



Market Insight

April 2017



VANET
part of

JOHN D WOOD & CO

London, Country & International Property

You can't always get what you want...

Asking to achieved splits the country

Deciding on the asking price for a home is fraught with difficulties. Dealing with the expectations of the seller as well as the valuations of competing agents vying for instructions, make it sensitive work. But it is even more difficult when the market is upset by changes in regulation and/or at a turning point.

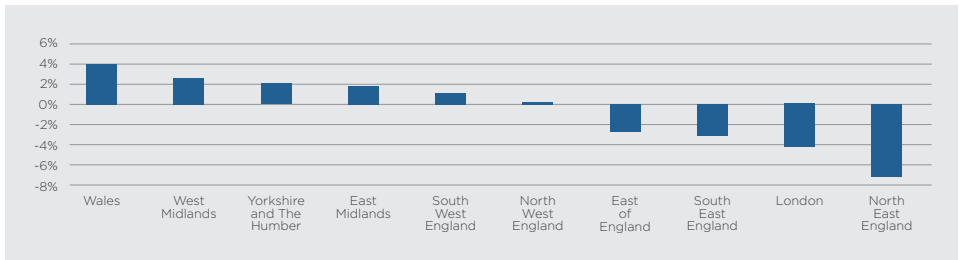
Measuring the proportion of sales that are sold above the asking price is a good gauge of the start of a change in the markets appetite for rising prices. But it's not a uniform thing. Regional markets move differently. The North East stands out as its economic and housing market circumstances are less robust. Price growth in the South has raced away to be 64% higher than five years ago, while in the North East prices

are just 9% higher than at the end of 2011. But in the South of England, the fall in the proportion of homes sold for more than the asking price shows the increasing resistance to the pace of price growth.

That resistance is also more apparent among the more expensive homes, especially above £1m. Much of that is a symptom of the change in stamp duty in 2014 causing buyers to negotiate the extra tax into a reduced offer price. Although, weakening expectations of capital growth after the huge previous rises adds to the mix.

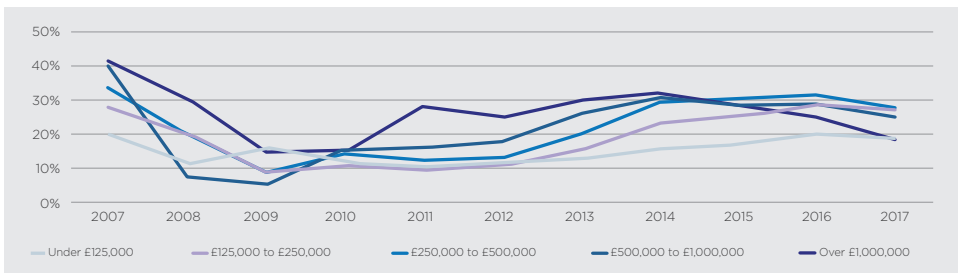
Change in proportion sold above asking price 2016-2017

Source: Countrywide Research



Proportion of homes sold over the initial asking price

Source: Countrywide Research



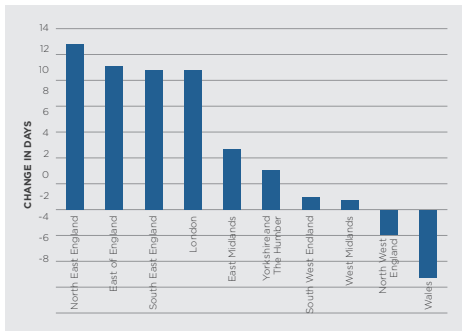
Have a little patience...

The time on the market before sale is another indication of changes in the markets tolerance to rising prices. And with low levels of stock, those not in a hurry have time to wait for the right offer. But while low stock levels can support prices, it won't mean they will always rise as quickly. Reflecting the same phenomenon of more resistance to higher prices in the South - and the North East - time to sell has been increasing too.

And you'll get what you need

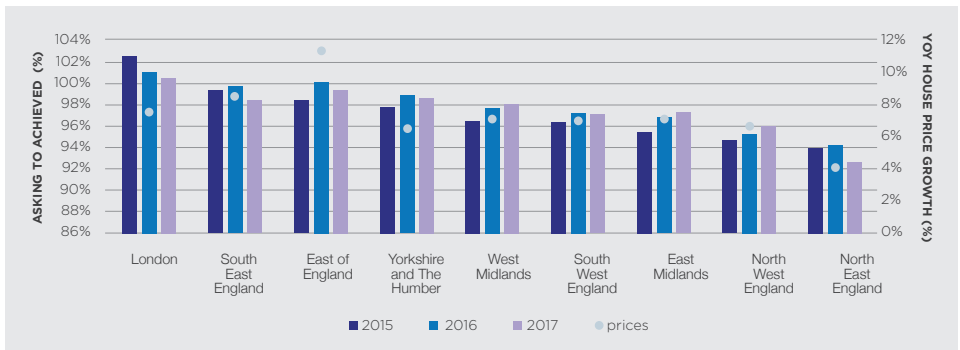
Finally, a fall in the proportion of the achieved price as a proportion of the initial asking price tells us even more. Again, it's generally a north/south story. Asking to achieved proportions have remained broadly stable outside of the South of England. This chimes with the data on house prices which shows that the rate of growth of prices is accelerating in the North, stable in the Midlands but slowing - yet still rising - in the South. Even though the asking to achieved ratio is falling, house prices are still rising, but at a slower rate. Many homes still sell for more than the asking price and many more for prices higher than they would have done last year, even if the sum is below the initial asking price. So those selling their homes should take comfort that they will have made money on their sale, allowing them to move on in comfort.

