ECONOMIC & PROPERTY MARKET REVIEW

of April 2016

Devonshire House, Manor Way, Borehamwood. Herts. WD6 1QQ
T: 0208 731 4597 **F:** 0333 222 3877 **M:** 0788 405 3977 **Skype:** Fadders08
E: paul@fadersconsultancy.com

Journey With Us

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

It is not intended that individual investment decisions should be taken based on this information; we are always ready to discuss your individual requirements. We hope you will find this review to be of interest.

Paul Fadoju
Principal Consultant

CBI REPORT FIRES OFF A NEW VOLLEY IN THE EU 'IN/OUT' DEBATE

'Brexit' – the potential for the UK electorate to vote to leave the European Union would, according to a Confederation of British Industry (CBI) report, constitute a *"serious shock"* for the British economy. Their research warns of a cost of up to £100 billion to the economy and close to one million jobs by 2020. CBI director-general, Carolyn Fairbairn, warned of *"a real blow for living standards, jobs and growth"*.

EU exit a 'serious shock' or an 'absolute fillip'?

The research looked at two outcomes following a Brexit decision – a free-trade agreement being swiftly agreed upon with the EU within five years or, if the UK decides to conduct business via membership of the World Trade Organisation, a more drawn-out period of negotiations. In either scenario, according to the report, short-term uncertainty would cause widespread insecurity among the business community; firms would delay implementing strategic investment decisions while the UK renegotiated the 50 deals around the world currently run through the EU.

However, Brexit supporter Peter Hargreaves, founder of funds supermarket Hargreaves Lansdown has spoken of an *"absolute fillip"* for the UK following an 'out' vote while fund manager savant Neil Woodford has commissioned a report by Capital Economics, which concluded that an EU exit would not have serious consequences in the longer-term, predicting a *"nil sum game"*. Neil Woodford himself believes that *"the fundamentals of the economy will be relatively unmoved"* and the vote would have a marginal effect on his investment strategy, given that the major companies in which he invests often have *"absolutely nothing to do with the UK economy"*.

Short-term uncertainty following 'Brexit' appears highly likely; but the Capital Economics report identified a greater threat, the lost productivity never regained since the financial crisis. *"Regaining that lost ground"* they argue *"would offset even the most negative effects of Brexit on the economy"*.

OBR PREDICTS SLOWER GROWTH RATE

In Chancellor George Osborne's 2016 Spring Budget, he reported on the forecast from the Office for Budget Responsibility (OBR) that the UK economy would grow more slowly over the next five years than expected last November.

The OBR's Economic and Fiscal Outlook estimated GDP growth of 2% for this year, rather than 2.4%, based on lower future productivity. Furthermore, the report cut forecasts for annual economic growth for every year until 2020. The OBR offered reduced global demand among the reasons for the downgrades, as *"since our November forecast, economic developments have disappointed and the outlook for the economy and the public finances looks materially weaker"*.

Weighing heavily on the OBR's press conference was the question of whether the UK would ever see productivity return to pre-financial crisis levels. OBR head Robert Chote cited extreme uncertainty around evaluating growth prospects; however, he highlighted the disappointing productivity growth of the last quarter of 2015, explaining that *"we have placed more weight on that as a guide to future prospects"*.

The report follows other forecasts from the Bank of England and OECD with lowered UK growth projections. Financial markets appear to be concluding from this doom and gloom that interest rates will not rise until the end of the decade, with a potential near-term cut.

Meanwhile, the chancellor claimed that he was on target to reach a budget surplus by 2019-20. In its budget policy paper, HM Treasury acknowledged weaker productivity growth but highlighted the OECD's prediction that the UK would grow faster than any other G7 economy this year. It outlined plans for additional savings equivalent to 0.5% of total government spending, *"to ensure the nation lives within its means"*. Meanwhile, a host of further initiatives were introduced, designed to reduce the deficit and bring reforms which would ensure *"Britain is fit for the future"*.

Chancellor says UK still on target for 2019-20 surplus

MARKETS: (Data compiled by The Outsourced Marketing Department)

Geopolitical issues continued to dominate global stock markets during March, causing uncertainty and rollercoaster volatility. Economic worries remained, albeit overshadowed by the long race for the White House, the European migrant crisis and terrorism in Brussels ahead of Britain's June EU referendum. The global oversupply of steel and consequent low prices brought the UK steel industry crisis to a head as the month ended.

