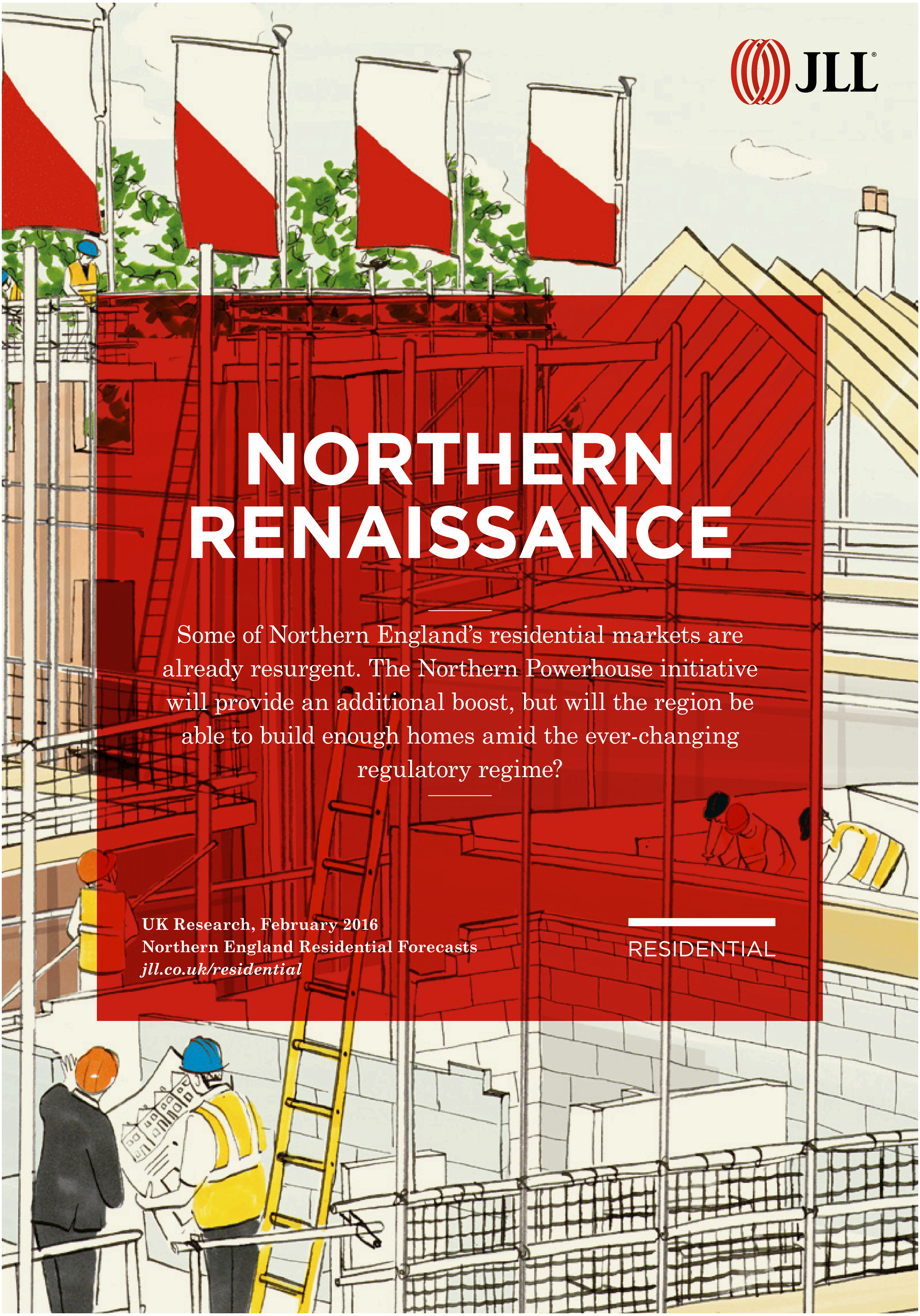


NORTHERN RENAISSANCE

Some of Northern England's residential markets are already resurgent. The Northern Powerhouse initiative will provide an additional boost, but will the region be able to build enough homes amid the ever-changing regulatory regime?

UK Research, February 2016
Northern England Residential Forecasts
jll.co.uk/residential

RESIDENTIAL

OUR VIEW

NORTHERN RENAISSANCE

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 is also now looking forward with greater confidence. Both will benefit further from the Government's Northern Powerhouse programme.

JLL RESIDENTIAL RESEARCH
NEIL CHEGWIDDEN

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 and Leeds that will lead the way.

The Manchester city centre residential market has been very strong for a couple of years now and 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.

The Leeds city centre residential market has been much quieter in recent years, with the development market completely dormant. But this too is now beginning to spark into life with the first new developments for over five years now getting underway.

Importantly, in both Manchester and Leeds, the appetite for city centre living is regaining traction following the global financial crisis, very much supported by improving local economies.

Government intervention

New Government initiatives are creating uncertainty, with impacts for the full spectrum of market participants.

Developers, land owners, Registered Providers, councils and agents are all rapidly adjusting to the role that Starter Homes will play in future delivery. There is no question that a period of adjustment will impact the pace of supply growth.

Broadly speaking, and for most regional mainstream housing markets, we do not anticipate either the recent 3% additional home stamp duty charge or the loss of buy to let higher rate tax relief on mortgage payments will have much impact. But where existing sales have a larger investor element, such as in city centre apartment schemes, there will be at least some impact.

In Manchester and Leeds, most investment purchases will be in the £100,000 to £200,000 price range, generating an additional stamp duty charge of up to £6,000. If this extra cost is spread over a 10 or 20 year hold period and the recent price growth and income benefits of residential property are compared with alternative investment options, the demand impact could be quite minimal.

Private investors are therefore likely to adopt a longer-term view, which will be positive for the market. However, slightly lower new investor demand, coupled with reduced impact from speculators, may create weaker up-front viability concerns.

The real key will be how developers view this additional risk profile and how they will approach development in the future.

PRC evolution

Whatever the eventual outcome for individual private investors, the new tax regime will undoubtedly strengthen the hand and need for large-scale Private Rented Community (PRC) or Build to Rent investors. Indeed, they are already active in Manchester and are positioning themselves in Leeds.

In Manchester there are three PRC developments under construction with the possibility of a further eight starting during 2016. Together they will create in excess of 1,100 rental units. Furthermore, a significant part of the supply pipeline is also targeting the PRC sector.

PRC development in Leeds is a step or two behind Manchester in evolution, but 2016 could see two schemes start on site. Here too, an increasing proportion of the development pipeline is considering the PRC route to market.

Bright outlook

Overall, therefore, the outlook for Northern England and its main city hubs looks very promising. However, despite all the positives, the underlying and perennial issue for the region is how it is going to build enough homes to cater for the growing population.

This is our #NewResidentialThinking
Join the discussion on twitter @NeilChegwidden / @Adam_Challis / @JLLUKResi

IN THIS ISSUE

NORTHERN ENGLAND ECONOMIC EXPANSION

Northern England economies are forecast to experience significantly stronger conditions over the next five years. Leeds and Manchester employment hubs will play key and leading roles. Economic success will also contribute towards population expansion, which will present Northern England with its greatest challenge in terms of providing sufficient housing to meet the needs of the region's residents.

