45%	-29%	30%	-8%
South East	303,481	165,680	227,345	203,923	-45%	-33%	23%	-10%
Greater London	168,861	92,242	114,660	94,000	-45%	-44%	2%	-18%
England & Wales	**1,291,134**	**660,471**	**915,096**	**848,857**	**-49%**	**-34%**	**29%**	**-7%**

Source: Land Registry, *January to December

Source: Lloyds Bank

Bank of England

"Mortgage approvals for house purchase were broadly stable at 65,202, while approvals for remortgaging increased slightly to 42,955." (May 17)

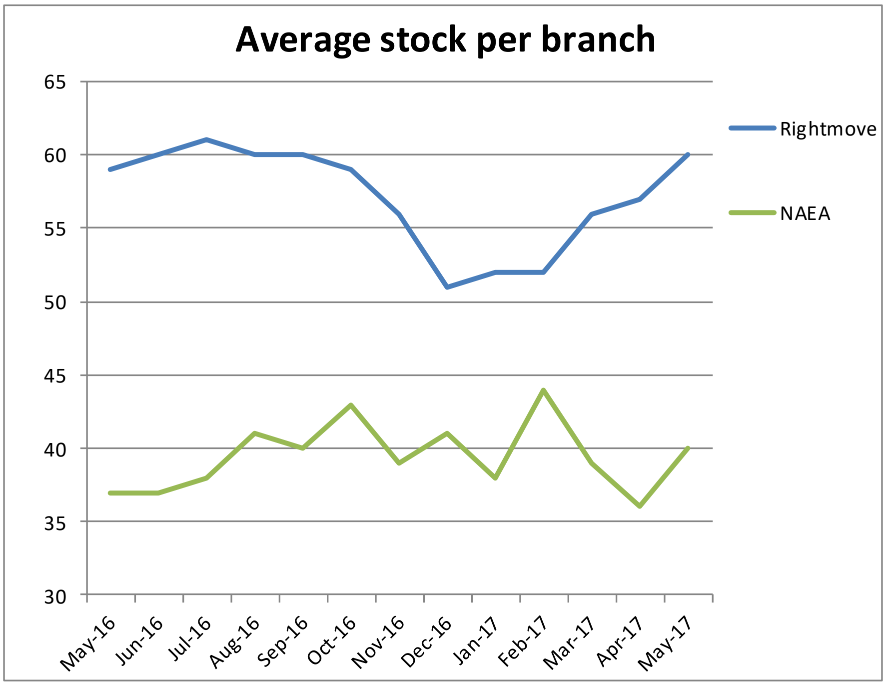
BBA

"House purchase approval numbers in May of 40,347 were 3.3% lower than May 2016 and slightly down on the monthly average of 41,923 over the previous six months." (May 17)

Kate Faulkner comments on property transactions:

With property prices stalling, a lack of new buy to let investors and the 'buying forward' that took place in Q1 2016, transactions continue to falter both for agents and indeed for the mortgage business. So much so, there are now increasing calls to reverse the mortgage interest relief changes hitting the BTL, for example, the recent Paragon poll. Whether this will happen politically is questionable, landlords (and agents) are still being seen as a 'problem' to the PR as opposed to a solution and with all political parties wanting to curb BTL demand, it's unlikely with such a small majority it would get through. The difficulty moving forward though is that the buoyant first time buyer market may be hit over the coming months with the increased affordability checks, this together with the reduction in BTL investment and a slowing and in some cases reversal of real wages, the government and Bank of England may be seen to have 'gone too far' and rather than take the 'froth' out of the property market, they may have stalled it altogether and even send it into reverse. This won't do anything to help the economy, nor will it help to continue the boost to new house building. It's likely we won't know how hard government policies will hit both the sales and letting market until the first quarter of 2018 from an indices perspective, but it's likely the last quarter of the year will be a tough one for agents. Having said that, this is likely to be a slowdown in prices and transactions as opposed to the cliff drop many are suggesting. The latter will require a severe external economic shock in my view.

Property demand and supply



RICS

"A sheer lack of supply continues to support prices for the time being, and the sustained deterioration in new sales instructions over the past two years shows no sign of abating. Indeed, during May, 25% more respondents cited a decline in fresh listings (compared to those noting an increase), producing the most negative reading since July 2016. Although a fall in new instructions is a recurring theme, anecdotal evidence suggests this month's drop may have been exacerbated by the General Election, as some vendors adopt a wait and see approach. Consequently, stock levels remain stuck at all-time lows with the average number of unsold homes on estate agents' books at 43.

