

# Market Commentary

Residential Analysts

## United Kingdom – July 2021

- **Strong Demand, Uncertain Depth**
- **Constrained Supply**
- **Seasonal Market**

The UK's housing market is booming with record high levels of transactions and rising house prices. But these higher levels of activity have also raised growing concerns from estate agents and others that there is insufficient housing stock available on the market to buy. This lack of stock for sale is apparently contributing to rapidly rising house prices as buyers rush to beat the end of stamp duty holidays amidst a fear of missing out. This note looks at what has been happening in the market and questions if the autumn market will bring new sellers to the market.

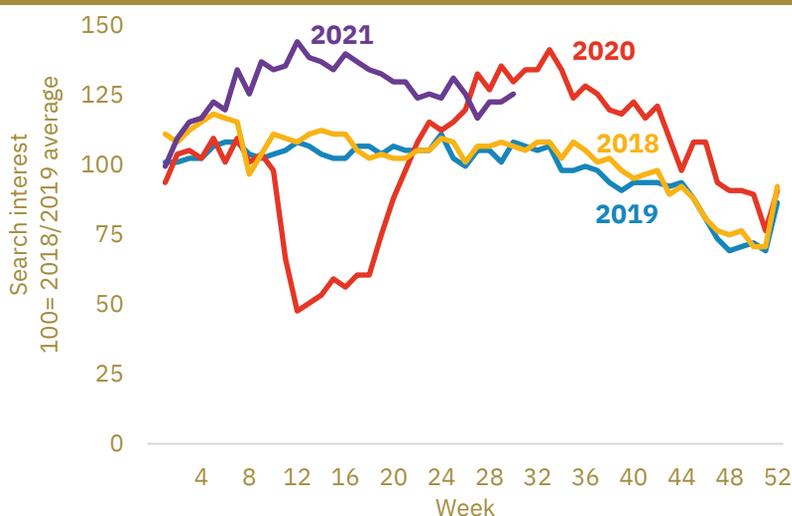
### Strong Demand, Uncertain Depth

Demand from home buyers is still strong though it has eased from the very high levels seen in the past twelve months and there's uncertainty about how long it can continue. Analysis of Google searches for Rightmove suggests that buyer demand is still higher than the levels regularly seen prior to the pandemic but lower than the very high levels seen following the reopening of the housing market last summer and in early 2021. It is still not clear if these higher levels of demand will continue when the stamp duty holiday ends in September, given the uncertainty over the relative depth of the post-pandemic drivers of demand, but there are some signs that it just might. This uncertainty over the scale of the drivers reflects the unique circumstances of the pandemic with the stamp duty holiday, the

race for space, the revaluation of homes as workplaces, high savings, and lower interest rates all contributing to increased activity and higher house prices. However, the stamp duty holiday has, at the very least, acted as a catalyst for higher levels of activity as demonstrated by the nearly 200,000 transactions completed in June as buyers in England and Northern Ireland rushed to beat the tapering down of the tax free threshold from £500k to £250k. However, it is also clear that some of the other drivers are just as important. For example, provisional Scottish transaction data shows they have continued at higher than normal levels since the LBTT holiday ended in March. It looks possible that higher levels of activity could continue beyond the end of the stamp duty holiday.

**Fig 1: Google Searches for "Rightmove"**

Source: Google Trends, UK



**Fig 2: New Properties Put On Sale, UK**

Source: Rightmove – based on sample sizes of the asking price index



### Constrained Supply

The very high levels of transactions in recent months has put pressure on the property market and everyone involved in the transaction process. Perhaps the biggest pressure now facing the market is a lack of homes available to buy. As the chart opposite shows, the increase in buyer interest was initially matched by an increase in the number of properties put on the market in the second half of last year. This is not surprising given many of those buyers were home movers looking to also sell their existing home. However, this trend has not continued into 2021, leading to increased competition for the available homes.

