Market Commentary

Residential Analysts

United Kingdom – March 2021

- **High Transactions, Low Turnover**
- **Stuck In Our Homes**

The stamp duty holiday may have been extended but the number of transactions is still high thanks to its late announcement and the continued race for space. However, despite the current high levels of transactions, the proportion of housing stock that transacts each year is still very low and this creates a number of problems including higher volatility. This note also looks at the demographic factors that are contributing to low turnover.

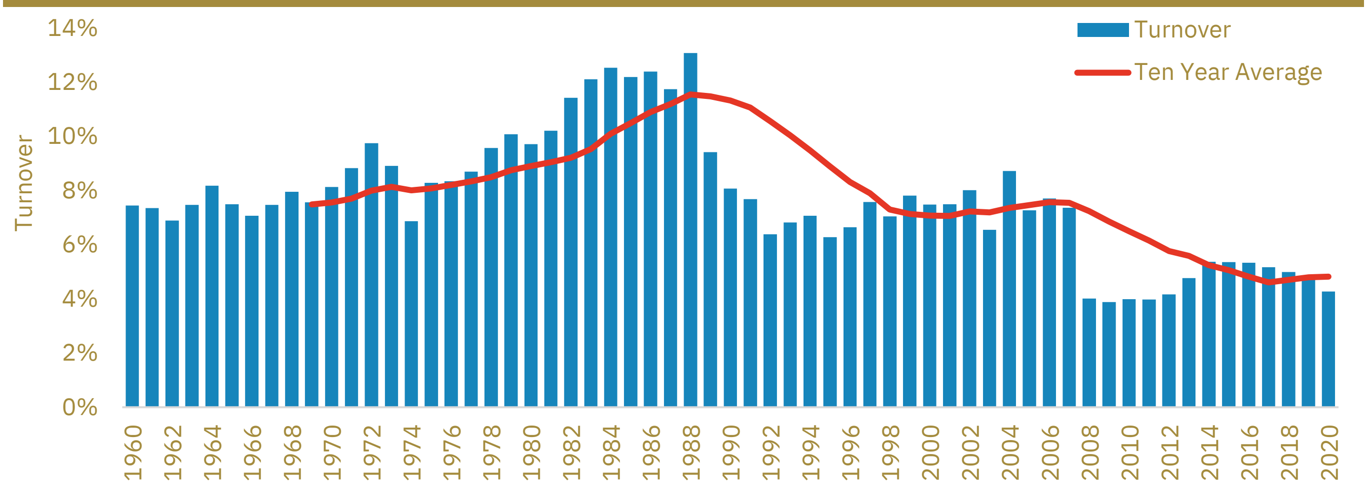
High Transactions, Low Turnover

The stamp duty holiday was due to end this week with a rush of activity as buyers tried to complete before the March 31st deadline and a great deal of uncertainty about what might happen to the housing market next. Instead, the holiday has been extended, the vaccine programme continues, lockdown is slowly easing, and there are continued reports of rising house prices and higher levels of activity than usual. Some of those reports, including HMRC's provisional 147,000 transactions in February, reflect the rush to beat the now extended stamp duty deadline. But it is also clear that the pandemic has led to a reassessment of what people want from their housing and that means more people wanting to move house. The stamp duty holiday extension will help support activity but the most important question with regards to the future of the housing market is how many people have reassessed what they want from their homes and how many of them can afford to buy what they want.

The above question is difficult to answer but its importance is rooted in the long-term problem of low turnover. Low turnover is a problem because it restricts labour mobility and leads to the housing stock being used less efficiently. It also means the housing market is more exposed to very small changes in the balance of supply and demand. This is not the supply and demand of new homes as argued about in the letters section of the FT but the one that really matters at any given time: the total number of homes available to buy, the number of willing & financially able buyers, and the frequently complicated links between the two (e.g. chains where people are both buyers and sellers). For a number of reasons, some of which are discussed later, there has been a downwards trend in the turnover of privately owned housing stock. Figure 1 below highlights this trend with very high levels of turnover in the 1980s and each subsequent housing market downturn lowering the turnover rate to new lows.

