



As Brexit approaches, the UK property market remains slow but stable

This issue of UK Market Watch discusses rental market trends in London compared with the rest of the UK and the impact Brexit is having on both residential sales and rental price growth.

LONDON

Located in the south east of the UK, London is the country's most populous and culturally diverse city. A leader in terms of commerce, education and entertainment, it offers visitors and residents the very best restaurants, cafes, museums, theatres and art galleries. It is also a rather 'green' city by world standards, with large parks and open spaces in nearly all boroughs.

For international assignees, London has a variety of properties and neighbourhoods. The city centre offers high-end luxury apartments and townhouses, whilst larger family homes can be found in the suburbs. Typically, many expatriate families choose to live in the surrounding areas of Middlesex, Essex, Surrey, Kent and Hertfordshire, collectively known as Greater London, which have many larger properties with gardens.

Rental Market Trends

UK rental price growth has decelerated since the beginning of 2016, 'driven mainly by a slowdown in London over the same period'. Indeed, when London is excluded, UK rental prices have actually risen by 1.4% year on year. (London's annual rents fell by 0.2%.¹ In recent months however, The Royal Institute of Chartered Surveyors (RICS) indicates that tenant demand has 'staged a sustained recovery' in London with prospective tenants increasingly outstripping supply.²

Property-types

There is little difference in the cost of renting a house or an apartment in London, but gardens are a key differentiator, so any property with outside space will be at a premium. Competition in the market means that all property-types are in high demand, but this is especially so for large furnished apartments (three and four bedrooms) and small free standing houses (one or two bedrooms). To find one of these property-types in a timely manner, assignees should aim to be as flexible as possible in their property criteria.

Popular Neighbourhoods

There are a number of frequented expatriate neighbourhoods across London and its surrounding areas, with key ones included opposite:

Kensington is a high-end neighbourhood in West London. Popular amongst expatriate families, the area offers Victorian cottages and houses, Regency houses, 1930s semi-detached houses and new builds. Properties can be expensive when compared to other areas:

Bedroom	Rental Rate
1	£1,950
2	£2,800
3	£4,450
4	£7,100

* AVERAGE RENTAL RATES, PER CALENDAR MONTH, CORRECT AT TIME OF PUBLICATION

St Johns Wood & Hampstead is located in the northwest of the city and is home to a large U.S. expatriate contingent. Popular with families, the area offers large homes, including both period and modern conversions. The average rental rates for properties in the neighbourhood are outlined below:

Bedroom	Rental Rate
1	£1,660
2	£2,600
3	£3,800
4	£5,600

* AVERAGE RENTAL RATES, PER CALENDAR MONTH, CORRECT AT TIME OF PUBLICATION

West Hampstead is also located in North West London, offering Victorian terraces and detached houses, as well as mansion blocks (generously sized, high-end apartments). The area attracts a lot of young professionals with average rents outlined below:

Bedroom	Rental Rate
1	£1,500
2	£2,100
3	£3,100
4	£4,200

* AVERAGE RENTAL RATES, PER CALENDAR MONTH, CORRECT AT TIME OF PUBLICATION

¹ Office for National Statistics Index of Private Housing Rental Prices, October 2018

² Royal Institution of Chartered Surveyors UK Residential Market Survey Report, September 2018

Another popular neighbourhood for young professionals is **Clapham**, located in southwest London. The neighbourhood offers similar property-types to West Hampstead (Victorian terraces), but is slightly more expensive:

Bedroom	Rental Rate
1	£1,400
2	£1,800
3	£2,350
4	£3,200

* AVERAGE RENTAL RATES, PER CALENDAR MONTH, CORRECT AT TIME OF PUBLICATION

Cobham in Greater London is a village in the county of Surrey. Only 17 miles south west of the city, the quiet, affluent area is popular amongst expatriates. There is also a good selection of property-types, with average rents outlined below:

Bedroom	Rental Rate
1	£1,350
2	£1,550
3	£2,150
4	£3,800

* AVERAGE RENTAL RATES, PER CALENDAR MONTH, CORRECT AT TIME OF PUBLICATION

Impact of the Elizabeth Line

Whilst London has largely seen a slowdown in rental growth, new evidence suggests that areas around the new Elizabeth Line are experiencing a hike in rental rates. In fact, although it does not open until Autumn 2019, rental growth around the Elizabeth Line train stations, excluding zone 1, is more than double the London average. Tenants currently living near to these stations are now paying around £2,000 more in annual rent than they were before the project began in 2012.

The new train line is part of the £15 billion Crossrail project set to improve access to jobs in London and the South East. It will be 60 miles long and include stations at Reading and Heathrow in the west and stretch through tunnels across to Shenfield and Abbey Wood in the east. Assignees looking for a home near to an Elizabeth Line train station should be mindful that properties may now come at a premium.³

UK RENTAL MARKET

Affordability for most tenants across the UK has been relatively unchanged in recent years, as average rents continue to rise broadly in line with the rate of inflation. This does not apply to London however, where rents have increased above inflation and average wage growth.

