



BREXIT BLUES WHAT'S NEXT?

October 2019 Trend Update

The property market is going through turbulent times. With Brexit shaking things up, and no clear forward path, many are asking...which way is the wind blowing?

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1. UK current economic health

- In April 2016, the pound against the dollar was around \$1.60 per £1. Now it is \$1.20 per £1 – a fall of 25%.
- Unemployment is rising [now further fuelled by 9000 job losses due to the collapse of Thomas Cook].
- Global economy is slowing and trade tensions are rising [America/China trade war is affecting UK & Europe too].
- In the case of a No-Deal, the Bank of England expects currency to weaken, which is likely to drive up import prices and inflation.
- Financial markets expectations are consistent with an interest rate cut towards the end of the year.

2. Housing market – sales

The housing market remains downbeat, with uncertainty about the economic outlook on the back of the never-ending Brexit negotiations.

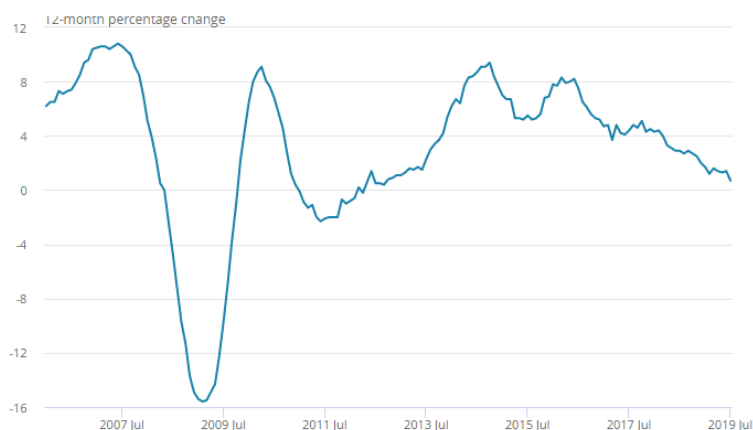
The August 2019 RICS Residential Market Survey results point to a renewed deterioration in sales expectations over the near term, with survey respondents predicting a further decline in activity over the three months to come.

Brexit uncertainty is unsurprisingly a significant factor causing the hesitation for both buyers and sellers.

In the UK, both residential and commercial property sales volumes have been [reduced by Brexit uncertainty since June 2016](#). While prices are still rising on average across the UK, the pace of growth has slowed. Average house prices in the UK increased by 1.2% in the year to May 2019, down from 1.5% in April 2019, the latest ONS figures show.

Figure 1: House price growth in the UK has generally slowed since mid 2016

Annual house price rates of change, UK all dwellings, January 2006 to July 2019



Source: HM Land Registry, Registers of Scotland, Land and Property Services Northern Ireland, Office for National Statistics – UK House Price Index

UK house prices could fall by more than 5 per cent if Britain crashes out of the EU without an agreement on the 31st October 2019. A no-deal Brexit will see households' finances more under strain, with any rises in earnings likely to be more subdued and higher inflation depressing their purchasing power even further.

