

Sales Supply Jumps as Rental Supply Falls

Headlines

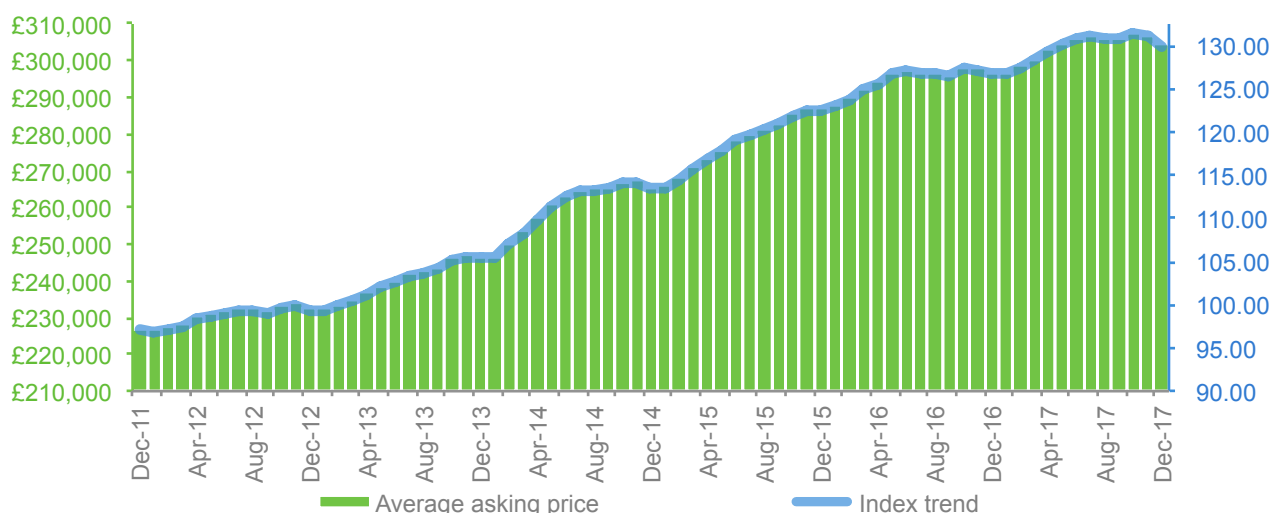
- The number of new sales instructions has jumped by 11% across the UK while the supply of rental properties has fallen by 16% (Nov 2017 vs. Nov 2016).
- Home prices fell again this month, taking the mix-adjusted average for England and Wales down 0.7% since November but up 2.6% year-on-year (YoY).
- Greater London prices slid for a fifth consecutive month, by 0.3%, pushing the year-on-year change down to -1.0%.
- Outside of London and the South East, strong regional growth continues as the East and West Midlands remain at the top of the table, with annualised gains of 6.4% and 6.0% respectively.
- The North West and Yorkshire have also shown the best price performance for many years, with gains of 4.4% and 4.7% respectively.
- Prices fell in all the English regions and Scotland over the last month, which is consistent with the seasonal expectations, although Wales showed a surprising rise of 0.3% since November, indicating increased strength in the Principality's property market.
- Typical Time on Market for England and Wales has increased to 93 days, two days less than in Dec 2016.
- The total stock of properties on the market in England and Wales nudged up 1% YoY, suggesting that supply is perhaps beginning to outpace overall demand.

Summary

The London slump continues to weigh heavily on the national annualised growth figure. Over the course of most of 2017, this braking effect has been countered by price growth in the country's most vigorous regional property markets (both the East and West Midlands, Yorkshire and the North West). Of course, seasonal expectations come into play at this time of year and month-on-month declines are the norm. In fact, over the last month prices fell in all of the nine English regions and in Scotland but not Wales. However, a worrying observation that is not consistent with seasonal expectations is a significant jump in new listings of property for sale (11%, Nov 2017 vs. Nov 2016).

