MARKET INSIGHT ::: SPRING 2022

WHAT'S IN *STORE* *FOR* 2022?

Hamptons

THE HOME EXPERTS

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OUTLOOK
WHAT'S IN STORE FOR 2022?

The property market's stellar start to 2022 would, in any other circumstances, point towards a year of record transactions and double-digit price growth in every region.

But the headwinds facing the market, including the war in Ukraine, suggest that performance is set to be solid rather than spectacular, with sales likely to be lower than in 2021. This was a bumper year with activity driven by the pent-up demand for relocation created by the pandemic.

"The strength of the current market still means more homes may be sold than in any recent pre-pandemic year"

In the months ahead, the consequences of the tragedy unfolding in the Ukraine are forecast to fuel the inflationary pressures that have already arisen from the unwinding of global lockdowns and the rebound in consumer demand. The surging cost of living, with inflation expected to reach 8% by April, will put a squeeze on household budgets.

Nevertheless, the performance of the market in the first few months of the year underlines people's desire to spend on housing. Homes sold faster in March than in any March since 2010 when our records began.

Also - again for the first time since at least 2010 - the average seller of a home received 1% more than its initial asking price. The number of sellers who increased their asking prices was six times larger than those who made a downward adjustment.

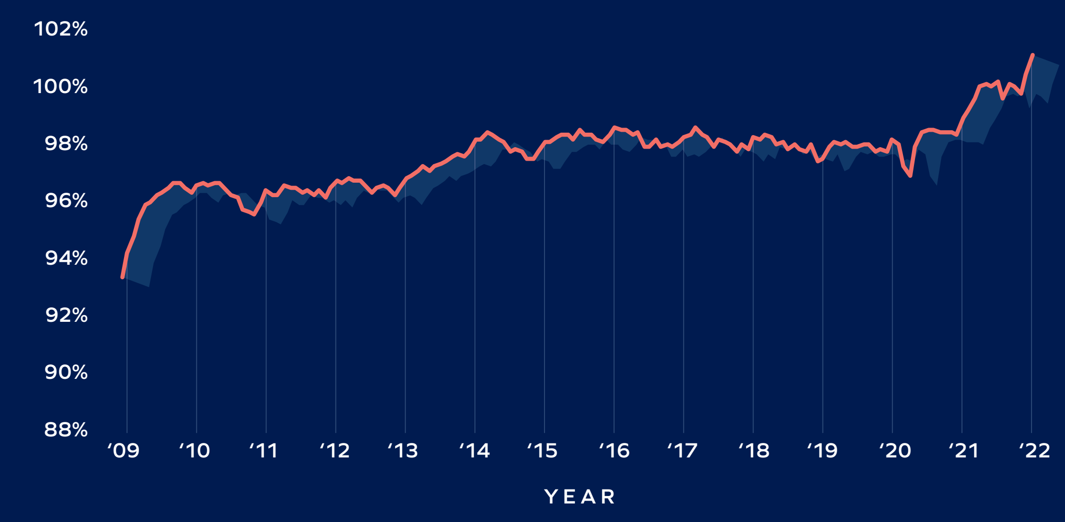
Fewer homes are likely to change hands this year than in 2021. But the strength of the current market still means more homes may be sold than in any recent pre-pandemic year. The total seems set to exceed the typical number in a year following the end of a stamp duty holiday or other stamp duty concession.

Last September we forecast that transactions would reach 1.25 million this year. We still stand by this forecast.

To date, house prices have withstood the impact of Covid and two small Bank of England base rate rises taking the rate to 0.75%. However, many mortgage rates have gone up, particularly those deals for borrowers with larger deposits.

