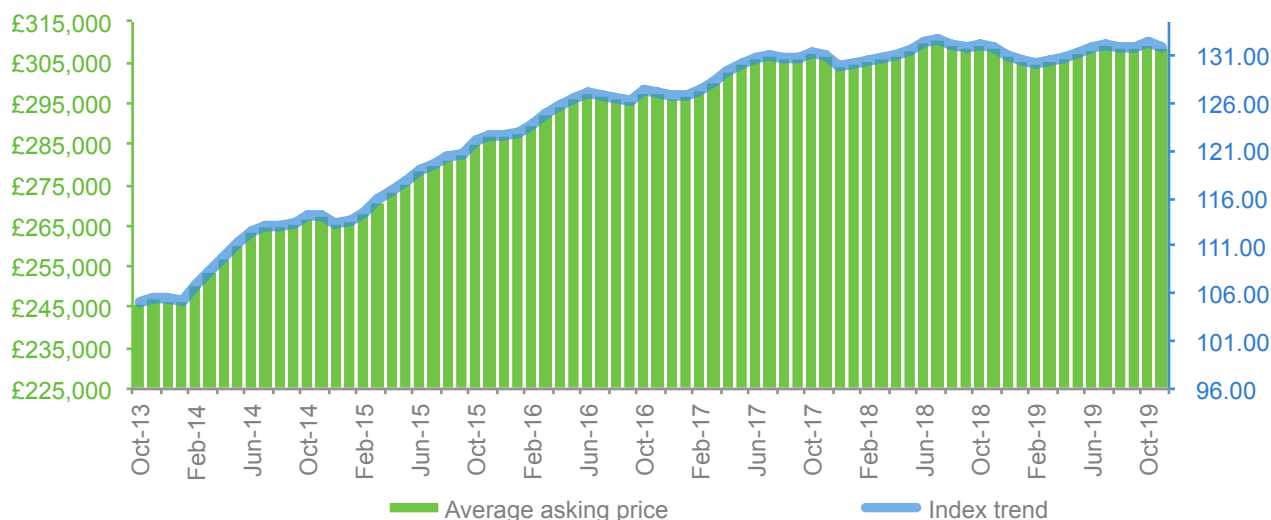


Property Supply Drops in Both Sales and Rentals

Headlines

- The supply of new sales instructions is down 10% across the UK as potential vendors fail to commit amidst Brexit malaise (only the North West and Yorkshire have been spared the drought thus far).
- Worst hit is London where stock levels have crashed (-24% year-on-year) and new instructions are down a massive 30% (Oct 19 vs. Oct 18).
- The current sales supply shortage serves to support prices, with some potential vendors opting to rent their properties in the vibrant lettings market rather than sell.
- However, demand is outstripping supply in the rental sector as the supply of newly available rental property falls across the UK (down 14% year-on-year).
- The London and Welsh lettings markets are worst hit by the supply drop (both down 27% year-on-year).
- Overall, sales prices slipped 0.3% during the last month across England and Wales (in line with seasonal expectations)
- but remain unchanged year-on-year.
- The total sales stock level continues to shrink across England and Wales: down by a further 8.0% year-on-year.
- Typical Time on Market for England and Wales is seven days longer than in November 2018 (the longest such November figure since 2014), perhaps indicating a rise in buyer hesitancy (owing to Brexit), but also hints at a distinctly less desirable offering of properties for sale (especially in London).
- At the regional level, Typical Time on Market rises indicate the worst post-boom regional slowdowns continue to be in the East of England (+18%) and the East Midlands (+14% year-on-year).
- East of England remains the UK's worst-performing region with prices continuing an extended correction; the average asking price is down by 2.2% over the last twelve months.

Home Asking Price Trend for England & Wales



Source: Home.co.uk Asking Price Index, November 2019, Indexed to May 2004 (Value =100).

Summary

Extraordinary circumstances produce extraordinary market behaviour. Ultra-low mortgage rates combined with a vibrant rental market means that, for many potential vendors, it makes sense not to sell. Moreover, the prevailing Brexit uncertainty creates extra caution among wannabe buyers and sellers, especially in London, hampering even further the supply of sales properties and increasing rental demand. Sales supply is down in most regions but, quite remarkably, so too is the supply of rental properties.