Indeed, should the trend continue, we warn that such a rapid rise in supply would lead to rising stock levels as demand becomes overwhelmed. Such an event would transform the current benign stagflationary conditions into a destabilising deflation in home prices. The concomitant decline in available rental properties suggests that the cause may be that landlords are exiting the Private Rented Sector. Such has been the rapid increase in taxation

Home Asking Price Trend for England & Wales



Source: Home.co.uk Asking Price Index, December 2017

and regulation in the sector, this would hardly be surprising. The clear and present danger, of course, is that this initial trickle of increased supply becomes a flood.

However, any such increase in supply is likely to be localised to low-yielding properties that have, partly through government intervention, become loss-making. Hence, such areas will be restricted to marginal (overbought) areas where yields can be as low as 1% or 2% and/or rents are in decline and voids are rising.

The converse will be true of the UK's most dynamic regional markets. Substantial rent rises (over and above the rate of inflation) are evident in both the East and West Midlands and the North West (up 9.6%, 4.9% and 5.5% respectively YoY). Moreover, home prices are also rising fast. The combination of both increasing home values and rents, together with decreasing marketing times, indicates that these regions will continue to outperform and not suffer a wave of oversupply in the near future.

Despite this dark cloud on the horizon, for the moment, the UK property market is stable and stock levels remain relatively low overall, although some regional variation does exist. We will be keeping a close eye on Typical Time on Market, a key forward indicator, throughout 2018. In Dec 2016, the annualised rate of increase of home prices was 3.4%; today the same measure is 2.6%.

Regional Round-up

Looking across the regions we continue to observe a complex mix of both improving and deteriorating markets. Growth in the Midlands

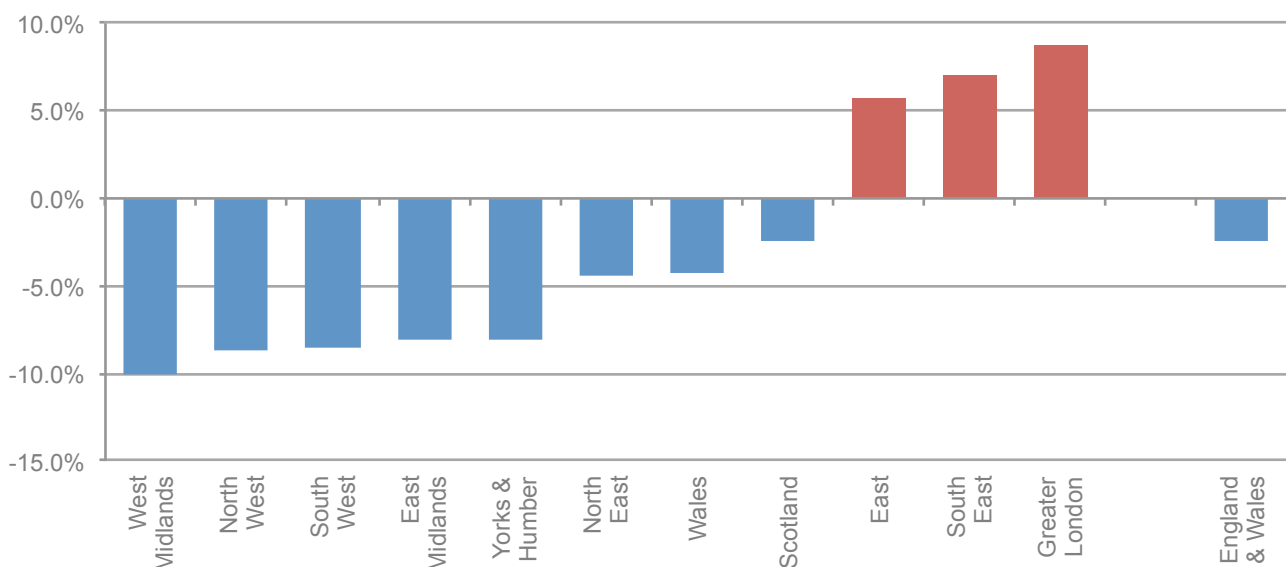
and parts of the North has clearly taken over from that in London and the South East as the engines of the market. A key forward indicator of price growth is Time on Market. The 12-month change in Typical (median) Time on Market as depicted in the chart below reveals how markets such as the West Midlands and North West have increased momentum rapidly thanks to higher demand, while overbought regions such as London, the South East and East of England have slowed post-boom.

