Market Commentary

Residential Analysts

Powered by BuiltPlace

United Kingdom – August 2020

- **Summer Boom – Why It Is Happening & How Long It Will Last**
- **Local Fallout – Claimant Count Analysis**

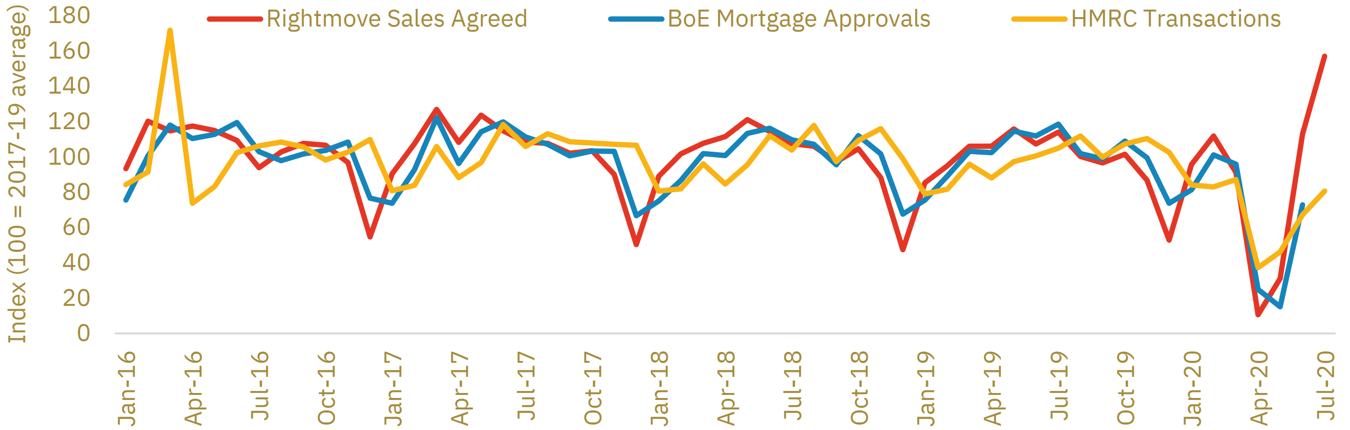
The housing market is booming but why is it happening and how long can it last considering the pandemic's economic fallout? Every week brings news of rising prices and housing market activity but it also brings news of more job losses and other economic damage. This apparently contradictory situation suggests the housing market is disconnected from the real world but it is not particularly surprising given the inequalities in housing.

Summer Boom

The summer is usually a quiet period for the housing market. Deals done in the spring finally reach completion and estate agents get ready to launch their new listings in September when everyone is back from holiday. This year has been a bit different. There were some early signs that spring 2020 was going to be the busiest since 2016 with rising prices and activity in February. But then the pandemic hit and lockdown reduced activity to a trickle. However, since lockdown was ended, the scale of the rebound has surprised many commentators with rising house prices and record high sales agreed, even if these haven't made it to completion yet (see Figure 1).

Figure 1: Monthly Housing Market Activity, UK

Source: Rightmove, Bank of England, HMRC – all data not seasonally adjusted



The scale of the bounce back has surprised many, not least because of the economic weakness, but this outcome is understandable given the inequalities in housing. This is because housing market supply and demand is only affected by those that can afford to transact (in the absence of forced sales). Those that can't afford to buy have minimal direct impact on prices or transactions though they may affect it indirectly through rents. Unfortunately, it appears the economic fallout has been mostly felt by the young and low earners - those least able to buy a home.

Conversely, as we've written previously, there are many people who have seen no financial impact in recent months and they will be able to pay the same price for a home as prior to lockdown. They may even be able to pay more as their savings have risen and mortgage rates on low LTVs have fallen. Some of those people will be keen to move having reassessed their housing (and home-working space) during lockdown while for others the stamp duty savings will be enough motivation to bring forward a move they had been thinking about. With most transactions occurring in the existing rather than new build market, one household deciding to move and list their current home can create a domino effect when someone else finally spots that property as the home they've always wanted (if they can afford it).

On the supply side, the market was already highly illiquid and hadn't even recovered to pre-2008 turnover levels, let alone pre-1990 levels. With low mortgage rates most homeowners will just sit tight if they can't sell for what they want or need. Once the current spike in activity driven by delayed demand and the stamp duty holiday eases, transactions are more likely to adjust than prices if demand falls while there are no forced sales.

The usual sources of forced sales in a recession are developers and the unemployed. Unemployment is currently suppressed by the furlough scheme while mortgage payment holidays and the moratorium on involuntary possessions are also limiting any impact. Housebuilders are benefiting from the ongoing mortgage crunch as Help-to-Buy equity loan is now the only option for first-time buyers needing a high LTV and city centre developers are benefiting from investor demand thanks to the stamp duty holiday and ongoing tensions in Hong Kong.