"Alongside this, new buyer enquiries fell modestly at the national level, having remained stagnant over much of the past six months. As with new vendors, a large portion of contributors suspect the General Election is having an adverse impact on demand, although some appear more sanguine about the effect. At the same time, agreed sales continued to decline for a second month running as the national indicator returned a net balance of -8% (compared to -9% previously). Despite the slight drop in sales, the average time taken to complete a transaction held steady at 16 weeks in May." (May 17)

Kate Faulkner comments on property demand and supply:
A crash only tends to occur when demand plummets in comparison to supply. In areas where supply is plentiful and economic performance is poor/OK, we aren't seeing huge house price increases. In London, although demand has fallen, a crash so far has been avoided as there is still a demand versus supply issue in many areas, which is putting a 'floor' on the level prices can fall.

Is buy to let dead?

This has been a popular headline for several years now, so I thought it would be useful to take an independent look at the actual facts and figures.

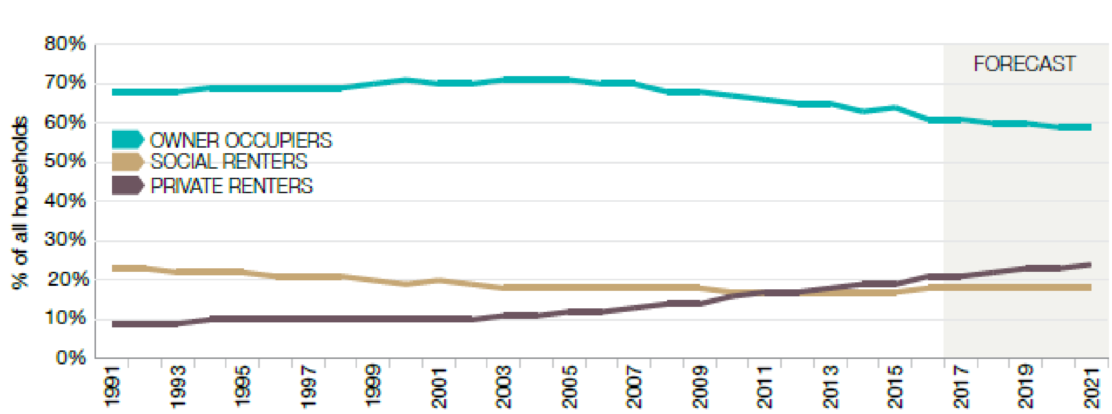
The reality is that although the government and tenant groups may want to reduce the number of individual buy to let landlords in favour of institutional Build to Rent, there is no way I can see that their stock will make up for the void left by new market entrants or landlords leaving the market.

It's important to remember that the huge growth in rental market was never supply driven, it was demand driven – by successive governments. The Conservatives in the 1990s wanted to reduce people's dependency on social housing; Labour drove more students into higher education and both governments have seen a huge growth in migration. It's these policies that have caused the growth of the Private Rented Sector. Coupled with a general lack of homes in all tenures, this has meant prices have risen and as a result additional growth has come from areas where people can't now afford to buy.

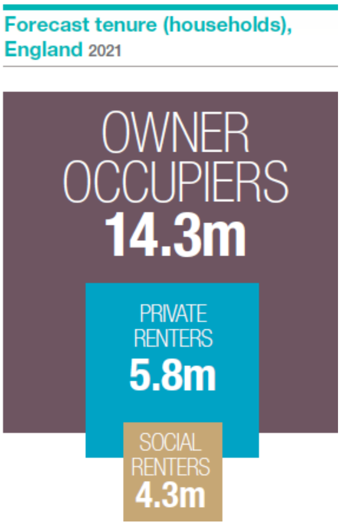
All landlords have done is respond to these increases in demand and that appears set to continue – whether the government want it to or not. According to Knight Frank's 'Multihousing 2017 PRS research report', the proportion of households living in the Private Rented Sector (PRS) has doubled in the last 10 years or so, and it is expected to continue to grow:

- The proportion of households in the Private Rented Sector will rise to 24% by 2021
- Some 68% of renters still expect to be living in the rental sector in three years' time

Growth of the Private Rented Sector Historic and forecast tenure distribution in England



Source: 1980 to 1991: DOE Labour Force Survey Housing Trailer; 1992 to 2008: ONS Labour Force Survey; 2008-09 onwards: English Housing Survey, full household sample



Source: Knight Frank

The Knight Frank report - https://kfcontent.blob.core.windows.net/research/707/documents/en/the-uk-tenant-survey-2017-4743.pdf

What's happening to supply?

