

Market Commentary

Residential Analysts

United Kingdom – May 2020

- **The Housing Market Has Restarted But The Economy Is Stalled**
- **The Recession And A Credit Crunch Will Limit The Recovery**

The housing market reopening for business last week was welcome news but caught many unaware, including the government. Restarting the housing market was always going to be a priority given its importance to the economy, so it is not surprising that restrictions have been eased as early as possible. Initial data suggests that interest from consumers has rebounded, though perhaps not as much as estate agents' excitement. The market will almost certainly recover from the low levels of transactions reported in yesterday's HMRC release but it will take time for delayed and new purchases to reach completion. Meanwhile, the economic data continues to worsen and the largest economic shock in recent history will limit potential buyers' ability and enthusiasm for making the biggest financial decision of their life. The housing market may have restarted but the economy is stalled and there is a credit crunch limiting lending at higher loan-to-value ratios.

Market Restarted

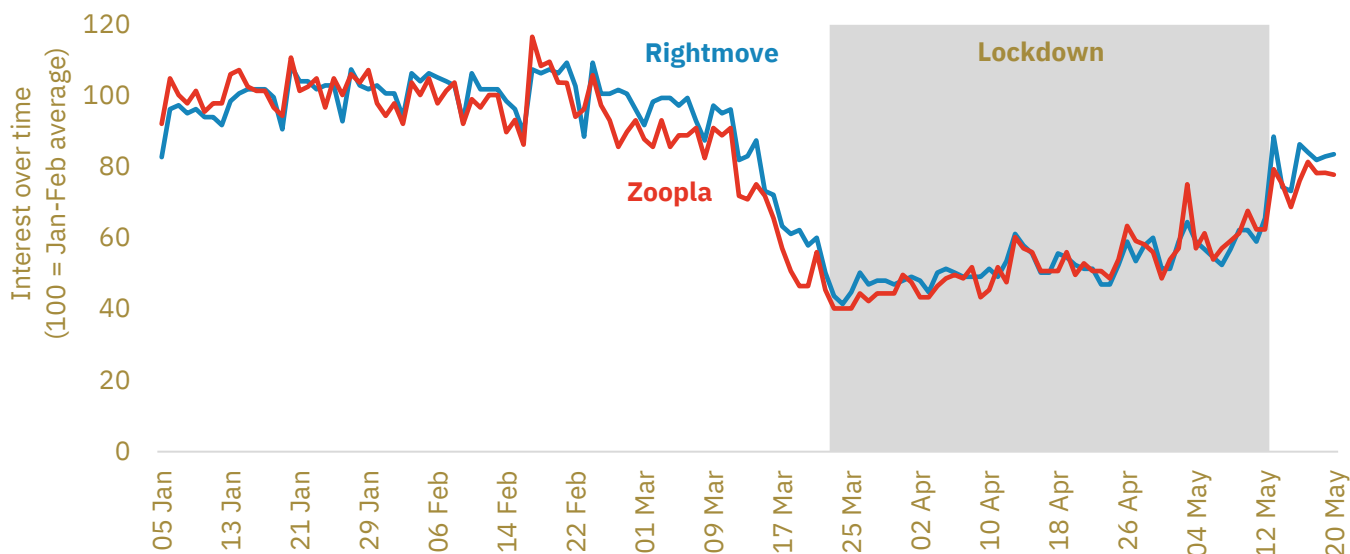
The news that the housing market was reopening for business came sooner than many may have hoped and was welcomed by many. However, the [addition](#) of "activities in connection with the purchase, sale, letting or rental of a residential property" to the list of reasonable excuses for leaving home could have had more warning to allow better preparation, not least from government. The publication of the amendments to the regulations forced the government into announcing the restart a day earlier than planned. Meanwhile, the industry was left to figure out exactly how viewings and other now permitted activities could take place under social distancing rules.

Restarting the housing market is understandably a political priority given both its direct and indirect links to the economy. House price inflation is correlated with consumption growth and transactions help drive all kinds of other activities. Housing investment (mostly new build) directly contributes to GDP and although it only accounts for 5%, its volatility can have outsized effects. For example, Bank of England analysis ([PDF Box 4](#)) reports "the 40% fall in housing investment during the 2008–09 recession accounted for about one quarter of the fall in GDP".

Despite the less than perfect announcement, initial data suggests that interest from the general public has rebounded strongly. For example, data shows Google searches for property portals up 49% compared to two weeks ago and only 19% below pre-lockdown levels. (Figure 1). However, even transactions that were simply delayed by the lockdown will take time to reach completion, even if prices are not renegotiated, and getting newly agreed deals to completion will be more challenging given the widespread problems in the economy. The housing market may have restarted but there are considerable challenges ahead.

Figure 1: Google Searches For Property Portals

Source: Google Trends, UK, (data for 19th & 20th based on calculations using 7 day trend data)



Economy Stalled

We are in the midst of a pandemic and possibly the biggest economic shock in several hundred years. Hopes that the economic downturn would be short, sharp, and rebound quickly always looked optimistic and are quickly receding. The scenarios published by the [OBR](#) and [Bank of England](#) are just that: scenarios to model what could happen, not forecasts of what will happen. As more economic data emerges, the scale of the downturn and its impact on people and businesses is becoming clearer. It is terrible and its effects are likely to be long-lasting.