Spring Bust

In the absence of a sustained and widespread economic recovery that would probably require a vaccine, downward pressure on the housing market is likely to build. The timing of when existing supports such as furlough, possession moratoriums, and mortgage payment & stamp duty holidays end will be key determinants of what happens. There is also the uncertainty of what Brexit will bring. The biggest risk will be rising unemployment but any initial rise is more likely to reduce transactions than prices as lenders will find themselves under pressure to minimise possessions. However, rising unemployment could lead to falls in rents that reduce yields and lower the price investors are willing to pay but it is unlikely many small scale investors will sell up unless forced to by debt. The timing of all these factors suggests that transactions will fall away in the autumn as the bounce back eases before spiking again in March 2021 as buyers rush to save stamp duty. That will then leave transactions in the doldrums from April 2021 and the spring housing market highly exposed to any increase in distressed sales.

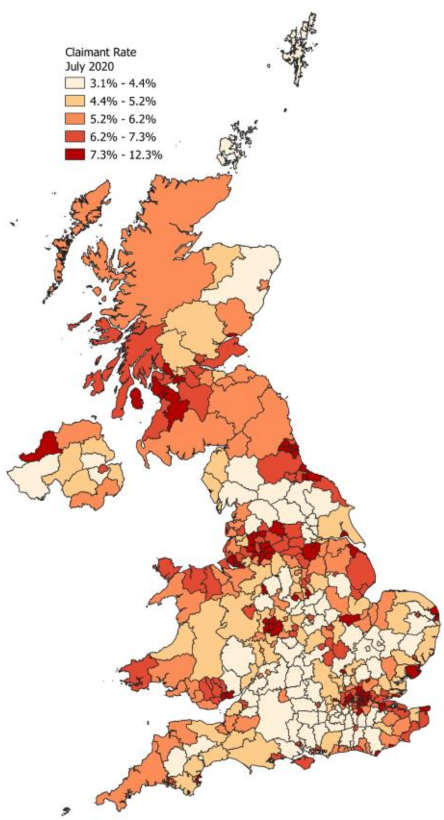
Local Fallout – Claimant Count Analysis

We are yet to see any significant impact from lockdown and the recession on the ONS unemployment statistics but there are other measures that highlight its scale and geographic consequences. One of those measures is the claimant count which “seeks to measure the number of people claiming benefit principally for the reason of being unemployed”. The introduction of universal credit has increased eligibility so the claimant count has become a less reliable measure of labour market conditions in recent years. Additionally, since the pandemic, employed people are eligible if their earnings fall below a threshold. Therefore it is not a useful measure of unemployment but is a useful measure of the pandemic’s impact given its timeliness and availability at lower geographies.

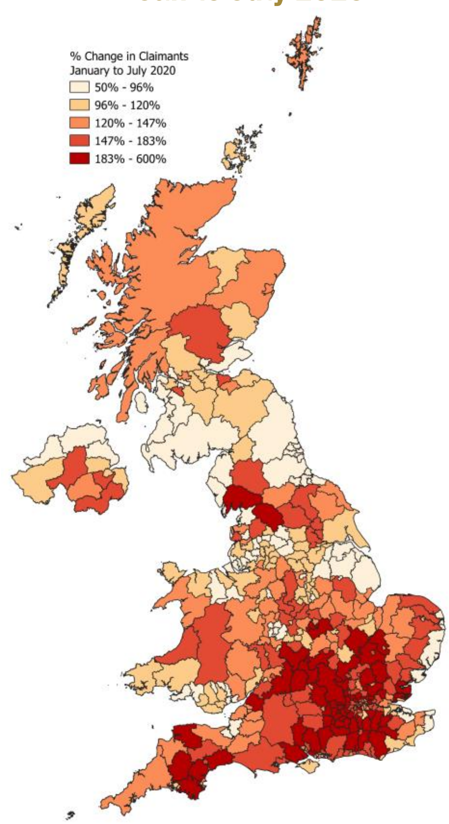
The claimant count has rocketed in recent months with nearly 2.7 million claimants in July, a 120% rise since January. The two maps below highlight some of these patterns at local authority level. The left-hand map shows the claimant rate (claimants per population aged 16-64) in July while the right-hand map shows the percentage increase in number of claimants from January to July. The distribution of the left-hand map is perhaps not surprising as it highlights urban areas and those with pre-existing economic weaknesses. However, the map on the right shows the biggest percentages increases are found in the south of England, especially in and around London. While this will partly reflect lower starting claimant numbers, it also raises questions about the future.