Demand for the limited number of rental properties is pushing up rents across much of Greater London, and our data shows these rent hikes have now spread out into the South East. Yields are rising and, as we predicted, a return to significant growth in average home prices in the capital looks inevitable next year. As rents fundamentally underpin home values, we also present analysis of rental supply both at the national and regional level this month.

Across the UK, home prices are holding remarkably steady overall despite Brexit fears, as the supply drop serves to further support values (and limit the impact of price corrections in post-boom regions like East of England). Of course, the regional level presents a more mixed picture. Modest but positive growth is still present (albeit waning) in the recently booming northern and western regions (especially Wales) whilst, by contrast, the East of England remains in the grip of a price correction. The South East has also yet to exit a period of negative growth but rising rents and limited sales supply both indicate that this region will soon follow London on the road to recovery.

Meanwhile, the East and West Midlands property markets are heading into a period of much slower growth. Price corrections look a distinct possibility next year in these regions, although should supply continue to fall, as per London, the damage to home values will be attenuated.

For the time being it's go-slow even in the UK's best-performing areas. Pointedly, Wales, the top performer over the last year, now shows growth that is no longer outpacing monetary inflation.

Annualised price growth across England and Wales currently stands at +0.0%; in November 2018, the annualised rate of increase of home prices was 0.6%.

Regional Round-up

As we head towards the end of 2019, it is clear that the regional markets have evolved significantly over the twelve months according to where they are positioned in the property cycle. National average figures mask the stark cyclical disparity of the economics of buying and selling property across the UK.

Wales, atop the growth cycle and the shining star of the UK property market in 2018/19, still shows the most annualised growth (3.1%) of all the regions, but this figure has reduced gradually over the last twelve months (from 7.4%) to merely the level of inflation (RPI ex. housing). This, of course, is a sure sign that the days of strong price rises in the principality are over for the near term. Despite this, much momentum remains – Typical Time on Market of unsold property is unchanged from November 2018 – and supply is 4% down year-on-year, which will support prices going forward.

The next best region for annualised growth is Yorkshire (2.8%), followed by the North West and the East Midlands (both 2.2%). The key market driver in these regions has been buy-to-let investment, attracted by substantially better yields than in London and the overbought South East and East of England. Fortunately for Yorkshire and the other northern regions, growth has been relatively moderate over recent years and prices are not suffering the painful corrections experienced by London and the Home Counties. The data suggests that the risk of a significant price correction in either of these regions looks very low, except for some frothy buy-to-let locations in Manchester and Leeds. Buoyant pricing and market confidence in the northern regions and Wales have resulted in little or no reduction of supply as vendors remain relatively complacent.

By way of contrast, an acute drop in sales supply, born of Brexit worries and a healthy letting market, is affecting all other regions. The East, South East and South West all show double-figure percentage drops year-on-year, but by far the worst is London with a massive shortfall of -30% (change in number of new instructions Oct 19 vs. Oct 18). All such reductions in supply means less competition and much reduced choice for the buyer and this will bolster the confidence of both vendors and their agents when setting the asking price.

Indeed, the recovery of both Greater London and the South East is being advanced more swiftly thanks to the dearth of property for sale. The severely limited stock available will soon be

overwhelmed by pent-up demand, accelerating the transition back to the price growth phase of their respective property cycles.

The East of England is the UK's worst-performing region. The average mix-adjusted price has fallen 2.2% over the course of the last 12 months. We expect this price-corrective phase to continue into most of 2020 albeit the significant reduction in supply (-13%) will help attenuate losses in capital values, thereby sparing most first-time buyers from negative equity.

The North East shows growth of 2.1% since November 2018, which is significant for this beleaguered regional property market wherein prices have grown a mere 2.9% over the last ten years. Supply is down just 2% year-on-year and this may not be enough to sustain significant growth.

Scottish asking prices slipped 0.3% in line with seasonal expectations and the mix-adjusted average price is 1.4% higher than a year ago. Supply is down only 3% north of the border. The other side of the coin, as it were, is the rental market and this month we take a look at the relative supply changes overall and in the regions (see chart).

