

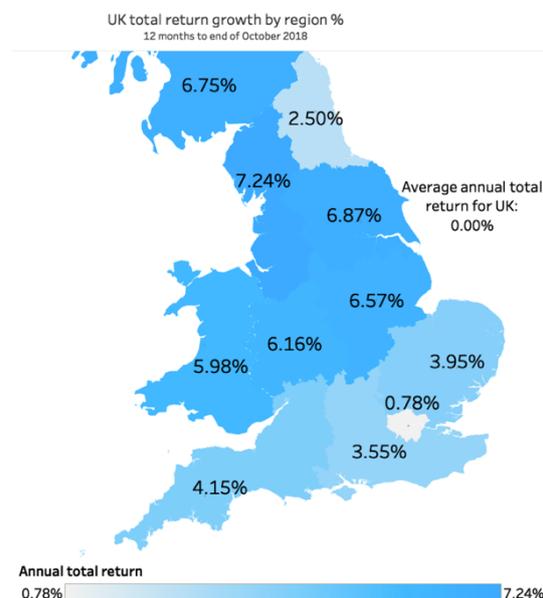
## UK Residential Property Market Index: November 2018

- The Property Partner UK residential property index showed a total return to investment of **0.0%** in October, with capital growth of **-0.24%** and a net income return of **0.24%** for the month.
- Over a 12-month period the total return was **5.29%**, with capital growth of **2.24%** and an income return of **2.99%**.
- The index measures the change in average house prices and rents from the Land Registry and ONS, applying deductions for operating costs and refurbishment to generate a net total return to investment. It uses the latest figures available.

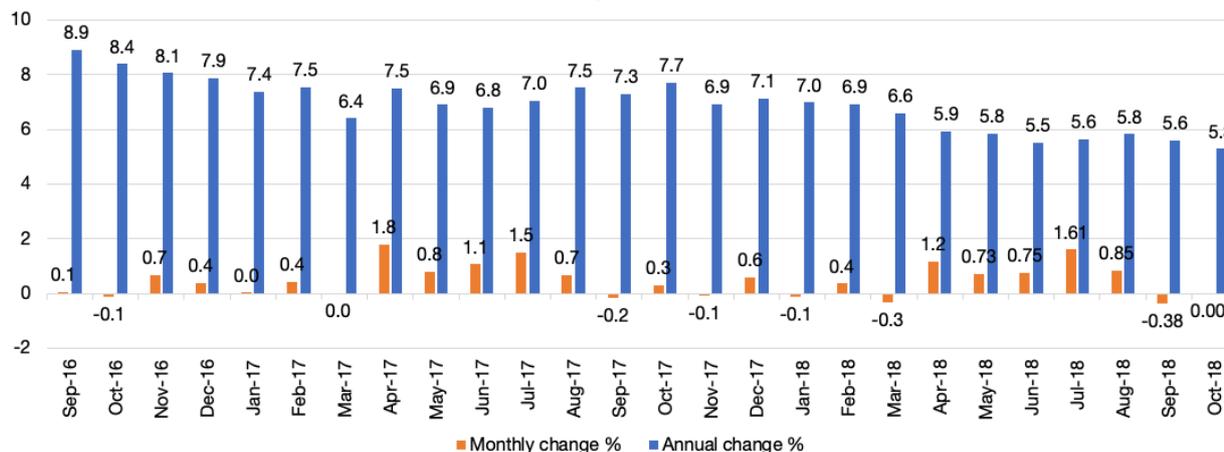
UK residential investment index performance at 31 Oct 2018	Income return %	Capital growth %	Total return %	Rental value growth %
Monthly return %	0.24	-0.24	0.00	0.06
Annual return %	2.99	2.24	5.29	0.90
5-year average annual return %	3.19	5.10	8.44	1.78
10-year average annual return %	3.38	2.60	6.06	1.65

UK residential property continues to demonstrate strong performance, with a small pickup in the annual total return to **5.29%**. This is slightly below the average level seen over 12-month periods in the past two years, due to slower house price growth.

On a regional basis, the North West was the strongest performing region over the past 12 months with a total return of **7.24%**, while London delivered the lowest return of **0.78%** due to weakness in the prime end of the market.