The reduction in Time on Market for unsold property in the South West is likely to be a misleading indicator of the health of this market, as the recent huge surge in new instructions in the region will have skewed this median reading.

As we have previously asserted, a key driver for the contemporary UK property market is Buy-to-Let (BTL). The Private Rented Sector (PRS) has grown enormously over recent years and now accounts for around 20% of properties. Investment in the sector is still strong and demand (or lack of it) is sufficient to tip the balance of a regional property market in growth (or price depreciation). Property investors are looking for returns on their capital and that means rental yield. Hence, areas with good potential yields attract investment and this in turn drives up prices. This is exactly the pattern we have witnessed in the Midlands, the North West and now Yorkshire.

Yields in London, on the other hand, have become less attractive over recent years due to soaring house prices outpacing rents and increased taxation. Hence, investors are now looking further afield or to cash out.

Change in Typical Time On Market (Dec 2017 vs. Dec 2016)



Source: Home.co.uk Asking Price Index, December 2017

Regional Supply

Supply has ticked up in most regions but by far the largest increase in new instructions has been in the South West (+21%). The East and South East of England also show significant increases compared to Nov 2016 (both +16%). That these properties are suddenly entering the market at one of the worst times of the year for sales is unsettling. Moreover, these numerous vendors appear to be unconcerned about selling while pricing is at a seasonal low.

Such large increases in supply will serve to put further downward pressure on home prices. Whilst the vigorous markets, such as the West Midlands, have the demand to absorb this new inventory, London and the South East will find their property markets further hampered by a growing stock of seemingly overpriced properties. In view of this we expect prices to continue to slide in London throughout 2018.

By contrast, new instructions are down in Wales and this will serve to embolden vendors' pricing as we begin the New Year.

Trends for 2018

While a Buy-to-Let pullback will mostly affect London, the South East and the East of England, other regions will continue to prosper in 2018. Interest rates will stay relatively low (even allowing for a further hike by the Bank of England) and investment demand remains strong in the higher yielding areas of the UK.

We anticipate that the Midlands property markets will continue to attract significant

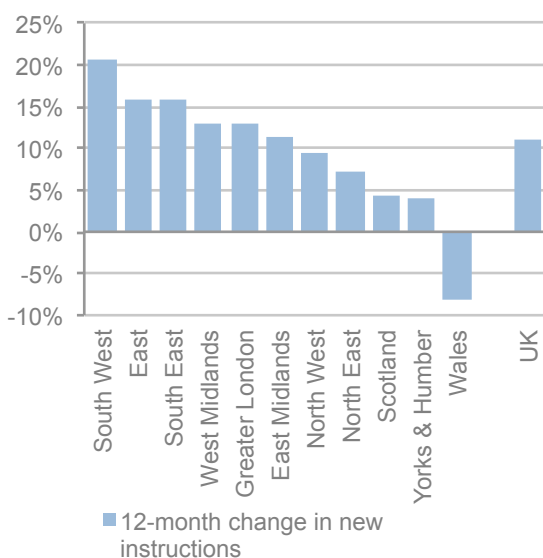
investment but price growth will slow down. Current trending suggests that Yorkshire and the North West will become the leading regions for price growth towards the end of 2018. Property remains relatively affordable in these regions and BTL yields are attractive.

Wales also looks set for further growth, especially in view of a low supply of property for sale and a healthy rental market, although marketing times remain high compared to the national average. In the North East, marketing times are also high but steadily reducing and this will allow for some steady price growth in 2018. However, the fundamental problem of high unemployment remains in both areas.

