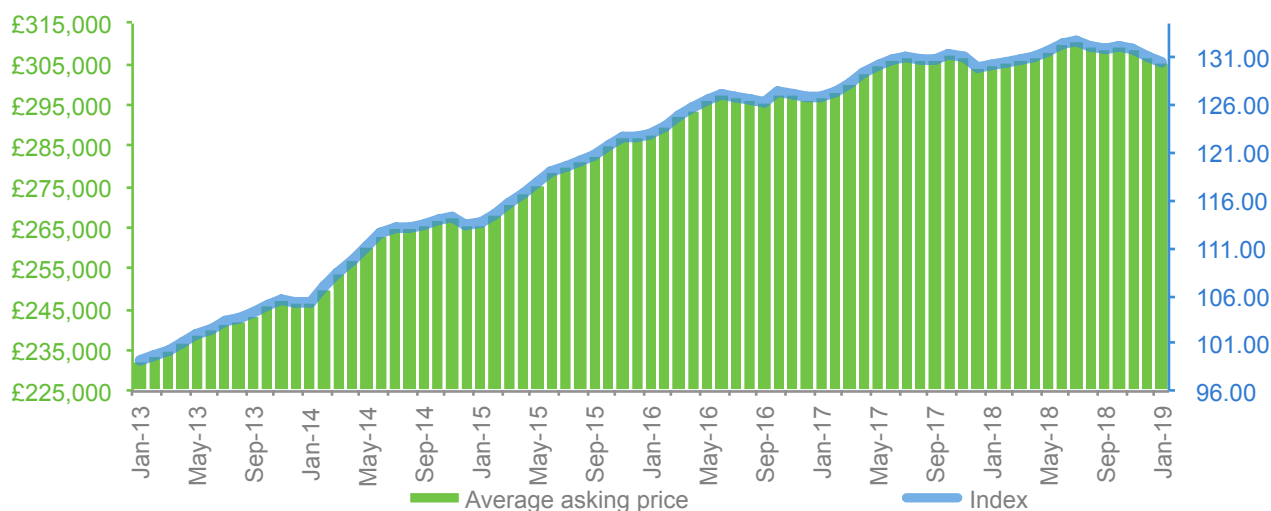


Growth Nears Zero while London Readies for Recovery

Headlines

- National average price growth slips to just 0.2% year-on-year (YoY), as negative sentiment weighs on vendor expectations.
- The largest monthly fall was in Wales (-1.1%), the first indication of more cautious pricing in this frothy market.
- Average home price in England and Wales falls again, by 0.5% this month.
- Growth in the South West turns year-on-year negative, the fourth region to do so in this downturn.
- Typical Time on Market continues to rise in London (+8%), the South East (+12%) and the East of England (+10% YoY), leading to further vendor frustration and price cutting.
- 16.9% more properties were reduced in price whilst on the market last month, compared to December 2017.
- Supply increases ease again offering some respite for vendors: up by just 3% year-on-year overall, although large surges were observed in the West Midlands(+18%) and East of England (+11%).
- Typical Time on Market for England and Wales has risen to 111 days, four days longer than in January 2018.
- Meanwhile, double-digit rent growth in several boroughs indicates the first 'green shoots' for the beleaguered London property market as yields rise.

Home Asking Price Trend for England & Wales



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

Summary

The downturn steepens as we enter 2019. Prices continue to fall in London, the South East and East of England. In fact, the rate at which prices are correcting in these regions is increasing. London's losses over the last twelve months have now extended to 3.2% or around £17,000 for the average property. Further erosion of asking prices in the South East and the East has now precipitated losses of 1.9% and 0.8% respectively.

The South West has become the next domino to fall as the price correcting phase of the property cycle sweeps west and north, out from London. Joining England's three most populous and expensive regions (Greater London, the South East and the East of England), the South West is now the fourth region where growth has become year-on-year negative. Together these four regions account for around half of the UK's dwellings. Going forward, their combined effect on the national average growth figures will be adverse.

However, significant market vigour is still apparent in some regions and support for headline growth is nowhere more prevalent than in Wales and the West Midlands where asking prices are 5.7% and 5.1% higher than they were a year ago. Regions further north also show solid growth. The North West and Yorkshire have pushed up their average asking prices by 4.5% and 4.1% respectively since January 2018.

