Market Commentary

Residential Analysts

United Kingdom – June 2020

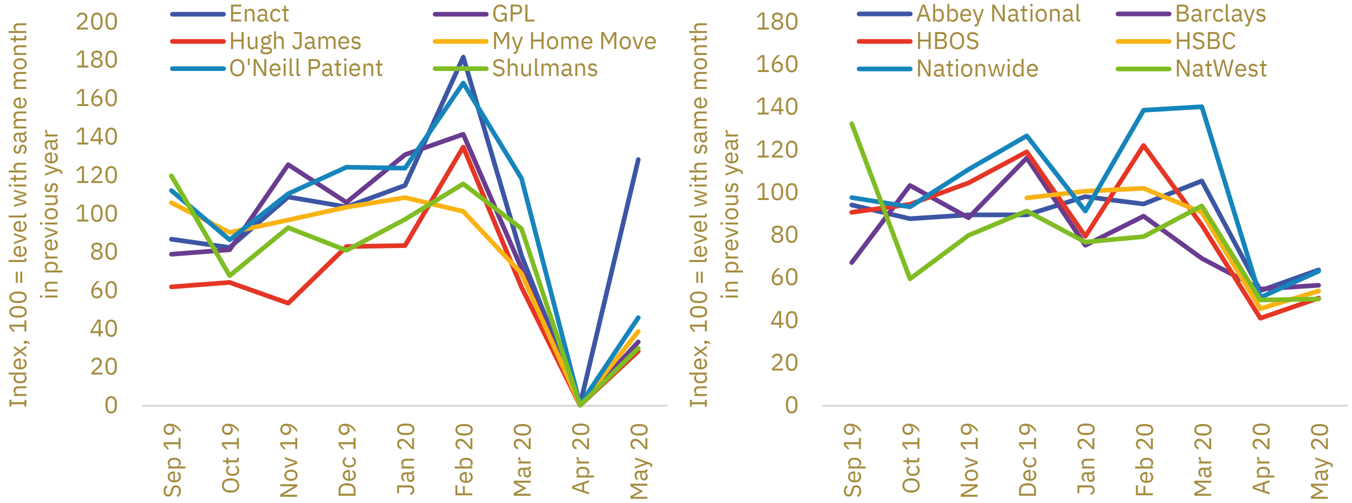
• Market Bounces Back But How Much Is Just Delayed Demand
• Crash or No Crash, This Will Exacerbate Existing Housing Inequalities

The housing market has reopened in England and it appears to have ignored the last three months and taken off from where it was prior to the lockdown. There are numerous reports of high demand and the number of sales agreed rebounding back to normal levels. The lockdown is easing, the economy is slowly recovering, and house prices are rising. But this bounce is unlikely to last given the massive economic shock and on-going credit crunch in the mortgage market. Irrespective of the outcome, the current market will exacerbate existing inequalities.

Market Bounces Back

The English housing market reopened for business on the 13th of May. Since then there has been a rapid rise in the number of people searching for homes, the number of sales agreed, and a broadening in the definition of housing "demand". Reports from Rightmove and Zoopla suggest the number of sales agreed have recovered to pre-lockdown levels though it will take time for these transactions to complete and appear in HMRC transaction data. Figure 1 provides a rough though far from definitive picture of market activity in recent months by looking at the number of customer applications HM Land Registry received by a selection of companies in recent months. It highlights the burst of activity in February (as also seen in mortgage approvals), the rapid decline in April and then a small bounce back in May for most companies. The smaller decline in mortgage lenders' applications may reflect remortgage activity during this period and this data will be fascinating to track in coming months.

Figure 1: Customer Dealing Applications by Solicitors, Conveyancers & Lenders
Source: HM Land Registry Transaction Data – Dealing applications include transfers of title, charges and notices



It's not just activity that has bounced back quicker than many expected, house prices appear to be holding up too. The Rightmove asking house price index restarted this month and reported annual growth of 2.9% across England in June while the Zoopla house price index reported annual growth of 2.4% in May. These growth rates are slightly lower than the two indices reported back in March but still higher than the rates reported during 2019. It appears the housing market has burst back into life and there are limited signs of big price falls in the indices so far.

Delayed Demand

It remains unclear just how much of this interest and activity is simply delayed from the lockdown period and where actual transaction levels will settle over the summer and into the typically busier autumn market. The charts above suggest there was a burst in activity in February and, given transactions can take a long time to reach completion, there were clearly a substantial number of buyers that had been frustrated by the lockdown and are now making up for lost time. Additionally, as the lockdown eases and the economy slowly reopens, there will be increasing numbers of people keen to get on with their lives. Some of those will want to move home. However, the economy remains in a perilous state with government and mortgage lenders providing substantial support. As that support is removed, there is the very large risk of a housing market correction later in the year or in early 2021.

