

Market Commentary

Residential Analysts

United Kingdom – September 2021

- **Delayed Data**
- **Tax Cut For The Top-End**
- **The Race For Space**

As the stamp duty holiday finally comes to an end, six months later than originally planned, we are only now beginning to get useful publicly available data that can tell us what homes have been selling and where since it began. This month's market commentary uses Land Registry transaction data to investigate what has been happening in the housing market since it reopened last summer up until the first spike in transactions in March 2021, when the stamp duty holiday was originally scheduled to end.

Delayed Data

The delayed end to the stamp duty holiday in England and Northern Ireland has finally arrived but we're only now finding out what was actually happening in the housing market back in March when it was originally due to end. The end of the tax holiday has focussed attention on what might happen to the housing market in the final quarter of 2021 and next year. However, even at the best of times, delays in publicly available housing data can make it difficult to know what is happening in the market right now, let alone trying

to forecast the future. Unfortunately the pandemic has made the situation even worse with [large lags in sales](#) being registered by Land Registry and the stamp duty driven spikes in activity this year have not made their job any easier. As Fig 1 shows, the number of sales that we know have occurred thanks to HMRC data but are not yet reported in the Land Registry price paid data is significant. We are still missing 10-15% of 2020 sales and around 25% of the sales that occurred during the March 2021 spike as buyers rushed to beat the original stamp duty holiday end date. While this is a significant proportion of sales still unreported in March, the very large volume of transactions means we can probably rely on the data to provide a guide to what has been selling and where from when the market reopened last year up to the end of March 2021. The remainder of this note investigates some of the trends that this data highlights to try and understand what has been happening to the housing market.

Fig 1: Sales Reported By HM Land Registry

Source: HMRC, HMLR – England & Wales

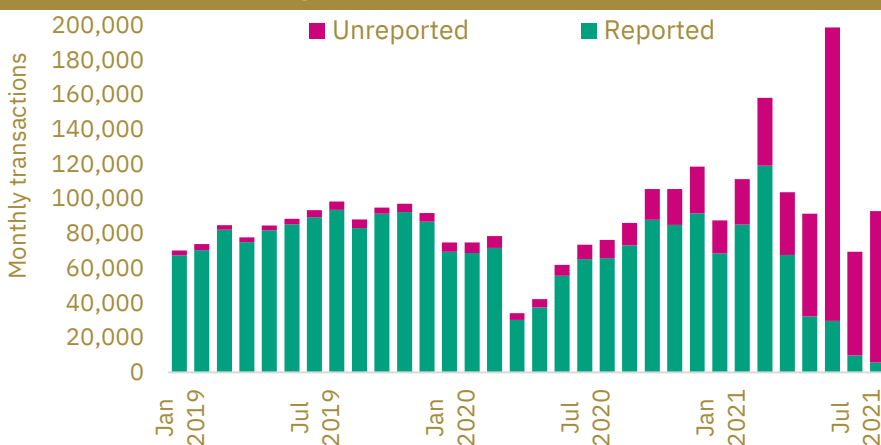
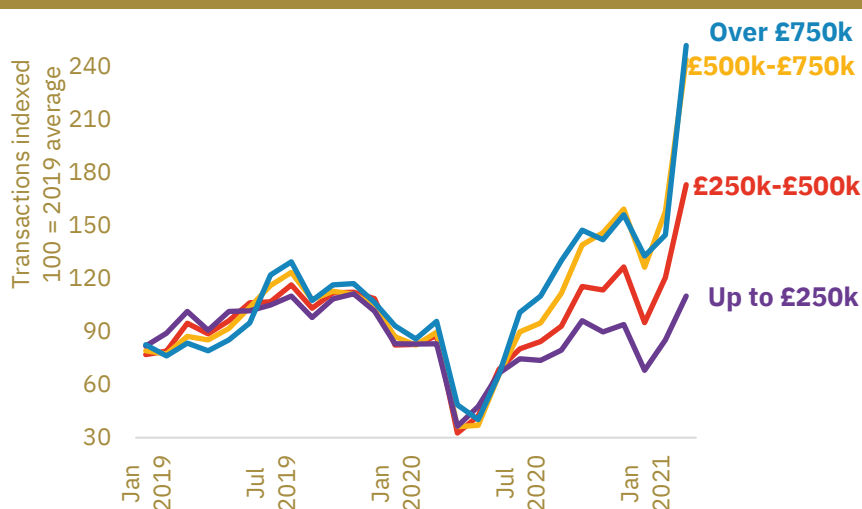