After starting the year badly, losing 500+ points to below 5,700, the FTSE100 was back above 6,000 by end-January, but further turmoil followed in February and it was briefly down around 5,500. Post-Budget and the Brussels attacks, it was above 6,000 again, hit a 2016 high on 30 March, and finally closed the month on 6,174.90, a rise of 1.3%. Seeing similar volatility, the wider FTSE 250 gained 1.9% at 16,926.12. The AIM rose 2.6% to 710.78 during March.

With Clinton and Trump emerging as presidential frontrunners, contrasting visions of US foreign policy spooked Wall Street at times despite positive economic indicators. January-February angst about when the Federal Reserve might repeat December's interest rate rise also weakened equities, but March saw a strong recovery by the Dow Jones index. It closed at 17,685.09 for a one-month gain of 7.1%. The NASDAQ advanced 6.8% to 4,869.85.

Bourses in crisis-hit Europe also saw volatility; the Eurostoxx50 had declined almost 7% in January. Gyrations continued as events unfolded and the European Central Bank deposit rate was moved more deeply negative in early March over deflation worries. However, the Eurostoxx50 recovered 2.0% to 3,004.93 over the month. Tokyo equities also saw New Year falls but regained some lost ground in March as the Nikkei225 closed 4.6% higher than end-February, at 16,758.67.

Volatile stock markets mostly saw useful March gains

Currency markets reflected diverse economic perspectives, the US dollar surrendering some early-2016 gains against sterling, losing about 3.6% to $1.44, and sterling weakening a further 0.8% against the euro to €1.26. Global supply and demand uncertainties continued to haunt the oil market, but Brent crude ended the month 10.1% to the good at $40.33. Nervousness created intermittent demand for gold, which ended virtually unchanged at $1,232.69.

UK UNEMPLOYMENT RATE MAINTAINS DECADE LOW

In March, the Office for National Statistics (ONS) reported that in the three-month period to January 2016 the number of people in the UK who were not in work but seeking and available to work, dropped to 1.68 million, down 28,000 from the previous quarter (Aug to Oct 2015).

Maintaining a ten-year low in percentage terms, the rate of unemployment was stable at 5.1%. The figures showed that a total of 31.42 million people were in employment, which represents an increase of 116,000 on the previous quarter and an increase of 478,000 compared with one year earlier.

Regionally the North East of England had the highest unemployment rate (7.8%); the lowest rate was recorded in the East of England (3.6%). The EU's statistical agency, Eurostat, reported that in January the Eurozone's unemployment rate fell to 10.3%, its lowest rate since August 2011.

Across the pond, the US Labor Department reported in March that 242,000 jobs were added in February, far exceeding the prediction of 190,000. The unemployment rate in the US is at an eight-year low of 4.9%.

From a wage growth perspective, ONS data showed a 2.1% increase in average weekly earnings including bonuses for employees in Great Britain, in the year to January.

It has been reported that Scott Bowman, UK economist at Capital Economics, stated that the UK's job recovery remained in *"full swing"* but cautioned that wage growth was *"still fairly subdued by past standards, especially considering how much the labour market has tightened recently"*.

INTEREST RATES HELD AGAIN

When the Bank of England's nine-strong Monetary Policy Committee (MPC) met on 16 March, they unanimously voted to maintain the Bank Rate at 0.5%. Taking into consideration the likely persistence of economic headwinds, the MPC members agreed that when the Bank Rate does rise, it was expected to do so more gradually and to a lower level than in recent cycles.

The rate decision comes at a time when global growth concerns abound, typified by the OBR's (Office for Budget Responsibility) downgrade of the UK growth forecast. In addition, uncertainty surrounding the EU referendum in June seemed to be one of the main drivers of the recent decline in sterling, which has depreciated by around 9% from its peak in mid-November 2015.

The Chief Economist at financial information firm Markit, Chris Williamson, was quoted as saying that the decision to retain the rate was *"no surprise"*, elaborating, *"The Bank highlighted how uncertainty regarding the June vote on the UK's membership of the EU is exacerbating wider concerns about the domestic and global economic outlook.*

"Policymakers noted how spending by businesses and overall demand in the economy could weaken as a result of the intensifying Brexit fears, which would worsen an already shaky start to the year."