Figure 2: Average UK house prices peaked at £233,000 in July 2019

Average UK house price, January 2005 to July 2019

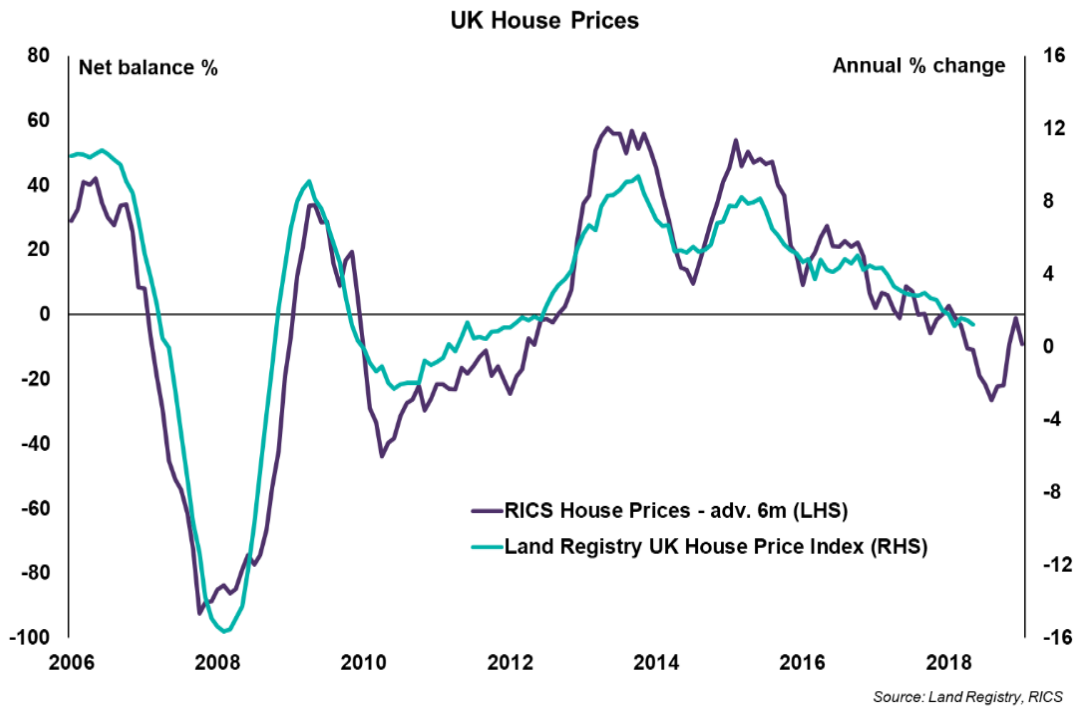


Source: HM Land Registry, Registers of Scotland, Land and Property Services Northern Ireland, Office for National Statistics - UK House Price Index

The impact on the housing market of the delayed return to greater economic and political certainty is becoming increasingly clear. Throughout June and July, the reduction in housing transaction numbers gained pace again after a period of slower falls in April and May. This resulted in the weakest June since 2013, and the first June to see fewer transactions than the preceding May since 2008.

Uncertainty has only increased since then and will continue to shape the market until the Brexit impasse is resolved. The announcement of the extension of Help to Buy, albeit in a narrower format, should continue to underpin the new build market in the near term.

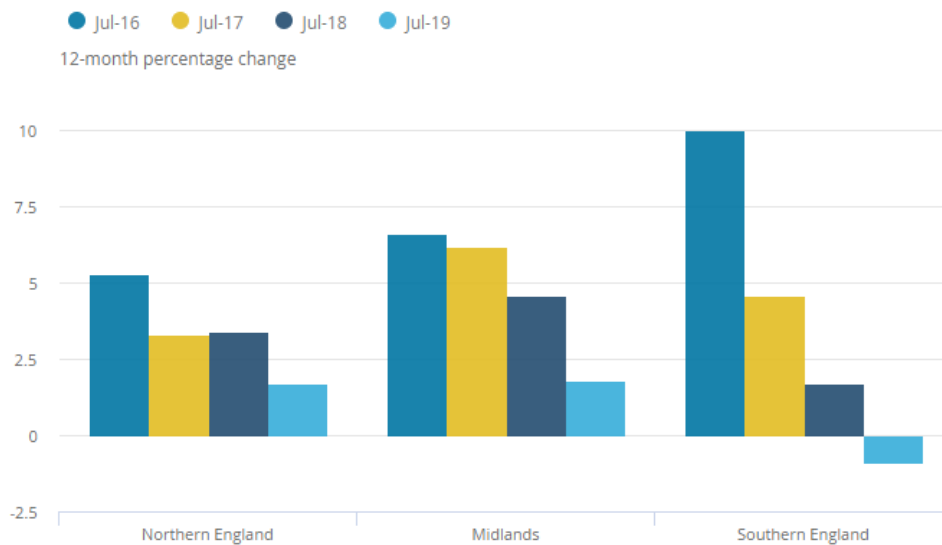
In the sales market, the headline price series is pointing to a further moderation in national house price inflation



The UK Land Registry estimates that house prices across London have been falling for almost 2 years.

Figure 4: England slowdown driven by the south

Annual house price rates of change, northern England, Midlands and southern England, July 2016, July 2017, July 2018 and July 2019