Fig 2: Monthly Transactions Indexed by Price Band

Source: HMLR – England & Wales



Tax Cut For The Top-End

House prices may be rising fastest in the relatively more affordable parts of the country but, as our analysis shows, the increase in activity has been greatest at the top end of the housing market. Fig 2 shows the relative increase in transactions by price band since the housing market reopened in the summer of 2020. While most homes (82%) sold in March 2021 were priced under £500k, the largest increase compared to 2019 was homes priced over £500k. Buyers of those homes will have paid less tax than prior to the holiday but would still be liable for some payment. Therefore, it is no surprise that tax receipts have soared during the holiday.

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The Race for Space

There is still some debate about the relative strength of the different drivers of higher housing market activity and prices since summer 2020. But it is clear the stamp duty holiday has, at the least, acted as a catalyst for higher levels of activity in the market. This is especially the case for the top-end of the housing market. This section of the market had been struggling with lower activity levels prior to the pandemic. This was in part due to previous stamp duty changes such as in 2014 (slab to slice system) and 2016 (3% on additional properties). But the stamp duty holiday is not the only driver of activity. There is also the “race for space” which is evident in our analysis.

The race for space has typically been characterised as people moving out of cities into large rural houses. And the data appears to initially support this narrative with late 2020 seeing big increases in sales of detached properties (Fig 3) along with big increases in sales in rural villages (Fig 4) and areas with the lowest population density (Fig 5). However, this narrative may be too simplistic as sales of semi-detached and terraced houses have risen substantially in 2021 while sales in urban major conurbations have also bounced back this year. The differences in transactions by population density quintile (Fig 5) seen late last year have also disappeared with all areas seeing similar rises in transactions during early 2021.