Price growth in the East Midlands stalled in early summer last year and the market is slowing, as evidenced by the typical Time on Market

increasing. Supply in the region is currently up 5% and we expect this to increase further over the coming months as investors attempt to cash out. This would be consistent with market behaviour observed previously when the East and South East markets peaked.

Overall, supply of property for sale in the UK is up by 3% YoY and the total stock for sale has increased by 11.4%.

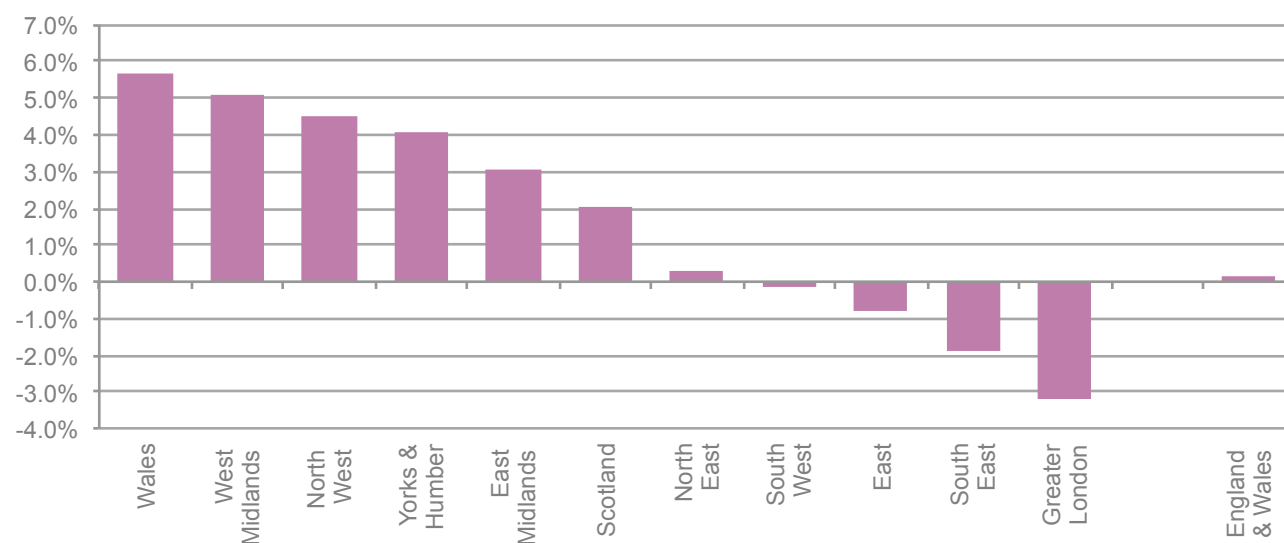
In January 2018, the annualised rate of increase of home prices was 2.7%; today the same measure is just 0.2% and continues to trend towards the negative.

Regional Round-up

As we begin the New Year, key trends suggest that 2019 will be chiefly characterised as a year of house price correction. The current fortune of any given region depends on where they are in the property 'boom-bust' cycle. In textbook fashion, early booming (and therefore early-to-bust) areas are London, the South East and East while late booming regions are the North and West of England. The latest region to move from growth to price correction is the South West of England, where prices are now sliding following several years of unsustainable growth.

The fact that four regions, which together constitute half of the homes in mainland UK, are now suffering negative growth indicates that a critical tipping point has been passed. This critical mass of UK homes with sliding values will undoubtedly damage sentiment further by dragging down the national figures into the negative.

12-month Price Growth by Region, Jan 2019 vs Jan 2018



■ 12-month % change in mix-adjusted average price

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

Furthermore, the next domino to fall is likely to be the East Midlands, followed by the West Midlands. The East Midlands is currently transitioning from the growth phase of the property cycle to the corrective phase, slightly ahead of its western counterpart. During the last five years prices have risen by 27.3% in the East Midlands and 28.3% in the West Midlands. Indeed, they were important growth engines for the UK property market for several years, helping to counter London's malaise. Now, however, falling growth, increasing supply and rising Time on Market all serve to indicate that the eastern regional market is cooling. Growth in the East has dropped to 3.1% and looks set to fall further. Meanwhile, marketing times in the West Midlands have yet to increase but rising supply (up 18% YoY) will likely overwhelm demand and price corrections will arrive towards the end of the year, once growth has tailed off to zero.

Further north and west there are several regions that are still in the growth phase. The North West, Yorkshire and Wales have all posted significant gains over the last twelve months and, judging by the fact that the Typical Time on Market is showing small improvements in these regions, growth looks set to continue in 2019.