The overall supply drop in rental properties mirrors that of the sales market but the regional details differ markedly. Increased supply is often a good indicator of recent buy-to-let activity and Yorkshire and the West Midlands are both in positive territory. Rents in these regions look set to stay stable in the near term as supply remains ample. However, it is the sudden drops in newly available rental property across the rest of the English regions and in Wales and Scotland that give cause for concern.

The supply of rental properties in Wales and London has crashed. The North East and South

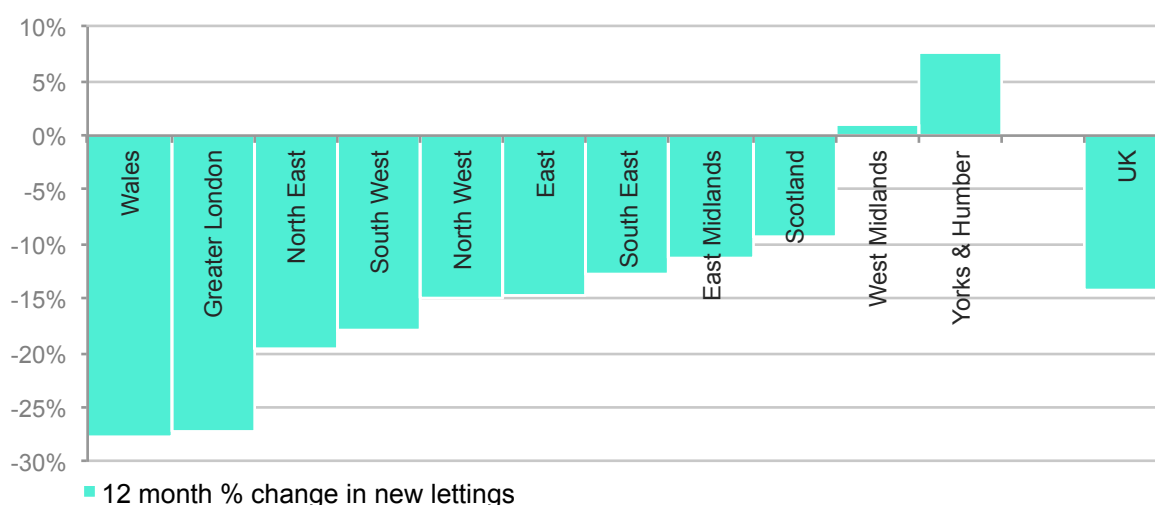
West are not much better. These figures are likely the result of a dramatic reduction in buy-to-let investment activity brought on by several factors.

Firstly, higher prices, and therefore lower yields, serve to deter investment. London's sales market boom ended with a landlord exodus. Many investors quit the capital region and sought better yields further north and west. In fact, London's dramatic fall in supply has been an apparent trend for over two years, with the overall supply having dropped from around 23,000 rental properties per month in November 2017 to just 14,000 per month in November 2019. Little wonder that rents are beginning to soar in the capital. The same story is evident in most of the overbought regions (Wales now falls into that category), where properties suitable for letting are no longer to be found at a reasonable price.

Secondly, and possibly more influential, is the increased red tape and taxation heaped onto British landlords by both central and local government. Providing good quality accommodation to rent is a costly business and the sums simply must add up. Private landlords provide the vast majority of the UK's rental homes and it was naive of the government to believe there would be no negative consequences. 'Levelling the playing field' was PM Cameron's populist slogan but the reality turns out to be rent hikes, less choice and even less chance of the average renter being able to save for a deposit to get on the property ladder.

Moreover, for many, especially young professionals, rental accommodation is a practical necessity in order to remain flexible and follow their chosen career. For these people, life just got a whole lot more difficult.

The Shrinking Rental Market, (October 2019 vs. October 2018)



Source: Home.co.uk Asking Price Index, November 2019



Sales prices remain stable but the market is shrinking.

