

Market Commentary

Residential Analysts

United Kingdom – 2021 Budget

- Budget Pre-Announcements
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The two major housing announcements in the 2021 Budget were not a surprise given the earlier leaks but the most important message from the Chancellor on housing remained unstated but clear. This was a budget to support the housing market and avoid the previously widely predicted housing market crash.

Budget Pre-Announcements

The 2021 Budget contained the two significant pre-announcements but little else on housing. Both the stamp duty holiday extension and the mortgage guarantee scheme were well-known when the Chancellor stood up to make his speech on Wednesday but there were some additional details.

The stamp duty holiday was extended until the end of June, when the nil rate band will be reduced from £500k to £250k. First time buyer relief will also return at this point. The nil rate band will then continue at this level until the end of September when it returns to the pre-holiday level of £125k. This tapering approach should help avoid some of the cliff edge effects normally seen at the end of stamp duty holidays but they could still be significant. It was perhaps surprising that the holiday continues to apply to all buyers including investors and 2nd home buyers.

The mortgage guarantee [scheme](#) is, as expected, a repeat of the original Help to Buy scheme launched in 2013. It is intended to “increase the appetite of mortgage lenders for high loan-to-value lending to creditworthy customers” by offering lenders partial compensation in the event of a foreclosure. The scheme should help fix the credit crunch that has been affecting higher loan-to-value mortgages since the beginning of the pandemic. However, it is unlikely to solve (and may make worse) the longer-term issues that limit the number of people able to access home-ownership, namely the unaffordability of housing relative to incomes and the impact of financial regulation following the credit crunch. Our October 2020 [report](#) looked at high loan-to-value mortgage lending.

Housing Market Support

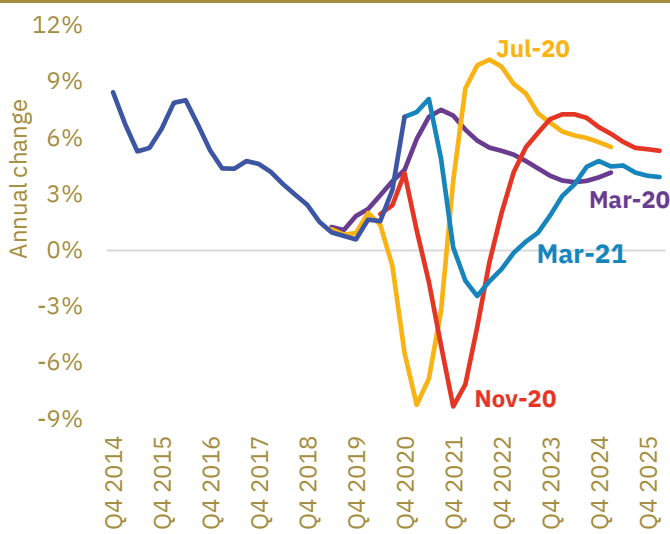
At first glance, the two announcements look like they’re helping people in the housing market and many will undoubtedly benefit. The stamp duty holiday will help home movers and investors while the mortgage guarantee scheme will help first-time buyers. However, the main beneficiary from the Budget announcements is the housing market itself. The two demand side schemes are designed to support transactions and house prices with the guarantee scheme also reassuring mortgage lenders thanks to the government taking a stake in the market. Ultimately, the Budget announcements are an attempt to support the housing market and ensure the previously widely predicted crash doesn't happen. Meanwhile, the clear support for the transactional market was counterbalanced by a disappointing lack of announcements to help those people excluded from the housing market, including renters under threat of eviction and homeowners struggling with cladding costs.

The Crash That Never Happened

When the scale of the pandemic’s economic fallout became clear last year, there were widespread forecasts of a housing market crash. However, significant support from the government and lenders helped avoid a crash in 2020. The outlook for 2021 had been looking highly uncertain, with a continued boom and race for space offset by various cliff edges, rising unemployment, and falling city-centre rents. These risks remain but the Budget announcements make it much more likely that house prices will rise rather than fall this year. This is especially the case given the younger and lower income people worst affected by the economic fallout will have limited direct impact on transactions and house prices this year unless their rent arrears force landlords to sell up. Meanwhile, the OBR have revised away their forecast for a house price crash this year to a small fall in prices in the middle of 2022.