The North East remains range-bound. This region has suffered stagnation since the financial crisis of 2008. During the last five years prices have risen a mere 3.9%, way behind inflation, and they don't appear to be able to gain traction.

A meaningful recovery for house prices in the region remains a distant dream.

North of the border, with growth at 2.1%, prices appear to be treading water in Scotland. However, in reality, this figure masks a more mixed picture. Pockets of growth are apparent in several areas but also price corrections are taking place in others. Edinburgh stock levels have increased by 30% over the last twelve months and prime residential prices have taken a beating while one and two bedroom flats have shown price growth.

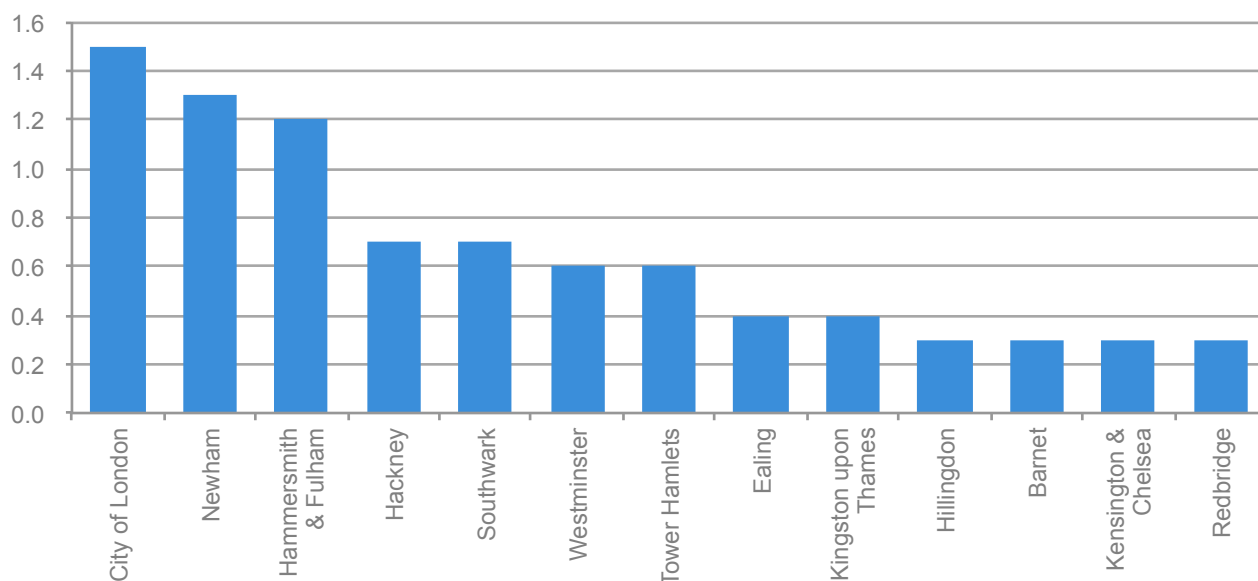
Green Shoots in London?

It is reasonable to expect that the first signs of recovery (i.e. transition into the next growth phase) will be found in London. After 32 months of sliding prices, wherein the average price has fallen 6.6%, are there any 'green shoots'?

For demand to pick up in the capital, investors must be tempted back into the market. The key attraction for investors is yield. During London's ferocious boom, yield was all but destroyed by rabid home price inflation and stagnating rents. However, given almost three years of sliding prices and rising rents, it is possible that yields are on the road to becoming attractive once again.

Our analysis at the borough level indicates that this is indeed the case in several locations. The data suggests that this turnaround is likely to start in Newham, where in 2018 the average rental yield was 4.9% compared to 3.6% in

London Boroughs Showing the Largest Rental Yield Increases, Dec 2018 vs Dec 2019



■ Absolute change in median rental yield for 2 bed properties

Source: Home.co.uk Asking Price Index and Home.co.uk Asking Rent Index January 2019

2017. This 1.3% increase is the largest rise in any London borough apart from the City of London, where a 1.5%* rise was observed. The average rent in Newham is £1,671, up 7.6% on the previous year.

The next hotspot for investors is set to be Hammersmith & Fulham, where rental yields increased by 1.2% from 3.9% in 2017 to 5.1% last year. This promising increase comes amid a 6.2% rise in rents in this West London borough between 2017 and 2018.

