With the reporting of Parliament's vote on Brexit until the 14th January 2019, uncertainty surrounding the UK economy is souring. Being one of the most sensitive sectors to risks associated with Brexit, the housing market and in particular house-building is bent to take a direct hit. This slump is however not entirely caused by Brexit, but rather accentuated by it. There are indeed other factors currently leading to a slumping housing market in the UK.

Uncertainty surrounding Brexit is only heightening the crisis in which the UK housing sector is engulfed in. Although the labour market is at a good place with basic wages increasing at their fastest rate for the last 10 years and unemployment at its lowest since 1975, the same positive trend is not to be found in business and investors confidence. The British Chamber of Commerce has reviewed its previsions for a rise of business investments in 2019 from 1.2% to 0.1%. Construction companies such as Barratt Developments have seen their shares on the FTSE massively fluctuate over the confusion surrounding Brexit. This confusion is primarily due to the inability of British parliamentarians to vote Prime Minister May's only possible withdrawal deal, thus rising risks of a no deal Brexit.

Such risks have recently been heightened by surprising statements from the Bank of England which warned that a hard Brexit would lead to a 30% decrease in house prices, providing that the British Pound tanks and rising inflation forces the Central Bank to raise interest rates. This statement has however been deemed "implausible" by the Royal Institution of Chartered Surveyors (RICS), which believes that a hike in interest rates following Brexit would hardly be a required monetary policy option. Nonetheless, Brexit has already had its toll on the housing market, particularly on the share of overseas buyers, which has dropped by 70% since 2014.

According to RICS, overall house prices are going to stall in the UK, with prices in the regions of London, South East, North East and East dropping as much as 2%. The last few months, which are known for their downward trend due to the Christmas discount, have seen higher than usual decreases in prices, so much that the average price of a house in the UK has dropped by £10,000. This drop has even been sharper in London with a drop of £11.275, making the average cost of a home in the capital slightly over £600,000. Sales are also set to drop in 2019 at a rate of 5% to around 1.15 million residential transactions, which means a decrease of 550,000 transactions from the 2006 peak. This drop in sales and prices is however not caused by a low demand. It is well known that the UK is experiencing an undersupply of housing, with an annual shortfall of 36,900 households not finding appropriate accommodations.

The primary cause behind this crisis are affordability constraints. The aforementioned households are not able to find appropriate accommodation because they cannot find houses priced below market rates. In London, the average price for a home is worth 14 times the median full time salary in the city. To remedy this problem, developers are forced to lower prices, especially for apartments located in towers which are said to sometimes be sold 25% below the expected price range. These changes have made 2018 the year of readjustments as it has become clear that some parts of the country have attained their ceiling in terms of prices. It is therefore said that contrary to previous trends, prices in the North, especially the North West are going to increase, as much as 21.6% over the next years. The UK housing market is therefore also experiencing a geographical readjustment, which has the potential to tamper the North-South divide in the country over the medium term. For 2019, house prices are already likely to rise in northern regions like North Ireland, North West, Scotland. This increase is expected to reach a national record of 6.2% for Wales.

Whilst London housing prices increased by as much as 72% over the last decade, the housing market is now losing momentum, although this is not evenly shared across the region. Overall, the 2019 slump is not going to be everlasting and developers believe that London prices will regain with an increase of 1.5% in 2020. For the more affluent central neighbourhoods of London, this upswing is set to continue up to 2023 with an overall price increase of 12.4%. For a more national forecast, developers believe that prices in the UK are still going to rise by 15% in the next 5 years. However, such longview forecasts should be taken with a pinch of salt, considering that the housing market is highly volatile and uncertainty equally important due to Brexit. Several factors leave some doubt around such optimistic views for the market: construction, especially in London is on the low for now and the sales to stock levels around 20% are some of the lowest ever encountered by brokers.

Another important and non-negligible factor behind the housing market slump is government regulation. The government is falling short of its goal of having 300,000 new homes constructed each year by an order of 78,000, and this shortfall risks increasing due to the construction dip. As a result, the British government has taken other initiatives to incentivise buyers to make a purchase and disincentive foreigners from clogging the housing market. The budget advanced in late October by Chancellor of the Exchequer Philip Hammond anticipates an extension of the Help to Buy Scheme to first time buyers until 2023. This scheme provides a 40% loan to beneficiaries. Yet, this might not be sufficient to push buyers to make a purchase. Indeed, since the 2008 Global Financial Crisis, mortgages are difficult to get as the maximum amount provided cannot exceed 4.5 times the beneficiary's annual salary. Although not impacting basic rate taxpayers, the change in the tax relief on mortgage interest has also impacted higher rate taxpayers, who now have less tax relief on their mortgage.

Concerning foreigners, the government is likely to approve a 1% surcharge to non-resident landlords. This impediment to foreign investments in the UK housing market are likely to stifle overseas buyers, who are currently turning into sellers. In addition to an increased stamp duty, an increased sales tax on a second-home purchase and higher land tax, these recent government regulations are likely to have a stifling impact on the transaction volume for the UK's housing market for 2019.

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