# Market Commentary

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## United Kingdom – October 2020

- **Summer Boom Leading To A Winter Rush**
- **The Pandemic's Second Wave**
- **Tax Booms and Cliff Edges**

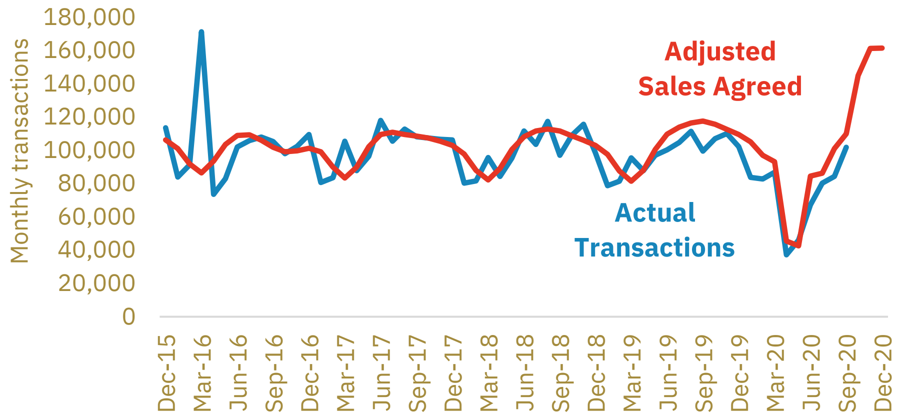
The housing market boom is continuing into the autumn with sales agreed still well above last year's levels and house prices rising. However, we're yet to see the boom in sales agreed reach completion and there are growing concerns that many may not complete before the stamp duty holiday ends in March. Meanwhile, the second wave of the pandemic continues to grow and brings with it further disruption, challenge, and loss. This month's commentary also looks back at previous tax booms and cliff edges as a guide to what might happen next year.

### Summer Boom Leading To A Winter Rush

The housing market is still booming with rising house prices and sales agreed well above normal levels. Despite numerous forecasts for falling house prices this year, the post lockdown boom continued in October. Rightmove reported a 5.5% annual rise in asking prices and Nationwide reported a 5.8% annual rise in mortgage approval based prices. The completion-based ONS index only reported a 2.5% annual rise in August but it is possible this will rise in coming months as the sales agreed during the boom actually reach completion. Meanwhile, although both Rightmove and Zoopla reported a slight slowdown in sales agreed during October, they are still around 50% higher than this time last year. However, time is running out for those hoping to complete before the end of March.

**Fig 1: Transactions & Adjusted Sales Agreed**

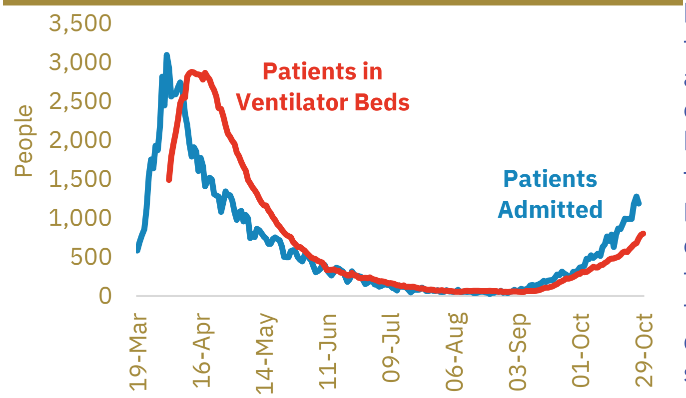
*Source: HMRC & calculated using Zoopla data – not seasonally adjusted*




Transactions are back to normal levels but there's no sign of the summer boom in completed sales just yet. HMRC reported transactions were just 0.7% lower in September when compared to the same month last year but sales agreed have been running around 40-60% higher than normal since July. Our simple model using Zoopla data on sales agreed and the time it usually takes them to reach completion suggests they should now be doing so (Fig 1). If these normal patterns apply, then the number of transactions during October could be around 30% higher than last year with November and December both around 50% higher. Those figures obviously depend on normal conditions applying and the sales process is time consuming at the best of times. However, we now have activity levels around 50% higher than usual with many of those involved in the process having to work from home. There will inevitably be disappointment and frustration for both potential buyers and sellers in coming months as they rush to complete their transaction before the end of the stamp duty holiday on the 31st of March 2021.

**Fig 2: COVID-19 Patients, England**

*Source: NHS data via https://coronavirus.data.gov.uk/*




### The Pandemic's Second Wave

Last month we looked at what happens next to the housing market. Unfortunately, it is now clear we are in the second wave of the pandemic. Hopefully we can avoid another national lockdown with the resulting economic damage but any hope for a V-shaped recovery has disappeared and there will be permanent damage.