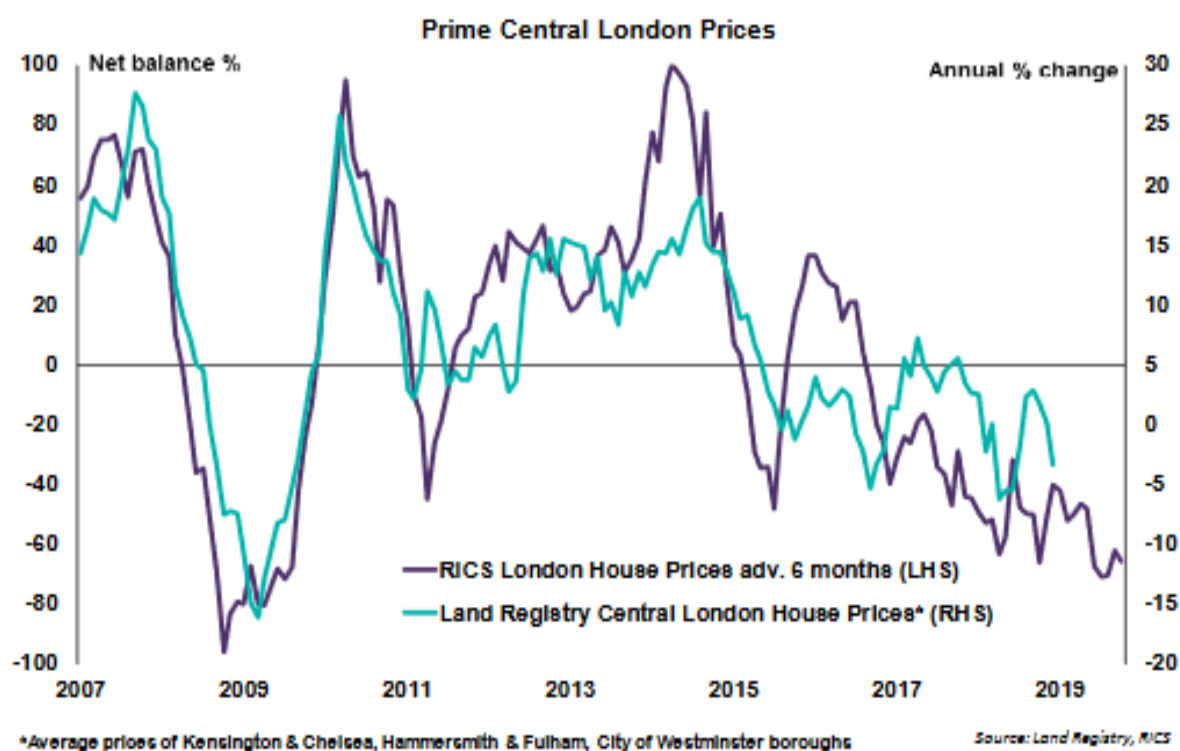


Source: HM Land Registry, Office for National Statistics – UK House Price Index

Looking at the price trends across London boroughs, this appears to be stemming from sharp price declines in prime Central London areas like Westminster and Kensington and Chelsea.

Up to recently, outer London was holding steady but now the price momentum also appears to be falling in areas like Hackney and Harrow.