Fig 3: Monthly Transactions Indexed by Type

Source: HMLR – England & Wales

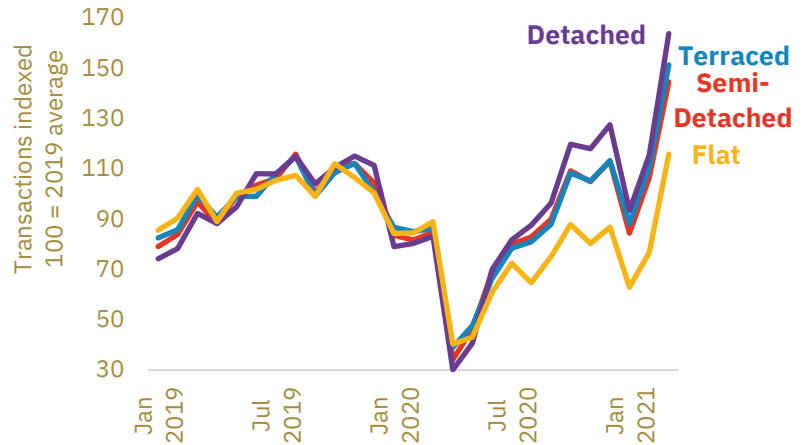


Fig 4: Monthly Transactions Indexed by 2011 Rural-Urban Classification

Source: HMLR, ONS – England

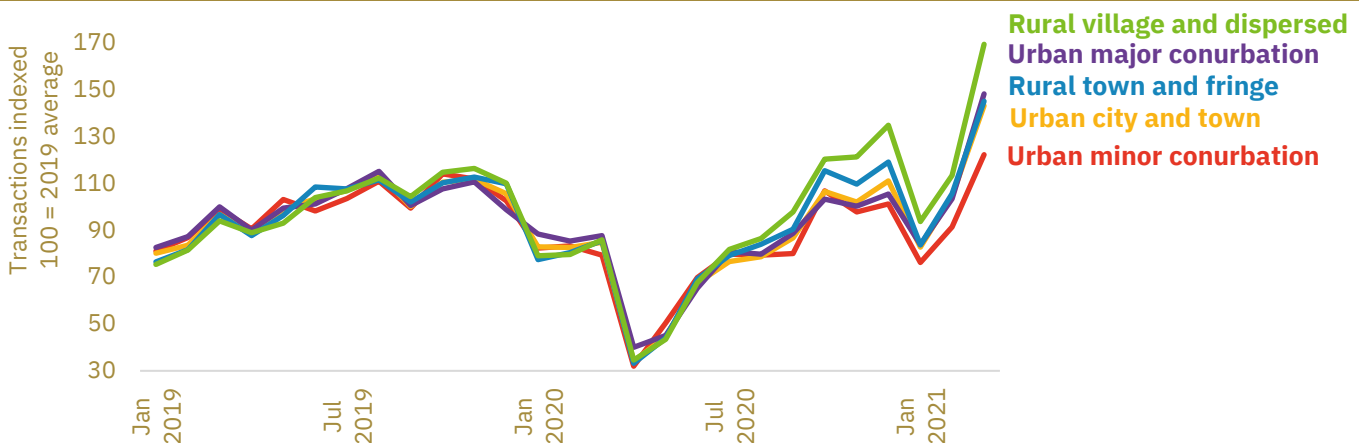
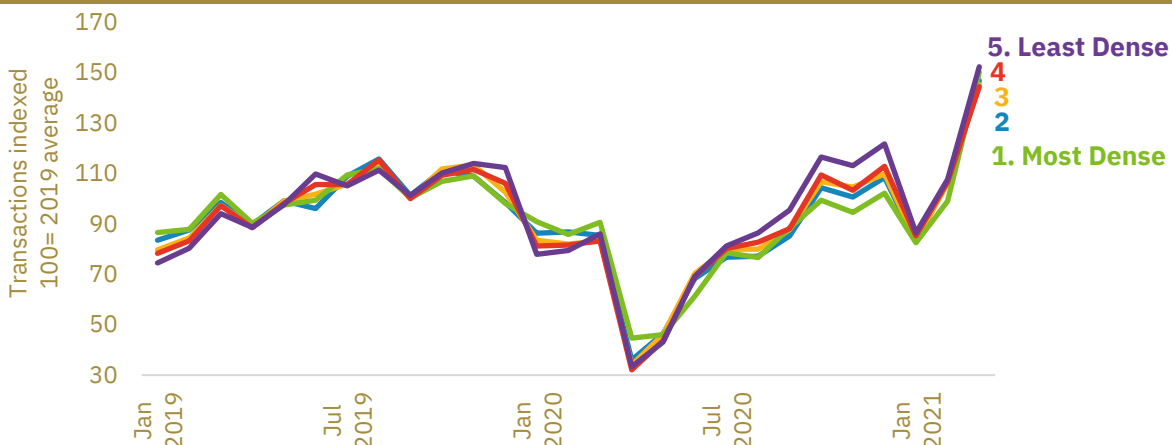


Fig 5: Monthly Transactions Indexed by Population Density Quintile

Source: HMLR, ONS, BuiltPlace – England & Wales



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The “race for space” appears to have been characterised by movement from cities into larger rural houses in late 2020 but the transactional evidence suggests a much broader range of housing market activity in 2021. We have already shown how the stamp duty holiday has proportionally increased activity most at the top-end of housing market and it’s no surprise to see the pattern reflected in analysis of transactions by region (Fig 6). Housing market activity had rebounded at a similar rate across all regions in summer 2020 though Wales lagged due to the later reopening of the housing market. However, this year has seen transactions increase the most in London and the south of England, possibly reflecting the larger savings made by buyers thanks to the stamp duty holiday.

It is also possible that the longer-term trends in transactions are contributing to the trends seen in Fig 6. Housing market activity had slowed in the south of England in recent years while increasing in the midlands and north of England. For example, sales in London were 22% lower in 2019 when compared to 2014 while they were 14% higher in the North West. It is possible the shift in transactions shown by Fig 6 just reflects a rebalancing in market activity. However, Fig 9 suggests it may not be that simple with higher rates of turnover found in the south of England in March 2021.

