RESIDENTIAL FORECASTS

NORTHERN ENGLAND

Northern England's largest cities are leading the way in urban living. Manchester is the unofficial capital of the purpose built private rented sector and the Northern Powerhouse initiative will continue to provide a political and economic boost for the region. The key challenge is to generate enough housing to meet the significant demand.

UK Research, February 2017
Northern England Residential Forecasts
jll.co.uk/residential

RESIDENTIAL

OUR VIEW
NORTHERN ENGLAND

Northern England's main cities are beginning to thrive again. Manchester, the UK's second city, is flourishing amid strong housing demand and significant development activity and is becoming increasingly global. Leeds and Liverpool are also now looking forward with greater confidence. The region will benefit further from the Government's Northern Powerhouse programme.

JLL RESIDENTIAL, NORTH
STEPHEN HOGG

Brexit progress

The political and economic outlook is quite uncertain as a result of the EU referendum vote. Prime Minister Theresa May has stated that the UK will invoke Article 50 of the Lisbon Treaty by the end of March but this is likely to be just one of many milestones along the road to Brexit.

Rhetoric and sentiment will undoubtedly fluctuate en route to our exit but there have been encouraging economic signs since the vote last June. These suggest that UK and regional economies have been more resilient, less vulnerable and indeed more positive since the referendum.

However, most economic forecasts are still predicting a shallower economic growth and employment growth profile than would otherwise have been the case. This said, economic growth across Northern England is projected to be 1.5% pa between 2017 and 2021. The highest rate of growth is forecast to be in the financial & business services sector which is expected to expand by 2.4% pa during this time.

Northern Powerhouse

Northern England prospects have been boosted by the Government's Northern Powerhouse initiative. While the North West and Yorkshire and The Humber regional economies are set for a more prosperous few years, it will be the employment hubs of Manchester, Leeds and Liverpool that will lead the way.

The Manchester city centre residential market has been one of the UK's leading markets for price and rental growth for several years now, and that looks set to continue. This has led to a considerable increase in development activity. Until this new supply is completed, however, residential demand is significantly outweighing available supply and is creating pressures within both the sales and lettings markets.

Leeds has a significant amount of pent up demand for city centre residential property and there has also been strong demand for development land – a strong sign of confidence in the city. Now is the time for new schemes to come forward.

Liverpool is a rapidly transforming city with major regeneration activity taking place, particularly in the docklands. The city is now firmly at the top of many investor's hit lists and looks set to outperform other regional cities in terms of price and rental growth.

City centre and PRC evolution

Perhaps the greatest housing market changes over the past 10-15 years have been around city centre living and renting. During the last couple of economic downturns it has been city centre residential markets which have proved most vulnerable and susceptible to price corrections. This was largely due to the reliance on the buy-to-let sector in terms of sales and the seemingly fickle nature of rental demand.

This time around our analysis, judgement and forecasts suggest that residential property performance will be stronger in city centres than in traditional housing in out of town locations. This derives from a complete turnaround in the appetite, desire and view towards city centre living. The strength and pace of change has also led to the emergence of the Private Rented Community (PRC) institutional investment model. Progress has been slow but is now gathering momentum. Indeed, Manchester is leading this drive with several specialist PRC developments set to be delivered over the next few years.

Optimistic outlook

So city living has returned with gusto and we expect city centre residential markets to outperform suburban and rural counterparts in terms of sales price and rental growth over the next five years. This trend will undoubtedly draw heightened interest from developers and housebuilders and we expect competition for land in these locations to intensify.

Unfortunately there is an insufficient number of suitable sites in the main city centres and we expect this to lead to an even greater excess of demand relative to supply. Northern England as a whole, and particularly the cities of Liverpool, Leeds and Manchester, have a real task on their hands to deliver the housing that the growing population needs. New Government policies will help to some extent, but we anticipate the UK's housing market supply issues, which also bring sound property performance, to continue for some time to come.

OUR FORECASTS

HOUSE PRICE FORECASTS (% pa)	2017	2018	2019	2020	2021	2017-2021*
Manchester	7.0	6.5	3.5	4.0	4.5	28.2
Liverpool	4.5	5.0	3.0	4.0	4.5	22.8
Leeds	2.0	4.0	4.0	4.5	5.5	21.6
UK	0.5	1.0	2.0	4.0	5.0	13.1

RENTAL GROWTH FORECASTS (% pa)	2017	2018	2019	2020	2021	2017-2021*
Manchester	3.0	3.5	4.0	4.0	4.5	20.5
Liverpool	2.5	3.0	3.5	3.5	4.0	17.6
Leeds	5.0	5.0	4.0	3.5	3.0	22.2
UK	2.5	3.0	3.5	3.5	4.0	17.6

HOUSE PRICE GROWTH (% pa)	2017	2018	2019	2020	2021	2017-2021*
Greater London	1.0	2.0	3.0	5.0	7.0	19.2
South East	1.0	1.5	2.0	4.0	5.5	14.7
Eastern	1.0	1.5	2.5	4.0	5.5	15.3
South West	0.0	0.5	1.5	3.5	4.5	10.3
East Midlands	0.5	1.0	2.0	3.5	5.0	12.5
West Midlands	0.5	1.0	2.0	3.5	5.0	12.5
Yorkshire & Humbs	0.5	1.5	2.0	4.0	5.0	13.6
North West	2.0	2.0	3.0	4.5	5.5	18.1
North East	-1.0	0.0	1.0	3.0	4.0	7.1
Wales	-1.0	0.5	1.0	3.0	4.0	7.6
Scotland	0.0	1.0	2.0	3.0	4.5	10.9
UK	0.5	1.0	2.0	4.0	5.0	13.1

ACTIVITY AND DEVELOPMENT (000s)	2017	2018	2019	2020	2021	2017-2021*
UK transactions	1,080	1,110	1,150	1,200	1,260	1,160
England housing starts	134	134	136	140	146	138
England housing completions	145	140	135	135	136	138

* 2017-2021 cumulative figures

NORTHERN POWERHOUSE SUCCESS

The Northern Powerhouse initiative is proving highly successful both on the ground and in terms of profile. Manchester continues to be the leading light but the wider region is also benefitting. Although there is still some business sector rebalancing to conclude, other sectors of the economy are expected to grow rapidly. The economic outlook for Northern England, and for its key cities in particular, looks bright.

Strong economic growth expected

The expansion of the Northern England economy over the next five years will be supported by significant investment in business and infrastructure. The cities and towns within this region form part of the Government's Northern Powerhouse strategy which aims to boost economic growth in the region and address productivity barriers.

As a result, Northern England is set to benefit from improved connectivity, investment in science and innovation as well as devolution by way of city deals, helping to ensure the economic prosperity of the region for future generations, as well as improving the quality of people's lives.