Unfortunately, Covid-19 is a horrible disease that is highly infectious and deadly while also able to hide in many people with almost no symptoms. In the absence of a vaccine, its impact on society and the economy will be long-lasting. It is possible that we will see further spikes in infections and the need to increase social distancing measures again in coming months and even years. That suggests the present, with all its associated economic and social costs, may be a better guide to the immediate future than we'd all like.

As we pointed out [last month](#), many potential buyers will have seen no impact on their financial position but there are many others who will have lost income, savings, or their jobs. Unfortunately, that number will increase the longer the economy and society are restricted. Government support and actions to prevent repossessions, including today's extension of mortgage payment holidays, will help reduce the immediate impact on house prices but history shows (Figure 2) a correlation between prices and the economy. The hope will be that the relatively unstretched financial position of existing owners, including recent first-time buyers, will limit any downward pressure on pricing. However, prices reflect just those properties that transact and so the availability of mortgage debt will be an important driver of both activity and prices.

Figure 2: Annual Change in GDP and Real House Prices

Source: ONS, Nationwide (prices adjusted using ONS RPI: Long run series)



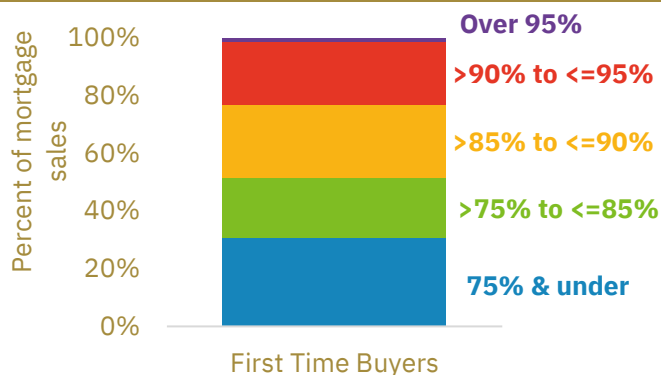
Credit Crunched

Unfortunately, we are in the midst of another credit crunch with Bank of England analysis ([PDF Chart 2.20](#)) highlighting the collapse in the availability of higher loan-to-value mortgages. More recent Moneyfacts [analysis](#) shows some new high loan-to-value (LTV) mortgage products have been launched since the lockdown ended, with surveyors now able to enter properties. However, the recent increase is a long way short of making up for the fall and mortgage lenders' risk dashboards will be flashing red. It's unlikely we will see a quick and full return to the mortgage conditions that were driving stronger activity and price growth at the beginning of the year.

The reduction in the availability of higher LTV mortgages will have a massive impact on first-time buyers. There were 350,000 mortgage completions by first-time buyers last year according to [UK Finance](#) (30% of total transactions) and FCA product sales data for the first half of 2019 shows that 69% of them used mortgages with an LTV over 75% and 23% with an LTV of more than 90% (Figure 3). The credit crunch will have serious consequences for housing market activity and the future of home-ownership, even before the long term consequences of the recession are factored in.