CML's latest report states *"We have revised down our forecast for buy-to-let lending. We expected to see £38 billion in 2017 and 2018. Now, we expect £35 billion in 2017 and £33 billion in 2018"*. So from a mortgage perspective, tax increases appear to have had a direct impact on reducing the number of landlords coming into the market.

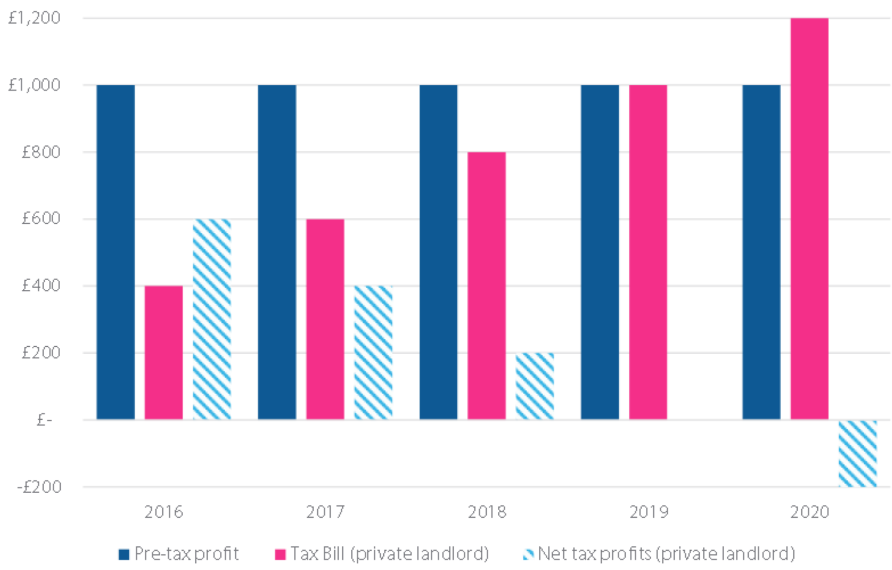
Although some have predicted a mass sell-off, in a quarterly survey I carry out for Belvoir offices, they report a large rise in rents most notably in market towns, but normal falls and rent rises around the rest of the country. Talking to market town agents, it appears the large rise in rents is partly down to a lack of new landlords bringing additional stock to the market, due to the tax changes. As a result of this rental stock shortage and due to the wealth in some of the market towns, properties are now being rented to the highest bidder, typically the wealthier tenant, which is raising rents beyond the traditional +/-4-5% trend.

Across the country though, Belvoir report that *"The average number of offices seeing landlords add 6-10 properties appears to have declined when compared to Q2 2016 (15.0% vs 10.9%) although offices with landlords buying up to three properties remained static. The number of landlords selling property has fallen since Q2 2016, suggesting that we are not yet seeing the predicted 'landlord sell off' post the new tax increases, but we are seeing a drop in new landlords entering the market."*

As such if agents want to retain and continue to grow buy to let business, they need to be very hands on with investors. Existing landlords need to be reassured that buy to let is 'not dead' and can still offer good returns, particularly if they are investing with cash or have been investing for some time and already made good money.

The first thing landlords (and their agents) need to know is the impact of the mortgage relief changes and create a plan to mitigate them. From a profitability basis, Shawbrook have brought out an indepth report on the Buy to Let Market. Part of the report looks at the impact of the mortgage tax relief reduction for higher rate tax payers, showing that a BTL investor collecting a rental income of £5,000 per month and mortgage interest payments of £4,000 per month profits could drop from £600 per month to a loss of £200.

Figure 5: Pre-tax profits, taxes and net profits under the new mortgage interest tax regime, private landlords



Source: https://www.shawbrook.co.uk/media/234003/BTL-Report-2017.pdf

If it's possible to raise rents over the coming years, that's one way to compensate as is checking the landlord is on the very best mortgage deal that allows them to continue to make a profit, or pay down some of the mortgage lending over the next few years.

In addition it is still worth agents encouraging and leading the way for landlords by calling on their local MPs to reverse the mortgage interest relief changes; stop any new rules and regulations to allow existing ones to bed in and also, for those that wish to, allow properties to be moved into a company without any Capital Gains and Stamp Duty costs (Paragon Mortgages survey)

So, over the coming year, agents are going to need to step up a gear, not just letting property but proactively account managing and guiding landlords on ways to mitigate the tax hikes and offer reasons to hold onto their investment. This is essential if letting agents are going to avoid the potential double whammy of falls in stock to let and loss of agent fees in England.