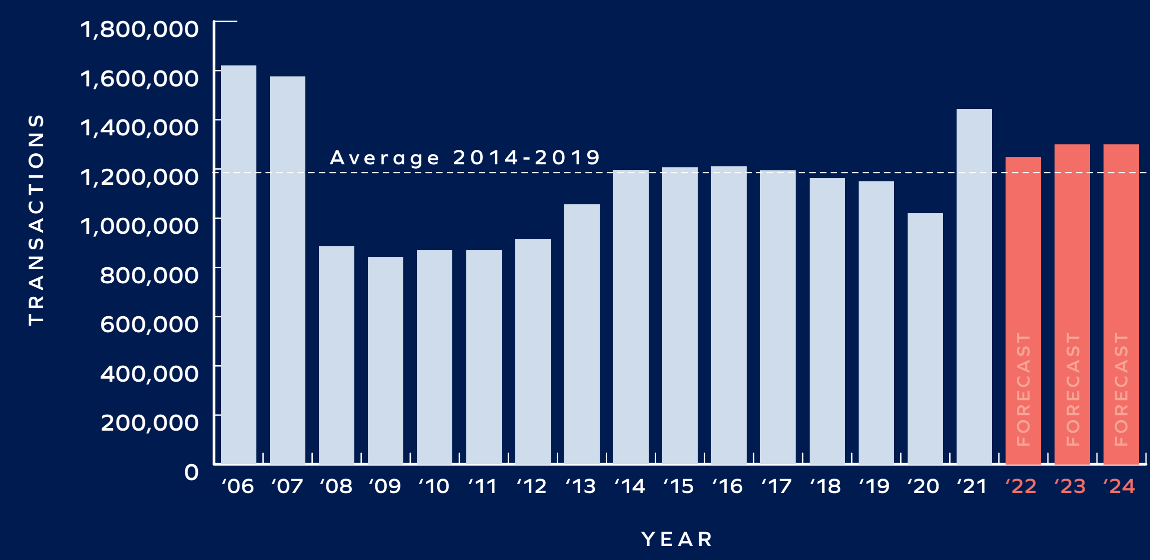
OFFER ACCEPTED PRICE AS A PROPORTION OF THE ASKING PRICE *(ENGLAND & WALES)*

Source: Hamptons



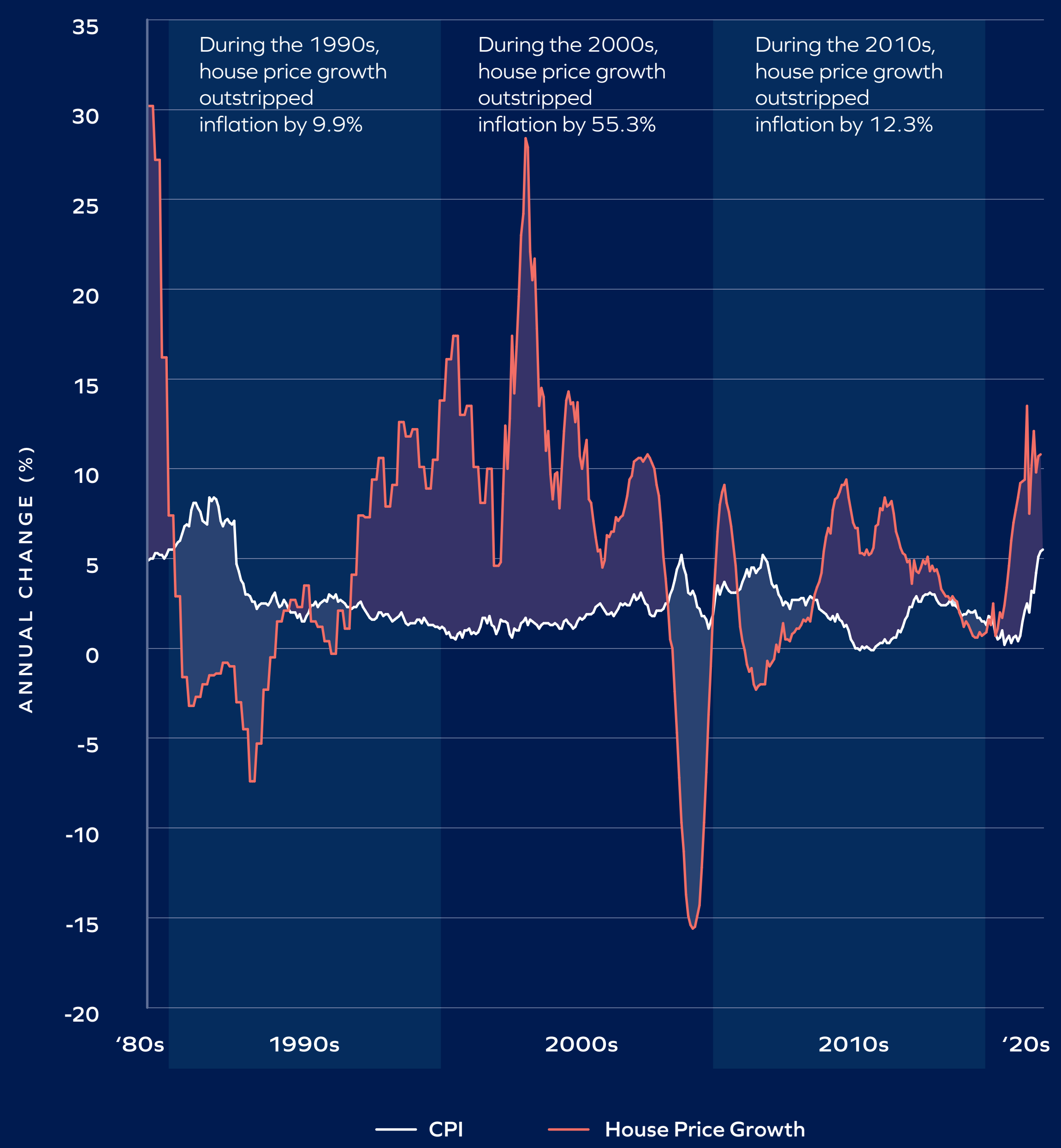
TRANSACTIONS *(GREAT BRITAIN)*

Source: Hamptons & HMRC



PROPERTY AS A HEDGE
AGAINST INFLATION

Source: ONS & Hamptons



On paper, higher inflation should speed up the pace of base rate rises. However, the unprecedented circumstances behind inflation's upward move may give the Bank's rate-setting Monetary Policy Committee (MPC) pause for thought. By international standards, the UK's economy and labour market have recovered relatively robustly from Covid restrictions. Yet the members of the MPC will still be wary of stopping the recovery in its tracks.