Economic growth across the region is projected to be 1.5% pa between 2017 and 2021. The highest rate of growth is forecast to be in the financial & business services sector which is expected to expand by 2.4% pa during this time.

Manchester and Leeds in particular should benefit from devolution. Greater mayoral power should facilitate better decision making as to where funds would most benefit these local areas. Additionally, High Speed 3, the planned route between Manchester and Leeds, as well as other more immediate transport infrastructure initiatives, will play a notable role in encouraging economic growth both in and between these cities.

Compared with the rest of Northern England, economic growth in Manchester, Leeds and Liverpool is projected to be higher. The economy in Manchester is forecast to expand by 2.3% pa between 2017 and 2021 while Leeds is predicted to see 1.9% pa economic growth over the same period. Economic growth in Liverpool is anticipated to be 1.5% pa over the next five years.

Jobs growth is sector dependent

Boosted by the Northern Powerhouse initiative, additional job opportunities will be created in the region over the next five years. However, given anticipated job losses in some sectors of the economy, overall employment in Northern England is only forecast to grow by 0.2% or 12,400 jobs during the 2017-21 period.

The greatest growth is set to be in the financial and business services sector where the number of jobs is expected to rise by 72,000, a 4.7% expansion, during the five years to 2021. The retail and accommodation sector is also predicted to perform well with a projected 22,000 new jobs set to be created, an increase of 1.3%.

The public sector and the manufacturing and utilities sectors in Northern England are, however, predicted to see a decline in jobs, as they are across the UK. They are expected to contract by 2.4% and 7.3% respectively during the 2017-21 period. Overall though, the expansion of the higher performing sectors in Northern England is expected to outweigh the decline in other sectors.

Employment growth in Manchester and Leeds is expected to increase at a rate well above the Northern England average during the 2017-21 period. The growth in employment in Manchester is forecast to be 4.5% during the next five years, while the number of jobs in Leeds is expected to rise by 2.2%. Liverpool is predicted to see a 0.8% increase in jobs during the next five years.

Housing expansion

With a growing population in Northern England, the number of households is set to increase by 209,000 over the next five years. This equates to almost 42,000 new households each year across the region.

Many of the new households will be in Manchester, Leeds and Liverpool. The number of households in Manchester is forecast to grow by 3,300 a year, in Leeds 2,200 a year and in Liverpool 2,000 a year over the 2017 to 2021 period.

A major challenge for Northern England will be how to provide sufficient levels of housing to accommodate the anticipated rise in households. Recent construction levels of around 32,000 homes a year is well below the projected increase in household formation of nearly 42,000 per annum.

GDP GROWTH FORECASTS BY SECTOR, NORTHERN ENGLAND 2017-2021

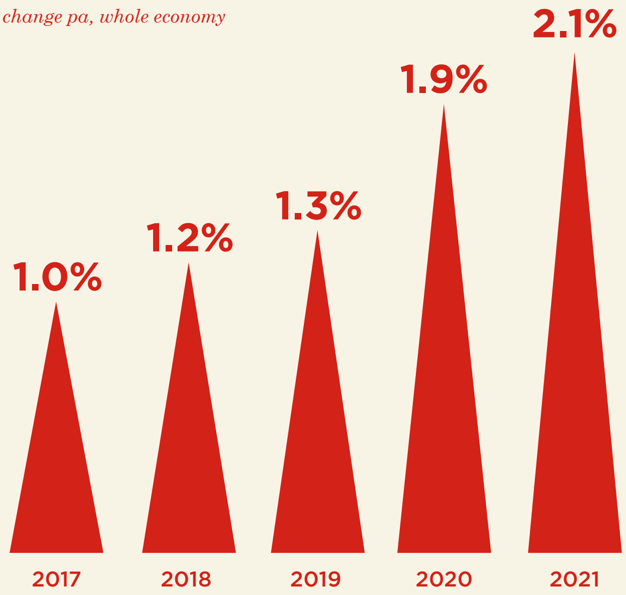
% change pa 2017-2021

1	Financial & business services	+2.4
2	Transport, communications & construction	+1.9
3	Retail & accommodation	+2.0
4	Manufacturing and utilities	+1.0
5	Public sector	+0.2
6	Other	+0.9
	TOTAL	+1.5

Source: JLL, Oxford Economics

GDP GROWTH FORECASTS

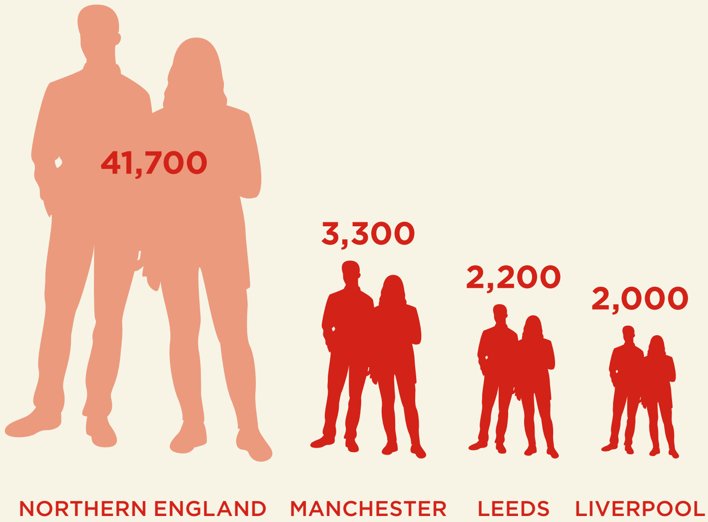
% change pa, whole economy



Source: JLL, Oxford Economics

HOUSEHOLD EXPANSION FORECASTS

Expected change in number of households pa 2017-2021



Source: JLL, Oxford Economics

Northern England combines the regions North East, North West and Yorkshire & The Humber

CITY CENTRE MARKET
MANCHESTER

Manchester city centre is currently one of the hottest residential markets in the UK. Rapid population growth, a lack of new supply, a buoyant local economy and scores of international investors and UK institutions jostling for position on key large-scale sites all contributed to 15% average capital value growth in 2016. JLL forecasts that Manchester will once again be the market to watch in 2017.

Sales market

In the immediate aftermath of the EU Referendum, housebuilders were focused intently on the sales performance of their trading outlets to look for the first signs of any impact upon consumer confidence and the direction of travel for the market.

In a testament to the strength of the Manchester city centre residential market, as the Summer progressed, developers were all reporting sales results that were either unaffected or in most cases, better than the same trading period of last year.

As with the past few years, price growth in Manchester city centre has significantly outperformed the regional and national averages due to a critical immediate lack of supply to meet demand.

Manchester's city centre population has risen fivefold in just 15 years from 10,000 in 2000 to more than 50,000 in 2016. The rapid population growth is expected to continue over the next 10 years with the city centre expected to be home to more than 80,000 people by 2024.