Economic expansion forecast

The Northern England* economy is expected to perform well over the next five years. It will be helped by the Northern Powerhouse initiative launched in 2015, a Government proposal to boost the economies in Northern England supported by transport and investment in the region.

Driven by the financial & business services sector, the economy in Northern England is projected to increase by 2.2% pa during the next five years. Financial & business services sector output is forecast to rise by 3.1% pa during this time.

Economic growth in Manchester is projected to be greater when compared with the rest of Northern England, growing by 2.6% pa during the five years 2016 to 2020. Leeds is also forecast to outpace the wider region, increasing by 2.5% pa during this period.

Employment to rise

Overall, employment in Northern England is forecast to grow by 1.7% during the 2016-2020 period. The greatest rate of growth will be in the financial & business services sector which is expected to expand by 7.4%. The transport, communications and construction sectors will also perform well and around 40,000 new jobs are projected to be created in the region over the next five years, an increase of 6.2%.

The public sector and the manufacturing & utilities sectors are predicted to see a decline in jobs, contracting by 2.7% and 4.8% respectively during the 2016-2020 period. However, this will not have a substantial impact on the overall economy as growth in other sectors will far outweigh the loss of jobs.

In Manchester, total employment is forecast to increase by 4.3% during the next five years while the number of jobs in Leeds is expected to rise by 2.8%, both well above the Northern England average.

Housing the population

The population of Northern England, 12.6m in 2015, is forecast to rise by 278,000 over the next five years, equating to around 56,000 additional people a year.

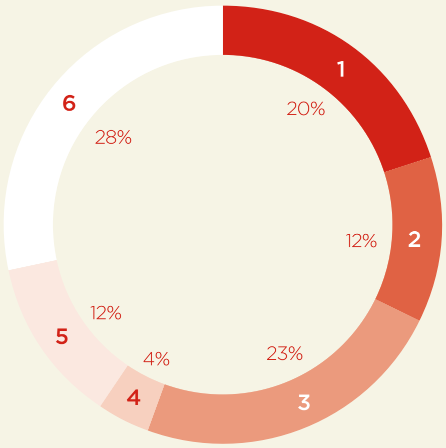
Naturally, it follows that the number of households is also set to increase. This is forecast to rise by approximately 194,000 by 2020, almost 39,000 additional households a year.

The number of households in Manchester and Leeds are projected to increase by circa 13,800 and 14,100 respectively. Combined, these two cities account for 14% of the total growth of households in Northern England.

A real challenge for Northern England will be how to provide the housing to home the anticipated rise in the population and households from a base of building around 24,000 homes a year.

EMPLOYMENT PROSPECTS

Northern England total employment*

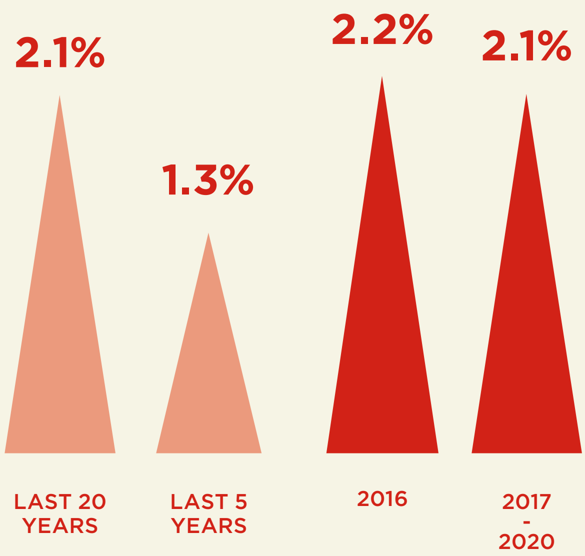


		2015 TOTAL (000s)	2016-2020 CHANGE (000s)
1	Financial & business services	1,083	+91
2	Transport, communications & construction	651	+40
3	Retail & accommodation	1,245	+30
4	Other	241	+18
5	Manufacturing	688	-32
6	Public sector	1,529	-42
TOTAL		5,418	+95

Source: JLL, Oxford Economics

ECONOMIC OUTLOOK PROMISING

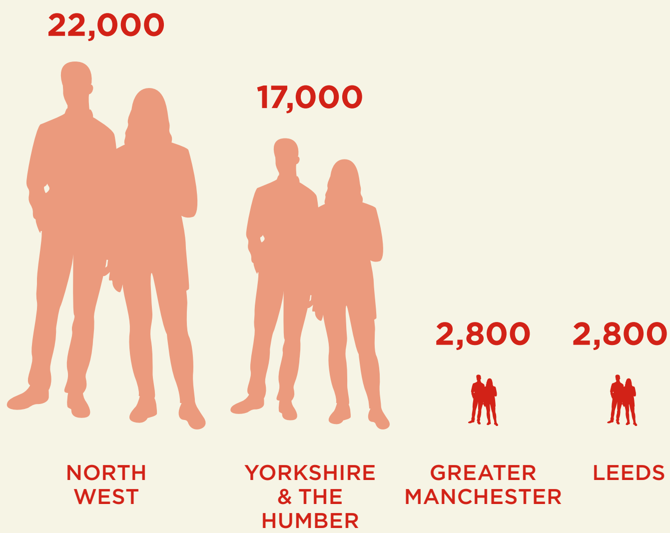
GDP growth Northern England (% pa)*



Source: JLL, Oxford Economics

HOUSEHOLD EXPANSION

Expected change in number of households pa 2016-2020



Source: JLL, DCLG

**Northern England combines the regions North West and Yorkshire & the Humber.*

CITY CENTRE MARKET
MANCHESTER

Manchester's residential markets are highly active, from the sales and rental markets to institutional private rented communities through to new development. Demand is far outstripping available supply in both the sales and lettings markets which has led to significant value growth during 2015 and in the near-term there will not be enough new development to alter this dynamic. The outlook is for increased development, but not enough to halt expected price and rental growth over the next couple of years.

Sales market

The Manchester city centre sales market is witnessing a strong uplift in prices amidst a notable imbalance between demand and available supply.

Typical prices of one and two bedroom flats in the city centre were circa £135,000 and £210,000 respectively at the end of 2015, having increased by 9.5% on average during 2015.

Buyer appetite has risen significantly during the past year, having already been pretty strong, with both owner-occupiers and buy to let investors active.

There is particularly high demand at the top end of the market, with ever increasing numbers of buyers looking to spend in excess of £250,000. The very upper end of the market, above £750,000, is also witnessing greater demand. However, there are very few properties available, or in existence, at these price points. Manchester's developers have become aware of this recent trend and we are awaiting their response. In the meantime, however, prices continue to climb.

Rental market

The city centre lettings market has become even more active and squeezed during 2015. New build rental demand is led by new graduates and young professionals but there are also an increasing number of students, from both overseas and the UK, looking at new or nearly new apartments.

While several are renting out of choice and convenience there are additionally many who are renting because they cannot yet afford to buy. Despite this, tenants are increasingly attracted to developments which provide a higher level of service and amenity such as a gym and concierge, with rental level not seemingly too great a deterrent for many.

