

# Market Commentary

Residential Analysts

## United Kingdom – November 2020

- **Open For Business During Lockdown**
- **Looking Ahead**
- **New Housing Supply**

The housing market stayed open for business during this second lockdown and the housing boom has continued. Activity levels and house prices look set to continue rising through to March next year but, as the end of the year approaches, analysts and commentators have turned their attention to forecasts. The range of forecasted outcomes reflects the massive uncertainties facing the economy and the housing market, and most are possible. Meanwhile, the latest net housing supply data from MHCLG tells us what was happening last year but little about the challenges that the housebuilding market is now facing.

### Open For Business During Lockdown

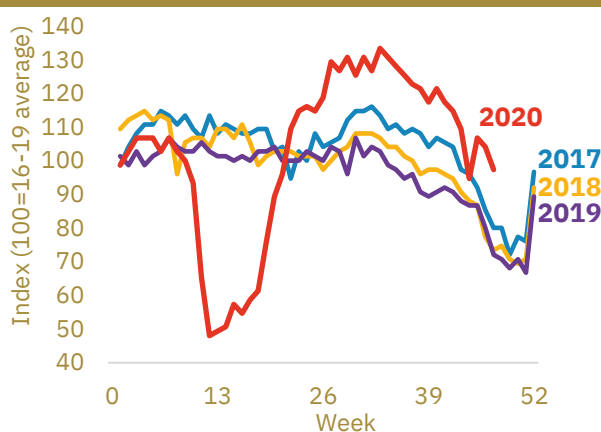
The housing minister announced that the English housing market would remain open during this lockdown and so, after a slight dip in interest and demand at the beginning of November according to Google searches (Fig 1) and Zoopla ([pdf](#)), buyer interest and sales agreed have continued. Although higher than previous years, these measures are now lower than seen over the summer and autumn, potentially reflecting the usual seasonal slowdown but also concerns about completing before the end of the stamp duty holiday. Meanwhile, many of the publicly available data sources are just starting to reflect the summer boom in sales agreed as they reach completion. For example, the ONS house price index reported a 4.7% annual rise in September while HMRC transactions in October 2020 were 8% higher than 2019.

### Looking Ahead

This year has been tough for housing market forecasters and next year could prove just as tricky. The range of possible outcomes for the housing market next year are possibly the widest ever. Arguments for a boom driven by a vaccine, a bust caused by the economic fallout of the pandemic and Brexit, and everything in between can easily be made. We explored what could happen next in our September [commentary](#) and, as we don't publish forecasts, it is interesting to see what others are predicting. Many have reversed their predictions of a house price crash and now expect no change or rises for house prices in 2021. However, the Office for Budget Responsibility (OBR) have published their latest [economic forecasts](#) including those for house prices and transactions. While the actual trend in house prices continues to follow their March forecast, their latest forecast simply pushes the crash previously expected this year into 2021. Meanwhile, their latest forecast for transactions is more sensible around the end of the stamp duty holiday than their previous forecast but the rise to higher transaction levels than seen in recent years doesn't appear credible when considered alongside the forecast for a house price crash.