Other emerging areas for investors include Hackney and Southwark, where rental yields grew by 0.7% between 2017 and 2018. Outside of the City, Southwark recorded the biggest uplift in rents over 2018, by a whopping 20.2%. The average rent in this borough is now £2,532.

There was a 0.6% rise in yields over the same period in the City of Westminster and Tower Hamlets. Rents in Westminster rose by 12.1% last year and the average rent stands at £5,505, while rents in Tower Hamlets rose by 10.1% and the current average rent is £2,350.

The housing market recovery is set to take longer in many outer London boroughs, according to our data based on rental yield growth. In Hounslow, Hillingdon, Harrow, Croydon, Waltham Forest, Richmond upon Thames and Barking & Dagenham rental yields stayed the same between 2017 and 2018. Enfield in North London was the only borough to experience a fall in rental yields over the same period, of 0.2%.

However, fierce competition for the limited number of available rental properties in 2019 will tend to drive up rents and yields in all boroughs going forward. The number of properties entering the Greater London lettings market fell by 20% in 2018.



As 2019 unfolds, trend analysis suggests that more regions will 'top out' and enter a post-boom period of price correction.



The East and West Midlands look certain but the North West, Yorkshire and Wales look vulnerable to sentiment change that may emanate from the Brexit doomsters. Overall growth will be non-existent and probably negative by the year end – certainly much lower than the wildly optimistic forecast issued by the Halifax which predicted growth in the 2 to 4% range.

A shock hike in interest rates is also possible should the pound come under greater pressure, and that would certainly put the cat amongst the pigeons. Should that happen, all bets on a 2020 London recovery would be off. However, should interest rates remain essentially the same and no other 'black swans' enter the fray, we expect the current trends to play out.

There is also the possibility that a post-Brexit London will attract considerable sums of international capital. The Swiss banking system, which has always been outside of EU control, handles an estimated \$6.5 trillion or 25% of all cross-border assets.

Finally, you just can't ignore the London property market's innate ability to bounce back. History has shown us time and time again how the UK's leading property market can burst back into growth after a period of correcting prices. The rate of rental yield rises is surely the best analytical tool to pinpoint where the first 'green shoots' will emerge. Whilst it is encouraging that 32 out of 33 London boroughs are showing increased yield year-on-year, it is where they are growing most quickly that is of keen interest to investors. When they approach 6% in 16 or more boroughs, demand in the London sales market will reignite.

Doug Shephard
Director at Home.co.uk



* Due to the paucity of residential property in the City of London this figure may not be statistically significant.

UK Asking Prices

Scotland	Jan-19
Average Asking Price	£183,662
Monthly % change	-1.0%
Annual % change	2.1%

North East	Jan-19
Average Asking Price	£157,101
Monthly % change	0.3%
Annual % change	0.3%

Yorks & The Humber	Jan-19
Average Asking Price	£196,066
Monthly % change	-0.3%
Annual % change	4.1%

North West	Jan-19
Average Asking Price	£203,038
Monthly % change	-0.3%
Annual % change	4.5%

West Midlands	Jan-19
Average Asking Price	£249,961
Monthly % change	-0.1%
Annual % change	5.1%

East Midlands	Jan-19
Average Asking Price	£232,763
Monthly % change	-0.2%
Annual % change	3.1%

East	Jan-19
Average Asking Price	£351,559
Monthly % change	-0.7%
Annual % change	-0.8%