On the other hand, we are pessimistic about the chances of a recovery in the London market. Instead we expect that prices will continue to slide until wages (rising at around 3%) and/or rents increase. Owing to the dramatic reduction in available rental properties in the capital region (26% down compared to a year ago), rents will recover in the spring and rise strongly throughout the rest of the year. Depending on the rate of this anticipated rental growth, we may begin to see a possible recovery for London home prices in 2019 or 2020. London's fortunes will also be dependent upon the sterling exchange rate which is currently attractive to foreign investors and this will depend largely on the outcome of the Brexit negotiations.

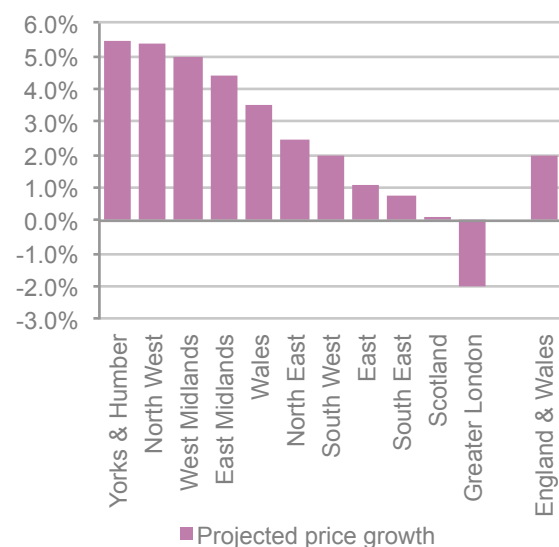
As for the East and South East of England, we anticipate sluggish sub-inflation growth as these markets continue their price-corrective phase due to lower demand and rising supply.

Supply Change by Region (Nov 2017 vs Nov 2016)



Source: Home.co.uk Asking Price Index, December 2017

Price growth predictions for 2018



Source: Home.co.uk Asking Price Index, December 2017



So is the Private Rented Sector a large enough segment of the market that an exodus from Buy-to-Let could topple the housing market?

Well, the sector has grown to around 20% of residential property ownership, so it's certainly significant. Moreover, should the average landlord decide to sell one of every four properties in their portfolio in 2018, there would be 1.4 million more properties for sale. Such a number would clearly swamp the market (there are 0.4 million on sale currently) and cause home prices to crash.

Of course, this is a vastly 'overcooked' scenario but it serves to make a point. Any sort of BTL exit will tip the market to the downside and the UK government should be monitoring the situation very carefully. Why? Because such a risk to the housing market would imperil the banks (again) and the wider national economic interest, especially post-Brexit.

Private landlords may be much maligned in the media but they actually provide a vast amount of rented housing, much of which fills the gap left behind by

underinvestment in social housing. Providing quality accommodation is a very capital-intensive

investment and prone to risk. Sure, there are rogue, irresponsible and profiteering landlords but they are very much in the minority. Clearly, the biggest blindsided risk to the PRS has turned out to be from government taxation and a raft of regulatory red tape: vote-winning rhetoric translated into potentially lethal policy-making and invoking the Law of Unintended Consequences.

Lethal to the housing market because if landlords are forced to sell up, ALL property prices will be driven down, leaving the first-time home owner in negative equity and mortgage liquidity hard to find for the first-time buyer. Surely not something the government would wish upon the housing market in 2018.

Hopefully sense will prevail and the PRS will garner greater support going forward. For now, we would like to send our entire readership our Seasons Greetings and wish you all a Prosperous New Year.