The impact of the second wave on the housing market is less certain though it will most likely further widen the existing inequalities. Wealthier home owners secure in their jobs and able to work from home will continue to trade location for space. Meanwhile, many of those directly affected by pandemic's economic fallout will struggle in the insecure and expensive rental market.

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## Tax Booms and Cliff Edges

The stamp duty holiday is widely acknowledged as a key driver of the current boom and there are serious concerns about what happens when it ends. The current boom in housing market activity can not be wholly attributed to the stamp duty holiday  as the market was already recovering before its announcement and the ongoing revaluation of location versus space since lockdown is a far bigger factor. However, unless it is extended, the end of the holiday looks likely to lead to a spike in transactions and subsequent collapse. We have looked at three previous times when tax changes have led to a cliff edge in housing market activity.

**Fig 3: Quarterly Transactions**

*Source: ONS, HMRC – England & Wales*


### 1988

In April 1988, the Chancellor Nigel Lawson announced the end of dual income mortgage interest relief (MIRAS). This had allowed unmarried couples (or friends) to claim MIRAS on both their incomes but was changed to apply to the property rather than borrowers. Unfortunately, the big mistake was to delay the change to August. This led to a rush to beat the deadline as the change would only apply to new mortgages and ended up with the largest number of transactions ever recorded in one quarter (chart opposite). Unfortunately, the economy and housing market were already in trouble and this final spike in transactions came towards the end of the Lawson Boom. Interest rates then rose to tackle inflation, house prices crashed, and transactions never returned to the level seen in 1988.

### 2008-10

As the impact of the financial crisis on the housing market became clearer, the government introduced a stamp duty holiday in September 2008. The holiday applied to purchases between £125,000 and £175,000, saving buyers the 1% stamp duty they would've otherwise paid. The immediate impact of the holiday was limited given the scale of the crash but did then help support more transactions within this price band. The holiday ended in December 2009 and led to a spike in transactions as seen in the chart opposite. However, many of these transactions were brought forward and so the net effect was lower than suggested by the spike. The holiday had been due to end in September 2009 but was extended to the end of the year. This extension appears to have just delayed the cliff edge.

**Fig 4: Transactions by Price, 2008-10**

*Source: HM Land Registry (seasonally adjusted)*

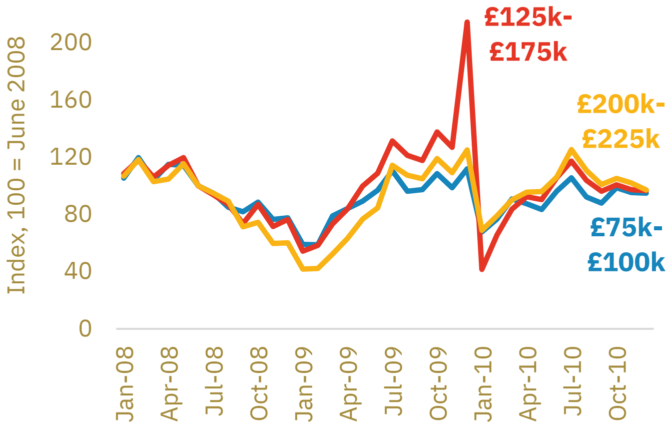
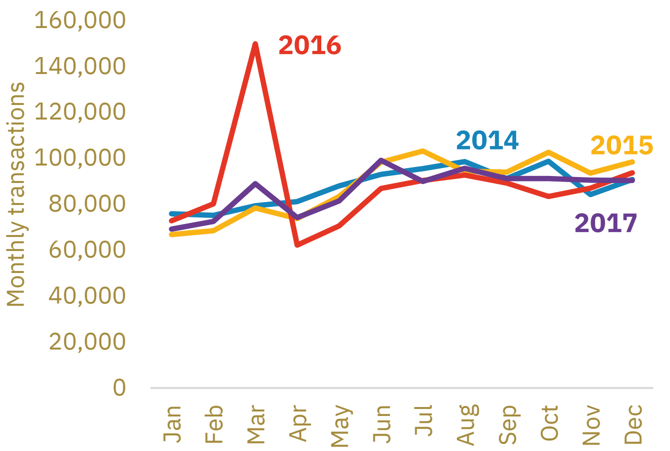



**Fig 5: 2016 Tax Changes**

*Source: HMRC (non seasonally adjusted)*




### 2016

Since April 2016, buyers of a second home (investment or other) have had to pay an additional 3% stamp duty on top of any other applicable rate (this still applies). Inevitably, there was a massive spike in transactions in March as buyers rushed to buy their investment property or second home and avoid paying this additional stamp duty. There may also have been some home movers rushing through transactions to avoid temporarily owning two homes and the hassle of having to pay stamp duty then  reclaim it when the original home is sold. The March spike was then followed by several months of lower than normal transactions. The total number of transactions during the whole of 2016 ended up at very similar levels to the preceding and following years.