So too is the rental market as supply drops, but rent hikes are with us for the foreseeable future as tenants are obliged to compete for the limited number of available rental properties. Rents across the UK are rising at twice the rate of inflation (RPI ex. housing) and it's much worse in parts of London.

Don't expect conversations like this to be a rare occurrence: "We had to offer more than the asking rent but at least we got a place to live." Competition is fierce and rents can only go one way.

Of course, with interest rates remaining so low for so long, we are still in uncharted territory, economically speaking. Cheap borrowed money adds a kind of Alice in Wonderland aspect to the economy around us: companies are buying back their own shares; money sitting in a bank account loses buying power (pity the savers); and property repossessions are

nearly a thing of the past.

Yes, almost no one is forced to sell a property. Even when money matters get tricky, refinancing is available very cheaply.

Of course, rapidly rising rents are going to attract increasing numbers of investors, especially from over the pond. In an excellent piece of research recently released by Hamptons International, it was revealed that during the last year the 'number of homes let by overseas based landlords [is] 18 per cent, up from 10 per cent a year ago.' The proportion of North American landlords has increased by 14% in just one year, thanks to the relative strength of the dollar.

Expect more of the same in 2020 and the return of domestic investors into the London market as yields soar. Home prices will follow and then starts the next property boom...



Doug Shephard
Director at Home.co.uk



UK Asking Prices

Scotland	Nov-19
Average Asking Price	£208,895
Monthly % change	0.0%
Annual % change	2.2%

North East	Nov-19
Average Asking Price	£160,065
Monthly % change	-0.4%
Annual % change	2.1%

Yorks & The Humber	Nov-19
Average Asking Price	£203,371
Monthly % change	-0.1%
Annual % change	2.8%

North West	Nov-19
Average Asking Price	£208,895
Monthly % change	0.0%
Annual % change	2.2%

West Midlands	Nov-19
Average Asking Price	£254,718
Monthly % change	-0.5%
Annual % change	1.5%

East Midlands	Nov-19
Average Asking Price	£349,622
Monthly % change	-0.5%
Annual % change	-2.2%

East	Nov-19
Average Asking Price	£349,622
Monthly % change	-0.5%
Annual % change	-2.2%

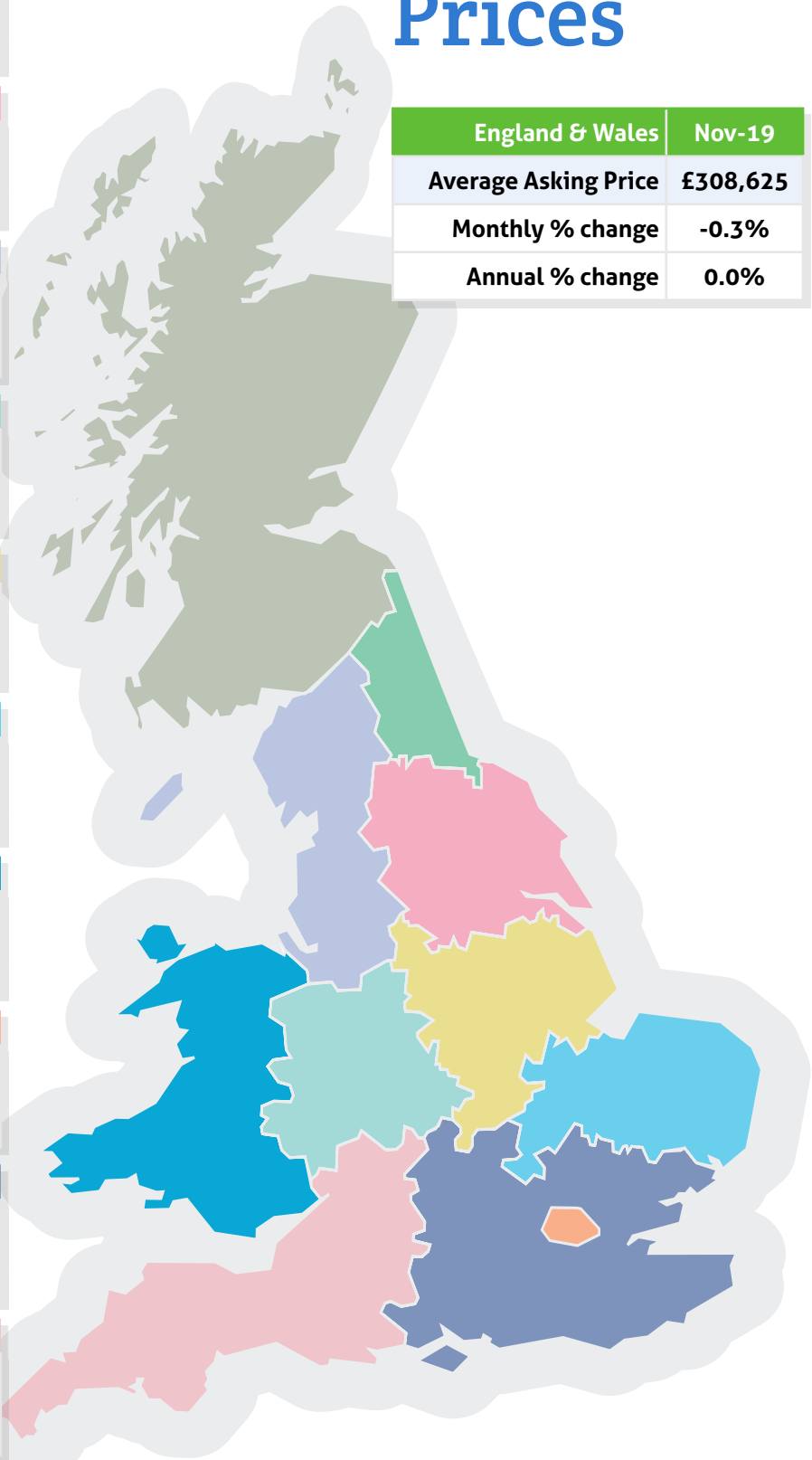
Wales	Nov-19
Average Asking Price	£393,994
Monthly % change	-0.6%
Annual % change	-1.5%