At the same meeting the MPC also unanimously voted in favour of the proposition that The Bank of England should maintain the stock of purchased assets financed by the issuance of central bank reserves ('quantitative easing') at £375 billion.

PROPERTY MARKET REVIEW

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

We are not responsible or authorised to provide advice on investment decisions concerning property, only for the provision of mortgage advice. We hope you will find this review to be of interest.

Paul Fadoju
Principal Consultant

HOUSE PRICES HEADLINE STATISTICS

NATIONAL INDEX (FEB 2016)*	309.5*
AVERAGE HOUSE PRICE	£190,275
MONTHLY CHANGE	-0.2%
ANNUAL CHANGE	6.1%

* (1995 = 100)

- Annual price change now at **6.1%**
- From September - December '15 there was an average of **78,778** sales per month
- London saw the highest price rise of **13.5%** annually

HOUSE PRICES PRICE CHANGE BY REGION

REGION	MONTHLY CHANGE (%)	ANNUAL CHANGE (%)	AVERAGE PRICE (£)
NORTH WEST	1.8	4.9	£117,081
EAST MIDLANDS	1.5	6.2	£140,977
YORKSHIRE & THE HUMBER	0.9	4.1	£125,532
EAST	0.7	9.8	£220,188
SOUTH EAST	0.7	10.9	£267,235
SOUTH WEST	0.7	6.7	£199,214
LONDON	0.6	13.5	£530,368
WALES	-0.1	1.2	£122,573
WEST MIDLANDS	-0.3	4.5	£142,734
NORTH EAST	-1.2	-3.2	£97,582
SCOTLAND	N/A	1.6	£167,734**
NORTHERN IRELAND	N/A	7.0	£130,185***

Source: The Land Registry / Land Registry-Scotland** / Land Registry-N Ireland*** / Release date: 30/03/2016 / Next data release: 28/04/2016 / ** Latest Quarterly figures, next release date 26/04/2016 / *** Latest Quarterly figures, next release date April 2016

UK UNEMPLOYMENT FIGURES

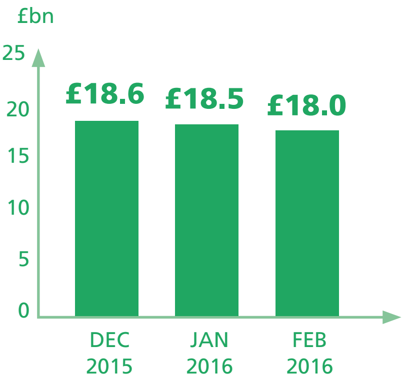
- There are **22.98** million people working full-time and **8.43** million working part-time
- At **5.1%** the unemployment rate is lower than for a year earlier (5.6%)

Jobless total
1.7m

Unemployment rate
5.1%

Source: Office for National Statistics
Release Date: 20/04/2016

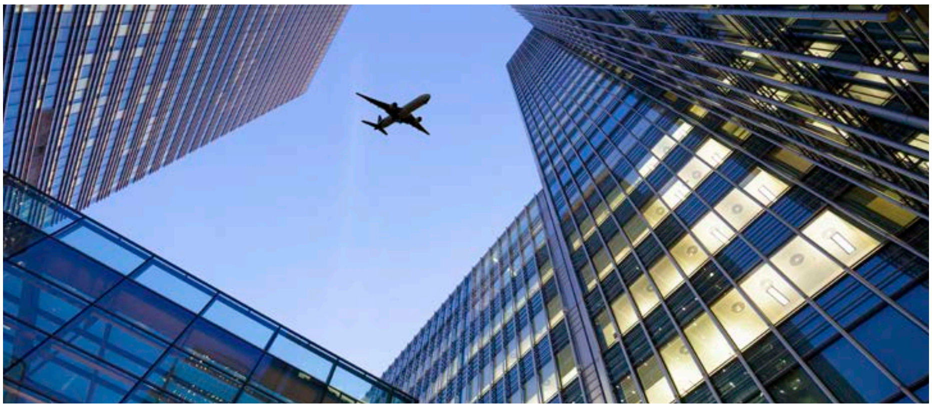
MORTGAGE ACTIVITY



- Buy-to-let has seen substantial year-on-year increases, boosted by landlords seeking to complete purchases before the April tax changes
- Remortgage activity totalled £4.8bn, up 37% compared to a year ago
- First-time buyers borrowed £3.4bn on 22,000 loans, up 11% year-on-year