If we take a look at the UK's average rental rate, it currently stands at £928 per month. However, if London's average rent (£1,619) is removed, this figure drops to £768. So this really does show just how much the capital inflates national figures.⁴

When looking at the regional picture, the most significant annual increases for October, were in the East Midlands (2.7%) and West Midlands (1.8%). London saw the biggest decline with annual rental growth falling by 0.2%, but of course the city includes some of the most expensive rental properties in the UK. The North East region was second to London, with a marginal increase of 0.3%.⁵

RESIDENTIAL SALES

In the residential sales market, the annual rate of house price growth fell from 2.5% in September to 1.5% in October, which is the lowest figure reported for five years. Halifax now values the average UK house price at £227,869.⁶ Although Nationwide Building Society's estimate of £214,534 is lower, it also reports similar trends, indicating a slowdown in annual growth to 1.6% in October, down from 2% the previous month. According to Nationwide, this is the first time in a year, that month on month house price comparisons have dipped below the 2-3% margin.⁷

The slight decline in property prices may be attributed to the uncertain economic outlook, which is dissuading potential buyers from entering the market. RICS suggests that this supply-demand imbalance 'continues to impede activity [with] new instructions down for the second consecutive month.'⁸ Many experts suggest that there is a large group of prospective buyers waiting until after Brexit takes place on 29 March 2019, to enter the market.

Nevertheless, prices remain relatively stable when taking into account historical comparisons, which is due to a number of factors including low levels of available stock, low mortgage rates and improving employment figures (currently at a 40 year low).

Increased Base Rate

In August, the Bank of England increased the base rate to 0.75%, the second rise since November 2017 and the highest level the rate has been for nearly a decade. Although no significant property market trends have been reported so far, many experts agree that the rise may further stall housing market activity. Encouragingly, mortgage approvals – an indicator of completed house sales – are currently stable, with the number of approvals between September and October rising by 2.7% to 67,011.⁹



³ Landbay Rental Index, September 2018

⁴ HomeLet Rental Index, October 2018

⁵ Office for National Statistics Index of Private Housing Rental Prices, October 2018

⁶ Halifax House Price Index, November 2018

⁷ Nationwide House Price Index, October 2018

⁸ Royal Institution of Chartered Surveyors UK Residential Market Survey Report, October 2018

⁹ Mortgage Monitor, e.surv. November 2018

Brexit Impact

Although previous concerns that Brexit would lead to a housing price crash have not come to fruition, according to The Financial Times the property market is 'grinding to a halt' in some parts of the UK. This is largely due to the country's ever closer departure from the European Union (EU).¹⁰ When making a 'before and after' comparison, the price of the average UK home rose by 3% between May 2017 and 2018, which is an 8% drop from figures recorded in the year before the referendum.¹¹ Indeed, the latest political uncertainties regarding Brexit, may do little to help build consumer confidence.

At Cartus, we have found that properties are taking longer to sell than they were a couple of years ago. However, there are marked regional differences across the UK, with some areas experiencing a lot of market activity. The latest RICS UK Residential Market Survey reported similar findings for October 2018, stating that 'some parts of the UK [are] still seeing fairly strong price growth'.¹² With this in mind, we recommend that assignees selling a property set a realistic asking price and follow the advice of their local estate agents.

GOING FORWARD

Current political and economic uncertainty surrounding Brexit may have an impact on the future UK housing market, but the extent of that impact will not be clear until the UK officially leaves the EU in March 2019. Once this happens, the Government has stated that it will go through a 'transitional period' which will last from 29 March 2019 to 31 December 2020. So although we have not yet experienced particularly strong housing trends as a direct consequence of Brexit, this may change as the transition takes place. For now, although borrowing costs are expected to remain low, the ongoing pressure on household budgets is likely to continue to impact house prices and overall market activity.

As no country has withdrawn from the EU before, it is hard to predict the impact that the process will have on the UK housing market. This uncertainty has the potential to create some instability, although the extent and duration of trends in the longer term are currently unclear. As more details become known about the 'final deal' and the situation is made clearer, we will publish further information.

WHAT WE DO

As an important part of our Destination Services support, Cartus establishes and maintains relationships with real estate agents in London and other regions of the UK. These long term relationships are key to ensuring that assignees have access to all available properties. To help meet requirements, we act as an intermediary between the real estate agent and the prospective tenant. We recommend that assignees keep in regular contact with their Cartus representative throughout their period of relocation.



¹⁰ The Financial Times, 22 July 2018

¹¹ Office for National Statistics, 2018

¹² Royal Institution of Chartered Surveyors UK Residential Market Survey Report, October 2018

Sources: HM Revenue & Customs, Halifax House Price Index Survey, Nationwide Building Society House Price Index Survey, Royal Institution of Chartered Surveyors, Hometrack, HomeLet, Bank of England, Association of Residential Letting Agents (ARLA).