26. Prices in prime boroughs look likely to drop further

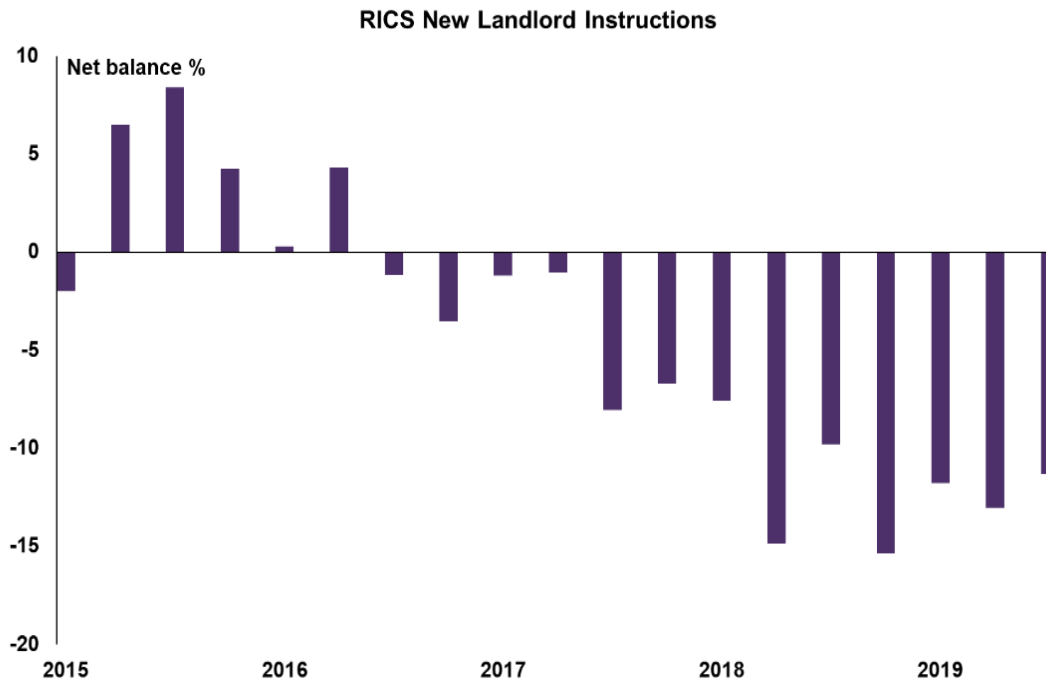


In the lettings market, the August results show tenant demand increased for an eighth month in succession.

Set against this, landlord instructions remain in decline, an ongoing trend stretching all the way back to 2016.

Given the consistent imbalance between rising demand and falling supply, rents are seen being squeezed higher over the next three months

Landlord instructions are continuing to decline on the back of changes in the tax treatment of investment properties



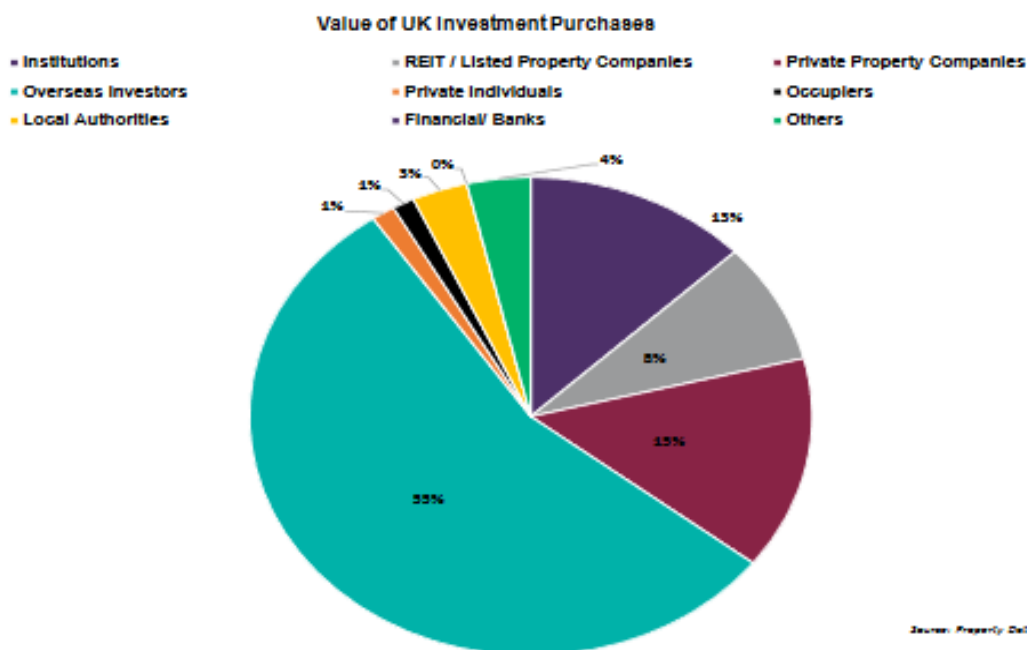
3. Housing Market – Overseas Investors

The Property Market, particularly housing in prime Central London, between 2010 & 2016 was heavily dominated by Overseas Investors.

Despite Brexit concerns, Property Data estimates that net investment into the UK by overseas investors reached more than £3 billion in Q1 2019, up from £1.1 billion in the previous quarter.

Consequently, overseas investment made up more than half of the total value of investment purchases in Q1 2019.