Figure 2: Claimant Rate & Change in Number of Claimants – Local Authority
Source: ONS via Nomisweb

Claimant Rate – July 2020



Percentage Change in Number of Claimants – Jan to July 2020



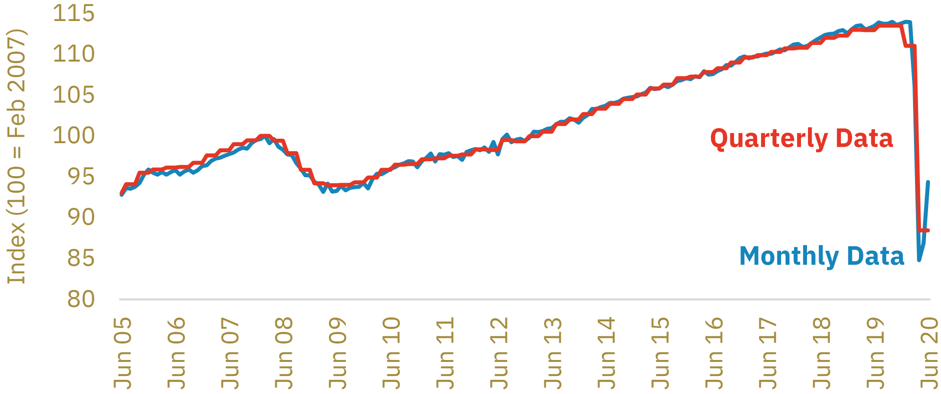
Market Commentary

Powered by BuiltPlace

Market At A Glance

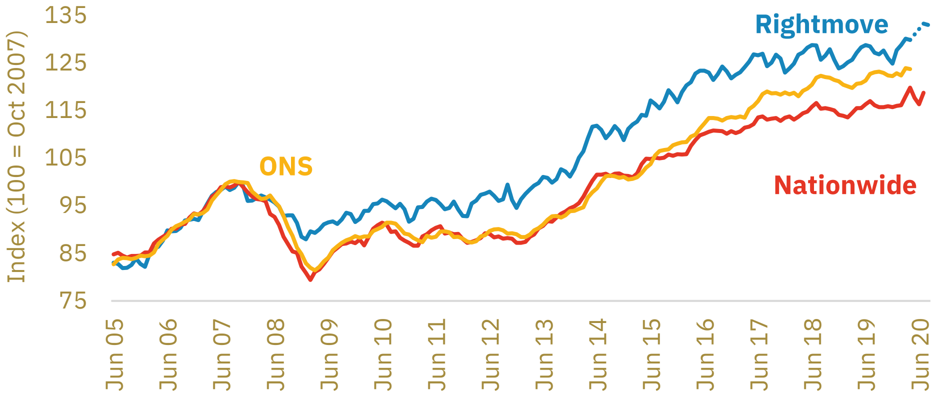
Economy - UK

The ONS reported a second quarterly fall in GDP for Q2 2020. According to some technical measures, this means the UK is in a recession. However, the monthly GDP data suggests the economy recovered slightly in June though GDP was still 17.2% below January's level (it was 23.8% below in May).



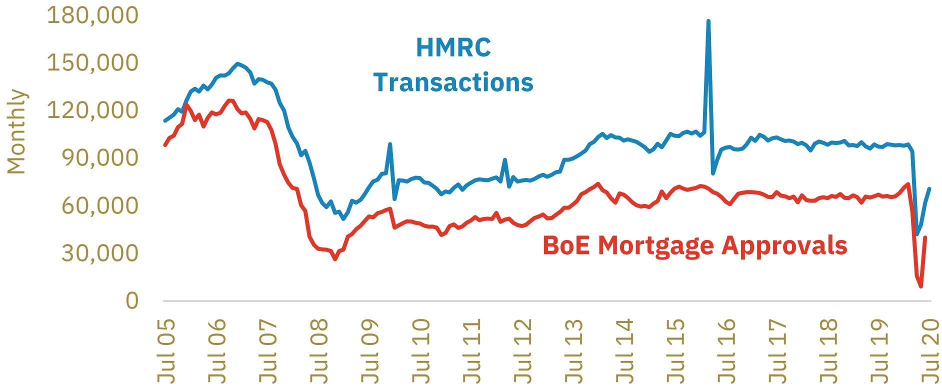
House Prices - UK

Rightmove asking prices continue to rise with a smaller than usual fall in August increasing the annual rate up to 4.6%. Nationwide also reported an increase in prices in July, reversing the falls they reported during lockdown with house prices rising 1.5% over the last twelve months. ONS also have resumed publication.



Transactions – UK

HMRC transactions data out today shows a continued recovery since the market reopened but no sign yet of the rebound in sales agreed (Fig 1). Mortgage approvals tend to have a closer correlation with sales agreed and so the data released by the Bank of England at the end of the month could be interesting.



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 they fell to around 217,000 in the year to Q2 2020.