Average prices of one and two bedroom flats in the city centre were circa £150,000 and £230,000 respectively at the end of 2016, having increased by 15% on average during the year.

Demand at the prime end of the market continued to strengthen. Prime one bed flats now average £190,000 with prime two bed flats averaging £325,000.

Rentals market

The city centre lettings market was very buoyant in 2016. Two thirds of the Manchester city centre population are private renters. New build rental demand predominantly comes from young professionals, new graduates and the city's 80,000 full-time students.

At the end of 2016 average rents for one and two bedroom flats in the city centre were circa £875pcm and £1,100pcm respectively with prime rents at £1,100pcm and £1,600pcm. Rents increased by 6.9% on average during the year following growth of 8.5% in 2015 as a small amount of the rental price pressure caused by a lack of supply eased with the delivery of the first phase of LaSalle Investment Management's Greengate scheme. However, this scheme was 70% let within just 8 weeks highlighting the level of pent up rental demand.

Two thirds of the Manchester city centre population are private renters. While some are renting out of choice and convenience there are additionally others who are renting because they cannot yet afford to buy.

Development market

Manchester city centre is currently one of the most significant residential development markets in the UK. This is reflected by the strength of interest from both national and international investors and there is currently a development pipeline in excess of 20,000 units.

However, the vast majority of those units are at the pre-planning stage and only around 10% are currently under construction. Meanwhile the city centre has seen, and continues to see, significant population growth creating a shortfall in delivery currently of more than 1,000 homes pa.

Despite there being a large number of homes in the planning process there is likely to be an undersupply in the next 3-5 years due to the strong economic performance of the city centre continuing to create significant population growth. There is not likely to be any large scale completions until 2019, which will continue to fuel strong price growth.

Some significant new developments started on site in 2016 including the English Cities Fund's 750-unit New Bailey scheme and Moda Living's 460-unit Angel Gardens at the heart of the £800m NOMA 20-acre mixed use regeneration project.

Schemes are now being delivered at all levels of the market in response to a key demand trend for apartments with higher specification and for schemes with better amenities such as resident lounges, gyms and concierge.

MANCHESTER CITY CENTRE

SALES MARKET

AVERAGE

£150k	£230k
1 bed	2 bed

PRIME

£190k	£325k
1 bed	2 bed

RENTAL MARKET

AVERAGE

£875	£1,100
pcm	pcm
1 bed	2 bed

PRIME

£1,100	£1,600
pcm	pcm
1 bed	2 bed

PRICE GROWTH

2014	6.3%
2015	9.5%
2016	15.0%

RENTAL GROWTH

2014	10.0%
2015	8.5%
2016	6.9%

Source: JLL

LAND MARKET & OUTLOOK
MANCHESTER

Land market

During the uncertain period in the run up to the EU Referendum, commitment to land transactions was understandably unsettled. However, normal land buying activity resumed as the Autumn progressed mirroring the underlying strength and resilience of new homes sales in the city centre.

Land sales in strong market areas with limited competing supply concluded as originally agreed pre-Brexit, but some sales in secondary areas were delayed with some price renegotiation.

There was a modest softening of land values in 2016 with developers now taking a more conservative view of projected sales growth and sales rates; and many have marginally increased profit margins as added coverage should the market toughen as a result of economic uncertainty.

Consequently, the spread of pricing on bids has converged with a reduced likelihood of an 'outlier' bid from a developer taking a cut in margin in order to knock out the competition. Nonetheless, there is an increasing depth to the market with greater appetite from large private housebuilders and SMEs.

Furthermore, the market is also benefiting from an improvement in development activity from affordable housing providers who are increasingly becoming active in land acquisition. Often, this is to deliver speculative open market product in order to generate profits to supplant declining government funding support.

This sector of the market is expected to continue to play a more prominent role in the land market with affordable housing providers bringing competition to large suburban family housing sites that would have traditionally been the preserve of the listed volume housebuilders.

Private Rented Communities

The first large scale PRC was delivered in Manchester in 2016 – LaSalle Investment Management's 500-unit Greengate scheme. This proved to be a great success in terms of take up rates and rents achieved. It demonstrated the appetite in Manchester for purpose built private rental accommodation and the benefits of amenities in terms of take up.

Tenants have quickly seen the attraction of what a PRC can mean for them in terms of service and facilities. Let up rates hit 20 units per week at Greengate with many tenants making the decision to rent after having only seen the facilities.

There remains a significant and growing interest from institutional investors in the city's PRC market with the majority of large scale investors looking to build a portfolio including at least one Manchester scheme.

This is reflected by the fact that there are more than 20 proposed PRC schemes in Manchester city centre totalling circa 9,000 units.

Outlook

Manchester city centre is JLL Residential Research's number one market for capital value growth prospects over the next five years, and is expected to be among the best performers for rental growth as well.

International interest in the city continues to grow year on year.

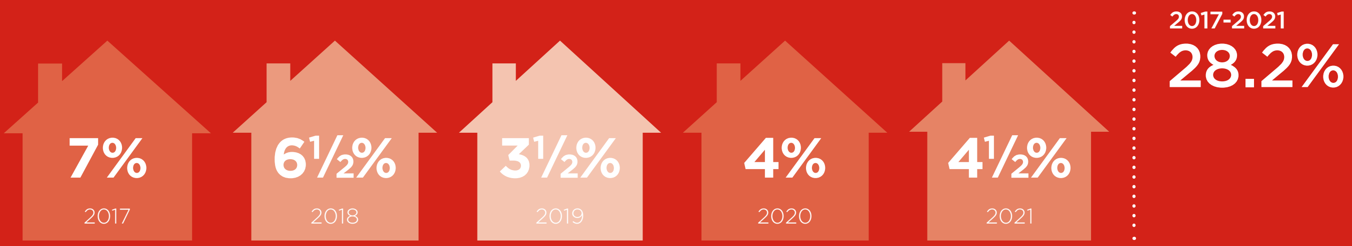
There will remain a dearth of new stock finishing over the next couple of years and that which does complete is expected to be heavily weighted towards the private rental market creating significant price growth pressure for the open sale market.

As a result, JLL is forecasting sales prices to rise by 7% in 2017 and by an average of 5.1% pa over the 2017-2021 period.

We are also predicting strong rental growth, with rents expected to increase by 3% in 2017 and by an average of 3.8% pa over the five years 2017-2021.