Underpinning the market's strength has been a lack of homes for sale – which had begun to be the case even before the onset of the pandemic caused a decline in the amount of stock on estate agents' books.

Market appraisal levels have picked up in recent months. But the number of homes coming onto the market remains around 10% below last year's level. It is also almost 40% below the pre-pandemic average. Low stock levels should support prices, even if the cost of borrowing is higher. It is also possible that some buyers may view property as a hedge against inflation.

The threat of Covid may be diminishing. But the cocktail of inflation, rate rises and the situation in Ukraine seem set to suppress activity this year. As a result, we are forecasting price growth to slow, falling below its current record level.

> *"The number of homes coming onto the market remains around 10% below last year's level"*

This means we expect the market to be stronger in the first half of the year than in the second, with more homes changing hands during the first six months than in the second. Higher inflation and interest rates will cut the disposable income of some buyers, putting downwards pressure on price growth.

But, as the unexpected leap in prices during the pandemic illustrates, the property market always has the potential to surprise.

THE MPC DECISION

In March the Monetary Policy Committee (MPC) voted to raise the Bank of England base rate by 0.25%, from 0.5% to 0.75%. Eight of the nine-person committee voted for the rise, with one member voting for rates to remain unchanged. This means that the base rate is now at its highest level since March 2020, when Covid lockdowns began.

The MPC committee suggested that it was likely that further 'modest' rate rises would be required in the 'coming months'. However, they acknowledge that there are growing risks to the economy stemming from the Russian invasion of Ukraine and the subsequent disruption to global supply chains which may mean rates will rise more slowly than they perhaps otherwise would have.

In general, a rise in the base rate will ultimately mean higher mortgage rates for those on tracker mortgages or looking to re-mortgage. The MPC noted that rates on lower loan-to-value (LTV) products have risen since the last base rate increase and they expect the most recent rise to once again feed through into higher mortgage rates.

The exception however, will be on higher LTV mortgages (75% and above) where so far rates haven't come down as much as other products and where lenders are recalibrating their attitudes to risk post-Covid. In the short term, this recalibration is likely to offset a small rise in the base rate.

SHORT–TERM ECONOMIC RISKS AND OPPORTUNITIES *FOR THE HOUSING MARKET*

RISKS

1. Higher, longer lasting inflation squeezes household finances.
2. Interest rates rising faster and further, pushing up mortgage costs.
3. Potential property tax hikes.

OPPORTUNITIES

1. Inflation eroding mortgage debt of existing owners.
2. Rising rates will reward older mortgage free homeowners with cash savings that have seen low returns over the last decade.
3. For investors, property has been a strong inflation hedge.

QUICK FACTS

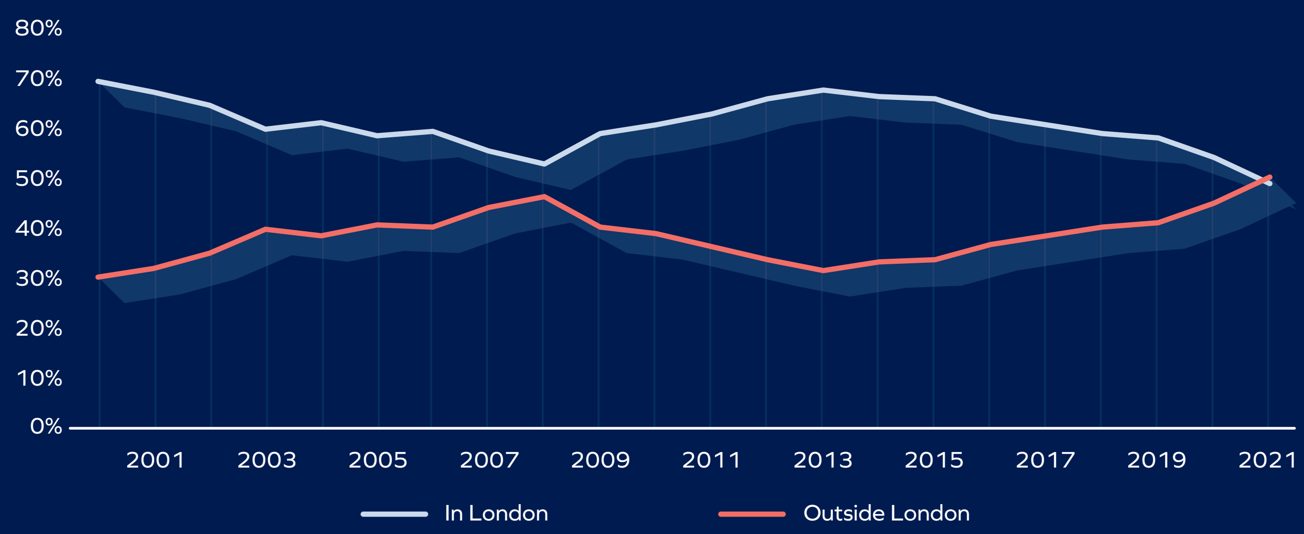
1.76%

While interest rates are heading upwards, it's the six year anniversary of average 75% LTV rates dropping below 2.0%