17. Overseas investment in the UK is still strong

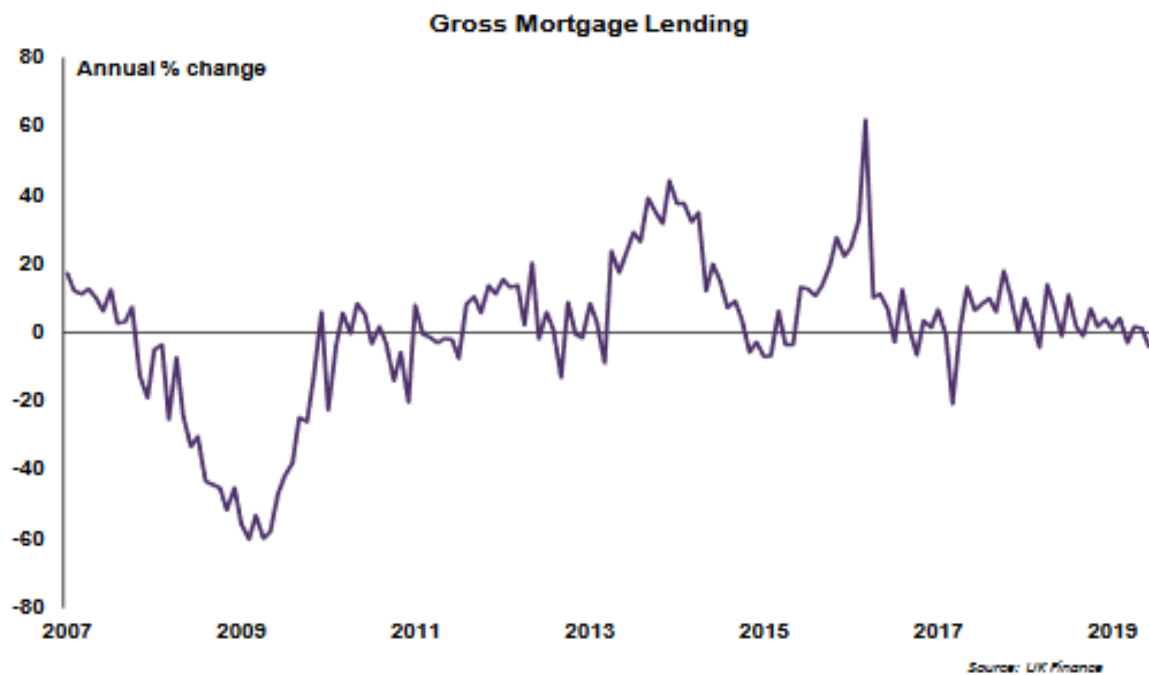


4. Mortgage Lending

The trend in mortgage approvals appears to be stable for now with the annual change in gross mortgage lending estimated by UK Finance remaining broadly flat.

With Brexit uncertainty looking likely to persist in the coming months and buyer appetite still soft, it's probable lending activity will weaken slightly in the coming months.