Fig 1: OBR House Price Forecasts

Source: OBR

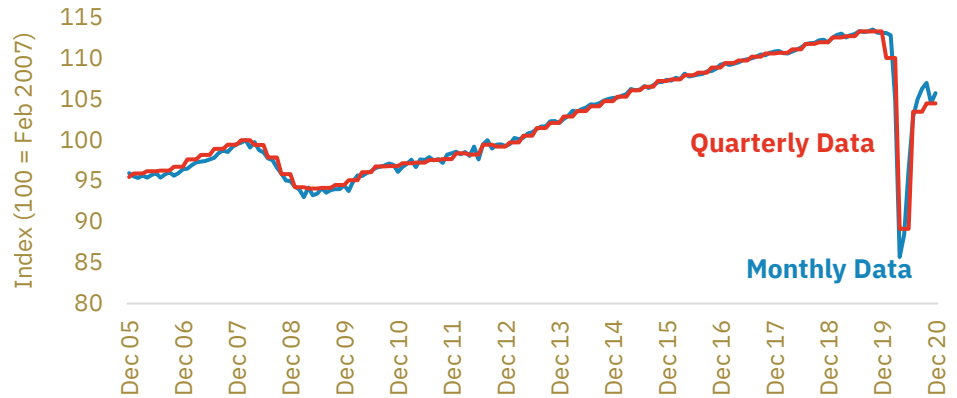


Market Commentary

Market At A Glance

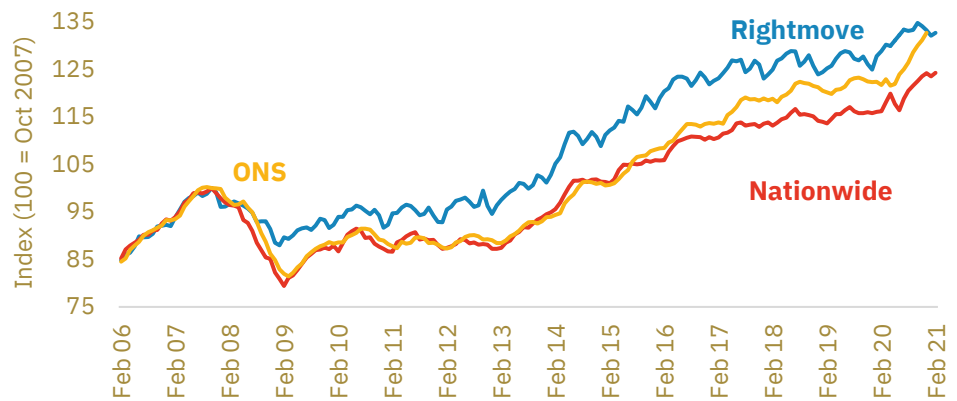
Economy - UK

The ONS reported a small rise in monthly GDP during December as the economy temporarily recovered from the short lockdown in November. GDP in December was 6.5% lower than the same month in 2019 and is likely to fall again in January. Data for whole of 2020 reported GDP was 9.9% lower than during the whole of 2019.



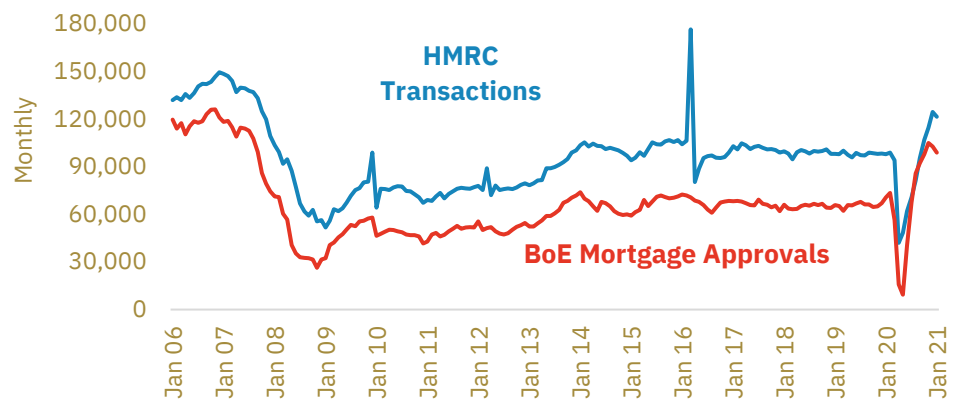
House Prices - UK

Rightmove reported a 3.0% rise in asking house prices in the year to February, falling from 3.3% the previous month. Meanwhile Nationwide reported a 6.9% annual rise in mortgage approval based prices over the same period and the ONS index is now reflecting sales agreed during the boom with an 8.5% rise in the year to December 2020.



Transactions - UK

HMRC reported a slight fall in transactions during January but they were still 24.1% higher than the same month last year. The Bank of England also reported a small fall in mortgage approvals for house purchase in February but, again, they were still 40% higher than the same month last year. Approvals for remortgage were 36% lower than last year.



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.