MARKET METRICS

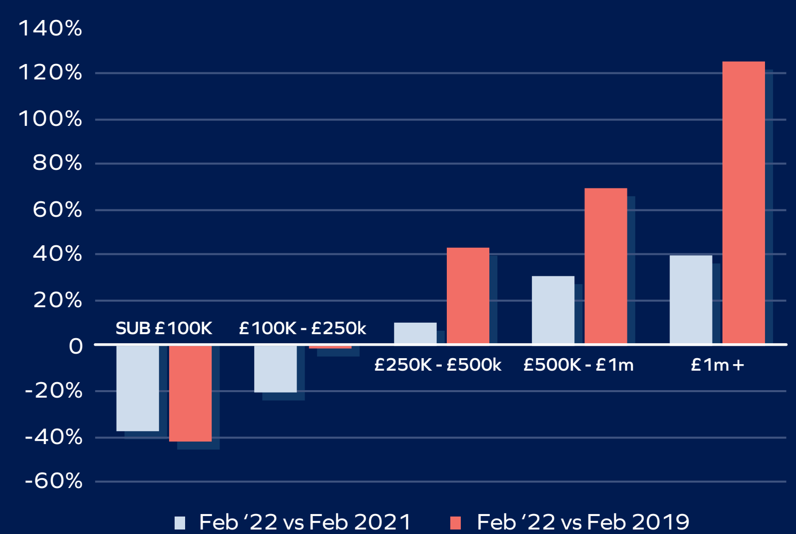
SHARE OF +£1M SALES

Source: Land Registry & Hamptons



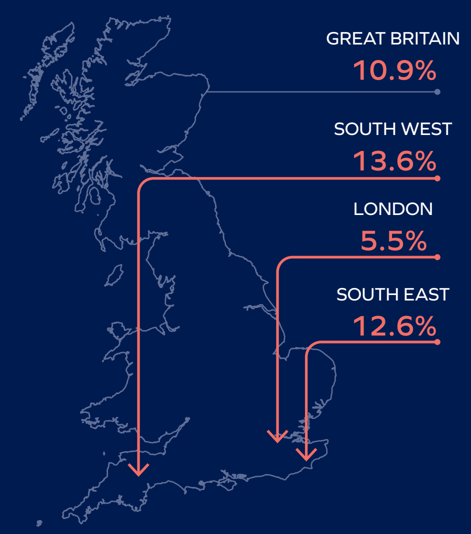
CHANGE IN THE NUMBER OF SALES AGREED *(GB)*

