

# Market Commentary

Residential Analysts

## United Kingdom – January 2021

- **End Or Extend**
- **Non-UK Born Residents & Housing Demand**
- **London Demographics**

The end of the stamp duty holiday is rapidly approaching and there are widespread calls for an extension but the Chancellor is holding firm so far. An extension could help some buyers but risks creating further pressure on the housing market and will just delay any cliff-edge. Meanwhile, city centre rental markets are at risk from greatly reduced tenant demand due to fewer non-UK born residents with London looking worse affected.

### End Or Extend

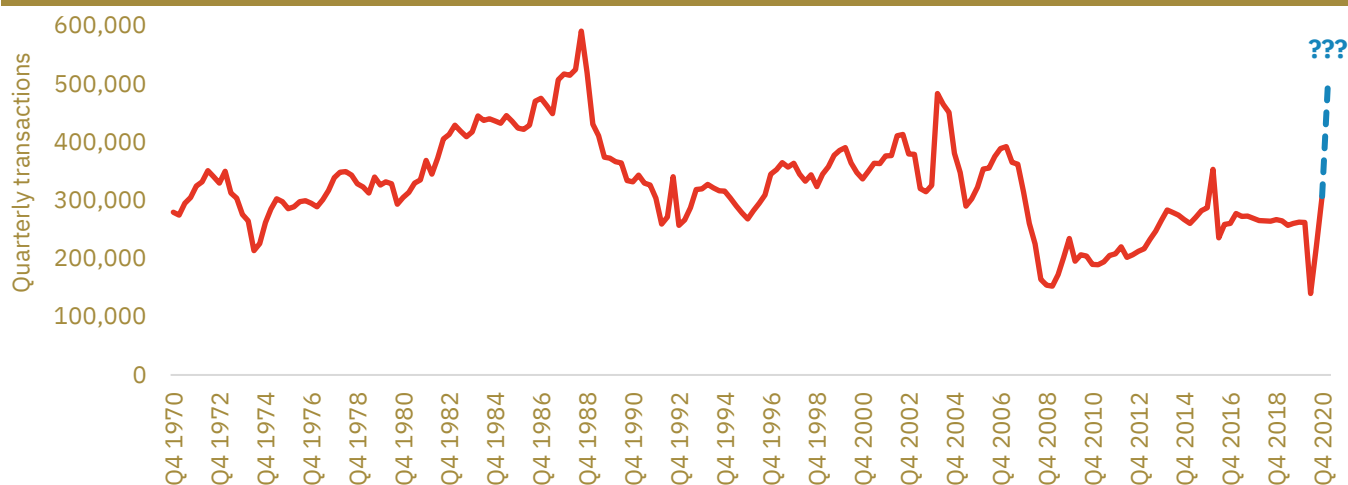
The end of the stamp duty holiday is rapidly approaching and, despite high transaction levels, there are widespread calls for an extension. The large number of sales agreed since the housing market reopened in the summer have begun to reach completion, leading to rising transaction numbers. This meant that, despite the shutdown, the total number of transactions in 2020 was just 11.5% lower than in 2019. These high levels look set to continue through to the end of March but there are widespread reports of delays and other frustrations for those who have not yet completed their purchase. For example, the latest Rightmove [release](#) suggests there are over 600,000 homes sold subject to contract still awaiting legal completion and they estimate that around 100,000 of these will miss the stamp duty deadline. Meanwhile, Zoopla [reckon](#) 70,000 could miss it.

With rising numbers of buyers expected to miss the deadline, pressure is building on the Chancellor to extend the holiday. So far he is holding firm. Buying a home is an emotional rollercoaster at the best of times and there is understandable frustration and anger amongst those who expect to miss out due to delays in the house buying process. It can only take one transaction to fall through or miss the deadline for a whole chain to collapse. An extension would help ease some this pressure but previous evidence suggests it would simply delay the cliff-edge effect to the new deadline. That suggests, if there is an extension, it should be last-minute and short in the hope it helps those currently stuck rather than incentivising new activity. It could also be improved by restricting any extension to just home-buyers rather than the current approach that includes investors. Ultimately, any decision to extend the holiday will be political irrespective of any references to economic effects.

In the event there is no extension, the short-term effect will be a massive spike in transactions followed by a dip. The Rightmove numbers on sales agreed discussed above suggest the spike in transactions in March and subsequent cliff edge could be substantial. The chart below shows the number of transactions per quarter over the last fifty years and, if the estimated 500,000 (600k-100k) sales agreed actually reach completion before the holiday ends then it could be the biggest quarter since 1988. The exact scale of the post-holiday depression will be highly dependent on the unknown size of the alternative drivers of housing market demand since the pandemic, the most notable being the race for space. Meanwhile, the likely longer-term legacy of the stamp duty holiday is increasingly apparent in higher house prices.