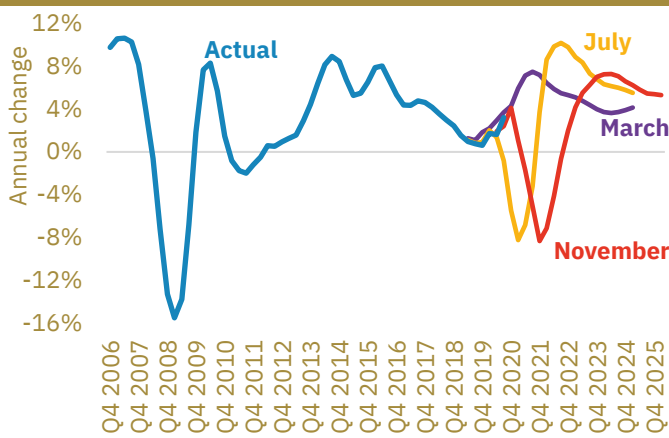
**Fig 1: Searches for “Rightmove”**

Source: Google Trends



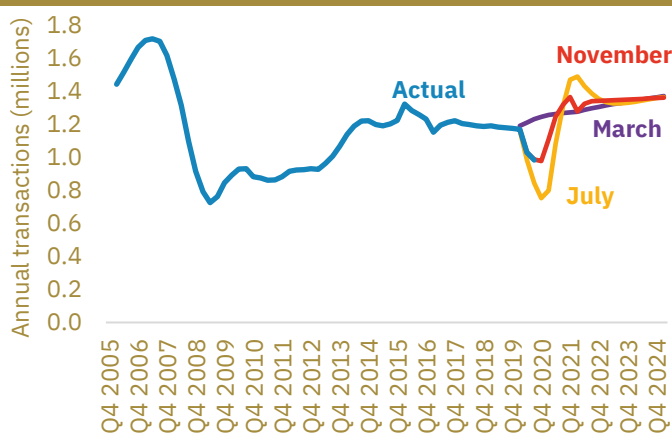
**Fig 2: OBR House Price Forecasts**

Source: OBR



**Fig 3: OBR Transaction Forecasts**

Source: OBR



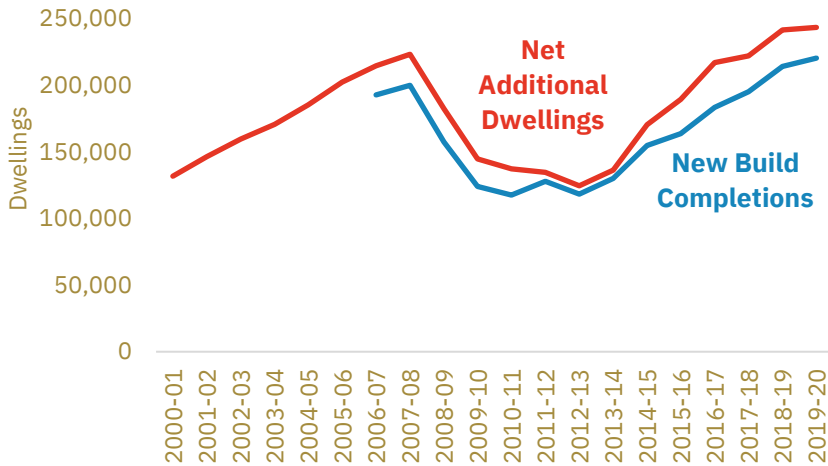
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## New Housing Supply

This week, MHCLG published their [latest data](#) on net housing supply for England. This is both the most comprehensive measure of total housing supply and the best available measure of new build completions. Unfortunately, the data takes a while to be collated and this new release only tells us what happened in the 2019-20 financial year. As such there were few surprises given the availability of other leading indicators (e.g. new build Energy Performance Certificates & council tax data). The 2019-20 data reported total net additional dwellings of 243,700 which was only 0.8% higher than the previous year. New build completions rose slightly faster with a 2.9% increase to 220,600 homes but were counter-balanced by falls in conversions and changes of use.

**Fig 4: Housing Supply, England**

Source: MHCLG



Region	Net Supply	As % of Stock
London	41,720	1.16%
South East	41,170	1.04%
East of England	27,760	1.03%
North West	33,420	1.01%
ENGLAND	243,770	1.00%
East Midlands	20,710	0.98%
South West	25,040	0.97%
West Midlands	24,200	0.96%
Yorkshire & Humber	20,140	0.83%
North East	9,620	0.78%

The net supply data represents a 1% increase in England's dwelling stock in the year to March 2020 although, as the table above shows, there was widespread variation in performance across regions (and local authorities). The data shows London had the biggest percentage increase in stock with a 1.16% rise and the North East had a smallest rise with just 0.78%. However, even the rise in London was below the 1.23% that would be required across the whole of England to meet the government's target of 300,000 homes per year.