Source: Hamptons



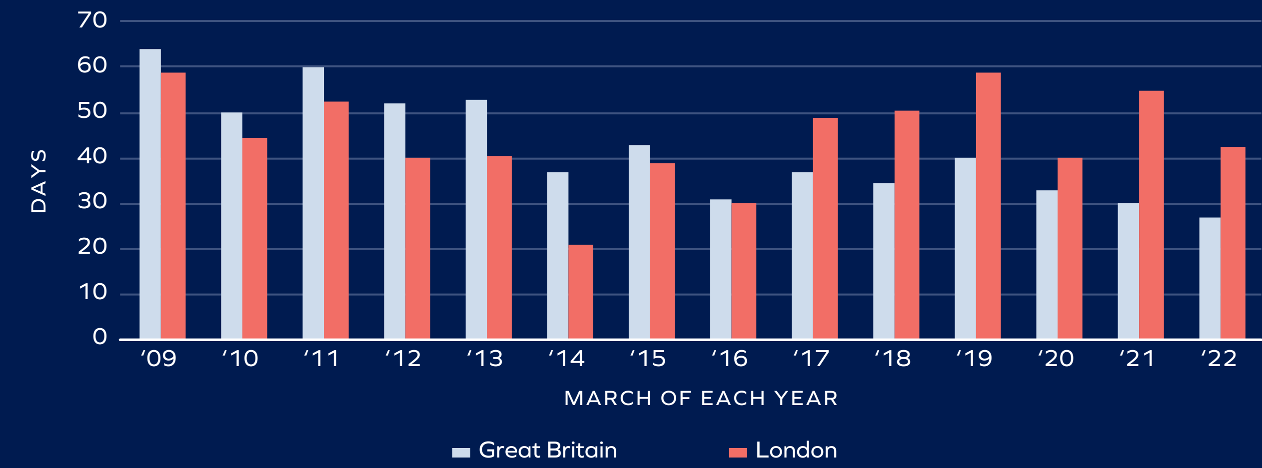
HOUSE PRICE GROWTH

Source: ONS



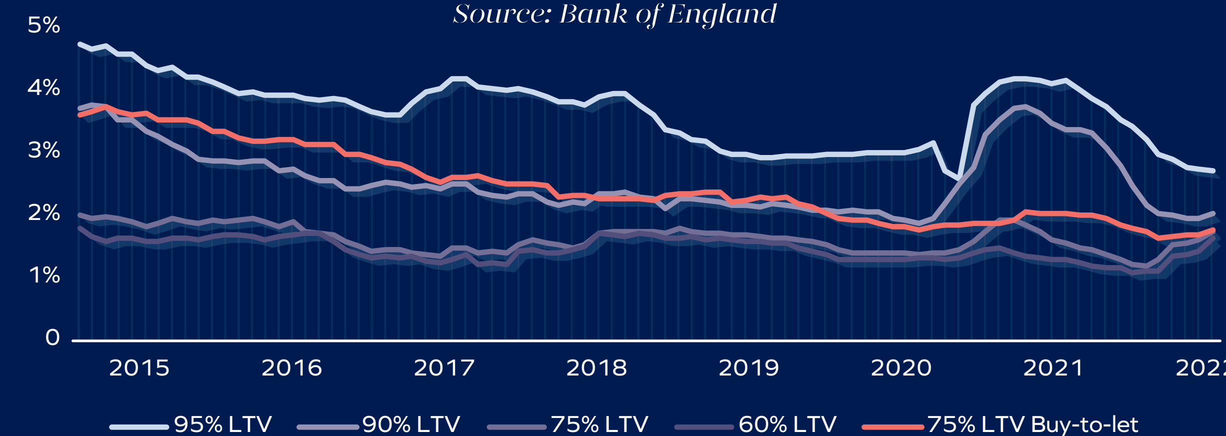
DAYS TO SELL *(INSTRUCTION TO OFFER ACCEPTED)*

Source: Hamptons



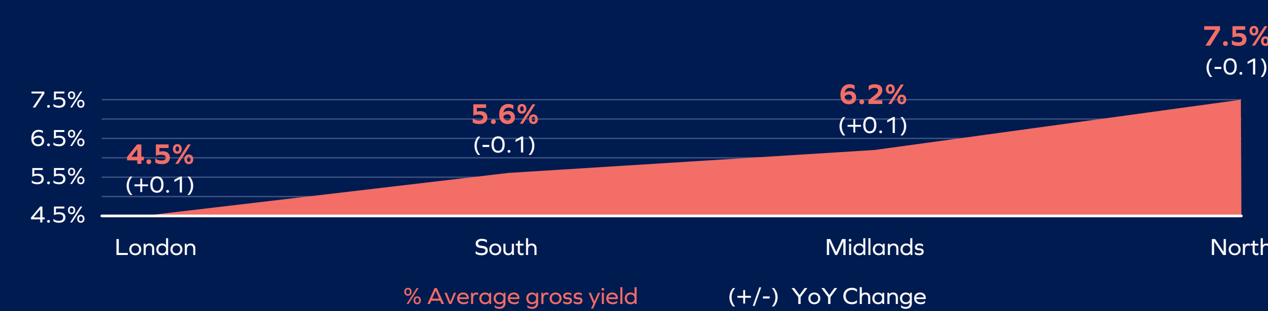
MORTGAGE RATES *(2-YEAR FIX)*

Source: Bank of England



INVESTOR RETURNS

Source: Hamptons & Land Registry



A LONG READ ON LONDON
WHAT WILL A POST-COVID CAPITAL LOOK LIKE?

The London housing market began to rebound in 2021, with prices reaching new peaks in 30 out of the 33 boroughs. However, the capital's revival should be seen in context. The last time that an average home in London found a buyer faster than one outside the M25 was back in March 2016.

In March this year, it took an average of 43 days to sell a London home - which was 16 days longer than the average time-to-sell for other regions.

The pandemic race for space, affordability pressures on younger buyers, a lack of international buyers and changes to taxation are among the factors holding back the London market. The cost of living squeeze is set to soften demand, although homeowners with equity in their existing homes and lockdown savings should be less affected.

However, the slowdown in the city was exacerbated by lockdowns, London started to lag other regions in 2017. We expect this trend to continue until 2024 when we forecast that the current housing cycle should come to an end. Subsequently London should once more begin to outperform other regions.

PEAK LONDON

A price divide between inner and outer London has been a long-standing feature of the market, but this gap has shrunk. This reflects the impact of the pandemic on international travel and the stamp duty surcharge on the demand for homes in the central postcodes of the city. But it also highlights the desire for properties with substantial gardens in affluent leafy suburbs like Richmond.