Fig 6: Monthly Transactions Indexed by Region

Source: HMLR

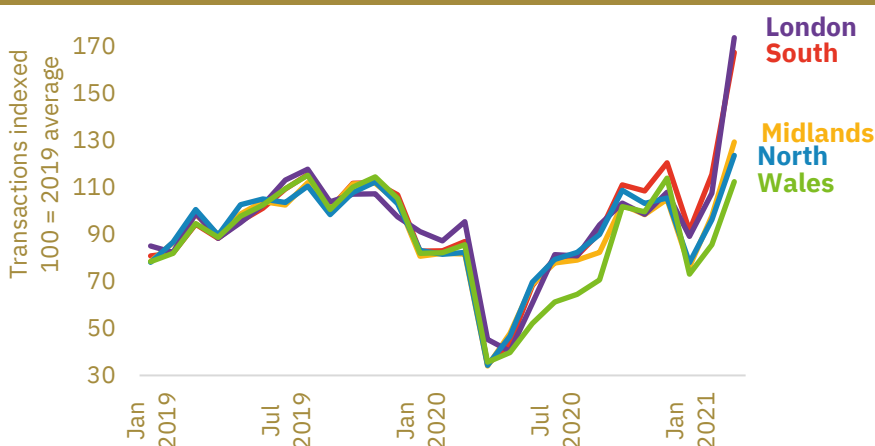
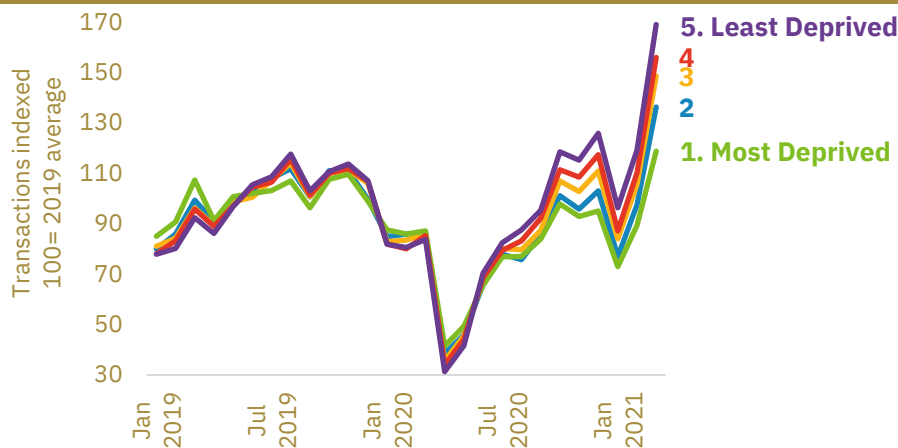


Fig 7: Monthly Transactions Indexed by IMD Quintile

Source: HMLR, DLUHC, ONS – England

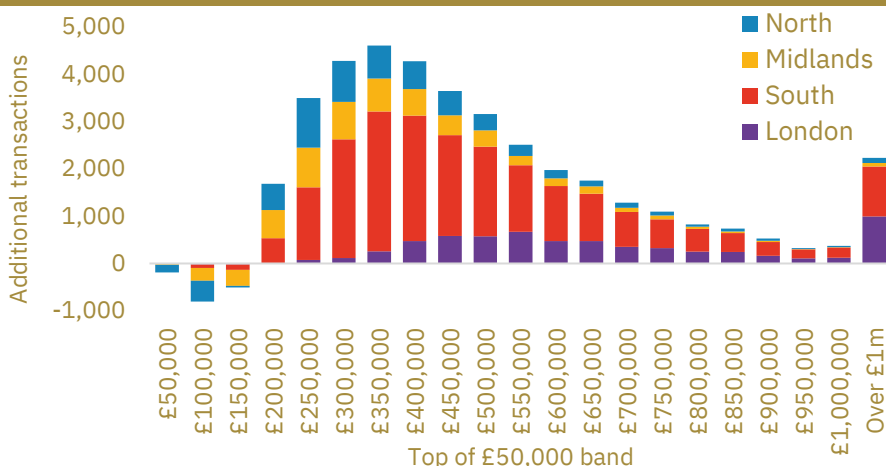


The final chart in this series shows another clear trend in activity since the housing market reopened in 2020. Fig 7 shows sales have risen most in the least deprived parts of England, as measured by DLUHC’s Index of Multiple Deprivation. Perhaps this finding is unsurprising given the trends already highlighted in the preceding analysis. Less deprived areas are more likely to have large houses and expensive housing markets while more deprived areas tend to be found in city centres and have large numbers of flats in their local housing market.