Figure 3: FTB Mortgages by LTV

Source: FCA Product Sales Data

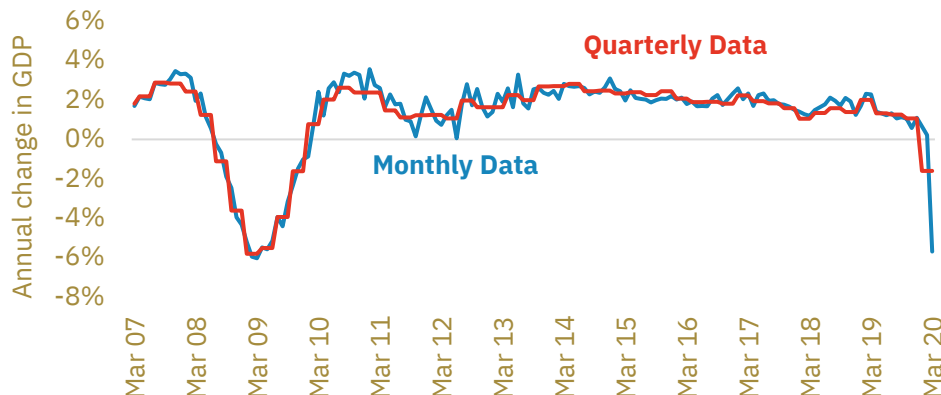


Market Commentary

Market At A Glance

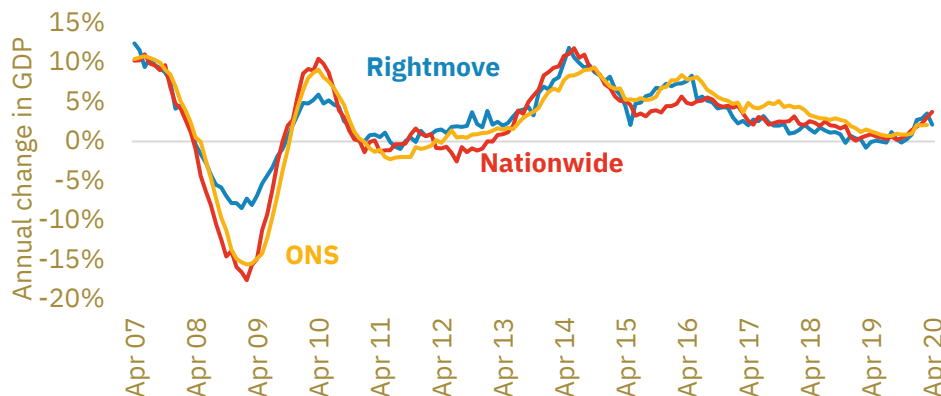
Economy - UK

The first estimate of GDP for Q1 2020 reported a 2.0% quarterly fall, with the monthly data showing a 5.8% fall in March. This data will almost certainly be revised but also definitely overshadowed by the falls in Q2 (April-June) when the data is published.



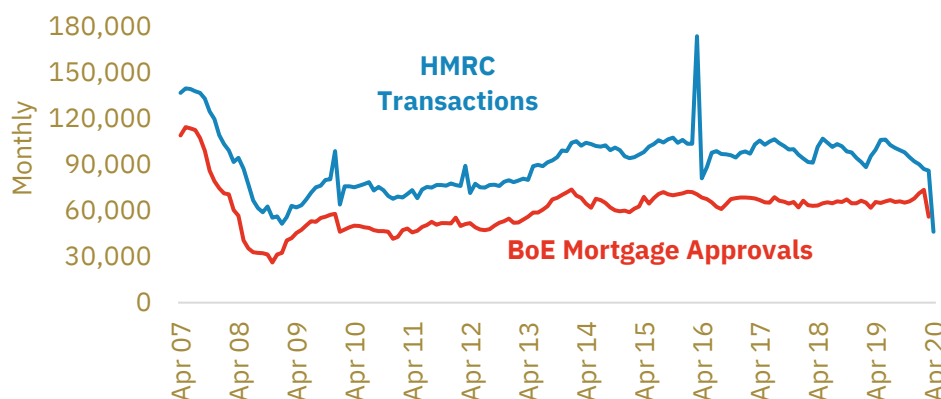
House Prices - UK

House price inflation had picked up at the start of the year, following nearly four years of slowing growth. House price data in coming months will be volatile and Rightmove have not published data in May while the ONS index is now suspended from March.



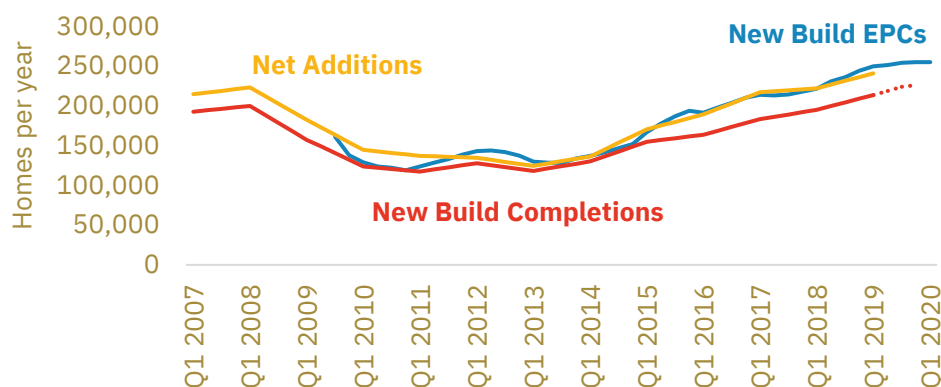
Transactions - UK

Mortgage approvals for house purchase had already fallen by 24% in March compared to the previous month and the HMRC transaction data for April (-46%) confirmed the fall in housing market activity. However, it is worth noting that the HMRC data has been subject to significant revision recently and there's something strange about their seasonal adjustment.



New Supply - England

Short-term measures of new housing supply are limited given the issues with MHCLG's quarterly data though we have used it to suggest the potential path opposite (dotted line). Energy Performance Certificates for new build homes provide the best leading indicator for net additions, suggesting around 250,000 in the 2019/20 financial year.



Further Information

Housing markets are local and so, while it is essential to understand what is happening to housing at a national level, it is just as important to understand what is happening at a local level. To help you understand what is happening in your local housing market, we have created a number of regularly updated resources for you to use. Given the limitations in the availability and timeliness of local data, these resources are inevitably more backward looking than the analysis in this document but they should still help you understand what has been and is happening in your local housing market. These resources include:

Summaries of house prices and transactions for national and regional markets

Housing Markets At A Glance

House price and transaction reports for local authorities in England:

Local Authority Reports

House price and transaction reports for over 2,000 cities, towns and villages across England and Wales

Cities, Towns & Villages

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