The demand and available supply imbalance has become increasingly notable during 2015. JLL research highlights that there have been more than six applicants per letting in 2015 with the average letting being secured less than 72 hours after marketing. These figures also emphasise the need for more rental stock in the city centre.

Market pressures have led to an 8.5% average increase in rental levels during 2015 with a typical two bedroom apartment now commanding in excess of £1,000 pcm.

Development market

The short-term prognosis for the development market is that there is not nearly enough new stock to meet demand, but with an abundance of schemes in planning or pre-planning we are not anticipating that all schemes will get built out in the medium-to-long-term. These figures, however, clearly reflect the positive appetite and enthusiasm for residential development in England's ever-progressing second city.

There are almost 3,500 units under construction in Manchester city centre as at the end of 2015 but, significantly, all bar a few units have been sold off-plan well ahead of completion.

There are 9 schemes underway with Renaker's 500 unit Greengate development the largest. There are a further five schemes of more than 300 units including Renaker's Wilburn Basin, Urban and Civic's Princess Street and the next phase of residential at MediaCityUK.

Additionally, there are just over 3,000 units with planning permission, almost 5,000 units at planning application stage and nearly 20,000 units pre-planning.

Of short-term concern is that there have been no new scheme launches since summer 2015, when Hatbox was marketed. And with no further launches scheduled until mid-2016, we are anticipating even greater tensions between demand and supply in 2016.

A key development trend is the growing demand for apartments with higher specification and for schemes with better amenities such as resident lounges, gyms and concierge.

MANCHESTER CITY CENTRE

SALES MARKET

	1 bed	2 bed
AVERAGE	£135k	£210k
PRIME	£170k	£265k

RENTAL MARKET

	1 bed	2 bed
AVERAGE	£795 pcm	£1,050 pcm
PRIME	£1,025 pcm	£1,495 pcm

PRICE GROWTH

2013	2.6%
2014	6.3%
2015	9.5%

RENTAL GROWTH

2013	5.1%
2014	10.0%
2015	8.5%

Source: JLL

LAND MARKET & OUTLOOK
MANCHESTER

Private Rented Communities

There is significant and growing interest in the Manchester PRC market from institutional funds based in the UK and from overseas, predominantly from North America and the Middle East.

There are three PRC developments under construction with the possibility of a further eight starting on site during 2016. These include the first large-scale forward funded PRC product at New Bailey in Salford where L&G are funding the first block of 90 units.

A significant part of the future supply pipeline in Manchester is also now targeting the PRC sector. This includes around 2,000 units at Middlewood Locks, circa 600 units at St John's and a prestigious scheme of around 480 units at Muse's New Victoria.

Typically, investors forward funding city centre schemes are buying at 4.5-5.0% net initial yield (NIY) and an 8% ungeared internal rate of return (IRR).

Land market

Housebuilder confidence in Northern England has remained high, as evidenced by the increased transactional activity in the land market during 2015.

However, PLC housebuilders are becoming increasingly selective on their acquisition targets in secondary locations as a more liberal planning system has significantly increased the available supply of land in these areas. As a result, demand for brownfield land in these locations has waned as developers are finding an increased offering of more attractive development opportunities elsewhere.

Whilst affordable housing providers may not welcome the Government's new Starter Home policy, private housebuilders are keenly awaiting clarity on this initiative. Very strong demand for this new product is expected, which should provide a boost to the land market, especially in less favoured secondary and tertiary areas.

Demand and values for prime land have marginally improved over the past 12 months as land supply in premium areas is still very constrained. Developers have also been encouraged by the rise in values in the housing market, which have been helped by the limited supply of new product coming to the market.
With increasing demand for these prime sites in particular, and continued under supply, competitive tension in the Northern England land market is set to rise further during 2016.

Outlook

The prospects for the Manchester residential market remain very bright. Supported by a strong and expanding economy, labour force and population, demand for housing is expected to increase further over the next five years.

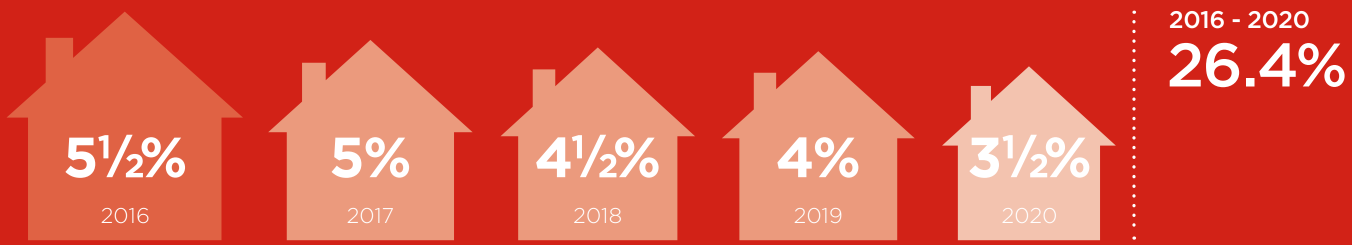
Although some schemes will complete in 2016, there will remain a dearth of new stock finishing over the next couple of years which will be insufficient to meet the growing demand, both for owner-occupied and rental stock.

As a result, we are forecasting sales prices to rise by 5.5% in 2016 and by an average of 4.5% pa over the 2016-2020 period. We are also predicting strong rental growth, with rents expected to increase by 5% in 2016 and by an average of 4.2% pa over the five years 2016-2020.

In addition, we expect further growth in the institutional PRC market with more investors and more schemes coming forward. We are also anticipating a notable raising of the bar in terms of the specification of units being delivered and in the amenities being provided within developments in Manchester, to a level never before witnessed in the city.

MANCHESTER HOUSE PRICE FORECASTS

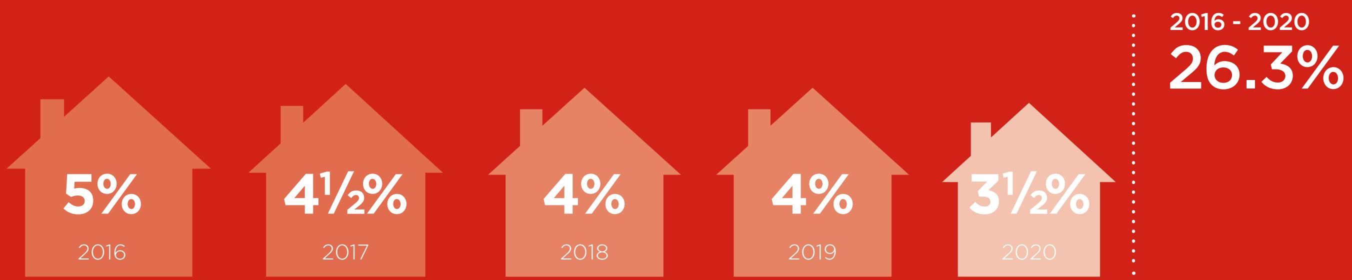
% change pa



Source: JLL

MANCHESTER RENTAL GROWTH FORECASTS

% change pa



Source: JLL

"The PRC investment market is extremely competitive with increasing interest from international investors vying with UK institutions for large-scale prime schemes. Key regional centres such as Leeds, Liverpool and Manchester have emerged as a focus of investor's attention due to the more attractive returns on offer compared with London & the South East. This is coupled with strong population growth forecasts and an improving economic backdrop."