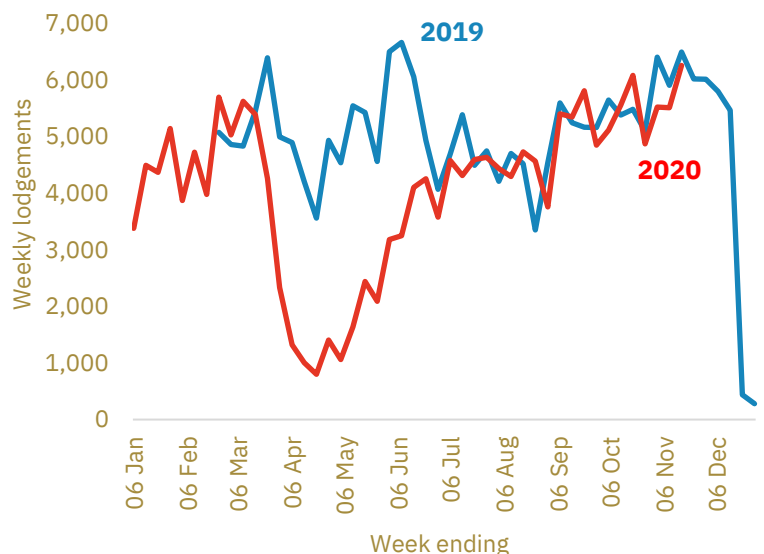
The data in the MHCLG release just covers the start of the pandemic but it is unlikely that it had any substantial impact on the numbers as there were signs that housing delivery had already slowed prior to March. A comparison of Energy Performance Certificates (EPCs) for new build during March 2020 compared to the year before suggests that the pandemic may have lowered the total net supply by around 3,000 homes across the whole of England. Given the post-2011 Census revisions were 16,000 per year between 2001 and 2011, this is not a particularly significant impact and some developers may have rushed to complete as the lockdown loomed.

## What Has Happened Since March?

Unfortunately, the MHCLG release only just takes us to the start of the pandemic and doesn't tell us what has happened since. Fortunately, MHCLG have started publishing data on the weekly number of EPCs and we know from previous analysis that this is a good proxy for gross new supply. As the chart opposite shows, the impact of the first lockdown was substantial with 40,000 fewer EPCs over the period. Since the lockdown lifted, the numbers have closely matched last year with no sign of any uplift in activity. This suggests net supply during the 2020 calendar year will be around 200,000 homes. However, there could be a spike in completions during Q1 2020 due to the rush to beat the end of the SDLT holiday and changes to H2B. This could result in next year's MHCLG data for the 2020-21 reporting net supply higher than 200,000.