8. A rebound in mortgage lending look unlikely

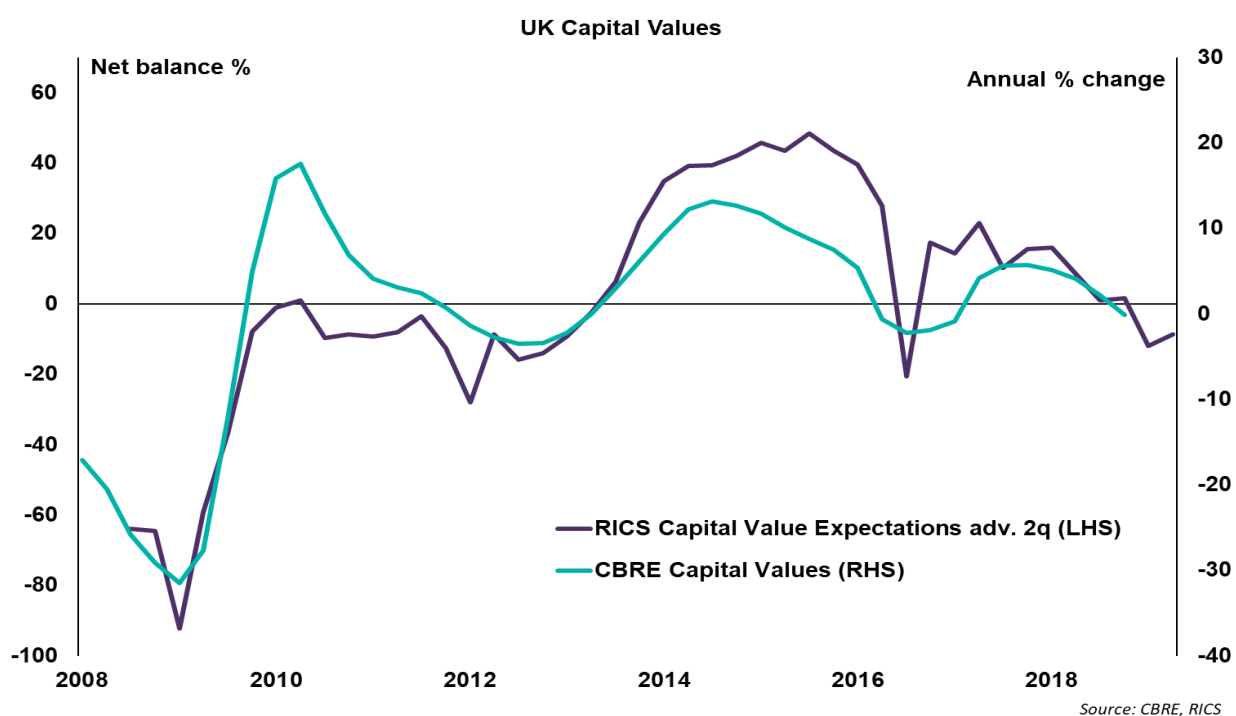


5. Commercial Market

The commercial market, including retail properties, office space and warehousing, continues to decline “reflecting continued Brexit-related uncertainty”.

It comes at a time when the retail sector faces significant changes to its business model.

The move to online purchases has diverted shoppers away from local high streets, resulting in stream of store closures.



6. Retail

The retail sector continues to display firmly negative sentiment in the face of the structural shift towards increased online spending.

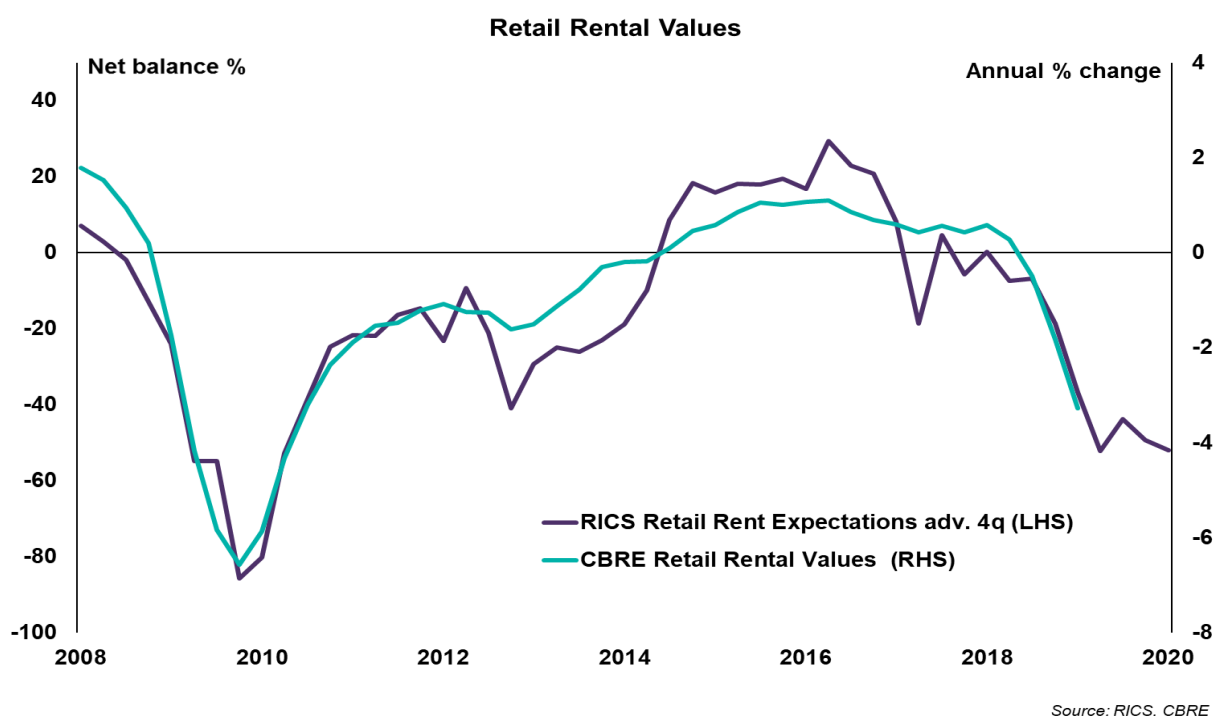
The retail portion of the UK commercial property market is continuing to struggle with rental values declining at the fastest pace since the financial crisis.

The take-up of retail sites has diminished sharply over the last two years.

Rental expectations for the retail sector (both prime and secondary) remain comfortably negative within all areas. Prime and secondary retail rents have in the last two quarters fallen by around 3.5% and 7% respectively

Expectations are pointing to a further fall in both prime and secondary retail rents at the twelve month and three-year time horizon

Meanwhile, the picture across the retail sector is still downbeat.