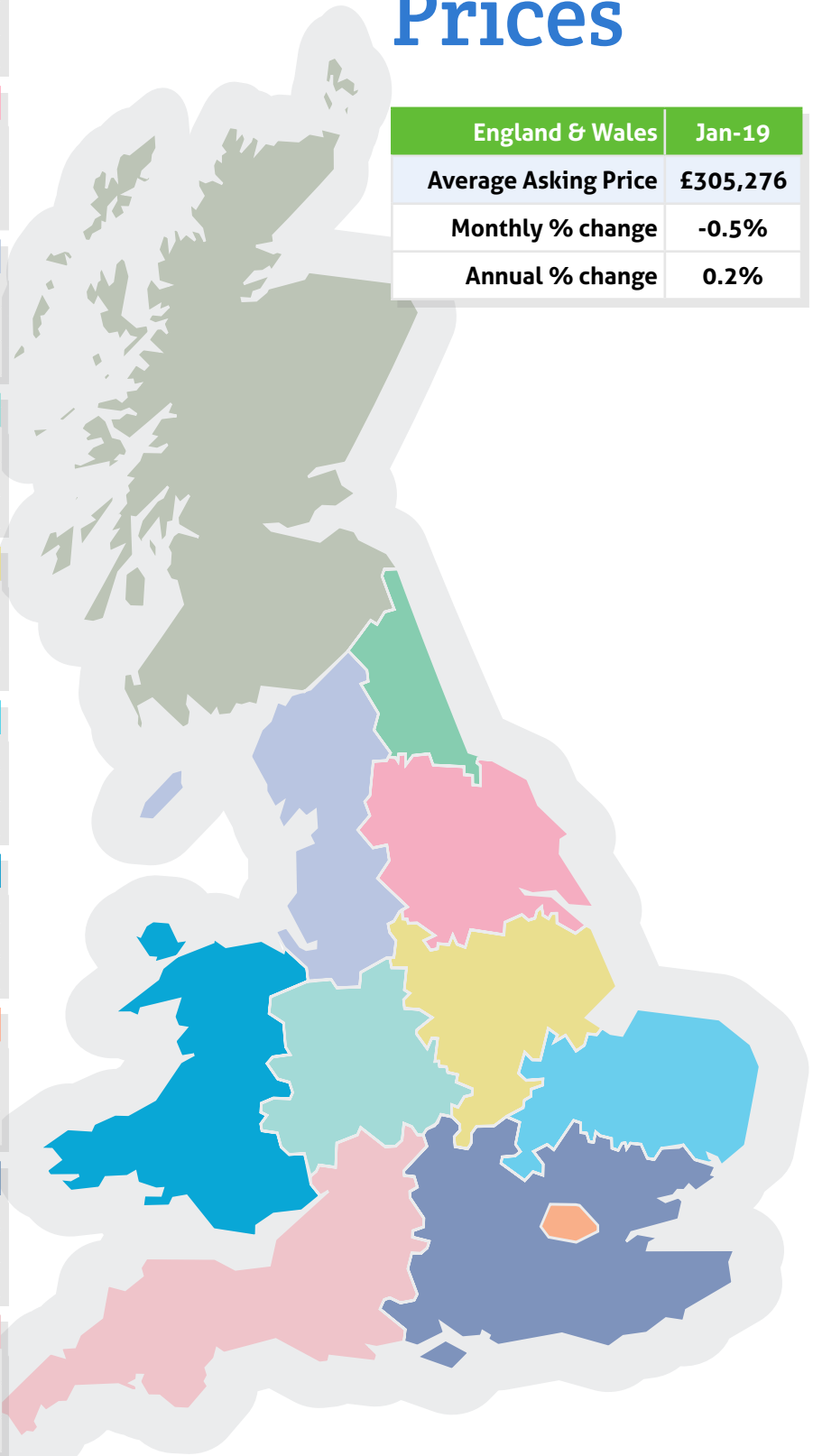
Wales	Jan-19
Average Asking Price	£203,829
Monthly % change	-1.1%
Annual % change	5.7%

Greater London	Jan-19
Average Asking Price	£516,421
Monthly % change	-0.4%
Annual % change	-3.2%

South East	Jan-19
Average Asking Price	£393,056
Monthly % change	-1.0%
Annual % change	-1.9%

South West	Jan-19
Average Asking Price	£320,384
Monthly % change	-0.6%
Annual % change	-0.1%

England & Wales	Jan-19
Average Asking Price	£305,276
Monthly % change	-0.5%
Annual % change	0.2%



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

UK Time on Market

Scotland	Jan-19
Average Time on Market	239
Typical Time on Market	131
Annual % supply change	14%

North East	Jan-19
Average Time on Market	243
Typical Time on Market	138
Annual % supply change	1%

Yorks & The Humber	Jan-19
Average Time on Market	188
Typical Time on Market	113
Annual % supply change	-1%

North West	Jan-19
Average Time on Market	191
Typical Time on Market	117
Annual % supply change	2%

West Midlands	Jan-19
Average Time on Market	155
Typical Time on Market	97
Annual % supply change	18%

East Midlands	Jan-19
Average Time on Market	152
Typical Time on Market	97
Annual % supply change	5%

East	Jan-19
Average Time on Market	148
Typical Time on Market	98
Annual % supply change	11%