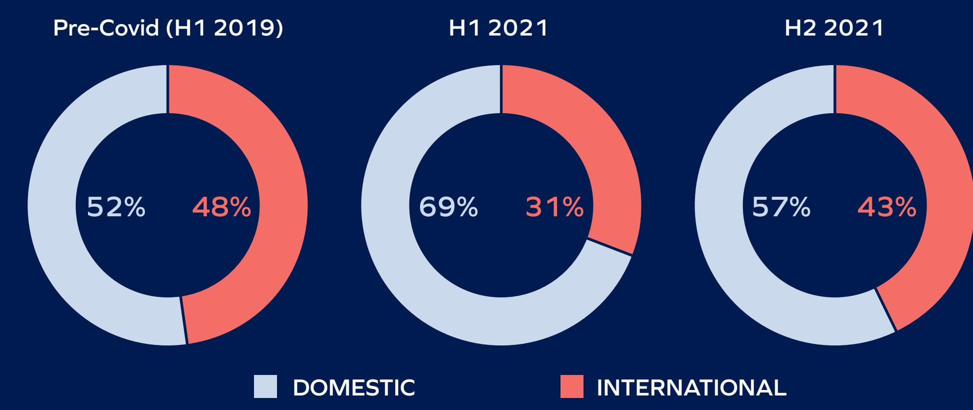
The gap between the average prices in the Inner and Outer areas of capital was as much as 50% in 2013, shrinking to 33% in 2020. It now stands at 31%, its lowest in percentage terms since 2009 when the economy was still suffering the effects of the global financial crisis. The difference in the average cost between a home in Inner London and Outer London is £145,400.

The appeal of the smarter suburbs is underlined by the performance of these locations in 2021. By the end of December, the average price in Richmond was 10.3% above its previous peak. Islington, which offers more spacious houses close to the City, was 11.3% above that level. Barnet, Bromley and Sutton also scaled new heights.

These figures demonstrate the broader revival of London in 2021: prices in 30 of the 33 boroughs were above their previous peaks (the largest number since 2017) against 23 in 2020. Only Tower Hamlets, Westminster and Kensington & Chelsea failed to surpass their previous highs. But Kensington & Chelsea is set to exceed its 2018 peak within the next few months.

SHARE OF HOMES IN PRIME CENTRAL LONDON *BOUGHT BY FOREIGN NATIONALS*

Source: Hamptons



HOUSE PRICES *VERSUS THEIR PREVIOUS PEAK*

Source: Hamptons & Land Registry

Prices in just three boroughs; Kensington & Chelsea (2018), Westminster (2018) and Tower Hamlets (2020) are below where they were in 2021.

- More than 8% above
- 7% to 8%
- 6% to 7%
- 3% to 6%
- Less than 3% above

WHO IS BUYING

House-hunters from overseas returned to prime central London in 2021, with EU nationals being the keenest to acquire real estate in the capital. They accounted for 14% of all deals; purchasers from the Middle East were next in line with 7%.

Sales to all international buyers made up 43% of transactions in prime central London. But they did not venture much into the outer London boroughs where the rebound was driven by domestic demand. Across Greater London, foreign nationals made up 18% of buyers in H2 2021, the lowest figure on record.

> *“Househunters who are leaving town to find extra space and more substantial gardens must now move further out”*

Buyers moving house dominate property purchases in London, accounting for 55% of deals in 2021 and for 56% in the year to date. But, as the cost of living squeeze takes hold, first-time buyers seem to be starting to face more challenges, making up 33% of deals since the start of this year, against 35% for the whole of 2021.

In recent years, investors have purchased 8-10% of properties. Their buying peaked at 17% in 2015 ahead of the reforms of the landlord mortgage tax relief that began to take effect in April 2017. Since 2009, buyers seeking a second home have acquired 1-2% of properties on the market.

MIND THE PRICE GAP

As a result of London’s muted tempo, househunters who are leaving town to find extra space and more substantial gardens must now move further out.

Since 2017 the average London house price has risen by 7% to £657,200. Over the same period, the average price outside the capital has increased by 22% to £305,650.

In 2017, the average home outside the capital cost 59% less than in London. This meant a household that moved 10 miles outside the capital could save an average of £66,000 on a new home or secure an extra 183 sq ft of space, equivalent to the size of a garage.

Stronger house price growth in the country since then has meant that this divide narrowed to 54% in 2021, obliging a household quitting the capital to move 20 miles out to find a home offering a saving of £66,000. Opting to move only 10 miles out would secure only 61 sq ft more space.

Tenants in search of more space for home working have also been forced to go further out of town. For example, the average rent in the South West increased by 23% between the start of the pandemic and March 2022, the strongest growth of any region. London rents have risen at a more modest rate.