MANCHESTER HOUSE PRICE FORECASTS

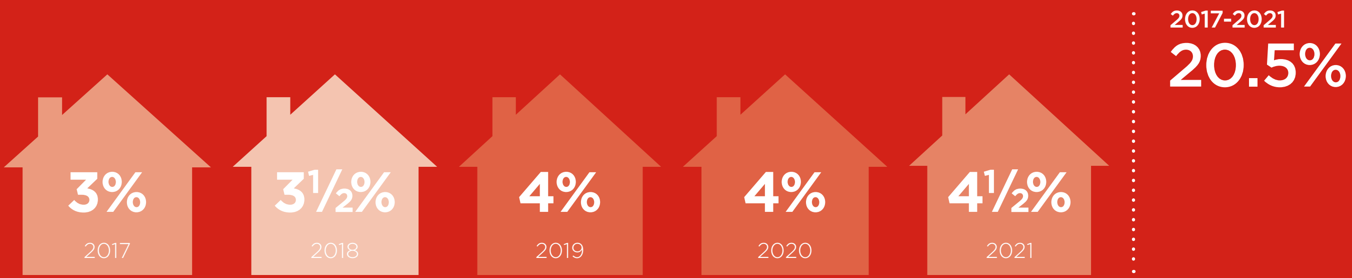
% change pa



Source: JLL

MANCHESTER RENTAL GROWTH FORECASTS

% change pa



Source: JLL

"Manchester city centre is severely starved of supply which in turn is pushing price growth. We have seen increased levels of international investor interest over the course of 2016 and expect this to continue during 2017 and onwards. Both UK and international investors are increasingly turning their attention away from the traditional hotspot of London towards Manchester, buoyed by more favourable capital and rental growth."

Louise Emmott
JLL Residential, Manchester

CITY CENTRE MARKET
LEEDS

Despite uncertainty surrounding Brexit, national and international investor interest in Leeds has been growing. The city centre residential market is dominated by affluent young professionals, which in turn is attracting significant investment in the private rental sector. The first Private Rented Communities are now being delivered which will finally begin to satisfy the rental population's desire for a higher value offering in Leeds.

Sales market

The sales market in Leeds remains active and demand for all property sizes is strong. However, a shortage of high quality apartments remains a significant issue for the market. This lack of supply has underpinned modest price increases despite the uncertainty created by the EU Referendum result.

There has been a marked increase in interest from both national and international investors for Leeds city centre residential property. Prices in Leeds look low when compared with other major UK regional cities such as Manchester and Birmingham as well as smaller local markets such as York and Harrogate.

Typical prices of one and two bedroom flats in the city centre were circa £120,000 and £180,000 respectively at the end of 2016, having increased by 4.2% on average during 2016. Our expectation is that as the first significant, well located new developments in the city are brought forward, the stimulus to the market will result in an increase in turnover and a price improvement to bring those schemes more in line with comparable regional city centres.

Rentals market

The lettings market in Leeds remains strong for all types of accommodation. Private rental properties account for circa 75% of all city centre residential units. Demand is predominantly from young professionals and the city's 50,000 students, particularly overseas students. More than 80% of the city centre population is aged between 15 and 34. This impacts rental demand as many in this age group have not yet raised the capital for a housing deposit, while others are renting out of choice in the city centre to take advantage of its employment and leisure offerings.

Over the past five years there has been little development to alleviate the imbalance of excess demand compared with supply. Some of that pressure diminished slightly in 2016 and whilst rents have continued to increase steadily, they have not maintained the level of growth over previous years as the sales market has become more accessible and pressure on the existing rental stock has lessened. This is illustrated by an easing of rental growth in the city with an average rise of 1.9% in 2016 compared with a rise of 6.4% in 2015 and 7.7% in 2014. However, occupancy rates remain high at around 97% and there is still a shortage of high quality stock.

Typically a one bedroom flat commands an average rent of £650 pcm, while two bedroom flats rent for an average of circa £895. Prime one bed flats rent for an average of £850pcm while prime two bed flats rent for £1,200pcm. Car parks achieve rents of circa £100pcm to £150pcm.

Development market

Leeds is one of the largest cities in the UK, however its city centre is dominated by commercial property and as a residential location it is relatively compact with around 5,000 homes. The city underwent a building boom prior to the global financial crisis, but subsequently new housing development ground to a halt. After a long period of relatively low activity the first signs of new development occurred in 2016.

The eagerly awaited new developments should stimulate the market, with the first new developments delivered in good locations likely to set new standards for pricing and rents.

One of the notable schemes being delivered in 2016 was JM Construction's Tate House on Bridge Street where sales have been completed on all but three of the 14 penthouses in the 74-unit scheme.

There is continued strong interest in development sites, following a run of activity in the past 24 months. Schemes for some of these sites are currently being prepared, while others have been put on hold temporarily until the fallout from Brexit becomes clearer.

Somewhat at odds with other city centre markets, car parking is deemed to be important to achieve the highest rents and sales values in Leeds.

LEEDS CITY CENTRE

SALES MARKET

	1 bed	2 bed
AVERAGE	£120k	£180k
PRIME	£160k	£242k

RENTAL MARKET

	1 bed	2 bed
AVERAGE	£650 pcm	£895 pcm
PRIME	£850 pcm	£1,200 pcm

PRICE GROWTH

2014	5.1%
2015	6.8%
2016	4.2%

RENTAL GROWTH

2014	7.7%
2015	6.4%
2016	1.9%

Source: JLL

LAND MARKET & OUTLOOK
LEEDS

Land market

Demand for residential development land in Leeds city centre is high and has increased dramatically over the past 12-18 months. Following several years of inactivity, a number of sites changed hands during 2015 supported by an improving economy and brighter housing market conditions.

In 2016, although the demand for sites in good locations has increased, the availability of high quality opportunities has meant that land transactions are limited to a handful of sites, slightly removed from the city centre. These include a combined six acres at the former First Bus and Scientific Games sites adjacent to the former Yorkshire Chemicals site on Kirkstall Road, where planning permission exists for over 1,000 apartments and student beds. It is anticipated that these sites will be brought forward to provide a mix of uses including a significant residential element.

Purchasers have been seeking opportunities to deliver schemes for both open market sale and private rent, or a mixture of the two.

Outside the city centre, confidence is strong and housebuilders are still highly acquisitive. Having focussed on sites in prime locations over the last few years, some housebuilders are now looking to more secondary locations to balance their portfolios.

Private Rented Communities

PRCs could dominate the Leeds development market over the next five years. Of the 19 large proposed Leeds residential schemes, either with or without planning permission, 12 are expected to be developed as PRCs.

However, there is currently a lack of completed stock, leaving investors to explore forward funding options in order to secure sites in Leeds.

In Q3 2016 Grainger forward purchased the former Yorkshire Post site for £40m from YP Real Estate. The scheme will now be developed as a 242-unit PRC including 3,600 sq ft of amenities and a 3,300 sq ft commercial unit.

Several other PRC developments are expected to start on site in late 2017 or early 2018.