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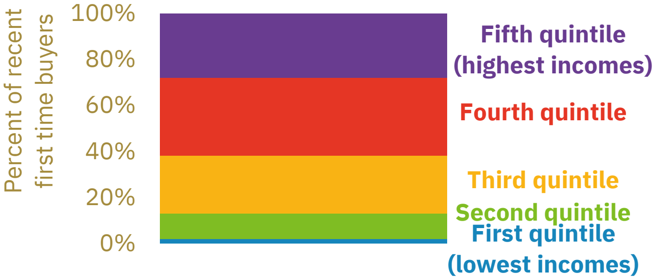
Housing Inequality

Access to affordable, appropriate and safe housing has been unequal for decades and the current market appears to be widening the existing inequalities. The inequality in access to market housing is heavily but not wholly linked to housing tenure with home-owners typically benefiting from lower housing costs, more space, more security and better quality housing while private renters are more likely to struggle in all the above. Access to home-ownership is heavily dependent on your income and access to wealth. Figure 2 below highlights the disparity in the incomes of first time buyers in England where only 13% of first time buyers have incomes in the lowest 40% of the income distribution. Meanwhile our Digging Deeper slide deck showed the average first time buyer needed a deposit of £50,000 in 2019. That equates to around one year's income. The emergence of higher loan-to-value mortgages since 2013 had helped ease some of the affordability pressures but high house prices relative to incomes and lending regulations were excluding large numbers of prospective first time buyers from the market. With a lack of affordable housing, this left many living in the private rented sector.

Figure 2: FTB Weekly Gross Hhld Income
Source: MHCLG English Housing Survey, 2018-19



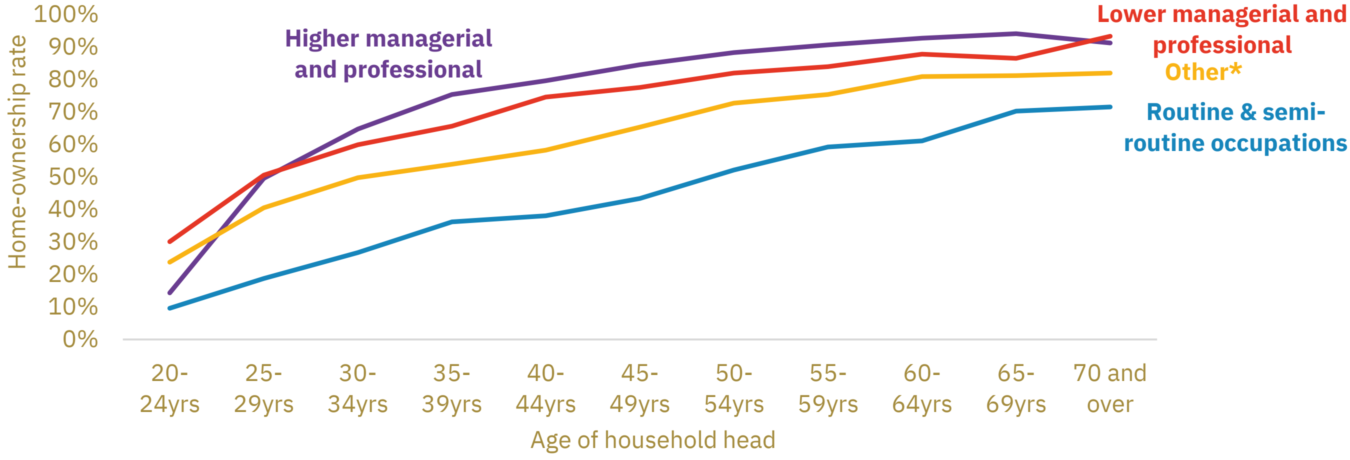
Exacerbating Existing Inequalities

Unfortunately it appears the current economic and mortgage lending climate is exacerbating these inequalities. There are many people who have seen little or no impact on their financial circumstances over the last few months and they will be able to pay the same price for a home as prior to lockdown. They may even have seen their savings rise with less spending on holidays, eating out, and other luxuries. There is some evidence these groups are driving the current bounce in activity with the Rightmove index reporting that asking prices were rising fastest in their "top of the ladder" market sector. Meanwhile the Zoopla index release reported a faster rebound in sales in northern cities, possibly reflecting those markets where deposit affordability is relatively less stretched.

However, there are many others that have lost savings, income, and jobs or face an uncertain future when the furlough scheme ends. These people will be less able and willing to pay the same price for a home, especially when the impact of the credit crunch in the mortgage market is considered. The Resolution Foundation suggest young workers and poorer households are more likely to be affected by the recession. It is clear the credit crunch will predominately affect prospective first time buyers. Therefore, it appears highly likely there will be fewer first time buyers in the months and years ahead. That could lead to more private renters and fewer home-owners, though the impact on rents will also depend on the number of foreign nationals working and studying in the UK.

It is also important to note that though there are generational differences in the ease of accessing home-ownership, there are also intra-generational differences. For example, figure 3 shows the home-ownership rate for heads of households aged 25 to 29 in managerial and professional occupations (50%) is actually higher than the rate for heads of households aged 45 to 49 but working in routine and semi-routine occupations (43%). Irrespective of what happens to house prices in the future, the inequalities in housing are going to get worse.