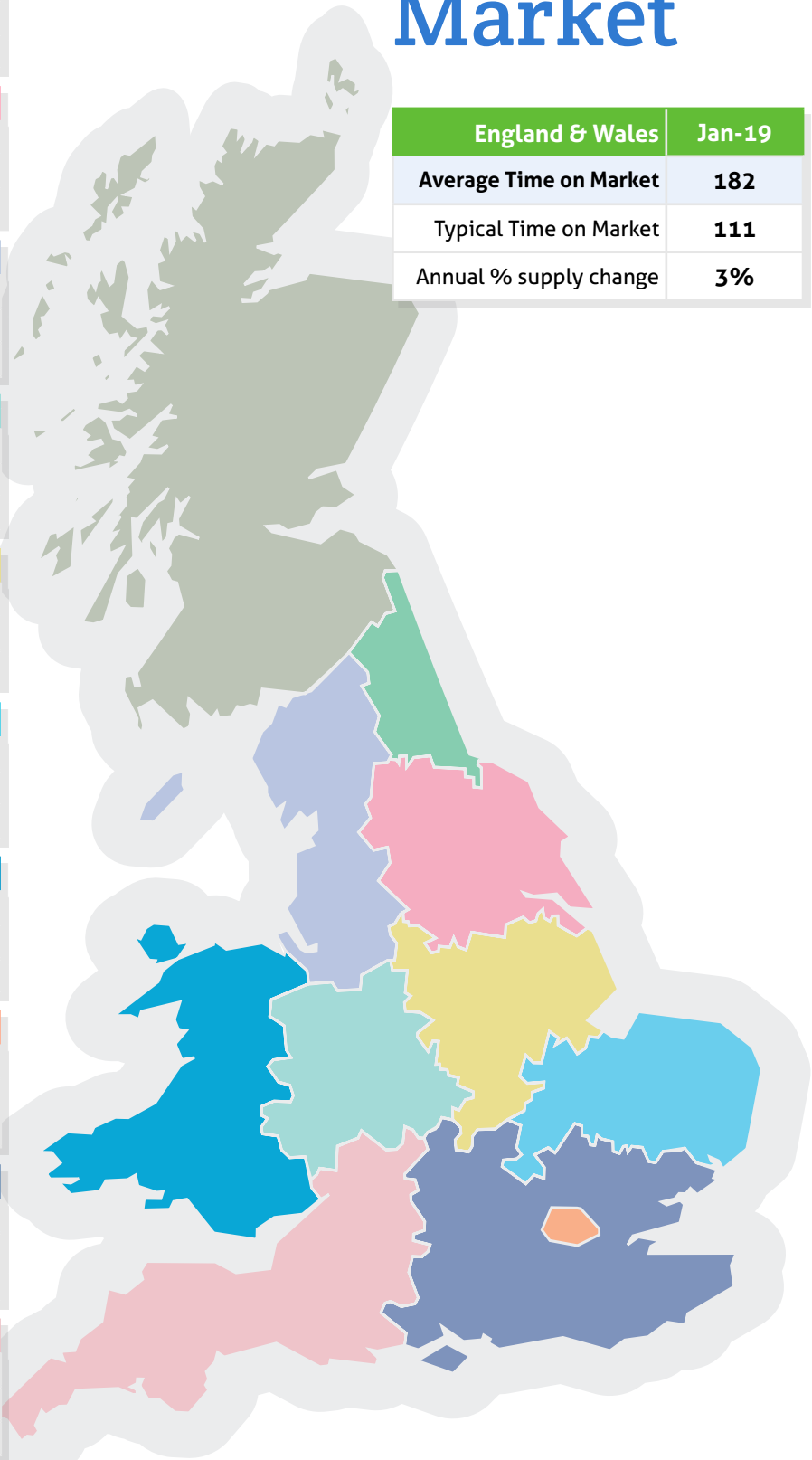
Wales	Jan-19
Average Time on Market	240
Typical Time on Market	138
Annual % supply change	1%

Greater London	Jan-19
Average Time on Market	181
Typical Time on Market	111
Annual % supply change	-13%

South East	Jan-19
Average Time on Market	153
Typical Time on Market	101
Annual % supply change	0%

South West	Jan-19
Average Time on Market	167
Typical Time on Market	106
Annual % supply change	9%

England & Wales	Jan-19
Average Time on Market	182
Typical Time on Market	111
Annual % supply change	3%



Source: Home.co.uk Asking Price Index, January 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

- For media enquiries please contact:
press@home.co.uk
0845 373 3580
- To learn more about Home.co.uk please visit:
<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:

- Tuesday 12th February
- Tuesday 12th March
- Friday 12th April