It is clear the stamp duty holiday has led to large percentage increases in purchases of large and expensive homes. However, the downside of the above chart series is that they don’t show the relative scale of each part of the market. While the biggest proportional increases in activity have been found at the top-end of the housing market, the actual numerical increase in transactions shows a somewhat different story. The majority of additional transactions reported in March 2021 (when compared to March 2019) have been homes priced under £500k (63% of additional sales).

Fig 8: Additional Transactions by Price Band and Region

Source: HMLR – England (March 2021 sales less March 2019 sales)



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Local Trends

The previous analysis has shown that the rush to complete transactions before the end of March 2021, in the expectation of the stamp duty holiday ending, increased activity at the top-end of the market. This trend is highlighted by Fig 9 opposite, showing the percentage change in transactions from March 2019 to March 2021 by local authority across England and Wales. The large increases in transactions across the south of England are apparent. However, it is also clear that there were spikes in activity in more expensive locations across the rest of the country, including Trafford, York, and Harrogate. Meanwhile, there are several other markets that, so far, are reporting lower transaction levels than seen in March 2019. This data may be revised in the future as the missing 25% of transactions are reported by HM Land Registry but there may be good reasons for the lower transaction levels.

One example is Liverpool which is reporting 21% fewer sales in March 2021 while also reporting some of the fastest house price growth in the country. A closer investigation of Liverpool sales shows that a large and sustained fall in flat sales is responsible for the lack of a stamp duty spike in the city but the lack of a correlation between transactions and changes in house price is intriguing (Fig 10). Recent ONS [analysis](#) suggested house prices were rising fastest in rural and coastal areas but there are clearly other factors responsible for the patterns in price growth currently being reported. Clearly there's a need for further research.