Change in time to sell



Asking to achieved and house price growth (%)

Source: Countrywide Research



Economy

Stronger forecasts, but still lots of unknowns

The Chancellor's spring budget had very little in it for the housing market specifically. Apart from a tweak to the amount of tax relief on dividends professional landlord companies can claim, there was nothing to change the housing market status quo – a relief after the turmoil of the last few budgets.

But what was interesting was the new set of forecasts from the independent Office for Budget Responsibility (OBR), which looked remarkably buoyant. The OBR increased its 2017 forecasts for GDP significantly, which might be surprising given the likely shock to the economy of pulling the Brexit trigger. But the jam of higher growth in 2017 is taken away in subsequent years.

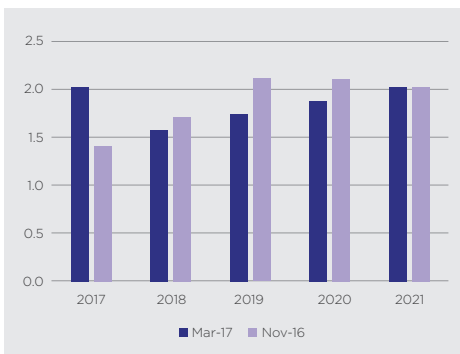
The OBR's expectations of property transactions were even more surprising. It factored in a 7% rise in activity compared with its November forecast, but the jam isn't taken away in the later years as with GDP. That is great news for a recovery in sales, but there are still very large risks that could affect these forecast outcomes significantly.

Because the Brexit trigger wasn't pulled when the forecasts were made, and because nobody knows how the negotiations will play out, the OBR has chosen to base its numbers on the same assumptions as November. That was before the government decided that the UK would not only leave the EU, but also the single market.

While the strength of the growth and activity forecasts are suggestive of an easier ride, it is clear that there are substantial risks and that these spring from the squeeze to household incomes. As wage growth stays low and inflation picks up, we are already starting to see the effect on consumer spending, but the true test will be whether the availability of credit and the potential for some easing in austerity will smooth the way. Let's hope so.

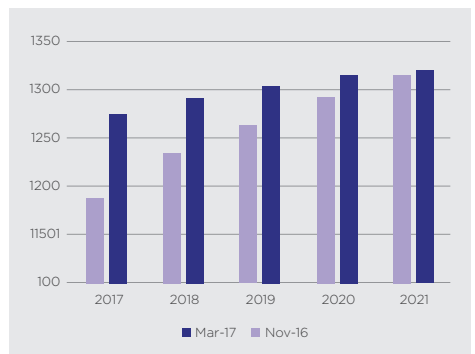
GDP Growth (%)

Source: OBR



Transactions

Source: OBR



Sales

Copycat neighbours

A for sale board going up in a street is often a sign that change is on its way. As neighbours talk to each other and estate agents knock on doors, the first board is frequently followed by a second a few weeks later. The biggest jump in sales comes on terraced streets where it's easiest to compare one house with all the others. And where a record price is achieved, the effect is bigger. Last year, streets where a sale set a record price there were 68% more homes sold in the next three months compared with streets with more modest sale prices.

It seems that a record price on the street affects the neighbours' expectations of what they can achieve and encourages them to try it for themselves – quite quickly. The greatest uplift in activity is in the first three months after a record sale price nearby. The record price can reflect the increased popularity of a locality or a revival in market activity, but it also affects neighbour's expectations of what their own home is worth. The combination gives agents and sellers

greater confidence that they will secure a deal quickly.

Copycats are most prominent in the North East where price growth has been slowest since the financial crash and in some parts, have not returned to their pre-crisis peak. The number of sales on a street rose 77% in the three months after a record price was achieved in the North East in 2016. That could suggest that the neighbours were surprised at the new price and realised the growth in equity on their own home provided an opportunity to move that wasn't previously there.

There are fewer copycats in London. As prices in the capital have risen dramatically over the last few years, expectations of future price growth have been strong, so potential sellers are less surprised by record prices. In addition, as London prices are well above their pre-crisis peak, homeowners have not been prevented from moving by a lack of equity. Looking ahead however, expectations of future price growth in London is slipping. That could mean an increase in copycats as a new record price may now be seen as a market peak, encouraging those who want to move to do so sooner rather than later.