These include Monk Bridge, where Foundation Real Estate are proposing circa 300 PRC units as well 300 units for sale on the open market.

Negotiations, are understood to have progressed on Taylor Wimpey's former Green Bank site on Globe Road, which has an historic planning consent for 600 units.

Caddick Developments and Moda Living have two schemes at Quarry Hill and City One, totalling circa 2,000 units for which options are being explored for either PRC use or open market sale.

Outlook

The outlook for the Leeds city centre residential market is good. There is a strong local economy and an affluent workforce with two thirds of households in the city centre earning in excess of £50,000pa. There is also a pipeline of 12 consented new developments which total more than 5,000 units that are expected to start on site in the next 12-24 months.

This much needed new supply will undoubtedly stoke the market creating churn and raising prices for the better schemes.

The introduction of PRC developments will also enhance the city's rental offering. Rents within these developments may be slightly higher than the existing stock, but the city centre rental market is dominated by young professionals who are increasingly demanding a higher quality of rental product including amenities and enhanced facilities.

LEEDS HOUSE PRICE FORECASTS

% change pa

2017	2018	2019	2020	2021	2017-2021
2%	4%	4%	4½%	5½%	21.6%

Source: JLL

LEEDS RENTAL GROWTH FORECASTS

% change pa

2017	2018	2019	2020	2021	2017-2021
5%	5%	4%	3½%	3%	22.2%

Source: JLL

"Leeds is in a unique position - it has a strong economy, an unmatched retail and leisure offering, pent up demand for new housing to buy and rent and a shortfall of 7,500 homes per annum. There is strong demand for development land - a sign of confidence in the city. We now need new schemes to come forward - it would be a shame to look back at the end of 2017 and see such a great opportunity missed."

Charles Calvert
JLL Residential, Leeds

CITY CENTRE MARKET
LIVERPOOL

Liverpool is a city on the rise. Major national and international investors are beginning to buy into the growth story which is seeing game changing regeneration schemes along the docklands waterfront and in the new Knowledge Quarter. The first PRC schemes are now also coming on stream for the city's growing army of young professional and graduate renters.

Sales market

The last 18-24 months has seen a welcome sign of confidence in the Liverpool city centre sales market through the re-emergence of owner occupiers following a period of time when transactions were dominated by investors. Demand from owner occupiers is focussed on established areas in the city centre and the waterfront.

Owner occupiers account for around one fifth of all the private residential homes in the city centre. A sizeable proportion of owner occupiers are downsizers who have been attracted to river-facing schemes offering full management and maintenance services as well as a concierge. Akin to trends seen across other major UK cities they have also been attracted to live in the centre in order to be in closer proximity to Liverpool's significant retail and leisure offering.

Typical prices of one and two bedroom flats in the city centre were circa £120,000 and £195,000 respectively at the end of 2016, having increased by 6.7% on average during 2016. Prime one bed flats averaged £145,000 with prime two bed flats averaging £235,000.

Rentals market

Two thirds of homes in Liverpool city centre are privately rented. Rental demand is dominated by young professionals and graduates from Liverpool's three universities. Around half of all people living in the city centre are young professionals. Many of these people have recently entered employment, but are yet to commit to a permanent future in Liverpool. However, they are increasingly demanding a higher quality of rental offering. Contemporary furnished properties in a waterside setting which offer a high quality management service command the highest rents in Liverpool.

Demand for rental property also comes from Liverpool's 50,000 undergraduate students and 10,000 postgraduates, who together account for circa 15% of the city's total population.

As of the end of 2016, an average one bed flat commanded a rent of £695pcm, while prime one bed flats averaged £850pcm. Two bed flats averaged £900pcm with prime two bed flats averaging £1,200pcm. Rental prices increased by an average of 10.3% in 2016.

Development market

Since 2009, new development in the city centre has been focussed on the rental market, albeit on a buy-to-let basis, as opposed to single ownership Private Rented Communities. The majority of schemes have been studio-led and forward funded via individual overseas investors purchasing subject to a rent guarantee.

On the whole, activity in the development market has been relatively scarce in the years since the Global Financial Crisis. However, the past 12 months has seen some much needed activity in terms of construction starts and new planning permissions.

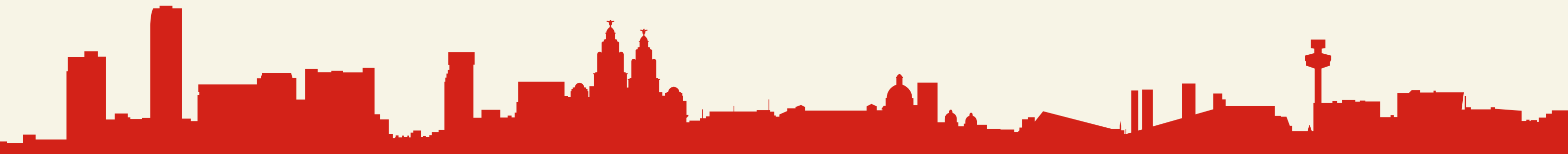
The most significant scheme by some margin is Peel Group's £5.5bn Liverpool Waters which will see the regeneration of a 150-acre historic dockland site into a major new waterfront quarter over the next 30 years.

The project includes 9,000 residential units, 1,400 hotel beds, 3.4m sq ft of office space and a substantial retail and leisure offering spread across 2km of the banks of the River Mersey. Some 800 of the residential units are now on site.

Residential neighbourhoods will range from tall building clusters at Princes Dock and Central Docks to low to mid-rise neighbourhoods at Clarence and Northern Docks.

Other notable schemes to have recently received planning permission include 21 The Strand, a prime site with a proposal for a 383 high end apartment scheme overlooking Canning Dock.

LIVERPOOL CITY CENTRE



SALES MARKET

£120k
1 bed

£195k
2 bed

AVERAGE

PRIME

£145k
1 bed

£235k
2 bed

PRICE GROWTH

2014	4.0%
2015	13.5%
2016	6.7%

RENTAL MARKET

£695
pcm
1 bed

£900
pcm
2 bed

AVERAGE

PRIME

£850
pcm
1 bed

£1,200
pcm
2 bed

RENTAL GROWTH

2014	7.9%
2015	7.3%
2016	10.3%

Source: JLL

LAND MARKET & OUTLOOK
LIVERPOOL

Land market

There is little by way of recent comparable land sales evidence in the Liverpool market with a lot of land traded off-market. As such it can be difficult to place land values. Most purchasers in the city centre market are paying circa £18,500 to £20,000 per plot for land.

Local buyers have dominated the land market in Liverpool for many years with national developers struggling to gain a foothold.

However, national and international investors are looking ever more closely at Liverpool due to a combination of the current strength of the local economy, scale of major city centre investment, and the relatively more affordable residential market compared with other major UK regional cities.