Fig 9: Change in Sales, Mar 2021 vs. Mar 2019

Source: HM Land Registry, Datawrapper

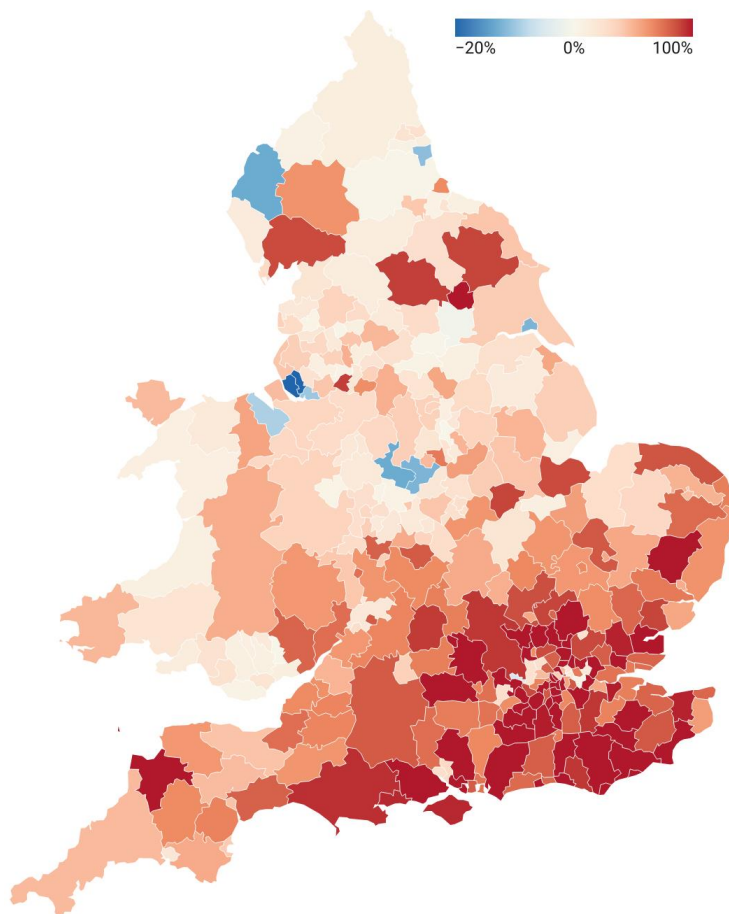
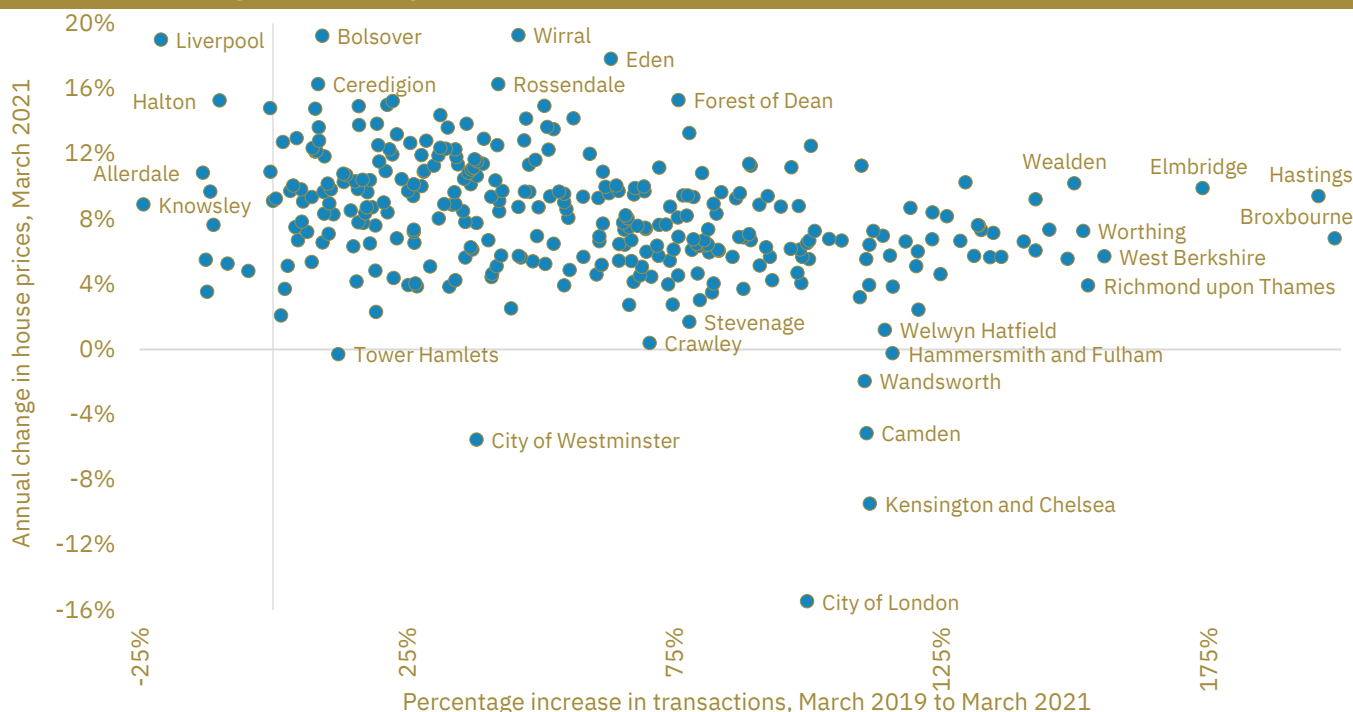