**Fig 1: Quarterly Residential Transactions, England & Wales**

Source: ONS, HMRC – Seasonally Adjusted



# Market Commentary

## Non-UK Born Residents & Housing Demand

City centre rental markets are under pressure with lower tenant demand and falling rents thanks in part to fewer non-UK born residents. A recent [report](#) by ESCOE suggests that the UK's population may have fallen by up to 1.3 million since the pandemic, largely due to a big fall in non-UK born residents. The report simply seeks to highlight the potential impact of the pandemic on the UK's population and so the numbers should not be considered definitive. However, it clearly highlights the potential scale of the issue and also matches some of the emerging evidence for what has been happening to city centre rental markets since the pandemic hit.

Evidence for what is happening in rental markets is limited but data increasingly suggests city centre rents are falling. As Figure 2 below shows, a larger proportion of non-UK born residents live in the private rented sector than UK born residents and it is here that we would expect to see their impact (or lack of) first. And they appear to be having an impact. The recent Rightmove [rental index](#) reported falling rents and rising stock levels in city centres, and other sources are showing similar patterns with falling rents in city centres. It's clearly far too early to pin the effects just on fewer non-UK born residents because other factors such as migration out of cities, fewer short-term residents, fewer international students, and increased supply from new build and properties previously in the short-term lettings market will all also play a part.

**Fig 2: Housing Tenure by Country of Birth**

Source: ONS LFS Q4 2019



**Non-UK Born As % of Total**

Source: ONS APS 2019/20

London	35.1%
South East	13.3%
West Midlands	12.6%
East	12.2%
East Midlands	11.9%
Scotland	9.8%
North West	9.5%
Yorkshire and The Humber	9.0%
South West	9.0%
Northern Ireland	7.2%
Wales	6.7%
North East	5.9%

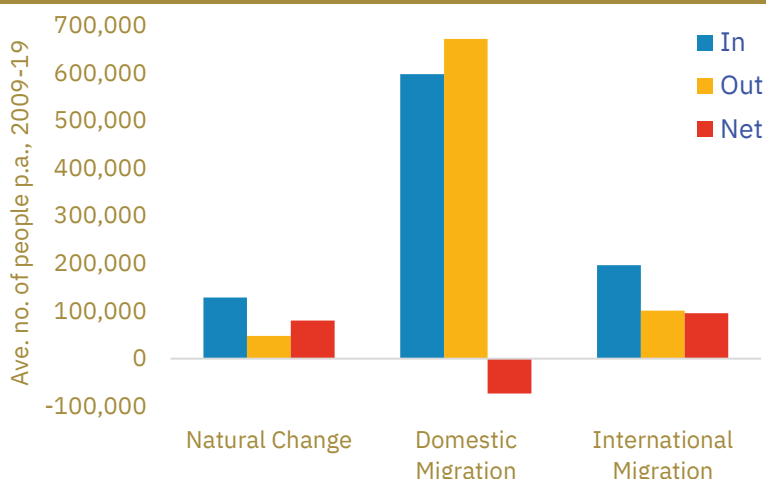
## London Demographics

London, perhaps more than any other city in the UK, faces the perfect storm of falling tenant demand and rising supply. It's affected by all the factors above and the way its population grows also makes it especially exposed to any changes in demographics since the pandemic. London's population has grown in recent years thanks to natural change (more births than deaths) and positive net international migration but it has also consistently seen a net outflow of people to the rest of the UK over the last fifty or more years. Figure 3 below shows the scale of these flows over the last ten years.

Despite the tragic number of deaths, London's natural change will probably follow recent trends. However, as the table above shows, a far higher proportion of London's population are non-UK born than any other region and ESCOE suggests that up to 700,000 of them may have left the country. Meanwhile, the evidence is limited, but anecdotally there appears to be a rise in domestic migration from London to the rest of the UK due to the race for space. Alongside a higher outflow, domestic migration into London has probably been lower due to fewer students and young people starting work. London could, at least in the short-term, be hit by a much larger shock to its population than that suggested by just the number of non-UK born residents leaving.