Private Rented Communities

One of the notable factors of the market in the last couple of years has been a shift in emphasis from developers seeking individual apartment sales to developers seeing bulk sales to investment funds, who will provide funding.

This is partly due to difficulty in obtaining finance, but also an increased appetite from pension funds and other institutional grade investors actively looking at securing PRC assets.

Liverpool is fast emerging as a 'must have' addition to institutional investors' growing portfolios of PRC units.

In Q4 2016 Moda Living and Apache Capital Partners received planning permission for a 34-storey £82m PRC tower called the Lexington.

The scheme, which will be among the tallest in the Liverpool Waters neighbourhood, includes 304 one, two and three bed units along with amenity space.

The project adds to Moda and Apache's growing portfolio which includes schemes in Manchester, Birmingham and Glasgow.

Outlook

Liverpool is a rapidly transforming city with major regeneration activity taking place, particularly in the docklands. The city is now firmly at the top of many investor's hit lists and looks set to outperform other regional cities in terms of price and rental growth.

There are many reasons to be optimistic about the Liverpool city centre residential market. Major investment has occurred and will continue to pour into the city, which will ultimately boost demand for housing.

The Liverpool One shopping centre and the 11,000-seater Echo Arena, both completed in 2008 have helped cement Liverpool's world renowned retail and leisure offering.

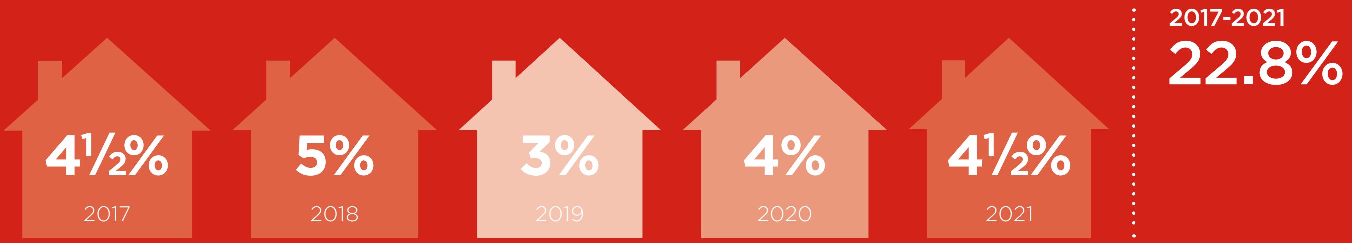
The Peel Group's £5.5bn Liverpool Waters coupled with its sister scheme Wirral Waters on the opposite bank of the Mersey will radically transform a long stretch of the city's once celebrated docklands.

Plans were also unveiled in Q4 2016 for a £2bn 450-acre Knowledge Quarter, which over the next five years will aim to turn Liverpool into a world-class destination for science, innovation, education, technology and the creative and performing arts.

Work is expected to begin in 2017 on the £1bn Paddington Village within the Knowledge Quarter which will see the creation of a 1.8m sq ft scheme of international significance specialising in life and medical sciences as well as including hotel and residential space.

LIVERPOOL HOUSE PRICE FORECASTS

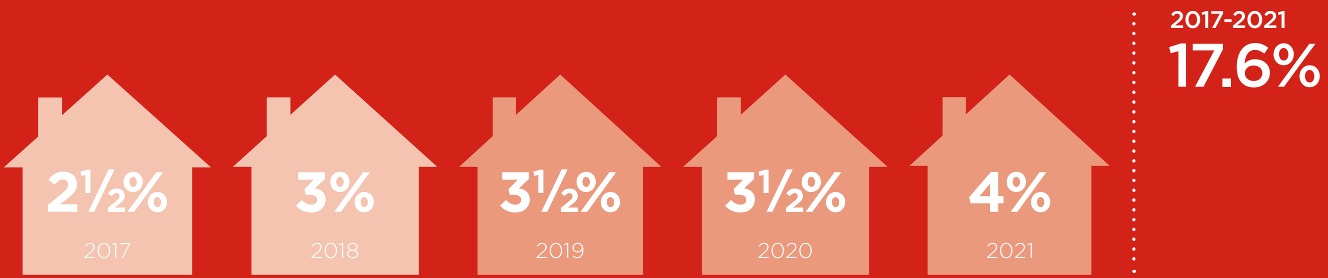
% change pa



Source: JLL

LIVERPOOL RENTAL GROWTH FORECASTS

% change pa



Source: JLL

"Liverpool is a rapidly transforming city with huge amounts of regeneration activity taking place. The city continues to outperform other regional cities in terms of rental and capital growth and is now firmly at the top of many investor's hit lists."

Robert Hogarth
JLL Residential, North West

BREXIT OUTCOME KEY TO UK ECONOMIC FUTURE

The economic and political landscape for the next five years will be particularly uncertain. The outlook is highly dependent on the negotiations, ongoing rhetoric and the final Brexit deals agreed but output growth is expected to remain positive throughout and to return to trend within five years even if a hard Brexit is the ultimate decision.

2016 Brexit influence

The vote to leave the EU has heightened both political and economic risks for the UK.

The UK economy is expected to have slowed in 2016 with business investment falling. This said, post-Brexit surveys suggest that the economic slowdown has not been as harsh as many had feared, while averting a recession now looks highly likely.

The Bank of England reacted swiftly and decisively. It cut the bank rate to just 0.25% in August from its previous historic low of 0.5%, as well as announcing other Quantitative Easing measures, in a move intended to bolster the economy.

Regardless, the economy will continue to be affected by the referendum. GDP growth, which had increased to an estimated 2.0% pa by Q4 2016 is forecast to slow in 2017. An easing in consumer and business confidence and uncertainty about the future are the principal drivers of slower growth.

The Brexit vote had an immediate impact on exchange rates with the pound notably weaker relative to all currencies. This has also led to a rise in imported inflation with CPI inflation nudging up from its low of -0.1% pa in 2015 and is expected to be as high as 1.6% pa by the end of 2016.

2017 reasonably robust

Brexit uncertainty will continue to be the overriding characteristic in 2017. Rhetoric emanating from Brexit negotiations, including the invoking of Article 50 in Q1, is likely to mean quite a turbulent time in terms of business and consumer confidence.

This will mean lower business investment, postponed capital spending and deferred employment plans. Overall business investment is forecast to fall by 1.0% in 2017 following a similar decline in 2016.

Consumer spending growth is expected to ease as the supports of very low inflation and a strong jobs market both subside.

There will be a shallow rise in unemployment, further dampening household spending power. UK unemployment is predicted to rise from 4.9% of the workforce in 2016 to 5.2% in 2017.

Overall GDP growth is predicted to slow to 1.2% pa by Q4 2017.