Greater London	Nov-19
Average Asking Price	£516,765
Monthly % change	0.0%
Annual % change	-0.7%

South East	Nov-19
Average Asking Price	£393,994
Monthly % change	-0.6%
Annual % change	-1.5%

South West	Nov-19
Average Asking Price	£393,994
Monthly % change	-0.6%
Annual % change	-1.5%

England & Wales	Nov-19
Average Asking Price	£308,625
Monthly % change	-0.3%
Annual % change	0.0%



Source: Home.co.uk Asking Price Index, November 2019

UK Time on Market

Scotland	Nov-19
Average Time on Market	225
Typical Time on Market	109
Annual % supply change	-3%

North East	Nov-19
Average Time on Market	232
Typical Time on Market	121
Annual % supply change	-2%

Yorks & The Humber	Nov-19
Average Time on Market	171
Typical Time on Market	93
Annual % supply change	0%

North West	Nov-19
Average Time on Market	182
Typical Time on Market	103
Annual % supply change	1%

West Midlands	Nov-19
Average Time on Market	155
Typical Time on Market	89
Annual % supply change	-2%

East Midlands	Nov-19
Average Time on Market	155
Typical Time on Market	93
Annual % supply change	-13%

East	Nov-19
Average Time on Market	155
Typical Time on Market	93
Annual % supply change	-13%