Figure 3: Home-Ownership by Socio-Economic Classification & Age of Head of Hhld
Source: ONS Labour Force Survey, Q1 2020, UK
*(*Other is Intermediate occupations, Small employers and own account workers, & Lower supervisory and technical)*



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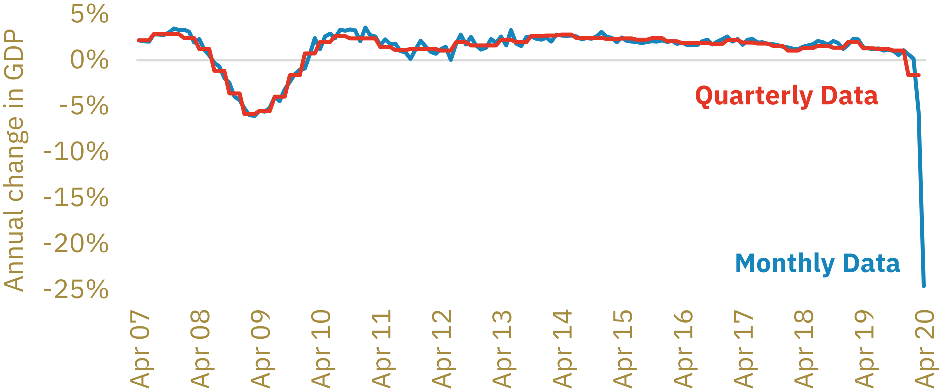
Market At A Glance

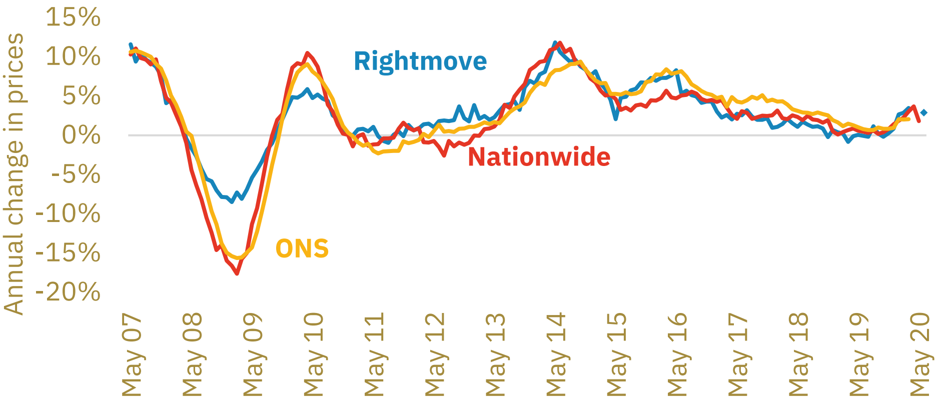
Economy - UK

The ONS monthly estimate for GDP reported a 20% fall in April compared to March. This brought the annual rate of change down to -25%. This data is the first month of data to reflect the full impact of the lockdown on the economy and hopefully we will see a substantial rebound in coming months.



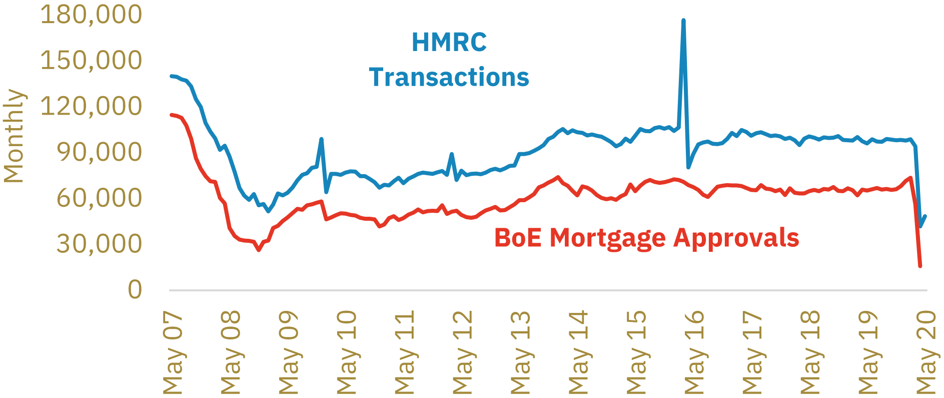
House Prices - UK

Rightmove have restarted their index but it only covers England. Their data showed house prices rose 2.9% in June compared to last year, slightly lower than the 3.5% annual growth reported in March. The ONS index remains suspended while the Nationwide house price index reported an annual rise of 1.8% in May, down from 3.7% the previous month.



Transactions - UK

There were just 16,000 mortgage approvals for house purchase in April, a fall of 76% compared to the same month in 2019. HMRC data reported 48,000 transactions in May, a slight improvement on April's level but still 50% below May last year. HMRC transaction data is currently subject to significant revisions so take care.



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.