Fig 1: Housing Market Transactions As A Percentage of Private Housing Stock

Source: MHCLG, ONS, HMRC – England & Wales



Recent years have seen very low proportions of the housing stock transacted each year with a turnover rate of 4.9% in 2019. With low levels of turnover, volatility is an issue as it can take a very small number of prospective buyers to bid up prices and, equally, a very small number of forced sellers to have the opposite effect. For example, the provisional HMRC data for February reported 147,000 sales, the highest level since March 2016 and a level not regularly seen since 2007. However, this is just 47,000 more transactions than the 2015-19 monthly average and (adjusting for differences in geography) represents just 0.2% of the privately owned housing stock. Even if transactions stay high and reach 1.4 million for the year, as per some forecasts, this would only equate to a turnover rate of around 5.5% which is still low compared to historical rates. With these low turnover rates, the market will remain exposed to any distressed selling and our attention is currently on the private rented sector with the prospect of both city centre supply shocks and an unemployment-driven demand shock.

Market Commentary

Powered by BuiltPlace

Stuck In Our Homes

The long-term decline in housing market turnover is largely due to fewer existing homeowners moving home and our 2017 research for the Council of Mortgage Lenders (PDF) identified a number of different reasons for why. The report focussed on mortgaged movers as they accounted for the majority of “missing” transactions when compared to the period before the financial crisis. The report found that around half the decline in mortgaged mover transactions was due to an ageing population and the associated decline in mortgaged homeownership as they paid off their mortgages. Figure 2 highlights the scale of the issue with the large number of households aged 55 and over that own their homes outright. Meanwhile, the number of mortgages held by homeowners has fallen to a level last seen in 1989. Figure 3 shows why an ageing population leads to lower turnover with older people tending to move home much less regularly than younger age groups. This trend holds irrespective of tenure though the chart also shows that older renters are much more likely to move than older homeowners.

Fig 2: Housing Tenure by Age of Household Reference Person
Source: MHCLG English Housing Survey 2019-20

