MFS' REVIEW OF 2017 AND OUTLOOK FOR 2018

MFS

A Year of Transition: MFS' Review of 2017 and Outlook for 2018

If 2016 was the year of shock political announcements, 2017 was set to be the year of transition for the UK economy. The EU referendum result in June last year was a profound and historic event signifying the beginning of a new era in British politics, and one that would have an enduring impact on all sectors of the economy, not least of all the property market.

In the ensuing months, the country witnessed the resignation of David Cameron and appointment of Theresa May as Prime Minister. Yet the economy proved resilient, becoming the fastest-growing G7 economy in 2016.

At the beginning of the year, the outlook for 2017 was positive – the IMF increased its UK growth forecasts from 1.1% to 1.5% as a result of strong business and consumer confidence. Now, nearly 12 months later, the question beckons – was 2017 a year of progress for the economy and the property market in general, or do the same problems and questions hang overhead? Reviewing the defining economic and political announcements to shape the property market, this report offers a timely summation of the past 12 months, including MFS' own company announcements, and forecasts what 2018 is likely to have in store for property investors.

Laying Down Britain's Post-Brexit Future

In the opening months of 2017, the Government set about laying the foundations for its visions of post-Brexit Britain. Central to this was the Conservative Party championing the role of the private sector, sourcing international trade links outside the Single Market and releasing a new housing white paper in a bid to alleviate domestic demand for properties.

On 29 March, Theresa May triggered Article 50, formally commencing the 24-month Brexit negotiation period. Until this point, few details had been made public about the Government's approach to Brexit; consequently, people hoped that this formal process would bring about stability and clarification regarding the UK's departure from the EU.

Two weeks' earlier, in only his second fiscal statement as Chancellor, Philip Hammond delivered a Spring Budget light on policy and reforms. Moreover, issues relating to the property market were largely omitted. Criticised by business and industry leaders in the property space as a missed opportunity, there was a degree of understanding that the new Autumn Budget later in the year would be heavy on policy reform.

Theresa May's Government Brought into Question

However, between 2017's two Budget announcements yet more political drama was to unfold, in turn applying new pressure to the Government and the economy as a whole.

In a bid to strengthen the Conservative Party's hand as it began Brexit negotiations, on 18 April Theresa May made the bold decision to call a snap General Election, which was to be held in June. Yet her gamble failed to pay off, with the vote resulting in a hung parliament and broader questions of confidence in her leadership. In the weeks that followed, the Conservative Party was able to strike a confidence and supply agreement with Northern Ireland's Democratic Unionist Party (DUP), resulting in the formation of a minority-led Conservative Government.

In all, this period running up to and in the aftermath of the General Election added further uncertainty to the UK economy and property market, preventing progress being made on the critical issue of Brexit.

A Resilient Property Market and the Growth of Bridging

During the months following the election, stalling Brexit negotiations and internal political disputes dominated the press. But importantly, despite the political deadlock, the housing market has remained impressively resilient. Undoubtedly impacted by political and economic uncertainty, property prices still rose 2.5% in the 12 months to November 2017, with the average house price reaching £211,085.

Meanwhile, the bridging industry performed even more impressively; in Q3 2017 the Association of Short Term Lenders (ASTL) revealed that the value of loans written by the organisation's members had increased by a massive 38.9% when compared to the same three-month period the previous year. Moreover, applications to bridging lenders grew by 45.5% in Q3 2017 when compared with Q3 2016. It underlines the sharp rise in demand for bridging loans, with short-term finance evidently proving an increasingly popular option among many property investors.

The Autumn Budget: A Step in the Right Direction

Following on from the Chancellor's underwhelming Spring Budget, November's Autumn Budget was seen as an opportunity to deliver much-needed reform to the UK property market, particularly in terms of housing investment.

Paving the way for the country's post-Brexit future, the Budget was geared towards innovation, infrastructure investment and the housing market. Heeding calls from the property industry to address stamp duty, the step was made to cut the tax for first-time homebuyers. However, for homeowners looking to upgrade or expand their property portfolio, there was little offered in the way of stamp duty relief. Nevertheless, it was a significant step in the right direction and another reason for optimism as the end of the year approached.

The Autumn Budget also focused on the housing crisis, with the Government announcing its intention to increase the number of properties available on the market through the construction of new houses. Only time will tell if the Government is able to meet its targets during the current parliament, but there are positives to be taken from the fact that property featured high on Hammond's agenda.

MFS Leads the Way: Market Intelligence Reports and Industry-First Initiatives

In a year of defining political announcements and economic trends, 2017 also proved to be a significant year for MFS.

Building on our success as an industry leader in bridging finance, MFS released a series of market intelligence reports highlighting the sentiments of investors towards the property market as well as the investment landscape more generally. Regularly featured in the national press and prominent trade titles, MFS' research offered much-needed insight for property investors.