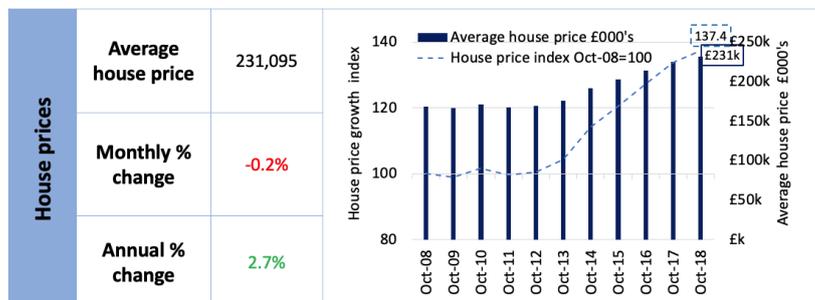


### UK residential property investment total return %



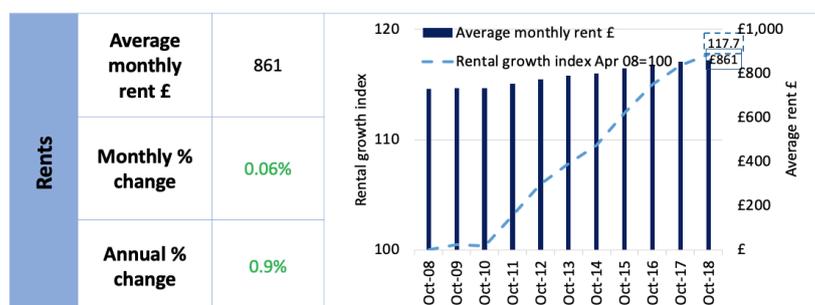
## UK residential market trends, November 2018

### UK residential market indicators



The UK residential property market continues to remain resilient in the face of broader economic uncertainty.

Average house prices stood at £231k at the end of October, when looking at all UK property transactions, according to the Land Registry UK HPI. This represents an increase of 2.7% over the previous 12 months, and is above inflation (CPI 2.4%), albeit below the long-term house price growth trend of 7.5% p.a. This suggests demand for housing continues to outstrip constrained supply, in spite of historically high prices and a climate of Brexit related economic uncertainty.



The average cost of renting property increased fractionally to £861 in October, with annual rental growth steady at 0.9%. This is below the longer-term trend of closer to 2% per year, as well as wages and other prices in the economy. This indicates that the real cost of renting has reduced slightly in the past year, on average across all regions.



The overall UK residential sales market remains active in spite of the regular reports of slowing listings and buyer demand from traditional estate agents, hinting at increased competition in that industry and a focus on London, where activity dropped off noticeably in 2018.

114,840 residential transactions were registered in November, a 7.4% increase on November 2017, bringing the total number to almost 1.2m over the course of 12 months. This is -2.1% below the previous 12-month period, reflecting a degree of slowdown, but still well above the post financial crisis average.



At the same time mortgage approvals have dropped by -3.2% over the past 12 months. This indicates a modest increase in the proportion of cash buyers in a climate where lending criteria remain tight in spite of extremely low borrowing costs. Falling demand for finance from buy-to-let investors, put off by the removal of mortgage interest rate relief, is undoubtedly a factor.

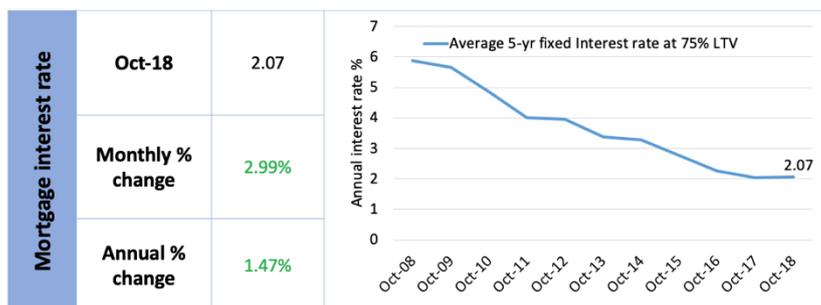


Private sector housing completions increased by 14.2% in 2017, yet remain well below pre-financial crisis levels. With overall net additions of 217,000, this is still short of the 250,000 additional homes the government believe are required each year to meet demand.

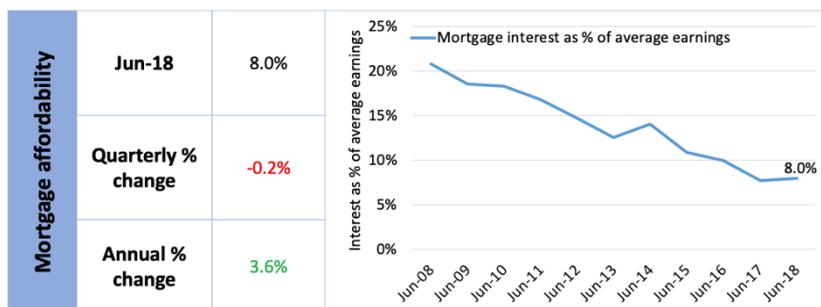
## Housing affordability



UK house prices were 8.4 times the average individual earnings in October, albeit with significant regional variation, which represents a small decrease over the past 12 months. House prices have grown at a lower rate than wages, which have increased by 3.9% over the past 12 months, and suggests housing has become slightly more affordable for the first time since 2012. The peak level reached in 2007 prior to the financial crisis (August 2007) was 8.6x.