2016 uplift in the number of sales on a street in the three months after a record price is achieved

North East	77%
Wales	74%
North West	72%
Yorkshire and The Humber	70%
South West	67%
West Midlands	66%
East Midlands	65%
East of England	55%
South East	54%
London	43%

2016 uplift sales

Six months following any sale	77%
Six months following a record sale	74%
Three months following a record sale	72%

Source: Countrywide Research

Lettings

Rental growth stalls

For the first time since November 2010, rents in Great Britain are lower than the same time last year. Data from Countrywide's lettings index shows that rents fell nationally 0.6% over the last year to stand at £921 per month, £5 less than in February 2016. But rents are still 14% more than in their previous peak in 2007.

The fall was driven by London and the South East where rents fell 4.7% and 2.6% respectively. But it has taken seven months for falls in these regions to bring national rental growth below 0%. Apart from London and the South East, every other region of the country saw rents continue to rise, albeit at a slower rate than last month.

The slowdown in rental growth was caused by a fall in the number of tenants looking for a home combined with

higher numbers of homes available to rent in London and the South East. While in Great Britain overall there were 5% more tenants looking for a home than at the same time last year, London and the South East both had fewer tenants looking than February 2016.

However, the surge in the number of homes available to rent following the rush to beat the stamp duty deadline is now beginning to subside. Overall there were 10% more homes available to rent in February than last year, but this is likely to fade over coming months. Early signs point towards 2017 being a rare year where rents rise faster in the north of the country than in the south.

Supply and Demand

Source: Countrywide Research

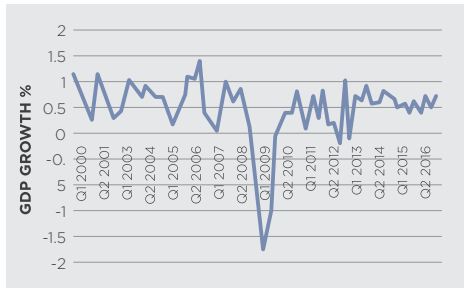
	YOY change in homes to let	YOY change in registered tenants
London	18%	-3%
South East	15%	-5%
South West	12%	2%
East of England	10%	8%
East Midlands	5%	9%
West Midlands	5%	3%
North West	5%	8%
North East	6%	4%
Yorkshire and The Humber	7%	7%
Scotland	6%	6%
Wales	3%	7%
Great Britain (ex London)	8%	7%
Great Britain	10%	5%

Stat of the Month

Economic and Housing Indicators

UK GDP

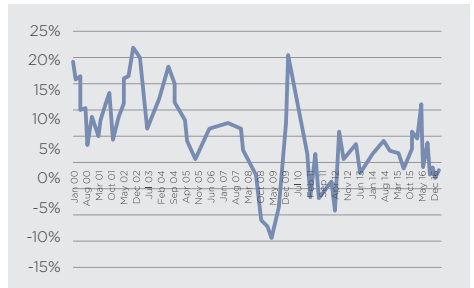
Growth is broadly stable-ish



Source: OBR

YOY House Price Growth

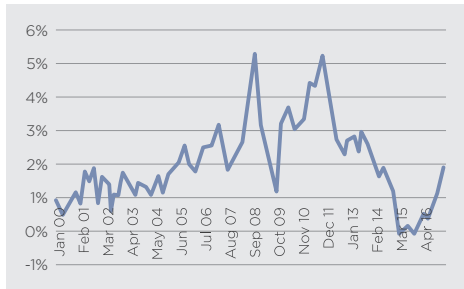
Trend is slowing



Source: OBR

Inflation (CPI)

Inflation rising sharply due to exchange rate



Source: OBR

Transactions (SA)

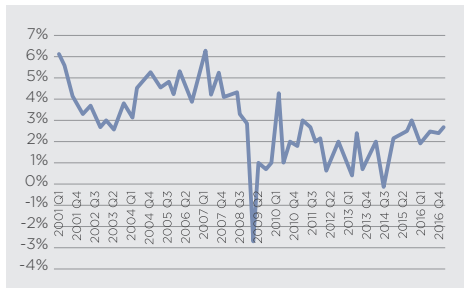
Transactions picking up



Source: OBR

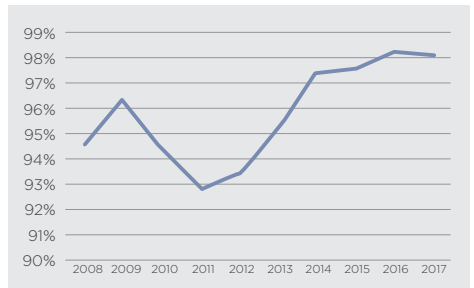
Earnings Growth (YOY)

Earnings growth still relatively weak and spending power threatened by inflation



Source: OBR

Ratio of Asking to Achieved



Source: OBR

Vanet

e: info@vanet.uk.com

vanet.uk.com



Johnny Morris
Head of Research



Fionnuala Earley
Residential Research Director