Robert Hogarth
JLL Residential Investment, Manchester

CITY CENTRE MARKET
LEEDS

The Leeds city centre development market is finally sparking into life. Three developments began construction in 2015 with more due in 2016. Tight available supply in both the sales and rental markets has led to strong price and rental growth and we see this continuing over the next 12 months. The first PRC schemes are also likely to get underway in 2016, all marking a notable improvement in market activity for Leeds.

Sales market

The sales market in Leeds is active despite no new developments since 2010. Demand has picked-up during 2015 and has broadened to include all property sizes from one bedroom flats through to larger and more aspirational three bedroom penthouses, having previously been weaker at the top end of the market.

A lack of available supply has meant that prices have risen modestly during 2015. Some accidental landlords from recent years are taking the opportunity to sell in an improved market and have been rewarded by a plentiful stream of willing buyers. Furthermore, an increasing proportion of properties are now getting close to or are achieving asking price; a marked change from the past few years.

Typical prices of one and two bedroom flats in the city centre were circa £118,000 and £170,000 respectively at the end of 2015, having increased by 6.8% on average during 2015.

Rental market

The Leeds lettings market is strong and very active. Demand is high from young professionals in particular but there is demand across the property spectrum from one to three bedroom apartments.

The overriding feature of the lettings market is a lack of available supply. There have been no new development completions over the past five years to help alleviate the imbalance of excess demand compared with supply. Rents have increased by an average of 6.4% during 2015 as a result while occupancy rates remain high at around 99%.

Typically, a one bedroom flat commands a rent between £575 and £675 pcm without car parking, while a two bedroom flat rents for between £825 and £900 pcm without car parking. Car parking usually attracts a value of between £75 and £100 pcm.

Development market

The development market has been very quiet over the past five years with no new residential schemes starting. However, there is now some activity in terms of construction starts, progressing planning and developer rhetoric.

Three schemes have started on site recently. These are the JM Construction's Tate House on Bridge Street where 70 one, two and three bedroom apartments are being developed, the X1 Development scheme on East Street consisting of 147 flats and the YPP managed Park Square Residence development on Park Square.

Two schemes should get underway during 2016; The Ironworks at Holbeck Urban Village and Calls Wharf on The Calls.

A number of sites are now beginning to change hands, with PRC often the preferred development option. Any new development will be a welcome support to help alleviate some of the demand and available supply issues in the city centre. These should also help ignite the market and set new pricing benchmarks which have been pretty stagnant in the face of an environment with no new development for several years.

LEEDS CITY CENTRE

SALES MARKET

£118k
1 bed

£170k
2 bed

AVERAGE

PRIME

£155k
1 bed

£238k
2 bed

RENTAL MARKET

£620
pcm
1 bed

£895
pcm
2 bed

AVERAGE

PRIME

£775
pcm
1 bed

£1,200
pcm
2 bed

PRICE GROWTH

2013	0.0%
2014	5.1%
2015	6.8%

RENTAL GROWTH

2013	0.0%
2014	7.7%
2015	6.4%

Source: JLL

LAND MARKET & OUTLOOK
LEEDS

Private Rented Communities

Leeds is now firmly on the radar of several PRC scheme operators. However, although there are numerous proposals, none are currently under construction. Development sites are now changing hands while others are awaiting planning approval. But 2016 is likely to witness the first PRC developments to get underway in Leeds.

These are most likely to be Foundation Real Estate's Monk Bridge development and Neighbour Property's Flax Place.

Overall, these two schemes could generate around 600-700 PRC units, providing a significant and influential kick-start to large-scale institutional PRC investment in Leeds, which should also encourage others to enter the fray.

Land market

Demand for residential development land in Leeds city centre is high and has increased dramatically over the past 12 months. A number of sites have changed hands during 2015 as all aspects of the city centre residential market accelerated, with more activity and competition.

Notable land deals in 2015 have included the purchase of the 7.5 acre Hydro Aluminium, Clarence Wharf site on Clarence Road which previously had permission for a mixed use scheme including 625 residential units. A 4.2 acre site at Monk Bridge with a historic consent for 720 units was also purchased as too was Flax Place which will go to planning in 2016 seeking permission for a PRC scheme of around 400 units.

Additionally, a Singaporean investor bought a site on Bridge Street and will go back to planning to alter the consent for a mixed use scheme including around 843 units. The purchaser plans to develop a scheme with both PRC blocks as well as open market for sale units.

Outside the city centre, there is renewed demand for sites in good locations although there does appear to be an ample supply of available sites at present. Any sites which are not straightforward, or are in areas which cannot satisfy a developer's aspirations in terms of selling prices or sales rates, are often being bypassed in favour of more deliverable opportunities.

Outlook

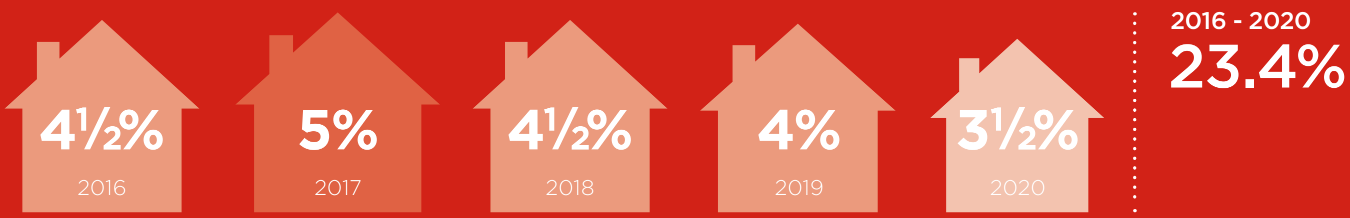
Following several years of inactivity, the Leeds city centre residential development market has undoubtedly sparked into life over the past year. Supported by an improving economy and brighter housing market conditions, the development market should make further strides forward during 2016.

While three schemes are now underway, it is The Ironworks and Calls Wharf which remain the most eagerly awaited developments. These schemes will set new benchmarks in terms of specification and price, marking a notable change from the dormant development and pricing environment of recent years. Both, however, should get started in 2016.

2016 is also likely to see the first PRC schemes get underway in Leeds with Monk Bridge and Flax Place developments likely to start on site.

LEEDS HOUSE PRICE FORECASTS

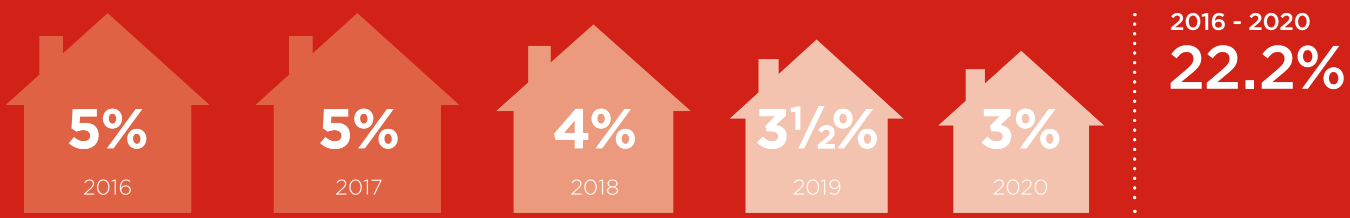
% change pa



Source: JLL

LEEDS RENTAL GROWTH FORECASTS

% change pa



Source: JLL

"The past year has seen Leeds become an increasing focus for national and international developers and investors, demonstrating a significant improvement in confidence in the city's residential market. Several large sites with historic planning consents have changed hands in the past six months and as these are developed we anticipate the increased supply will stimulate the market further, leading to an increase in both transactions and property values."