**Fig 5: New Build EPCs, England**

Source: MHCLG - England

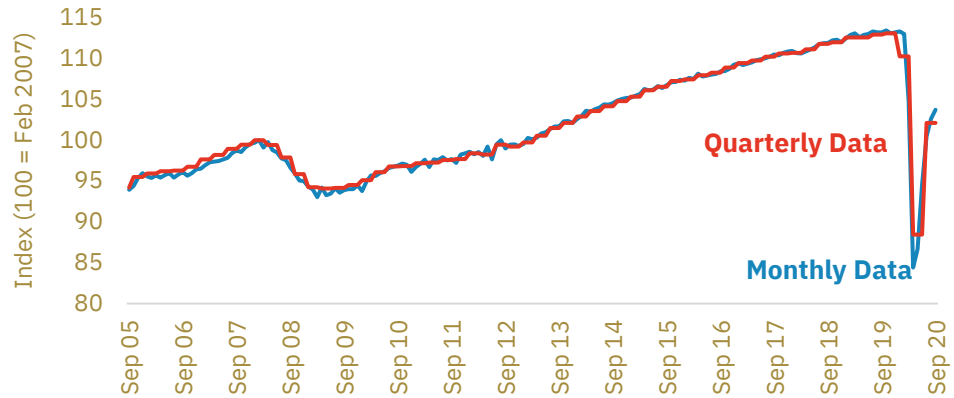


# Market Commentary

## Market At A Glance

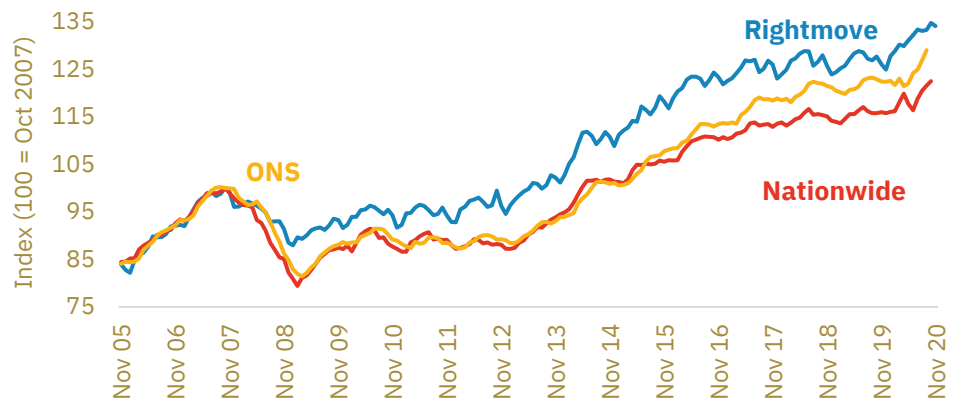
### Economy - UK

The ONS's monthly GDP data for September confirmed that this will not be a V-shaped recovery and this probably be reinforced when data covering the current lockdown is released. The data showed that economic activity improved 1.1% in September compared to the previous month but was still 8.5% below January's level



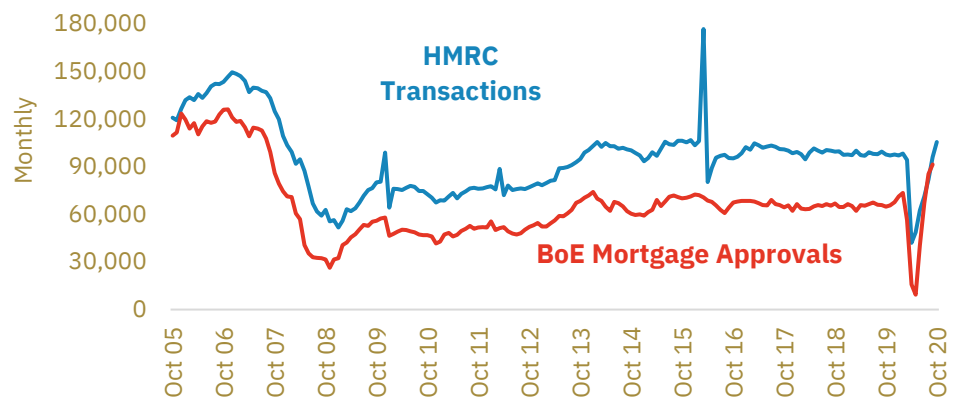
### House Prices - UK

Rightmove reported a 6.3% rise in asking house prices in the year to November while Nationwide reported a 5.8% rise in mortgage approval based prices in the year to October. The ONS index is now starting to reflect sales agreed during the boom with a 4.7% rise in the year to September.



### Transactions - UK

HMRC reported transactions in October were 8.1% higher than the same month last year. This data should rise in coming months as sales agreed reach completion. The 39% annual rise in mortgage approvals for house purchase during September provides some guidance to the possible increase in transactions.



### 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.