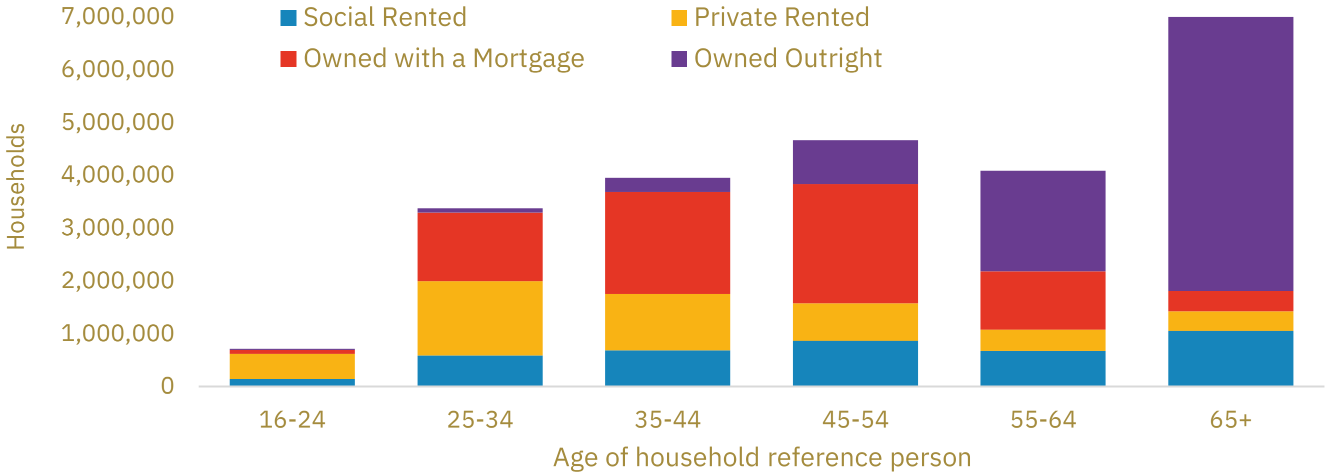
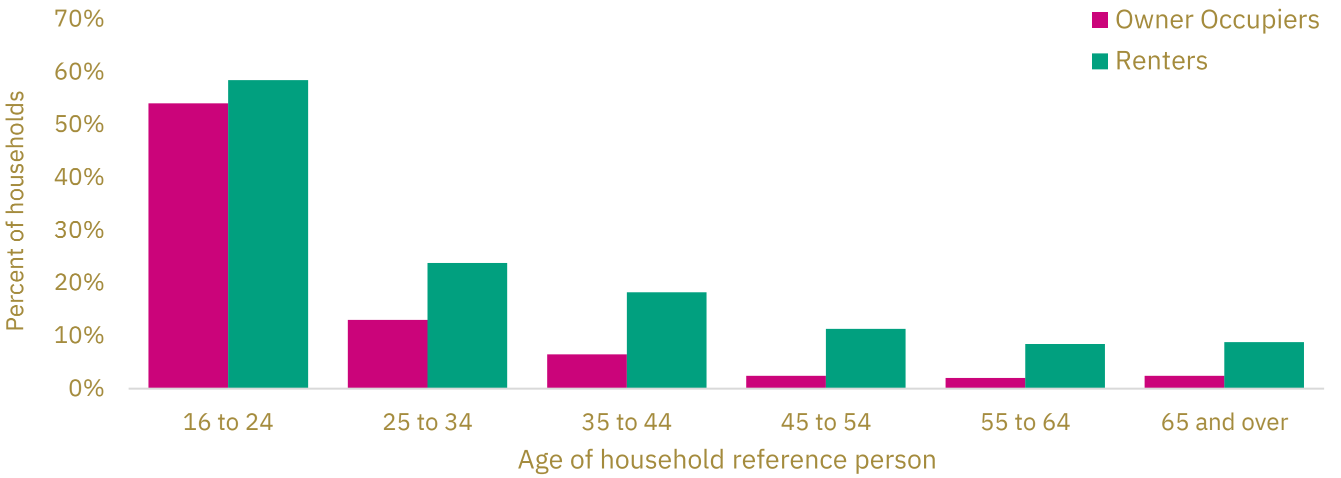


Fig 3: Percent of Households Resident Less Than One Year
Source: MHCLG English Housing Survey 2018-19



The Broken Housing Ladder

The report also revealed that changes in economic and mortgage lending conditions had contributed to the fall in turnover over the last sixty years. The report found that mortgaged homeowners were more likely to move when their housing equity had risen substantially and there was an increase in how much they could borrow (through higher incomes, lower mortgage rates or looser lending criteria). However, there was an affordability constraint that limited moves if house prices became too expensive relative to incomes and mortgage rates. The report found that the high rates of moves in the 1970s and 1980s were thanks to a period of increasing homeownership, low house price to income multiples, and high inflation. This period created the idea of the housing ladder: progressively buying bigger and more expensive homes. The housing ladder was then sustained through the 1990s and early 2000s by falling mortgage rates. More recently, it has been severely constrained by tighter mortgage regulation and lower income growth. However, the pandemic and the stamp duty holiday appear to have boosted turnover but whether that boost is sustained long-term or just a short-term blip remains to be seen.