# Market Commentary

It appears the lack of homes available for sale is putting additional pressure on buyers and the housing market. Alongside a possible contribution to rising prices, it is also leading to undesirable behaviour such as gazumping and could limit transaction numbers later in the year. However, other data published by Rightmove suggests that the situation may not be quite as serious. It shows the average stock per agent rose substantially last autumn and was still slightly higher in June this year than the levels seen in previous years (Fig 3). However it is possible, as these numbers include properties sold subject to contract, that the very high level of completions at the end of June could lead to a much lower stock for sale figure reported in next month's release as the sold properties disappear from agents' books. It is also important to note that these numbers reflect the national average and demand for housing has become much more specific with respect to both location and property type since the pandemic. Therefore it is possible that this chart under-represents the supply challenges found in the highest demand markets. Another factor to consider is the lumpy nature of the sales process and the reliance on chains of buyers and sellers. It could be that higher activity levels require proportionally higher numbers of homes available to buy just for the market to continue functioning normally. It is also possible that more recent months have seen a shift in buyer types from home movers (who also have an existing home to sell) to first time buyers, investors, and second home buyers. These groups of buyers lead to a net reduction in available supply on the market and the last two groups (investors and second home buyers) appear to contribute to a longer-term reduction in the turnover of housing as they typically own the homes for longer than owner occupiers. The latest HMRC stats (Fig 4) suggest this might be case with a large increase in transactions paying the 3% higher rate for additional dwellings in Q2.

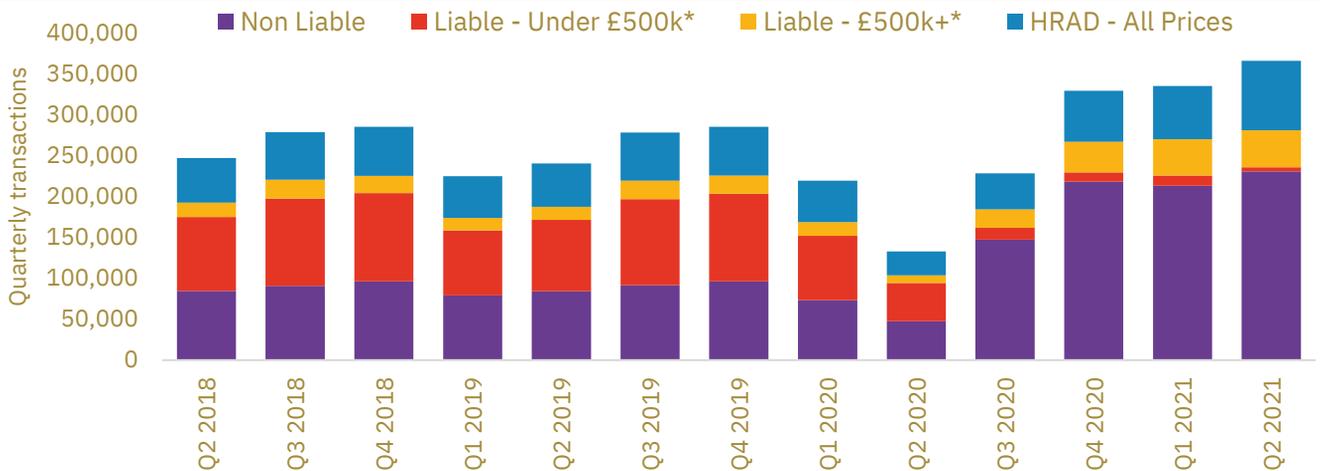
**Fig 3: Average Stock For Sale by Agent**

Source: Rightmove – includes under offer & SSTC



**Fig 4: Quarterly Residential Transactions by Stamp Duty Liability**

Source: HMRC - England & Northern Ireland - \*excludes HRAD transactions



## Seasonal Market

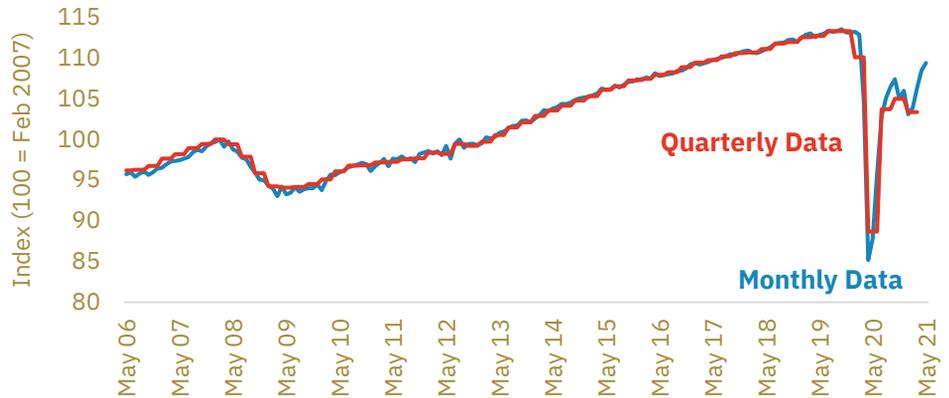
The housing market is usually highly seasonal. Spring and autumn tend to be the most active periods of the year while the summer and winter are much quieter. However, this pattern has been thrown into confusion over the last eighteen months by first the market shutdown and reopening, and then by the stamp duty holiday and its extensions. Given the apparent lack of stock available for sale on the market, estate agents and others involved in the buying and selling of homes will be hoping that the autumn market brings forward a rush of people looking to sell their homes. However, the final stamp duty deadline in September will confuse matters and there are bigger demographic trends that could limit the number of movers with existing properties to sell (see our [March Commentary](#)). Meanwhile, a resurgence from first time buyers would add more buyers to the mix but not homes for sale. The new build market could help and has recovered back to normal levels with Energy Performance Certificates suggesting new supply of around 250,000 in the year to June 2021. However, housebuilders remain cautious and are currently dealing with production limiting issues such as building material costs and availability. Estate agents will be hoping that the race for space continues with increased rates of home movers but they might be stuck relying on the three Ds for homes to sell: death, debt, and divorce. None of which are desirable.