**Fig 3: London Population Components of Change**

Source: ONS

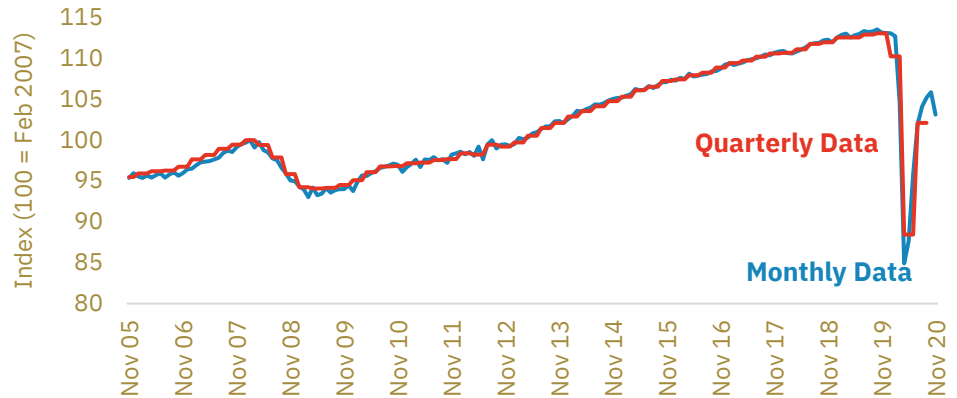


# Market Commentary

## Market At A Glance

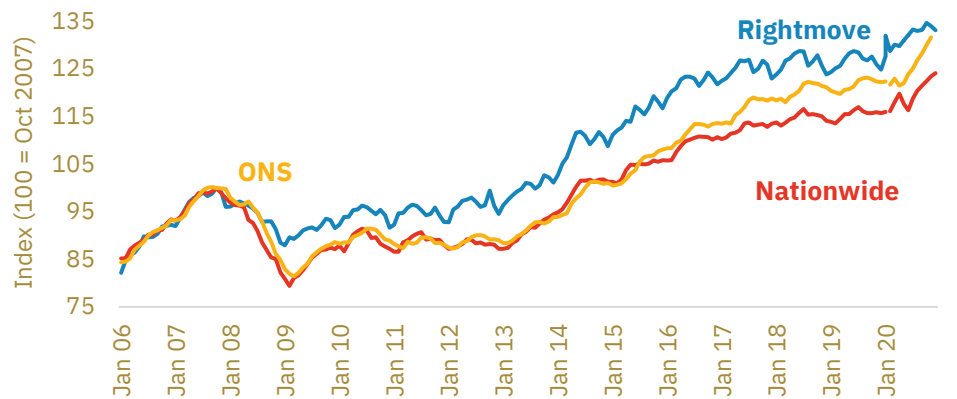
### Economy - UK

The ONS reported a fall in monthly GDP during November thanks to the lockdown. The data for November indicated that the economy was 8.9% lower than the same month in 2019. Data for December and January is likely to remain weak, again reflecting the ongoing pandemic and lockdown.



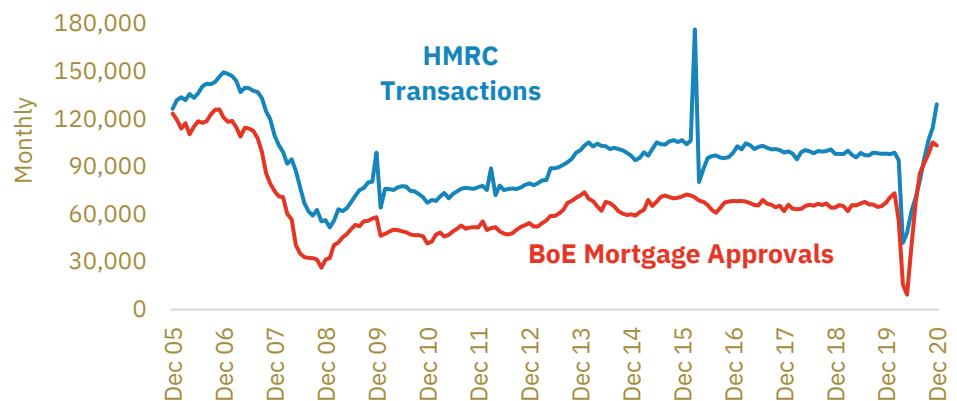
### House Prices - UK

Rightmove reported a 3.3% rise in asking house prices in the year to January, falling from 6.6% the previous month. Meanwhile Nationwide reported a 7.3% annual rise in mortgage approval based prices in 2020 and the ONS index is now reflecting sales agreed during the boom with a 7.6% rise in the year to November.



### Transactions - UK

HMRC reported transactions in December were 31.5% higher than the same month last year and The Bank of England reported a 53.6% annual rise in mortgage approvals for house purchase. Total transactions in 2020 were 11.5% lower than 2019 and mortgage approvals for house purchase were 3.7% higher.



### New Supply - England

There are issues with MHCLG's quarterly data though we have used it to suggest the potential path of completions (dotted line). The best leading indicator for supply is Energy Performance Certificates (EPCs) for new build homes but there are currently delays in publication. Weekly EPC data suggest supply has returned to normal levels since the market reopened.