Source: Council of Mortgage Lenders
Release date: 13/04/2016

COMMERCIAL PROPERTY UPDATE



Commercial property spending down on Brexit fears and global worries

Research from Real Capital Analytics for the Evening Standard shows that British and overseas buyers reduced their spending on UK commercial property in the first three months of 2016, triggering an £8bn slump in buying activity. Minutes from the Bank of England attributed the 46% fall in spending to a mixture of factors – the uncertainty created by the impending EU referendum, worries over China's continuing economic woes and the general slowdown in commercial investment volumes across Europe, fuelled in part by issues such as the immigration crisis. However, the data also shows that where deals have completed prices have held up well. With interest rates likely to remain low, analysts are not predicting any collapse in pricing for the foreseeable future.

London office space demand remains strong

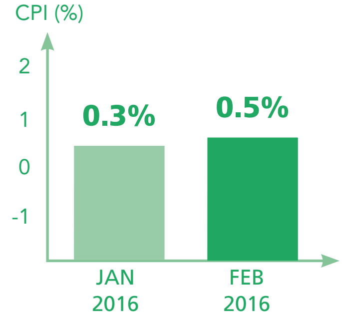
London office space is one sector of the commercial property market that seems largely unaffected by current concerns over the likely outcome of the EU referendum. A surge in acquisition of office space in the capital means that London remains a top location for UK and international businesses looking for new premises. The largest deal reported in the first quarter of 2016 was in Docklands where international news and intelligence providers Thomson Reuters acquired 315,400 sq. ft. at 5 Canada Square, E14.

Uptake in the first quarter of 2016 remained only slightly below the 10-year average, new figures from real estate agents CBRE indicate. First quarter results show that 3.1m sq. ft. of office space was acquired, only 100,000 sq. ft. less than the current 10-year average of £3.2m. These results underline the capital's continuing attractiveness as a world class city. Both sides in the Brexit debate are currently predicting that London will continue to remain an important international hub whichever way the vote goes.

Tax relief for UK Commercial Property owners

Department of Communities and Local Government (DCLG) data shows that between April 2014 and June 2015 almost 4,000 office-to-home conversions were sanctioned. What commercial property owners could be missing out on, however, is capital allowances tax relief available to them. This relief can be claimed on structural elements of the building, such as lighting and heating systems, electric cabling and lift shafts, the 'intrinsic fabrication' of a building, essentially those items a business could not operate without. It is estimated that 90% of commercial property owners are unaware of the process and eligibility, resulting in the loss of tens of millions of pounds of tax concessions. Anyone considering converting an old office block to residential units, or selling it to a residential developer should make a claim for capital allowances before starting work or completing the sale. If the claim isn't made, they could stand to lose thousands in valuable tax relief.

UK INFLATION FIGURES



Source: Office for National Statistics
Release date: 12/04/2016

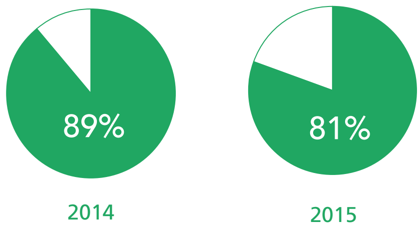
- Rises in air fares and clothing prices were the main contributors to the increase in the rate between February and March 2016
- These upward pressures were partially offset by a fall in food prices and a smaller rise in petrol prices than a year ago.

UK GOVERNMENT DEBT

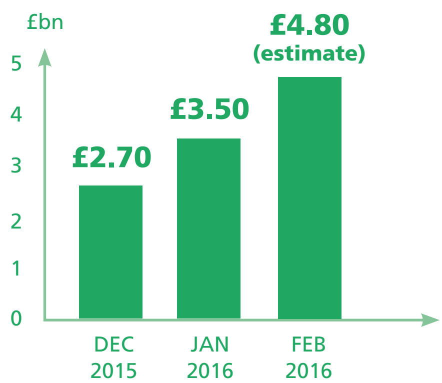
= £1,594.1BN

(As at March 2016)

UK DEBT AS % OF GDP



UK BALANCE OF TRADE (DEFICIT)



Source: Office for National Statistics
Release date: 08/04/2016