Doug Shephard
Director at Home.co.uk



UK Asking Prices

Scotland	Dec-17
Average Asking Price	£181,464
Monthly % change	-0.5%
Annual % change	1.1%

North East	Dec-17
Average Asking Price	£155,737
Monthly % change	-0.3%
Annual % change	1.2%

Yorks & The Humber	Dec-17
Average Asking Price	£187,898
Monthly % change	-0.6%
Annual % change	4.7%

North West	Dec-17
Average Asking Price	£194,304
Monthly % change	-0.7%
Annual % change	4.4%

West Midlands	Dec-17
Average Asking Price	£237,860
Monthly % change	-0.6%
Annual % change	6.0%

East Midlands	Dec-17
Average Asking Price	£225,043
Monthly % change	-0.3%
Annual % change	6.4%

East	Dec-17
Average Asking Price	£356,294
Monthly % change	-1.2%
Annual % change	3.6%

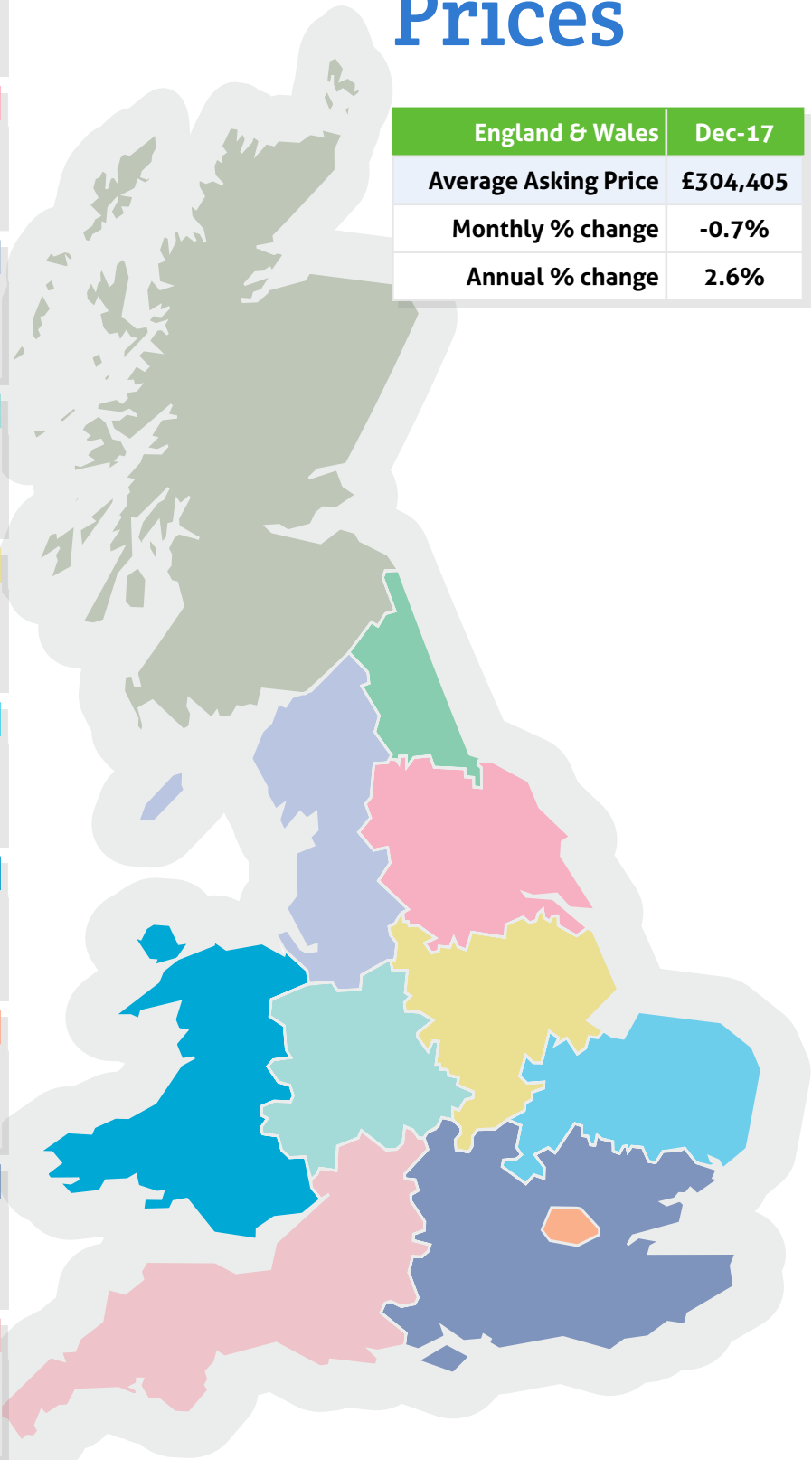
Wales	Dec-17
Average Asking Price	£191,885
Monthly % change	0.3%
Annual % change	3.7%