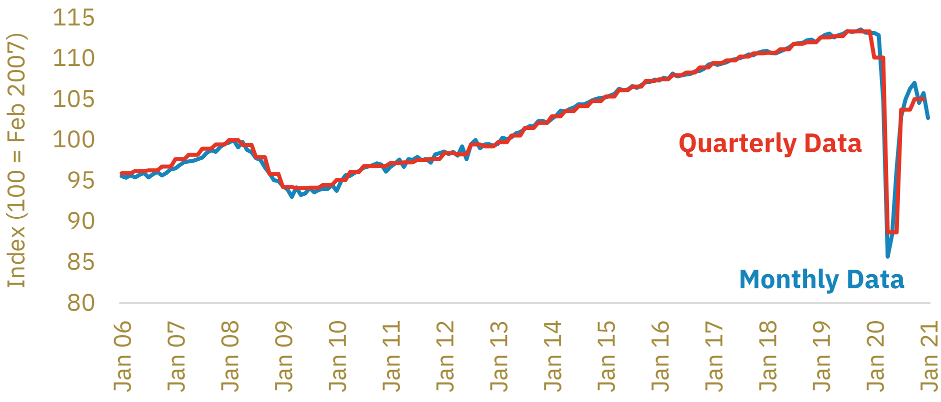
Market Commentary

Powered by BuiltPlace

Market At A Glance

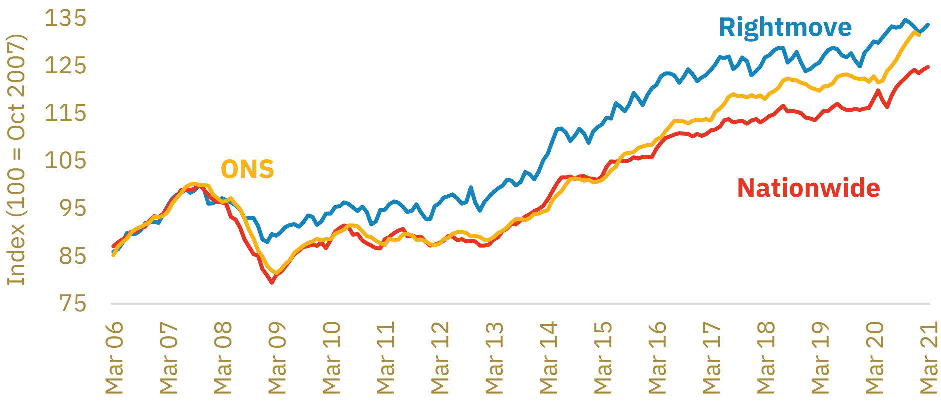
Economy - UK

The ONS reported a 2.9% fall in monthly GDP during January due to the impact of the lockdown on the economy. The second estimate of GDP in the Quarterly National Accounts saw the total percentage fall in 2020 revised slightly from -9.9% to -9.8%. These figures are likely to be revised further in coming months and years.



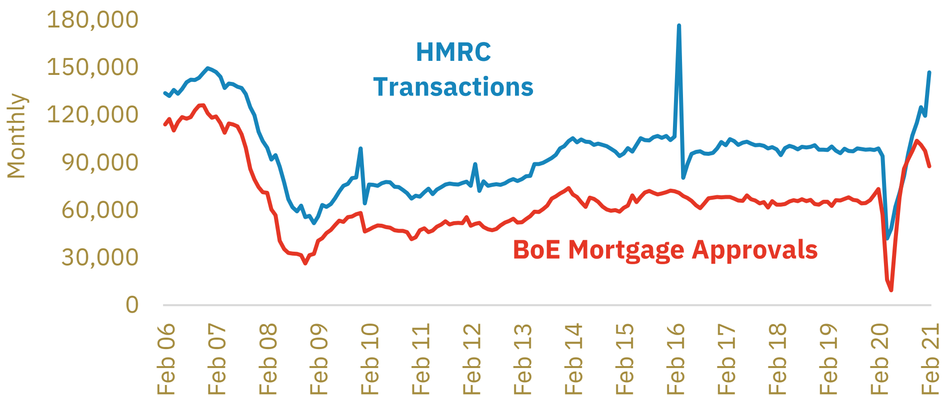
House Prices - UK

Rightmove reported a 2.7% rise in asking house prices in the year to March, falling from 3.0% the previous month. Meanwhile Nationwide reported a 5.7% 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 7.5% rise in the year to February 2021.



Transactions – UK

HMRC provisionally reported 147,000 transactions in February, 49% higher than the same month last year. Meanwhile, the Bank of England reported another fall in mortgage approvals for house purchase in February but they were still 19% higher than the same month last year. Approvals for remortgage were 34% 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 with provisional data for Q4 2020 just 2.6% lower than the same quarter in 2019. Early estimates suggest net housing supply of 215,000 in 2020/21.