Charles Calvert
JLL Residential, Leeds

UK HOUSING MA

Help to Buy, equity loan

This will continue to support the relatively small proportion of new build first-time buyers until 2020.

Help to Buy, mortgage guarantee

This scheme will cease at the end of 2016, but this is unlikely to have any notable impact on market conditions or trends.

Economy

Strong and robust UK economy will boost housing demand. International factors present the greatest risk.

International factors

Economic slowdowns in countries such as China, as well as currency devaluations and stock market falls, pose a risk to global and UK economic growth.

Buy to let / second home stamp duty

The additional 3% stamp duty will have little influence on most mainstream housing markets but will impact the markets where investors play a greater role such as in city centres.

Buy to let tax relief

The loss of higher rate tax relief on buy to let mortgage payments will reduce the profitability of this investment medium for many. It will dampen private investor demand to some extent.

Buying costs

Deposits, stamp duty and other fees will continue to be burdensome and will restrict buying and selling activity. Renovations will remain popular.

Affordability

Affordability constraints will remain the most pressing challenge for many house purchasers, especially younger generations with no family financial support.

Interest rates

The steady rise in mortgage servicing costs will impact new home buyers and existing home owners but we expect at least some of the detrimental influence will be outweighed by the stronger economy.

ARKET DRIVERS

Bank of Mum & Dad

House prices and transaction activity will be supported by parental and family financial support.

Restricted choice

Low housing turnover will result in restricted choice for prospective home buyers, ultimately leading to higher house prices.

Borrowing constraints

More stringent and prudent lending practices are now in place, but increased competition is putting pressure on mortgage rates and increasing mortgage choice. The lending environment will apply only a minor brake on the housing market.

Housing supply

The undersupply of housing will underpin prices.

Starter Homes

This government initiative will help increase housing supply, will boost first-time buyer demand and is likely to lift broader housing market sentiment and activity too, initially at least.

Higher stamp duty

Increased stamp duty costs for higher value properties is stifling activity and constraining price growth, but the market will eventually adjust.

2020 general election

The general election in May 2020 will probably cause a dip in transactions in the months preceding the election, but should recover afterwards.

Lower stamp duty

Reduced stamp duty costs for most properties will have minimal positive market impact although it might encourage a small release of pent up demand from people moving up the housing ladder.

EU referendum

Uncertainty surrounding the vote could knock activity and price growth, but markets outside of London and the South East will be less affected.

UK ECONOMIC FORCES

The outlook for the UK economy is fundamentally sound but will not be as exuberant as usual at this point in the cycle. The risks mainly derive from overseas although higher interest rates and the EU referendum pose domestically sourced concerns.

2016 consolidation

2016 should be a year of both consolidation and progression for the UK in political and economic terms. With the general election behind us and a Conservative Government with a full term in sole power, the next five years are a real opportunity for it to make its mark and to take some significant steps forward in terms of addressing the UK's housing problems.

In economic terms, the UK has shifted from recovery to cruising mode. The next few years should be a period of strong but not exuberant economic expansion.

GDP growth is expected to be 2.6% in 2017 while earnings growth will be far more positive than in recent years (see charts). There will be more jobs created and people will start to feel more secure in their jobs and with their household finances. All of these factors will be highly supportive of the UK housing market.

Interest rate rise

It is likely that the base rate will be raised in 2016. However, we do not anticipate much of an impact on the housing market as the hike will have been well flagged and will initially be minimal.

The main risk to this positive 2016 outlook comes from overseas. Events in China and some other emerging economies, oil prices, unrest in Syria, the refugee crisis and ongoing issues for Greece and the Eurozone all pose threats. The UK's safe haven credentials will be tested.

2017-2020

The medium-term UK economic outlook looks remarkably steady and stable. Typically during this phase of the economic cycle GDP growth is up at circa 3% pa but austerity measures as well as business investment caution this time around will dampen the pace of economic expansion.

Interest rates are set to rise steadily through this period but Mark Carney has stated that he believes the base rate will rise towards 3% rather than 5%. Assuming this is the case, the impact on household finances and the housing market will be reasonably muted partly because the effect will be offset to some degree by the stronger economy.

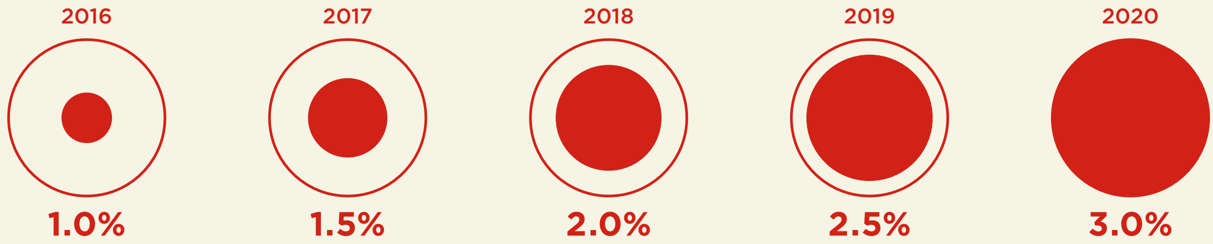
EU referendum

The UK's referendum on EU membership looks most likely to take place during the latter part of 2017. Although it is likely that the UK will remain in the EU, especially if David Cameron secures some notable concessions prior to the vote, the uncertainty caused by the referendum could prove to be a more significant headwind than the result of the vote itself.

There may be some domestically driven easing in UK housing transaction activity as the referendum approaches but the uncertainty is more likely to cause concern amongst overseas owners and investors creating additional concerns in London.