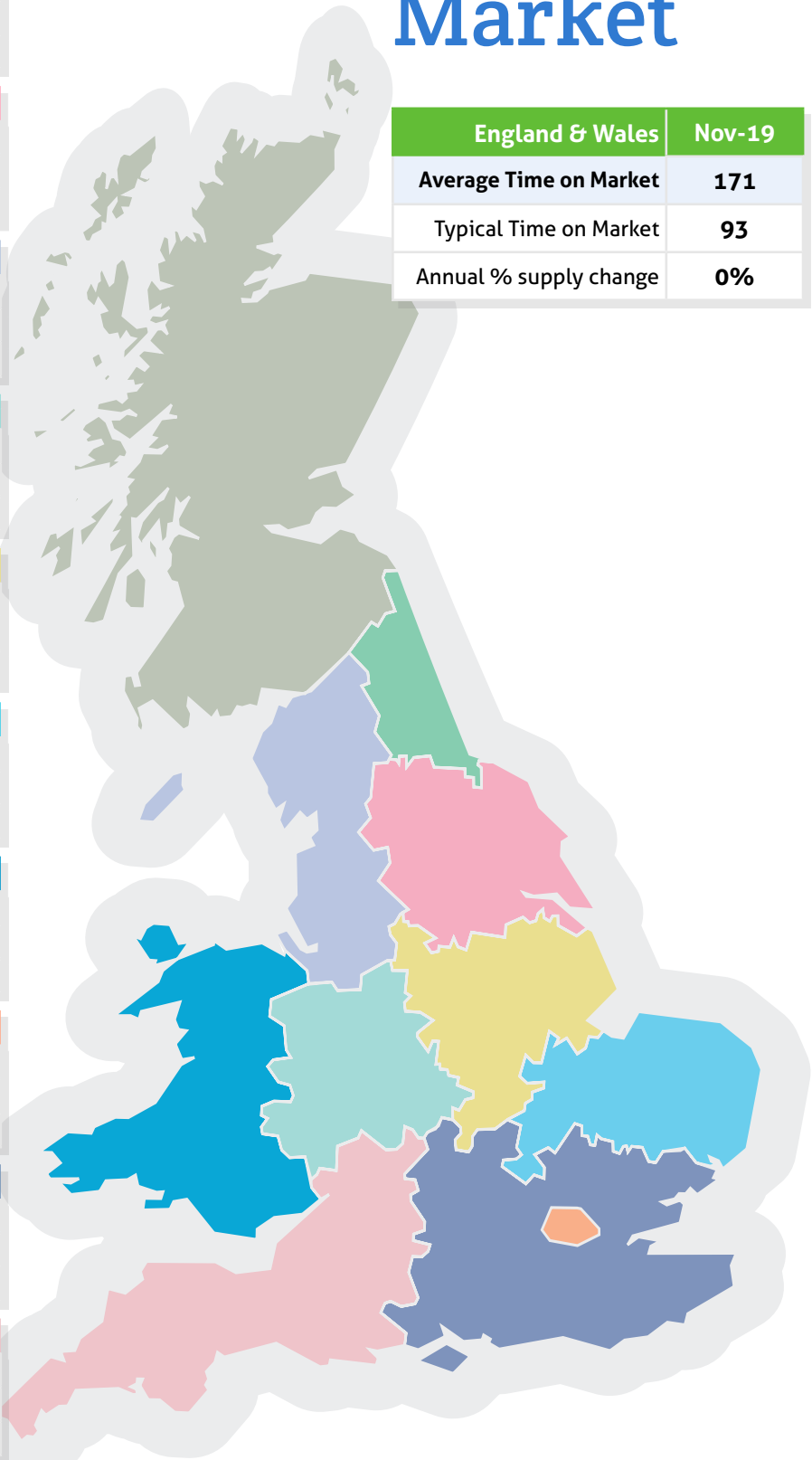
Wales	Nov-19
Average Time on Market	159
Typical Time on Market	93
Annual % supply change	-13%

Greater London	Nov-19
Average Time on Market	194
Typical Time on Market	106
Annual % supply change	-30%

South East	Nov-19
Average Time on Market	159
Typical Time on Market	93
Annual % supply change	-13%

South West	Nov-19
Average Time on Market	159
Typical Time on Market	93
Annual % supply change	-13%

England & Wales	Nov-19
Average Time on Market	171
Typical Time on Market	93
Annual % supply change	0%



Source: Home.co.uk Asking Price Index, November 2019. 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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<https://www.home.co.uk/company/about.htm>
- For further details on the methodology used in the calculation of the HAPI please visit:
https://www.home.co.uk/asking_price_index/Mix-Adj_Methodology.pdf
- To learn more about Home.co.uk data services please visit:
<https://www.home.co.uk/company/data/>

Future release dates:

- Thursday 12th December
- Tuesday 14th January
- Wednesday 12th February