Greater London	Dec-17
Average Asking Price	£531,503
Monthly % change	-0.3%
Annual % change	-1.0%

South East	Dec-17
Average Asking Price	£400,390
Monthly % change	-1.4%
Annual % change	2.3%

South West	Dec-17
Average Asking Price	£320,016
Monthly % change	-0.9%
Annual % change	3.8%

England & Wales	Dec-17
Average Asking Price	£304,405
Monthly % change	-0.7%
Annual % change	2.6%



Source: Home.co.uk Asking Price Index, December 2017

UK Time on Market

Scotland	Dec-17
Average Time on Market	244
Typical Time on Market	121
Annual % supply change	4%

North East	Dec-17
Average Time on Market	239
Typical Time on Market	128
Annual % supply change	7%

Yorks & The Humber	Dec-17
Average Time on Market	181
Typical Time on Market	103
Annual % supply change	4%

North West	Dec-17
Average Time on Market	181
Typical Time on Market	105
Annual % supply change	9%

West Midlands	Dec-17
Average Time on Market	144
Typical Time on Market	81
Annual % supply change	13%

East Midlands	Dec-17
Average Time on Market	137
Typical Time on Market	80
Annual % supply change	11%

East	Dec-17
Average Time on Market	118
Typical Time on Market	74
Annual % supply change	16%

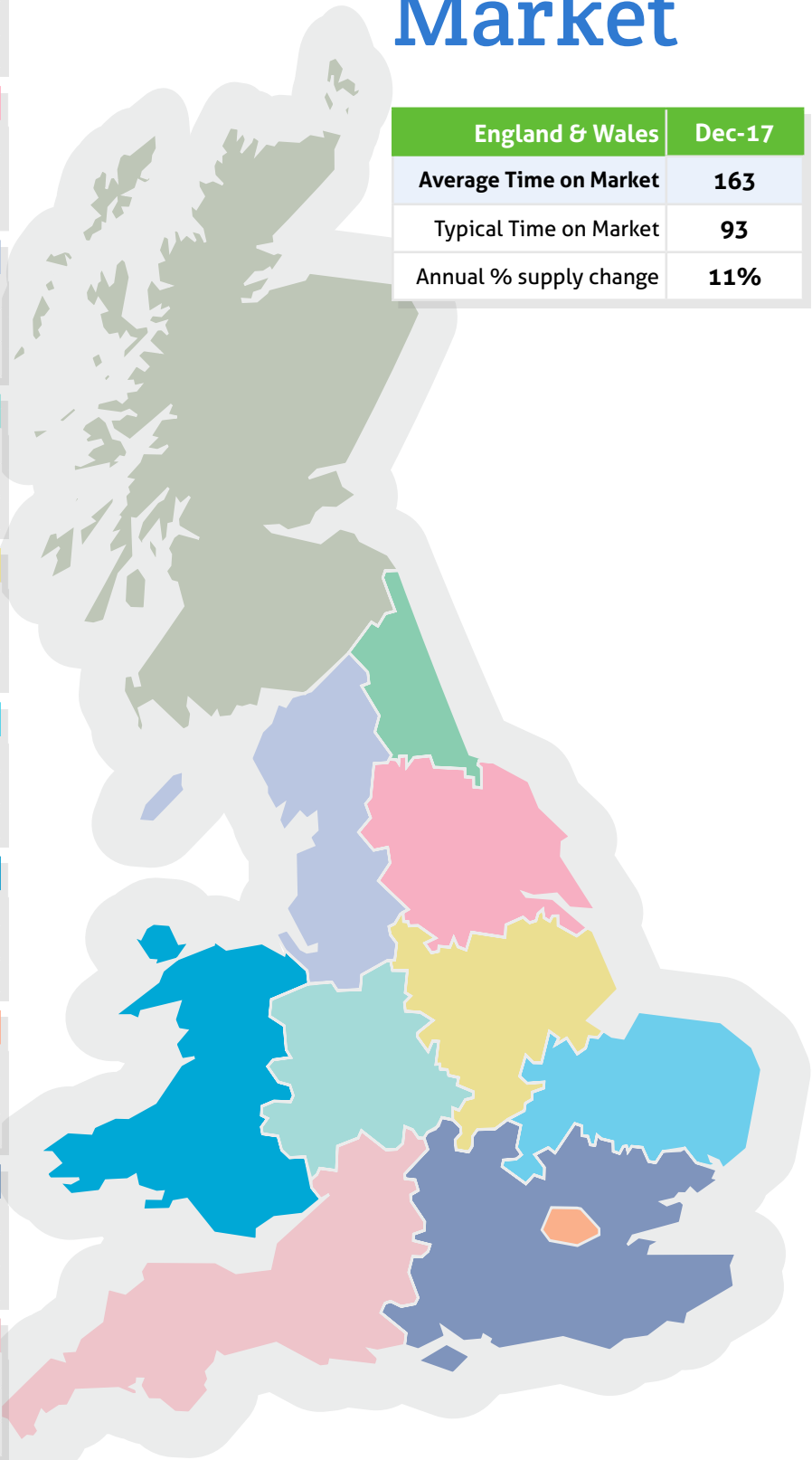
Wales	Dec-17
Average Time on Market	240
Typical Time on Market	135
Annual % supply change	-8%