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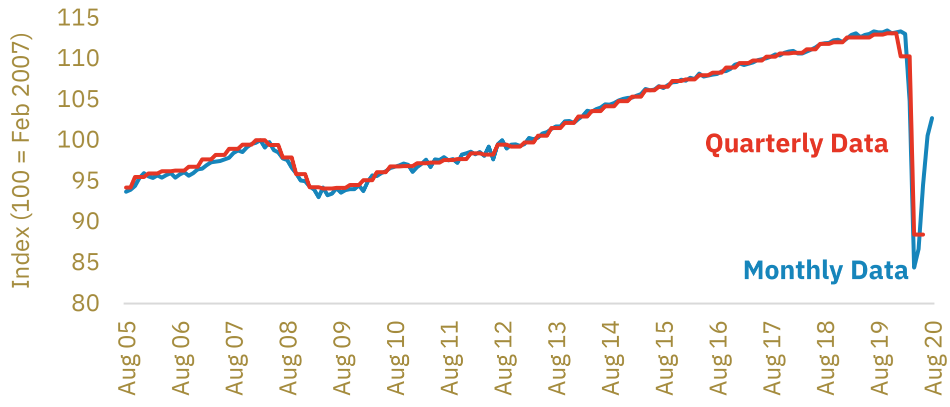
## Market At A Glance

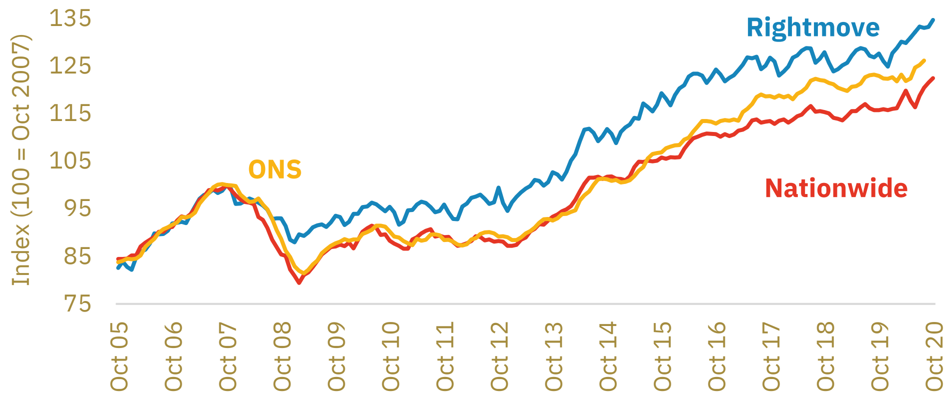
### Economy - UK

The ONS's monthly GDP data for August confirmed that this will not be a simple V-shaped recovery. While economic activity improved from July, it was still 9.4% below January's level and similar to 2014 levels.



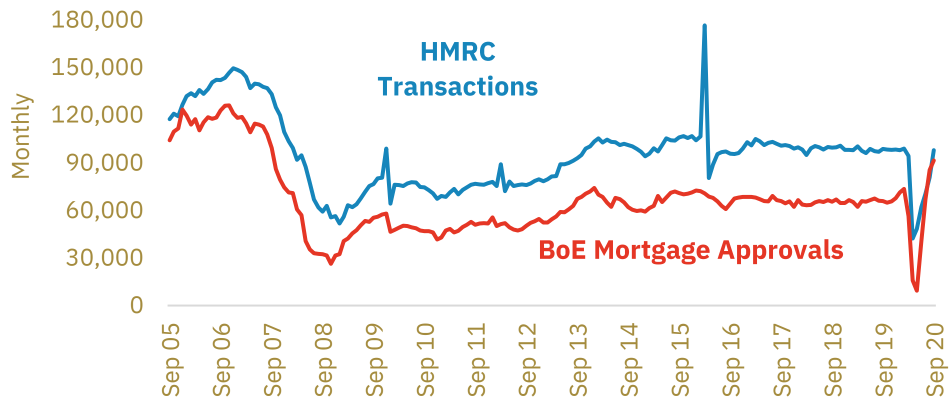

### House Prices - UK

Rightmove reported a 5.5% rise in asking house prices in the year to October and Nationwide reported a 5.8% rise in mortgage approval based prices in the same period. The ONS index has caught back up to its normal release schedule and reported a 2.5% rise in the year to August 2020. However, the ONS index is still subject to large revisions.




### Transactions – UK

HMRC reported transactions in September were just 0.7% below the number in September 2019. Meanwhile the number of mortgage approvals for house purchase in September were 39% above the same month in 2019.




### New Supply - England

There are issues with MHCLG's quarterly data though we have used it to suggest the potential path of completions opposite (dotted line). The best leading indicator for net additions is Energy Performance Certificates for new build homes. These suggest net supply fell to around 217,000 in the year to Q2 2020 but have recovered to normal levels in recent months.