Medium-term 2018-2021

Despite some form of hard Brexit, the UK economy is expected to regain some forward momentum after 2017. The Brexit roadmap is likely to be a little clearer instilling a greater degree of certainty and confidence for both businesses and consumers.

GDP growth is expected to rise from 1.5% pa in 2018 towards a very respectable 2.3% pa by 2021. The bank rate is only anticipated to be increased marginally in order to maintain economic expansion momentum. Even by the end of 2021 the bank rate is only forecast to be 1.5%.

The jobs market should have returned to today's levels by 2021 while earnings growth is forecast to be as buoyant as 4.3% pa. Even exchange rates are predicted to have recovered some post-Brexit lost ground with the pound pushing above $1.30.

Forecast risks

The forthcoming five year UK economic outlook is particularly uncertain. Clearly much depends on the nature and detail of our EU exit. Our base economic forecast assumes a hard Brexit with access to the single market sacrificed in favour of immigration controls.

Despite this, the economic prognosis is not too detrimental for the UK. There is clearly downside risk to this quite benign outlook, if trade agreements and financial-sector passporting rights are not favourable.

However, this base assumption also implies that there is significant upside potential too.

UK ECONOMIC FORECASTS

	GDP GROWTH *% pa*	BANK RATE *%*	EXCHANGE RATE *£/$*	EARNINGS GROWTH *% pa*	UNEMPLOYMENT RATE *%*
2014	3.5%	0.5%	$1.56	4.0%	5.7%
2015	1.7%	0.5%	$1.48	3.0%	5.1%
2016	2.0%	0.25%	$1.23	3.2%	4.9%
2017	1.2%	0.25%	$1.26	3.2%	5.2%
2018	1.5%	0.25%	$1.25	3.3%	5.2%
2019	1.7%	0.5%	$1.27	3.4%	5.2%
2020	2.2%	1.0%	$1.31	4.0%	5.2%
2021	2.3%	1.5%	$1.34	4.3%	5.1%

Source: JLL, Oxford Economics

UK HOUSING MARKET FORECASTS

The path towards Brexit will dictate what happens in the UK housing market. However, although we expect some turbulence, we believe the housing market will remain reasonably strong and active. Demand will be undermined in the short-term by uncertainty and a more subdued economy while supply issues will exacerbate, lending support to prices.

2017

The UK housing market was returning to a more normal and healthy state prior to the referendum. Although UK house price growth was a little too high, at 8-10% pa, UK transaction levels had pushed above 1.2m pa and new housing starts in England had escalated to 144,000 homes pa.

However, the referendum vote has created uncertainty for businesses, households and housebuilders. Early indications since the vote suggest a mild slowdown in housing transactions and marginal easing in house price growth but nothing more sinister.

Importantly, the market slowdown is being caused by an easing in economic growth predicated by an uncertain outlook rather than by a fundamental lending and global crisis as we experienced in 2008.

This is important as there is not a sound underlying reason why house prices should decline notably. There will not be widespread job losses or household financial problems.

However, we still predict a circa 11% fall in transactions in 2017.

We expect prices will be broadly flat during 2017 as the number of buyers diminishes slightly and their urgency to buy and to pay top dollar subsides. However, we still expect demand to be robust with some buyers taking advantage of more subdued conditions.

Although housing completions will be rising during 2017, they will still fall well short of need leading to some upward pressure on prices.

The rental market should be stronger and more active. We expect UK rents to rise in the order of 2½%.

2018

Brexit negotiations will be ongoing during 2018 but the principles of our departure should become clearer. While the hard exit may not be the best outcome for all, the key here is that there will be greater certainty. This will create a stronger base and a more optimistic outlook whatever the terms of our exit.

Companies will be able to plan for the future, investing in their businesses and staff once again while households will also be more certain of what the future holds. The economy will start to expand more strongly again, albeit slowly and cautiously at first. Employment levels will begin to pick up along with wage growth.

This will lead to slightly higher housing transaction levels as households feel more confident about buying their first home or moving up the housing ladder. There will also be increased turnover as more people move through job changes.

Housing construction starts are likely to be very low in 2018 while completions will still be slowing from greater activity in previous years.

Despite this, with demand accelerating and new supply low, there is likely to be increased pressure on prices. This will begin in quite muted fashion before intensifying in future years.

The UK lettings market will again feel more stable with the need and desire to remain flexible a key consideration for occupants. Rental growth is forecast to rise by 3% in 2018.

2019-2021

The UK will formally leave the EU during this time. Our exit route should already have been clearly defined before exit, with economic sentiment becoming more optimistic and the economy already on a slight upward trajectory.

Businesses and households will be feeling more confident and certain, although economic conditions will be sound and positive rather than exuberant.

Many people will now be feeling that they should get onto the housing ladder before the next wave of strong upward price movement and this will create some urgency, albeit from a reasonably benign starting point.

Others will be feeling more confident about moving up the housing ladder while investors are also likely to be more active given the more positive housing market prospects.

Improved confidence will also be aided by a supportive mortgage market and low interest rates.

Transaction levels and house prices should begin to rise more strongly in 2020, as everyone settles into life post-Brexit.

Rental growth should also accelerate during this period, rising to around 4% pa by 2021.

UK HOUSE PRICE GROWTH FORECASTS

% change pa

2017	2018	2019	2020	2021
½%	1%	2%	4%	5%

2008	-14.6%
2012	2.0%
2014	7.8%
2015	7.8%
2016	7.0%*

Source: JLL, Land Registry

**estimate*

UK HOUSING TRANSACTION FORECASTS

Number pa

2017	2018	2019	2020	2021
1.08m	1.11m	1.15m	1.20m	1.26m

2006	1.67m
2009	0.86m
2014	1.22m
2015	1.23m
2016	1.22m*

Source: JLL, HMRC

**estimate*

UK RENTAL GROWTH FORECASTS

% change pa

2017	2018	2019	2020	2021
2½%	3%	3½%	3½%	4%

2012	2.6%
2013	1.7%
2014	1.7%
2015	2.5%
2016	2.2%*

Source: JLL, ONS

**estimate*

HOUSING SUPPLY OUTLOOK

The most concerning housing market impact from Brexit will be the detrimental impact on housing supply. Policymakers are reacting, but the big question is whether market forces or inducements from government will win the battle of the building site. We suspect market forces will win round 1 and that the best policymakers can realistically hope for is increased housing delivery in round 2.

Recovering supply

The national housing supply picture has improved significantly in recent years. The extent of the recovery following the global financial crisis has been remarkable with the number of housing starts rising from just 86,000 in 2009 to 146,000 units in 2015 – a 68% increase.

However, this figure is still significantly shy of the 184,000 starts we saw in 2007 and well below need – the most recent estimate coming from the House of Lords Economic Affairs Committee at 300,000 homes pa.