Greater London	Dec-17
Average Time on Market	146
Typical Time on Market	87
Annual % supply change	13%

South East	Dec-17
Average Time on Market	122
Typical Time on Market	76
Annual % supply change	16%

South West	Dec-17
Average Time on Market	145
Typical Time on Market	86
Annual % supply change	21%

England & Wales	Dec-17
Average Time on Market	163
Typical Time on Market	93
Annual % supply change	11%



Source: Home.co.uk Asking Price Index, December 2017. Note: Average = Mean (days), Typical = Median (days)

About the Home.co.uk Asking Price Index

- The Home.co.uk Asking Price Index was originally devised in association with Calnea Analytics: the statistical consultancy responsible for the production of the official Land Registry House Price Index.
- The Home.co.uk Asking Price Index (HAPI) is calculated using a weighting system based on the DCLG (formerly ODPM) Survey of English Housing Stock (published March 2006). This allows for enhanced regional delineation and conforms to the current geographical orthodoxy as set out by the Office of National Statistics.
- The HAPI is the UK's only independent forward market indicator. The published figures reflect current and historic confidence of buyers and sellers of UK property on the open market. The HAPI is calculated every month using around 500,000 UK property house prices found in the Home.co.uk Property Search Index. This figure represents the majority of the property for sale on the open market in the UK at any given time.
- The HAPI is based on asking price data which means the index can provide insights into price movements around 5 months ahead of mortgage completion and actual sales data – thus making it the most forward looking of all house price indices. Properties above £1m and below £20k are excluded from the calculations.

Contact details and further information

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- To learn more about Home.co.uk please visit:
<http://www.home.co.uk/company/about.htm>
- For further details on the methodology used in the calculation of the HAPI please visit:
http://www.home.co.uk/asking_price_index/Mix-Adj_Methodology.pdf
- To learn more about Home.co.uk data services please visit:
<http://www.home.co.uk/company/data/>

Future release dates:

- Friday 12th January 2018
- Tuesday 13th February
- Tuesday 13th March