Fig 10: Annual Change in Prices Versus Change in Transactions by Local Authority

Source: HM Land Registry, ONS – England & Wales

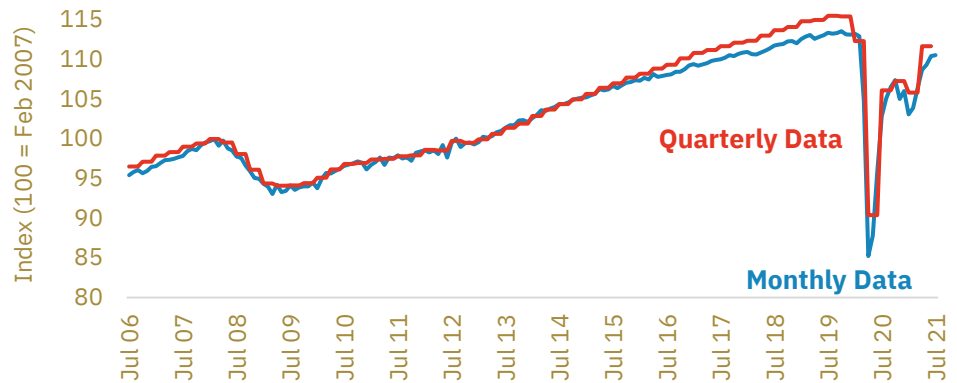


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Market At A Glance

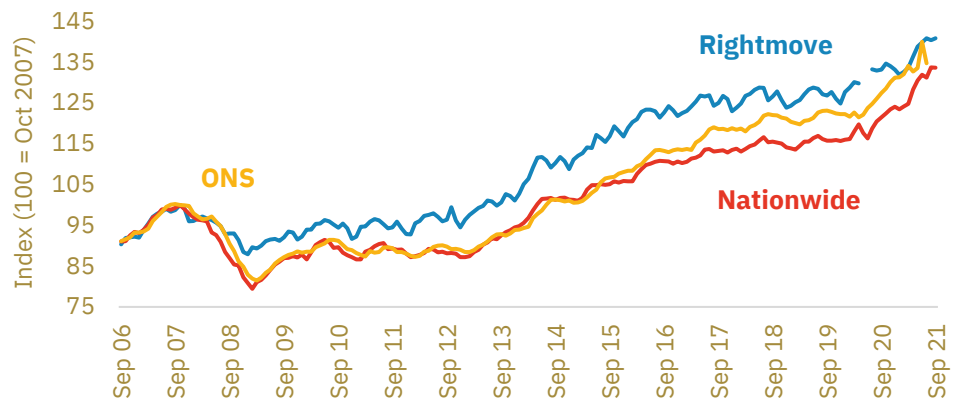
Economy - UK

The ONS revised second quarter GDP upwards, with quarterly growth of 5.5% (4.8% previously) and was 3.3% lower than prior to the pandemic. Historic GDP was also revised with higher growth pre-pandemic. The monthly GDP index has not yet been updated to reflect these changes.



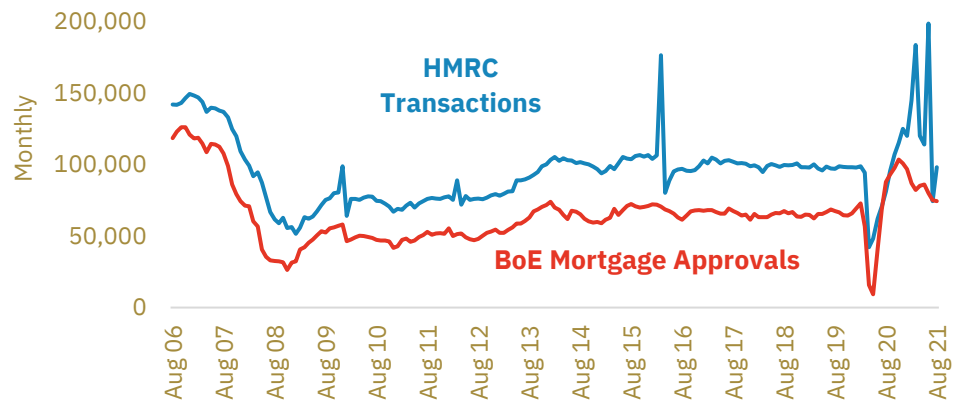
House Prices - UK

Rightmove reported a 5.8% rise in asking house prices in the year to September while Nationwide reported a 10% annual rise in their mortgage approval based index over the same period. The ONS is reporting slightly lower growth in its sales agreed index with an 8% rise in the year to July 2021 though they are struggling with sample sizes due to the lag in registrations.



Transactions - UK

HMRC provisionally reported 98,300 transactions in August, similar to the average levels seen prior to the pandemic. September data is likely to show another spike as the SDLT holiday ends. Meanwhile, the Bank of England reported a small fall in mortgage approvals for house purchase in August but were still 10% higher than August 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.