# Market Commentary

## Market At A Glance

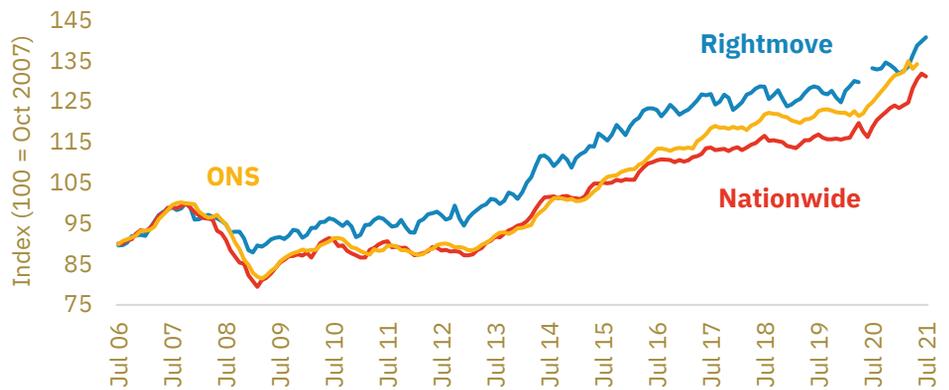
### Economy - UK

The ONS reported a 0.8% monthly rise in GDP during May though the economy is still 3.4% smaller than January 2020. The second estimate of GDP for Q1 2021 reported a 1.6% fall in the quarter though this largely reflects the lockdown in January and February. This data will almost certainly be revised in coming months and years.



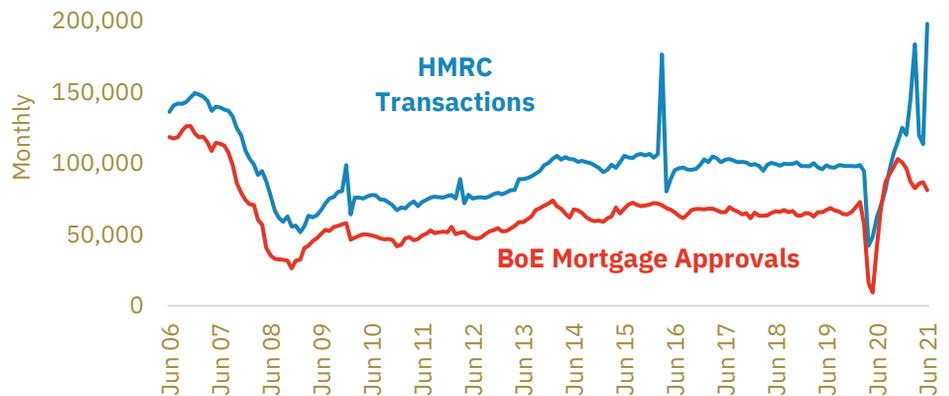
### House Prices - UK

Rightmove reported a 5.7% rise in asking house prices in the year to July 2021 while Nationwide reported a 10.5% annual rise in their mortgage approval based index over the same period. The ONS is now reporting very high growth in its sales agreed index with a 10% rise in the year to May 2021 though they are struggling with sample sizes due to the lag in registrations.



### Transactions - UK

HMRC provisionally reported 198,240 transactions in June, double the normal levels seen prior to the pandemic. This reflects the rush to complete before the stamp duty holiday threshold reduced from £500k to £250k. Meanwhile, the Bank of England reported a small fall in mortgage approvals for house purchase in June but were still 21% higher than June 2019.



### 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 data for Q2 2021 showing a return to normal levels of 250,000 EPCs in the year to June 2021.