Brexit slowdown inevitable

Although there are no post-Brexit national housebuilding statistics yet, we are expecting the number of new starts to slow during both Q3 and Q4 this year in response to the EU vote.

Housebuilders will quite naturally be more cautious as the outlook for households and housing demand has become more uncertain. Fundamentally development risk has increased.

Many developments will still go ahead, albeit less urgently in some cases, but some schemes will get postponed. Importantly, however, there is not a lending or financial crisis as we saw in 2008, so the impact of this "confidence" slowdown is likely to be relatively muted.

Government action

The housebuilding slowdown will nevertheless come as a huge disappointment for policymakers who have been trying to tackle the national housing supply crisis and have been buoyed to some extent by rising numbers in recent years.

The Government has made various announcements and floated a number of ideas and targets. These include Starter Homes, a £3bn Home Building Fund and an initiative to build on public land. These also come on the back of the successful Help to Buy schemes. The Government is also due to launch a housing white paper imminently.

A fuller discussion on supply initiatives is provided later in this report, but whilst these latest announcements are encouraging and welcome, the big question is whether they will be able to have any quick or material impact in boosting supply.

Ultimately housebuilders will only build if it makes financial sense for them to do so and if the risks are manageable. Given current circumstances it will be difficult to entice housebuilders on site in greater volumes.

It could be argued that the waters will muddy further. Not only will UK housebuilders have to contend with the fallout from the EU referendum but they will also have to weigh up the potential impact of government initiatives. If, for example, they believe these will lead to increased development, how should they react? This is especially difficult during the embryonic stages of new policies.

Government initiatives will have to be so financially attractive so as to compel development. They will have to enforce development within a tight timeframe and will have to be large enough in scale and volume to counteract the inevitable slowdown in development on private land.

If development on public land simply displaces what would have been built on private land then nothing has been gained.

Realistic hopes

Overall, therefore, we believe that market forces will win the day in the short-term.

We think it will be very difficult, if not impossible, to manufacture any kind of increase in development activity in the current climate.

We therefore expect England housing starts to slip to just 134,000 in both 2017 and 2018, down from 146,000 in 2015.

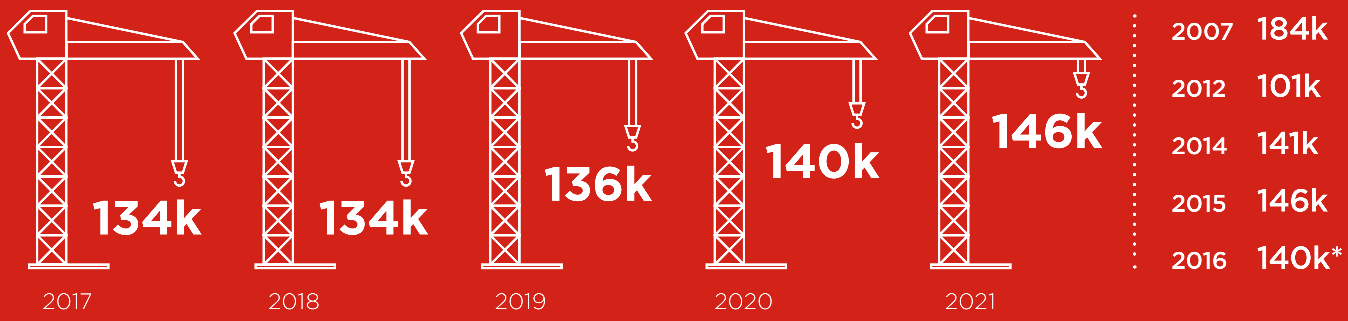
Hope for the future?

Government initiatives, therefore, may be able to have a marginal effect in preventing too sharp a slide in housebuilding activity over the next 2-3 years, but nothing more.

However, perhaps the best that government can achieve, and what they should really be focussed on attaining, is to evolve policies and initiatives which will bear fruit when the economy improves and greater housing market confidence returns. This will be when perceived risk is lower and housebuilders are more assured that greater supply can be absorbed at acceptable sales rates and prices.

ENGLAND HOUSING STARTS

Number pa

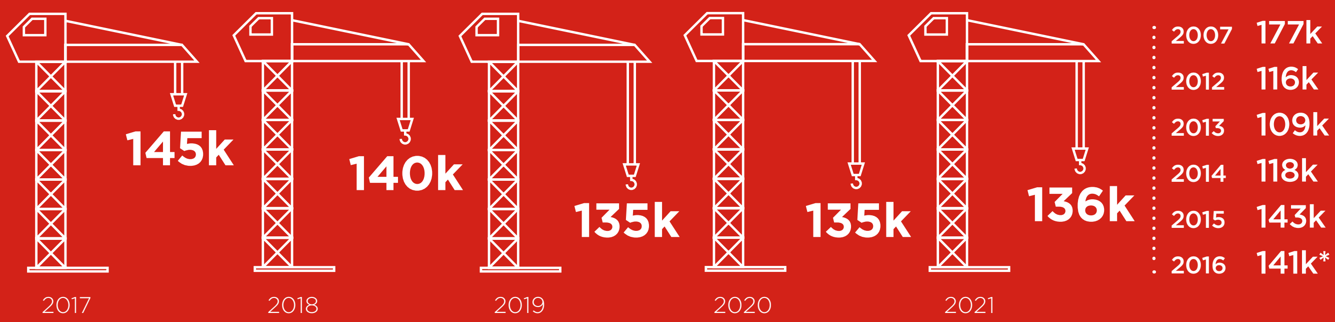


Source: JLL, DCLG

**estimate*

ENGLAND HOUSING COMPLETIONS

Number pa



Source: JLL, DCLG

**estimate*

THE FINAL WORD

"Theresa May was quick to rubber stamp the UK Government's commitment to the Northern Powerhouse initiative after she succeeded David Cameron as Prime Minister following the EU Referendum. Manchester sits at the heart of the Northern Powerhouse, a brand that is gathering real momentum.

The Manchester city centre population has grown five-fold in just 15 years driven by an influx of young professionals attracted by the city's employment and cultural hubs. The residential market is the strongest in the UK in terms of price and rental growth, and that trend looks set to continue, as reflected in JLL's forecasts.

Manchester is also considered to be the unofficial UK capital of the emerging Private Rented Community sector, such is the sheer weight of institutional investor interest in the city.

Meanwhile the two other shining lights of the Northern England economy, Leeds and Liverpool, can be found a short drive to the East and West along the M62. Both Leeds and Liverpool, have also seen strong growth in their city centre economies and residential markets, making them firmly near the top of investor's hit-lists.

All in all, despite the well documented national and international geo-political unrest in 2016, the past 12 months proved to be incredibly positive for the residential sector in Manchester, Liverpool and Leeds. Our expectation is for that to continue in 2017."

—

Nick Whitten
JLL Residential Research

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