UK BASE RATE TO RISE STEADILY

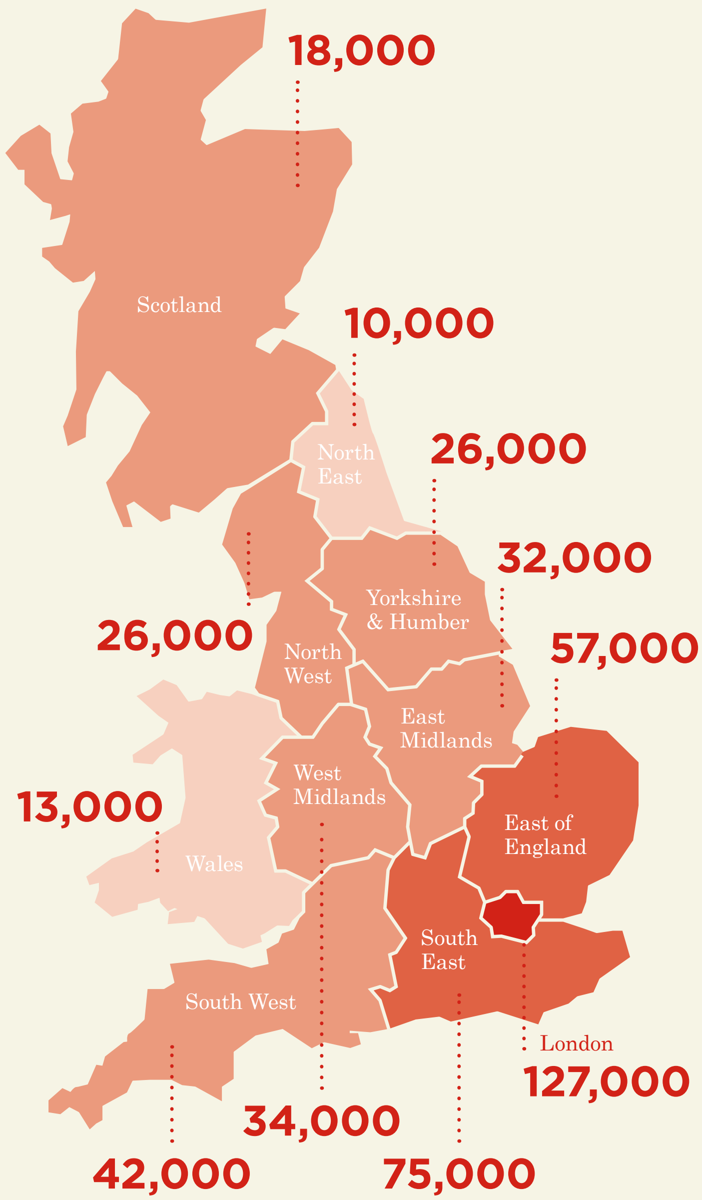
% end year



Source: JLL, Oxford Economics

UK POPULATION EXPANSION

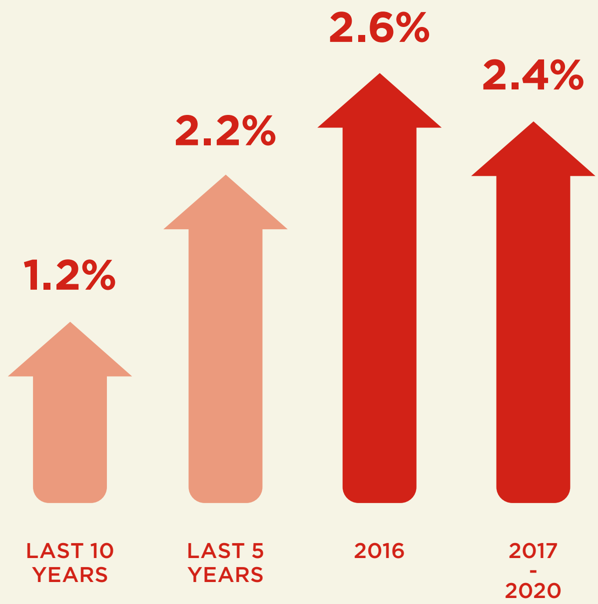
Average annual population growth 2016-2026



Source: JLL, Oxford Economics

ECONOMIC EXPANSION MORE SECURE

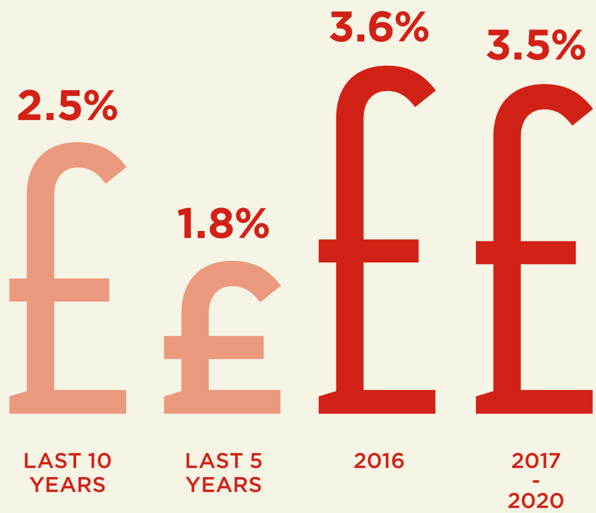
UK GDP growth % pa



Source: JLL, Oxford Economics

UK AVERAGE EARNINGS ENTER NEW PHASE

Average earnings growth % pa



Source: JLL, Oxford Economics

UK HOUSING MARKET FORECASTS

A strong and stable domestic economy will underpin the UK housing market over the next five years. We expect house price growth nationally to be in the order of 3-6% pa during this time with transaction activity improving steadily before the 2020 election year.

2016 springboard

2016 should provide a sounder base for British businesses, consumers, home owners, home buyers, renters and landlords following 2015, which was disrupted by the general election.

Assuming international factors do not dent the UK's positive and robust outlook, many people in the UK will feel more comfortable about making important lifetime decisions; including buying a first home or moving up the housing ladder.

Many owner-occupiers have deferred moving home over the past 7-8 years following the global financial crisis, but with the outlook more positive and stable we expect at least some to seize the opportunity to move home, releasing pent-up demand, as well as more stock, onto the market.

Improved employment and wage conditions, together with a more prosperous and secure outlook, will also encourage people to find their own place to live, to move out from under their parents' feet and to buy instead of rent.

Potentially, the whole housing market, be it rental or ownership, could be notably more active. However, continued high moving costs, despite lower stamp duty burdens for most, will provide some brake on transactions, as too will the lack of choice for buyers.

The main domestic housing market risk in 2016 will come from base rate rises but we do not expect the UK housing market to be too adversely affected.

2017-2020 prospects

Despite the EU referendum and the likelihood of further interest rate rises, 2017 should be a further year of positive economic expansion and improved household finances and confidence.

This backdrop should lead to greater UK housing market activity, reasonably strong house price growth and a continuation of development volume growth in 2017.

Forecasting models suggest that house price growth will ease gradually over the next five years, in part at least due to growing affordability issues.

Whilst this is broadly our base case forecast, it is totally plausible that as UK housing demand and household confidence improve, the lack of housing and the sparse choice for buyers could become even more apparent and acute. This could then lead to greater urgency amongst buyers and result in a spike in house prices at some point during this period.

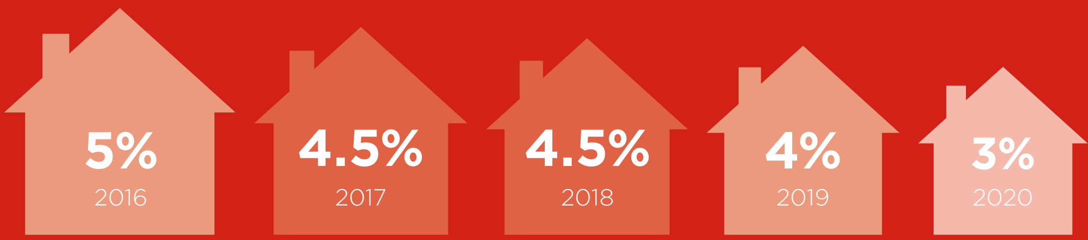
Overall, however, the underlying conditions for a strong and active UK housing market should hold firm despite some affordability drag.

Development volumes are likely to rise marginally, assisted to some extent by government initiatives, but we are not anticipating a meaningful step change, especially given resource constraints.