In spite of high house prices, overall affordability among existing home owners is strong given the extremely low cost of servicing mortgages. The average interest rate on a 5-year fixed deal at 75% LTV is currently a shade over 2%, compared to more than 6% in 2008. The average cost of mortgage interest was 8% of average earnings in Q2 2018, which is far lower than historical norms.



Bank of England data shows half of UK homes are currently mortgaged (13.5m / 27m). The total mortgage value is £1.4 trillion, representing 20% of the total housing stock value of approximately £7 trillion and an average LTV among those mortgaged properties of under 47%.

Low levels of debt and low costs of servicing debt mean overall affordability among home owners is strong, providing a significant buffer against potential future interest rate rises. BOE guidance indicates interest rates are set to remain low by historical standards.

### Data Sources

UK house price index, Land registry, ONS  
 Private rental index, ONS  
 Average rental levels, ONS  
 UK residential property transactions, HMRC  
 Mortgage approvals, Building Societies Association, Bank of England  
 Housing completions, Building Societies Association, Communities and Local Government  
 Average wages, ONS  
 Average mortgage interest rate; Bank of England

## UK Property Market Forecast 2019

### **A look back to UK property in 2018**

The UK housing market has experienced below average growth in 2018. Brexit-related uncertainty has dissuaded some foreign buyers, which compounds the government's sustained crackdown on buy-to-let investors. Housing also remains unaffordable for some would-be buyers.

Nevertheless, the broader picture is of continued growth and stability, albeit with significant regional variation. The ONS UK HPI shows UK house prices increased on average by 2.7% in the 12 months to the end of October. This is above other prices in the economy, with CPI inflation up by 2.4% over the period.

By the same token, overall transactions in the 12 months to the end of October numbered 1.19m. This is just -2.1% lower than one year ago, and very much in line with the last 5 year trend.

### **Trading activity on the Resale Market**

Property Partner's own marketplace has broadly mirrored the wider market. Our investors are demonstrating greater appetite for residential blocks in the midlands and North, as well as high yielding Purpose Built Student Accommodation.

By contrast, demand for low yielding London properties has reduced markedly. Such assets typically trade at discounts to underlying asset value on our Resale Market. With a smaller number of buyers now holding the whip hand, they've been able to price in uncertainty and secure attractive deals on investments in the capital.

### **Property outlook for 2019**

Our expectations are for more of the same in 2019, at least until some clarity returns as to the UK's future relationship with the EU. In the meantime we see the UK residential market as a land of opportunity for patient investors who can move quickly and buy in cash. They can more often take advantage of sellers who need to extract capital and accept lower prices.

Looking to Q1 2019, a sudden happy ending to Brexit could provide a positive bounce for the market. However, we view it as prudent to plan for further uncertainty and market cooling. We are adopting a firmly opportunistic approach to our Q1 2019 investment strategy.

Ultimately, the fundamentals of the UK housing market have not changed since the EU Referendum and will not change in 2019. A shortage of supply of good quality accommodation across tenure types, in the face of growing demand for housing, will continue to support house price growth in the medium to long term.

Similarly, the 80% of dwellings held by owner occupiers (63%) and social landlords (17%) don't trade like a commodity. They are therefore likely to continue to demonstrate a stickiness to their pricing, in the face of cooling investor market sentiment.

Consensus also forecasts that interest rates will remain low for the long term. This will help ensure affordability among a sufficiently large pool of potential buyers to keep the market ticking over.

Ultimately, UK property still represents a resilient, income producing investment. It is not subject to the short term sentiment-based volatility of the stock market and other asset classes.

We believe that UK property investments completed in 2019 will continue to deliver the strong performance over the next 5 to 10 years, which investors have become accustomed to over the previous 20 years.

**Capital at risk.** The value of your investment can go down as well as up. The Financial Services Compensation Scheme (FSCS) protects the cash held in your Property Partner account, however, the investments that you make through Property Partner are not protected by the FSCS in the event that you do not receive back the amount that you have invested. Past performance is not a reliable indicator of future performance. Gross rent, dividends and capital growth may be lower than estimated. 5 yearly exit protection or exit on platform subject to price & demand. Property Partner does not provide tax or investment advice and any general information is provided to help you make your own informed decisions. Customers are advised to obtain appropriate tax or investment advice where necessary. Please read [Key Risks](#) before investing.