Covid dealt cities across the world a bit of a blow. A decades’ worth of change was squeezed into a couple of years. But in the UK, we’re now closer than perhaps any other country to what a post Covid world looks like. A bounce back in office working, but not to the levels it once was, the rise of home delivery from both online and high street retailers and the shift on the high street away from products towards experiences and services are all on the cards. As London has done so many times before, it is once again reinventing itself.

QUICK FACTS

£145,400

The average gap between a home in Inner and Outer London

LETTINGS
THE SQUEEZED MIDDLE

Rents have been rising at a record-breaking pace. But, even when this growth slackens in most regions, private sector tenants will feel the squeeze as inflation surges, driven by higher prices for gas and electricity.

As a consequence, the extra cost this year to tenants of higher rents and household bills will be some £4.6 billion.

In some regions, rent and bills will account for more than two-thirds of take-home pay, that is post-tax income. The pain could be worst in the North and Midlands where rent rises are accelerating, in contrast to signs of a slowdown elsewhere.

In 2021, tenants across Great Britain spent a total of £77.8 billion on rent and other household bills, 6% more than in 2020. This year's increase is set to be considerably steeper.

The mounting pressure on tenants is bad news for the wider economy. People tend to prioritise paying their rent and essential bills. They will have less left over for other types of expenditure, including discretionary purchases.

NATIONWIDE TRENDS

We expect the rate of rental growth to decelerate rapidly from its current annual average of 7% to about 2.5% by the end of this year.

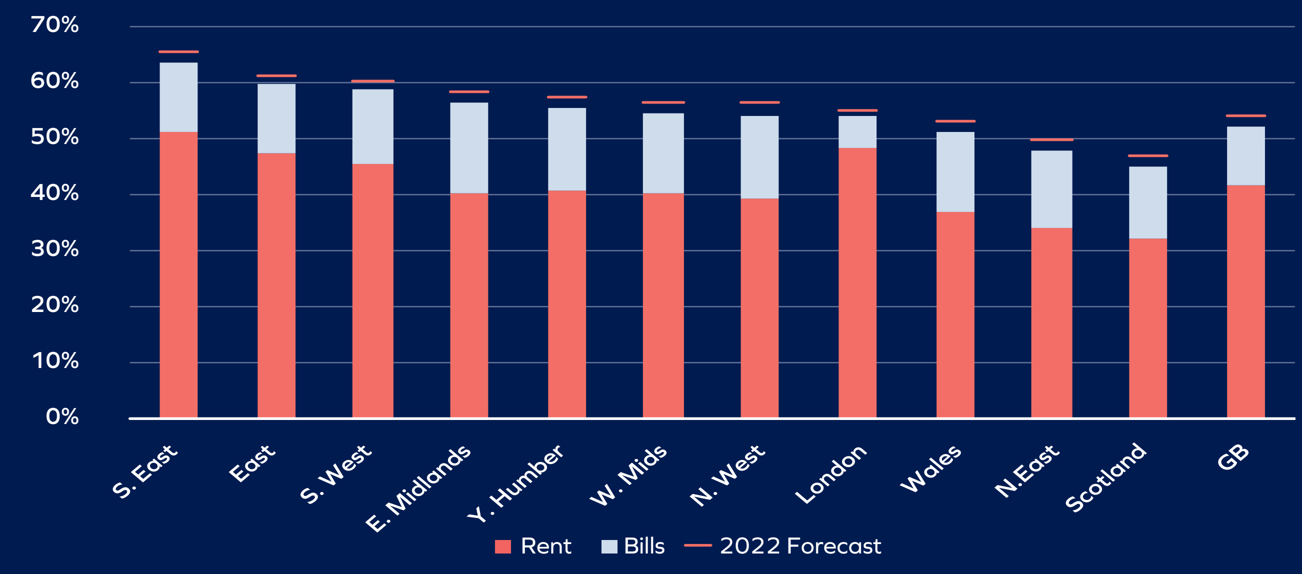
But this fall will be offset by sharp increases in other higher household bills such as gas, electricity, council tax and broadband. These bills are set to rise by 15% this year, significantly outpacing earnings growth which is expected to be just 3.75%.

In 2021, tenants spent £62.4bn on rent, 7% more than in 2020 when their total rental bill was £58.2bn. The average household spent 42% of post-tax income (£13,560) on rent in 2021, the highest since our records began in 2010.