Perhaps the only obvious choppy waters to negotiate will be in 2020 when the next general election is due.

UK HOUSE PRICE GROWTH FORECASTS

% change pa



NEXT 5 YEARS
4.2%

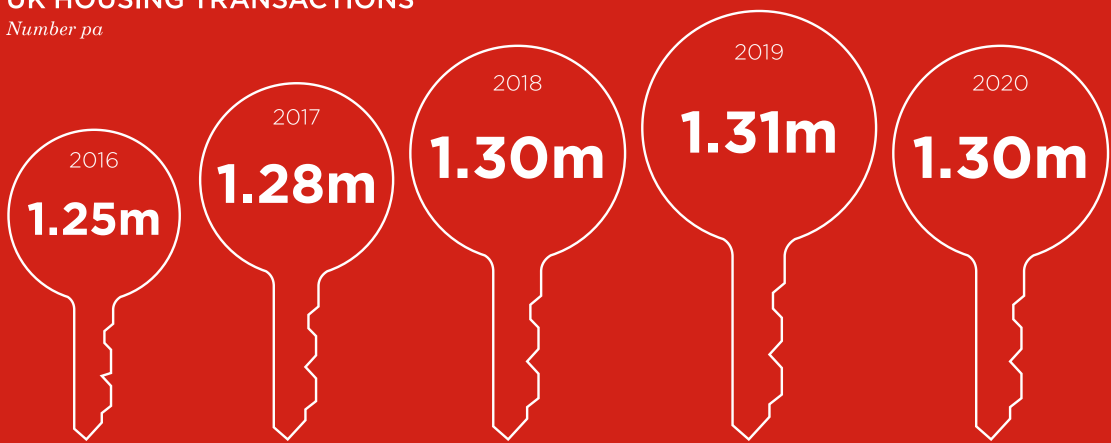
LAST 5 YEARS
3.1%

LAST 10 YEARS
1.8%

Source: JLL

UK HOUSING TRANSACTIONS

Number pa



NEXT 5 YEARS
1.29m

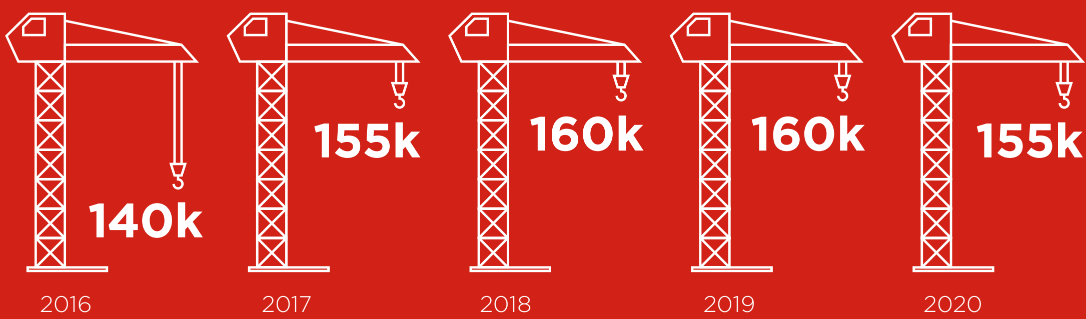
LAST 5 YEARS
1.07m

LAST 10 YEARS
1.13m

Source: JLL

ENGLAND HOUSING COMPLETIONS

Number pa



NEXT 5 YEARS
154k

LAST 5 YEARS
119k

LAST 10 YEARS
131k

Source: JLL

UK RENTAL FORECASTS

Demand for rental accommodation has accelerated quickly over the past decade and there is little to suggest this trend will run out of steam anytime soon. With supply constraints possible in the medium-term, we believe there will be additional upward pressures on rents over the next five years.

Expanding sector

The UK's private rented sector continues to expand. Figures from the latest English Housing Survey suggest that 4.4m of the 22.6m households in England, 19.4%, are privately rented.

Significantly, the number of rented households has escalated from just 2.3m, or 11% of all households, ten years ago.

The situation is even more acute amongst younger age groups. It is astounding to think that almost half of all 25-34 year olds now privately rent in England. This has risen from just over 20% ten years ago (see chart).

Current trends also suggest that the number and proportion of private renters are set to rise further in the medium-term, despite political rhetoric in support of more owner-occupation.

Housing unaffordability and onerous deposits are the main drivers of this trend. Government initiatives such as 20% discounted starter homes offer some hope for would-be young homebuyers, but this is unlikely to reverse, or even notably alter the strong upward march of the private rental sector.

Active PRS

Unsurprisingly, given both the high moving and buying costs in the owner-occupier market and the greater number of renters, the most active part of the national housing market is households moving within the private rented sector.

Of the 2m or so household moves in England in 2013-14, as estimated by the English Housing Survey, around half were moves within the private rented sector. If households new to the sector are added in, 65% of all house moves were to the private rented accommodation.

Tenant demand to rise

We are also expecting economic influences as well as demographic and social trends to lead to greater private rented demand over the next five years.

A strong and stable UK economy, including higher employment and salaries, is anticipated in the medium-term, albeit with some international risks. These conditions will undoubtedly lead to greater demand for rental accommodation from young people starting work or wanting to move out of the parental home to name but two.

An increasingly pertinent point is whether there will be enough rental accommodation to house this considerable demand, especially given the recent tax relief changes for buy-to-let investors.

Rental ownership changes

The vast majority of private rented properties across Britain are owned by private landlords, but many of these have been dealt a blow in the Chancellor's budget in July 2015. In an initiative that was aimed at levelling the playing field with owner-occupiers, it was announced that higher rate mortgage tax relief on private rental income was going to be phased out by 2020.

As the vast majority of private landlords are higher rate tax payers, the impact could be significant.

However, it should also be noted that approximately 65% of rental properties are owned outright, rather than being reliant on a buy-to-let mortgage, meaning that the Budget changes make no difference to them.

Private investors were dealt a further blow when an additional 3% stamp duty was announced on all buy to let or second home purchases. This is likely to dampen new private investor demand to some extent.

However, there is unlikely to be any meaningful sell-off of private landlord rental property over the next few years, especially as we see both prices and rents rising steadily. However, there may be slightly less exuberant enthusiasm from new investors, which may have a longer-term impact on rental supply.

There are also changes afoot in the institutional investment market. For the past few years there has been notably greater and more serious interest in the private rented sector. It has taken time for this to come to fruition, but genuine enthusiasm and action is now happening in London and in several towns and cities across the country.

And whilst institutional investors will always be dwarfed in volume terms by private landlords they could make a notable contribution to raising standards and competition within the sector, especially at a local level.