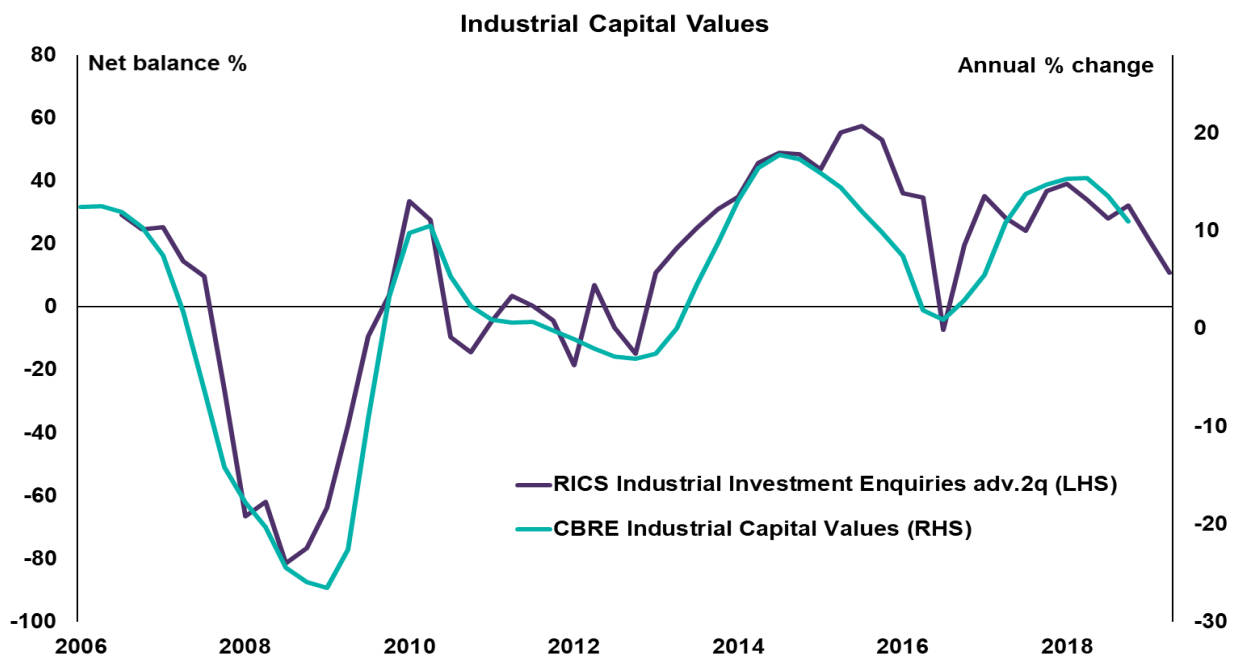


7. Industrial

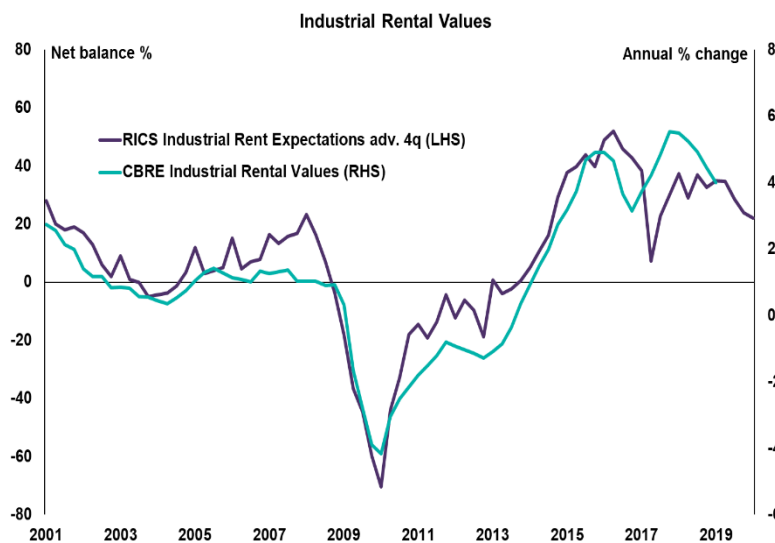
The industrial market remains particularly firm with solid demand growth being reported across the sector, evident across all parts of the UK

The regional outlook remains very similar to that at the national level, with both prime and industrial sector rents expected to rise right across the UK.