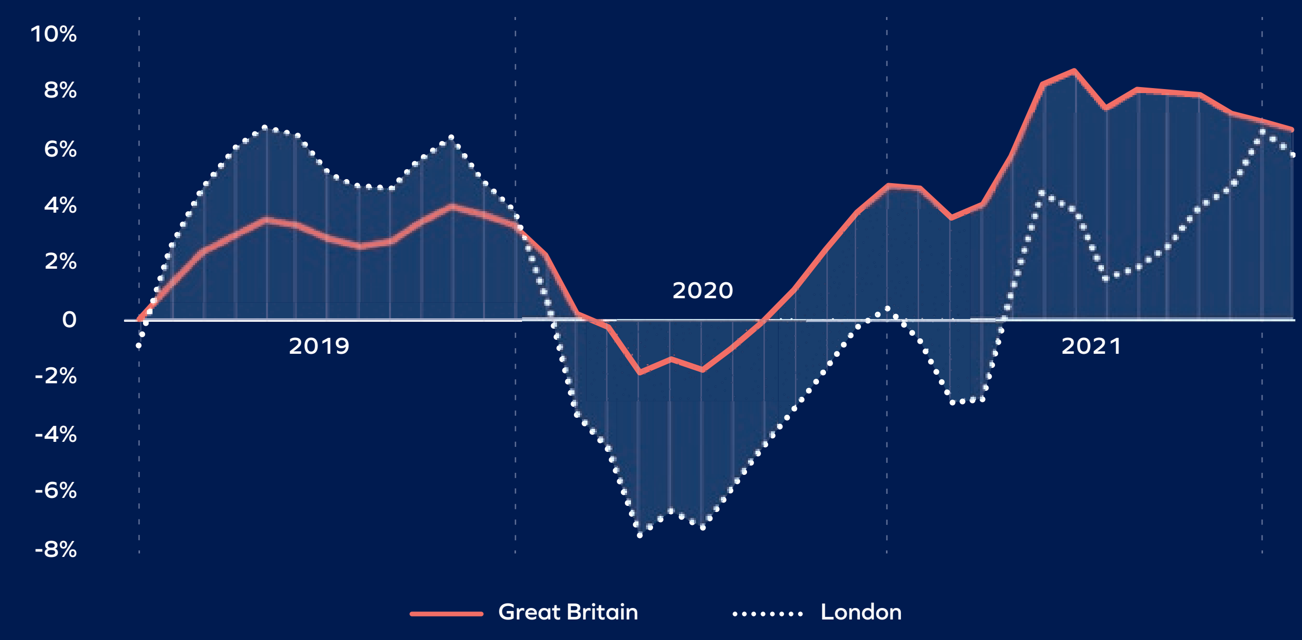
Once household bills are added in, this figure rose to 52% of post-tax income in 2021, the highest proportion since 2016. But, as the cost of living crisis deepens, we estimate that spending on rent plus bills will account for a record 54% of post-tax income. The average expenditure for each household will be £17,914, up from £16,906 in 2021.

> *"As the cost of living crisis deepens, we estimate that spending on rent plus bills will account for a record 54% of post-tax income"*

RENT AND HOUSEHOLD BILLS *AS A PROPORTION OF POST-TAX HOUSEHOLD INCOME*
Source: Hamptons, ONS & DCLG



RENTAL GROWTH
Source: Hamptons



RENTS AND HOUSEHOLD BILLS BY REGION

Tenants in the East Midlands will be hardest hit by the soaring cost of living. Currently they spend 16% of their post-tax income on bills, the highest of any region. The average household will spend 58% of income on rent, plus bills, against 56% in 2021.

In London, by contrast, household bills account for just 6% of post-income tax income: salaries are higher in the capital. Also London rental properties tend to be newer, smaller and better insulated, which lowers energy usage.

"Rapid rental growth since the start of the pandemic is having the greatest impact on tenants in the south of England"

Nevertheless, rents in the capital are more expensive than those elsewhere. As a result, the average London tenant paid £23,380 on rent in 2021 - which equated to 48% of post-tax income.

In 2022, the average London tenant is set to spend 55% of post-tax income on rent and bills. This compares with 54% in 2021 - and 49% a decade ago.

Rapid rental growth since the start of the pandemic is having the greatest impact on tenants in the south of England. The South East, for example, is the only region in which rent makes up more than half – 52% - of the average tenant's income. Fuel and other bills add another 12%.

This means that the average tenant here spent £18,490 (64%) of post-tax income on rent and bills in 2021, against 59% in 2019. This could now rise to as much as 65% by the end of the year.

Rental growth has been slackening since the autumn of 2021 in most regions. In July 2021, the annual rate of increase on a new tenancy peaked at 8.7%. By January, this had slowed to 7.0%, falling to 6.7% in February. Yet, despite the drop this was still the strongest rate of growth recorded in any February since our records began in 2013.

In the past four months, rents have picked up in the Midlands and in the North. The average annual rent rise in the North was 9.6% in February, up from 7.3% in January. In the Midlands, the annual increase was 9.5%, against 8.0% in January.

Traditionally, squeezes to household finances tend to come from recessions coupled with falling wages. This makes the current pinch in household finances unique, with fairly strong wage rises coupled with even bigger increases in the cost of living. While the forecast slowdown in rental growth over 2022 is good news for tenants, how long it takes for utility bills to get back towards something like normal levels is going to define how well-off households feel over the next couple of years.

QUICK FACTS

6.7%

Annual rental growth on newly agreed lets across Great Britain in February

ESTABLISHED 1869

THE HOME EXPERTS