In Q1 2017, MFS released Gazumped Britain: UK Property Buyers Pipped to the Post, revealing the extent to which gazumping had disrupted the plans of those seeking to complete on a property purchase. It found that 2.57 million Britons have lost out on a property purchase in the past ten years because another buyer was able to present a more attractive offer at the last minute. This held particular resonance for London investors, with 15% of the capital's population being gazumped despite already having an offer accepted in principle.

Moving into Q2, MFS commissioned more timely research. With theory dictating that in times of transition, investors turn to safe-haven and tangible assets such as property, MFS sought to understand the sentiment of investors towards the housing market in light of unfolding Brexit negotiations. And in April, our 2017 UK Property Investor Index found that only 9% of UK investors think the onset of Brexit negotiations will derail their investment plans over the next two years, with almost two fifths (37%) identifying buy-to-let as an attractive investment.

With average UK house prices exceeding six times the average salary, an MFS survey of 1,200 prospective property investors in the UK found that 25% would consider refinancing their current properties up to three times to support new real estate investments. Furthermore, 21% of the UK's property investors admitted that they rely on consumer loans and expensive mortgages to finance new property investments.

In light of this research, MFS launched FlipFinance2017 in late May – a dedicated funding initiative supporting refurbishment and restoration projects, and tapping into the 1.4 million empty homes across the UK. The launch of this industry-first initiative was met with huge market demand; as a consequence, MFS raised the total amount of funding available from £20 million to £40 million.

With such tremendous value locked in vacant properties across the nation, and with too many investors still lacking the financial options necessary to turn them around, FlipFinance actively demonstrates the constructive role property investment can play in adding new houses to the market. The importance of this initiative was confirmed by MFS' New-Build versus Traditional Real Estate report – this study found that 81% of UK adults are unenthused by the prospect of living in new-build housing developments, while 79% felt that the Government should focus more on supporting the refurbishment of run-down properties to meet housing demand.

In the second half of 2017, MFS switched its focus to examine property inheritance. Evidently, with a significant amount of housing stock set to pass from older to younger generations, our research revealed the intentions of those expecting to inherit a property in a report titled Inherited Property: The Future of UK Homeownership. The survey found that 36% of people across the country will be inheriting a property – equivalent to 18.64 million people. It offered a positive reading for the UK property market, with significant activity likely to unfold over the next few years as UK adults seek to make the most of inherited opportunities by putting them up for sale.

Finally, in Q4 this year MFS' Homebuyer Survey showed what homebuyers believe are the keys to success in the competitive property market, providing valuable insight for anyone seeking to move up the ladder or expand their real estate portfolio. Topping the list of the most important factors for UK house-hunters is having a very clear idea of their budget and desired property from the outset, as well as fast access to finance – a reoccurring theme underpinning MFS' reports across the year.

Outlook for 2018

There is no denying 2017 has been another significant year for Britain. Regrettably, a great deal of progress is still required in Brexit talks – few people are clearer now than they were in January with regards to what the UK's political and economic landscape will look like once the UK splits from the EU. And as we approach the end of December, attention naturally turns towards the year ahead and what it has in store. Unquestionably, Brexit will dominate 2018, as it has the past 18 months. With the two-year negotiation period ebbing away, progress is far more likely in the opening months of the year.

For the UK's property market, the latest predictions from Knight Frank suggest that house price growth across the nation will be 1% in 2018, but will then reach 14.2% cumulatively between 2018 and 2022. As with 2017, it is likely that next year will be a period of stable and steady growth for property prices; with demand remaining high and stamp duty cut for first-time buyers, the signs point towards incremental increases.

In 12 months' time, as clarification is obtained as to what Brexit will mean for the UK, it is foreseeable that greater confidence will return to consumers, businesses and investors. Subsequently, as 2018 progresses the housing industry could once again return to more substantial patterns of growth, which may spark a rise in real estate investment as individuals seek to take advantage of opportunities on the horizon.

The evidence of 2017 demonstrates the resilience and strength of the UK's property market and, if the country enjoys a period of sustained progress and fewer political disruptions, there is every reason to believe that 2018 will see the industry continue on its upward trajectory. Similarly, with the bridging market going from strength-to-strength in 2017, there is every cause for optimism as the New Year approaches; the coming 12 months represent a significant opportunity for short-term finance to further establish itself as an attractive option for those seeking to consolidate or expand their property portfolio.

MFS sees 2018 as another year of opportunity and growth for UK investors, and we will ensure our tailored bridging solutions are adeptly positioned to support investors seeking to consolidate and expand their property portfolio. Building upon our profile as industry-leaders in the bridging sector, 2018 will open with an exciting company announcement concerning MFS' launch of an international office in one of the world's leading financial hubs. More details will be revealed very soon.

To find out how bridging finance can support your property investment strategy in 2018, be sure to arrange a meeting with one of MFS' bridging lending specialists. Click here to find out more.

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