Forecasts

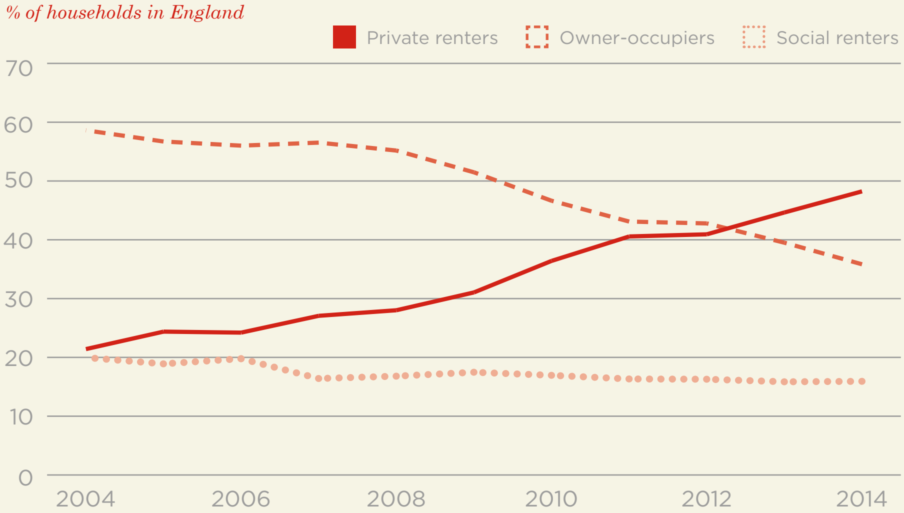
Overall, despite believing that demand will increase and available supply will remain constrained, we anticipate only moderate positive rental growth on a national basis over the next five years.

The main limiters are that tenants will move to smaller properties or to cheaper areas in order to ensure their rental costs suit their financial aspirations which frequently will include setting aside sufficient funds to save for a housing deposit.

Notably, compared to our forecasts from last year, we see slightly greater upward pressure on rents throughout our forecast period.

ALMOST HALF OF 25-34 YEAR OLDS PRIVATELY RENT

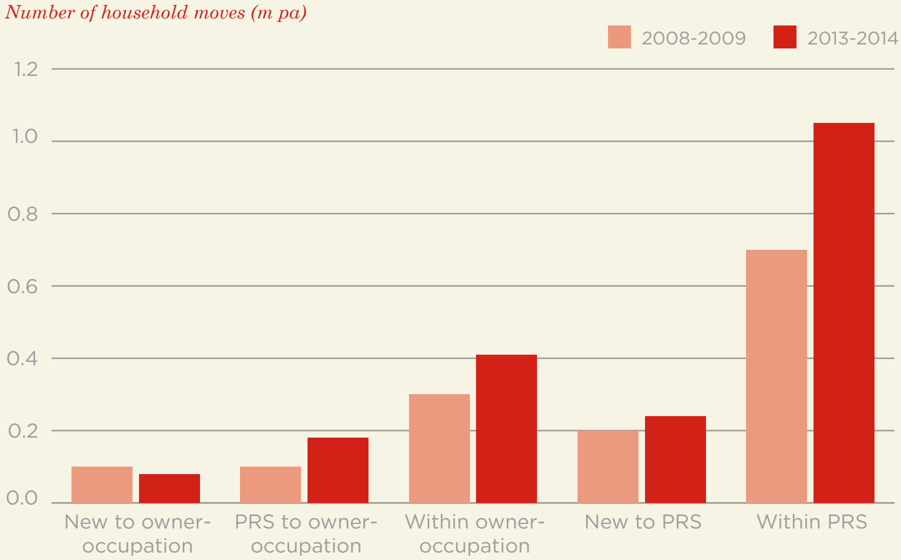
% of households in England



Source: JLL, English Housing Survey

PRS IS THE MOST ACTIVE HOUSING MARKET

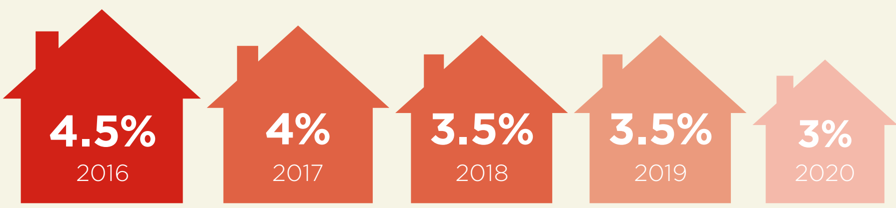
Number of household moves (m pa)



Source: JLL, English Housing Survey

UK RENTAL GROWTH FORECASTS

% change pa



Source: JLL

OUR FORECASTS

HOUSE PRICE GROWTH (% pa)	2016	2017	2018	2019	2020	2016-2020*
Manchester	5.5	5.0	4.5	4.0	3.5	24.6
Leeds	4.5	5.0	4.5	4.0	3.5	23.4
UK	5.0	4.5	4.5	4.0	3.0	22.8

RENTAL GROWTH (% pa)	2016	2017	2018	2019	2020	2016-2020*
Manchester	5.0	4.5	4.0	4.0	3.5	22.8
Leeds	5.0	5.0	4.0	3.5	3.0	22.2
UK	4.5	4.0	3.5	3.5	3.0	19.9

HOUSE PRICE GROWTH (% pa)	2016	2017	2018	2019	2020	2016-2020*
Greater London	5.5	5.0	4.5	4.0	3.0	24.0
South East	5.5	5.0	5.0	4.5	4.0	26.4
Eastern	5.5	5.0	5.0	4.5	3.5	25.8
South West	4.5	4.5	4.0	3.5	3.0	21.1
East Midlands	4.5	4.5	4.0	3.5	2.5	20.5
West Midlands	4.0	4.5	4.5	3.5	3.0	21.1
Yorkshire & Humbs	4.0	4.5	4.0	3.5	3.0	20.5
North West	5.0	4.5	4.0	3.5	3.0	21.7
North East	4.0	4.0	3.5	3.0	2.0	17.6
Wales	4.0	4.0	4.0	3.5	2.0	18.8
Scotland	3.5	4.0	4.0	3.5	3.0	19.3
UK	5.0	4.5	4.5	4.0	3.0	22.8

ACTIVITY AND DEVELOPMENT (000s)	2016	2017	2018	2019	2020	2016-2020**
UK transactions	1,250	1,280	1,300	1,310	1,300	1,288
England housing completions	140	155	160	160	155	154

* cumulative growth ** average pa

THE FINAL WORD

"Manchester and Leeds are central to the success and future of Northern England.

Manchester sits at the heart of the Northern Powerhouse, a brand that is gathering real momentum. The visit by President Xi of China in 2015 to Manchester (the only city other than London that he visited) shows the global importance of Manchester to the UK. The airport (the busiest outside of London) flying direct into Hong Kong, China, the US and five times a day to the Middle East provides a huge global audience and a platform from which to vocalise the opportunities on offer in Manchester and the wider Northern Powerhouse.

The residential market is the strongest outside of London and has more growth opportunities over the coming years than any other city in the UK. The ongoing infrastructure investment via the Metrolink extension, the airport and HS2 give the city added momentum going forward.

In Leeds, the residential development market has finally ignited into life which should tempt other developers to follow suit, especially as the appetite for city living is growing. An improving Leeds economy together with rising rental demand will also encourage further interest from large-scale PRC investors.

In both these key Northern Powerhouse cities, some of the largest property deals of 2016 will be residential-led with one or two notable PRC transactions also completing. The demand and available supply imbalances are irrefutable which will lead to strong price and rental growth across the region but most noticeably in Manchester and Leeds city centres.

All in all 2016 will be incredibly positive for the residential markets in Manchester and Leeds."

—

Stephen Hogg
JLL Residential, Manchester

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