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PROPERTY MARKET REVIEW

DECEMBER 2016



Our monthly property market review is intended to provide background to recent developments in property markets as well as to give an indication of how some key issues could impact in the future.

'Financial Stability Report' highlights risks to commercial property market

According to the recent Bank of England's (BoE) Financial Stability report: *"There is a risk of further adjustment in the commercial real estate market that could create financial stability risks, given the reliance of the market on inflows of foreign capital and, in some segments, stretched valuations."*

It went on to highlight that although it believed that the market as a whole was stabilising, certain segments, particularly the London market, appeared to be under greater pressure than others.

With open-ended funds somewhat vulnerable to a reduction in demand from foreign investors, the recent fall in the value of sterling has managed to continue to attract foreign investment in the sector.

London not necessarily the epicentre for investment

In many investors' eyes, central London is considered the epicentre of commercial property activity, however this is not necessarily the case anymore. Given the expectation of high rents in the 'core' London market, investors are looking further afield to either the periphery of the capital, or other major UK cities for ongoing commercial property investment.

Brexit expectations may lessen the probability of rent increases in the core London market, but contrary predictions from the Office for National Statistics forecast population growth in the capital of 13.7% by 2024, therefore, demand for office space in central London may in fact increase in the longer term.

Low availability of regional office space and logistics warehouses

Savills recently released 'Key themes in UK real estate' report, indicates that occupiers in all sectors of the commercial property market are still assessing the impact of the referendum on the future paths for their businesses. With exit negotiations likely to be lengthy, businesses will continue to make property decisions and tenants are likely to demand greater flexibility when signing new leases. The report also points out that sterling weakness, combined with the income security that UK leases offer, will stimulate a further increase in non-domestic interest in commercial property in the UK. This trend will extend beyond the capital. The next five years are expected to see record levels of non-domestic investment regionally.

The report also highlights key commercial property picks for 2017, including dominant logistics warehouses and high quality regional offices, whose availability is low and demand has been unaffected by Brexit uncertainty. Key locations for warehouses are the Midlands and M25, though high rents may stimulate some drift to their edges. Demand for office space, particularly refurbished space in the £20-24/sq. ft. range, is likely to be supported by the growing trend of the relocation of firms outside of the capital, according to Savills.

"There is a risk of further adjustment in the commercial real estate market that could create financial stability risks, given the reliance of the market on inflows of foreign capital and, in some segments, stretched valuations."

HOUSE PRICES HEADLINE STATISTICS

HOUSE PRICE INDEX (OCT 2016)*	113.6*
AVERAGE HOUSE PRICE	£216,674
MONTHLY CHANGE	0.1%
ANNUAL CHANGE	6.9%

*(Jan 2015 = 100)

- Average house price stands at **£216,674**
- Annual house price rise **6.9%**
- Average London property price now **£474,475**, down 1.2% on the month

Source: The Land Registry / Release date: 13/12/2016
Next data release: 17/01/2017

HOUSE PRICES PRICE CHANGE BY REGION

REGION	MONTHLY CHANGE (%)	ANNUAL CHANGE (%)	AVERAGE PRICE (£)
ENGLAND	-0.1	7.4	£232,655
NORTHERN IRELAND (QUARTER 3 - 2016)	0.8	5.4	£124,093
SCOTLAND	0.8	4.0	£143,131
WALES	1.0	4.4	£147,065
EAST MIDLANDS	1.0	7.5	£176,084
EAST OF ENGLAND	1.3	12.3	£279,148
LONDON	-1.2	7.7	£474,475
NORTH EAST	-1.3	2.7	£124,749
NORTH WEST	-1.2	4.6	£148,586
SOUTH EAST	0.5	9.1	£312,509
SOUTH WEST	0.2	7.2	£240,322
WEST MIDLANDS REGION	-0.7	6.2	£177,937
YORKSHIRE AND THE HUMBER	-0.2	4.2	£150,401

UK UNEMPLOYMENT FIGURES

- There were **31.76** million people in work
- Unemployment falls by **103,000** people compared with one year previously
- There are **8.91** million people who are economically inactive

Jobless total

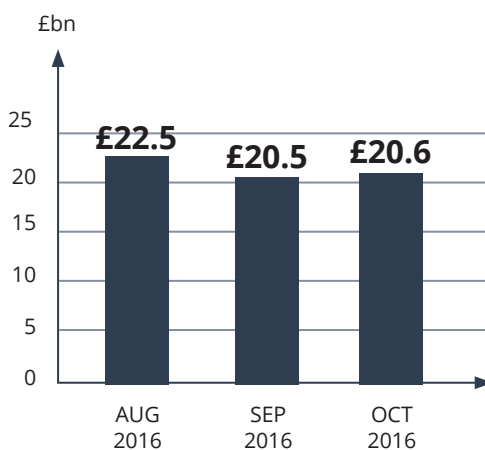
1.62m

Unemployment rate

4.8%

Source: Office for National Statistics
Release Date: 14/12/2016

MORTGAGE ACTIVITY



- Home-owner and buy-to-let remortgage lending running at strongest level since 2009
- Change in stamp duty on second properties weakens buy-to-let house purchase lending
- First-time buyers borrowed £4.5bn, down 8% on September and 2% on October last year

Source: Council of Mortgage Lenders
Release date: 14/12/2016

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