But the outlook for the industrial market remains solid.



Source: CBRE, RICS



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Tenant enquiries are continuing to rise.

Regarding the next twelve months, prime industrial rents are likely to rise by around 3%, with expectations for secondary standing more modest at around 1.5%.

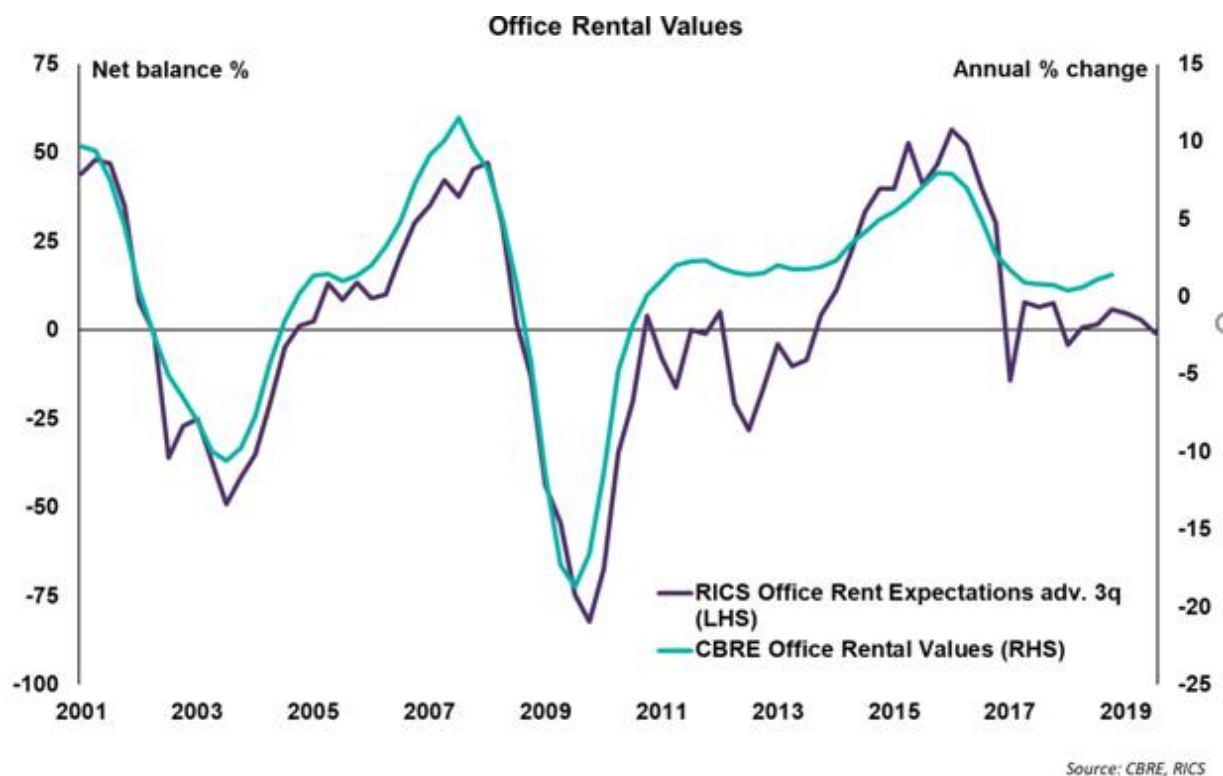
8. Offices

For offices, there remains a clear split between prime and secondary, with the former expected to deliver steady rental growth while projections are marginally negative across the latter.

For prime offices, approximately 2% rental growth is expected, while the outlook remains flat to marginally negative for secondary office rents.

In London, the divide between prime and secondary offices is slightly wider than at the national level, with expectations for secondary slipping into negative.

In the Regions, the secondary office market displays a flat to marginally positive.



9. Where to next?

Advice – Hang On

Investors are a good gauge of the overall health of the market, particularly London.

If there was any cause for concern about the future property market, investors would be upping sticks and moving elsewhere.

Once Brexit Terms are agreed, the Market is expected to steady and gain momentum.

Table sources

Figures 1, 2 and 4 – Office for National Statistics UK House Price Index July 2019

<https://www.ons.gov.uk/economy/inflationandpriceindices/bulletins/housepriceindex/july2019>

All other from the RICS Quarterly Chart Book Q3 2019 – sign up here for all the updates

<https://tinyurl.com/y5f5s6jb>



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