

Market Commentary

Residential Analysts

United Kingdom – February 2023

- **Back To Before**
- **Landlords Selling Up**

Recent activity and house price data shows the housing market is still struggling with the fallout from the “mini-budget” and higher mortgage rates. There are some signs that activity is returning to levels recorded before the pandemic but this may just be a temporary catch up. We also investigate landlords selling up.

Back To Before

The housing market is still suffering the aftereffects of the “mini-budget” fiasco but there are some signs that activity may be returning back to levels seen before the pandemic. The rapid rise in quoted mortgage rates and the withdrawal of mortgage products following the “mini budget” has had an impact on the market. Just today the Bank of England reported mortgage approvals for house purchase in January were 40% below their pre-pandemic average while Nationwide reported another monthly price fall, now down 3.7% from their August peak.

However, more forward-looking data suggests that future levels of activity in the market may be more like those seen in the years before the pandemic. This week Zoopla reported ([PDF](#)) the number of sales agreed in February – while 24% lower than last year’s levels – were 1% higher than their pre-pandemic average. Meanwhile, Google Trends data on “Rightmove” searches suggests interest is at pre-pandemic levels. Though this may just reflect curiosity about price cuts with Zoopla reporting the average discount to asking price has increased to 4.5%.

Whether this is a return back to the activity levels recorded before the pandemic or just a short-term catch up in activity from the disruption of recent months remains to be seen. Mortgage rates have fallen but, albeit with a few exceptions, 4% appears to be a soft lower limit for the time being. Without a significant correction in prices either through price falls (15-20%) or rising wages, it appears we may end up with a housing market that looks much like it did before to the pandemic. But with all the underlying affordability issues amplified by higher rates.

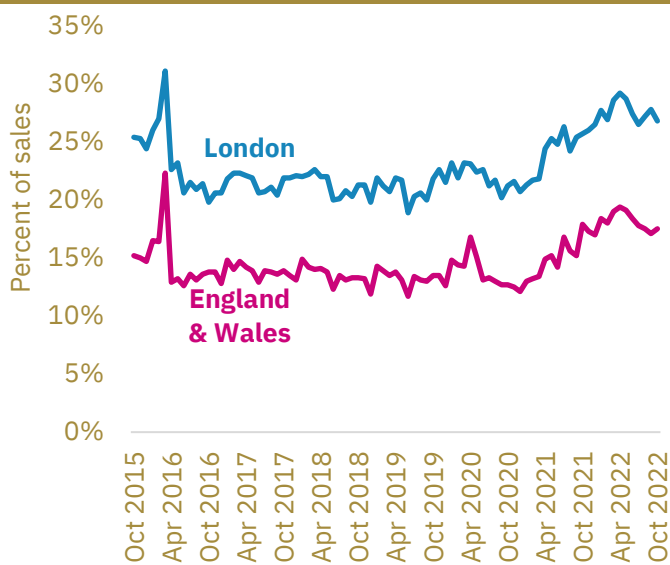
Landlords Selling Up

There have been repeated reports that large numbers of landlords have been or are planning on selling up and this is contributing to the current severe lack of homes to rent. However, the evidence to date has been largely based on surveys of landlords with limited direct data. Other sources such as household surveys in the private rental sector are laggy and have been subject to much greater uncertainty given the challenges of doing surveys during the pandemic. Meanwhile, the number of outstanding buy-to-let mortgages continues to hit new record highs according to UK Finance data – over 2 million outstanding at the end of 2022, up 20,000 over the last year.

Annoyingly, the lack of public data on the private rental market makes it challenging to assess what is happening to the sector. However, we’ve potentially identified a way of using public data that lets us see how many transacted properties have also been in the private rented sector at some point. It’s far from perfect and doesn’t tell us who is buying but the analysis potentially offers a little bit more clarity on what has been happening.

Fig 1: Sales of Rental Properties

Source: DLUHC, HM Land Registry, Harness



We have used a combination of Land Registry Price Paid data – though sourced via [Harness](#) as they add UPRNs (unique property reference numbers) – and rental Energy Performance Certificates (EPCs). Combining the two together using UPRNs (the EPC data already includes them), we can identify all property sales that have also had a rental EPC since that data started in 2008.

The results are shown in Figure 1 opposite, highlighting the percentage of homes sold that have also been in the rental market at some point. A comparison with third-party estate agency data on the percentage of landlords selling (not shown) indicates a close relationship both in terms of percentages and trends in recent years.

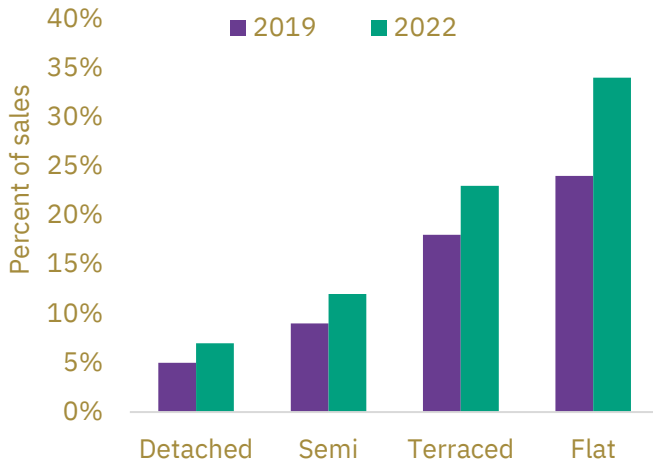
It shows a clear spike in activity around the stamp duty change in early 2016 as investors rushed to beat the introduction of the 3% [HRAD](#). The rate then settled around 13.5% before rising to a peak of nearly 20% in April last year. The latest data – for October – shows a rate of around 17.5% but is based on a smaller sample. It appears more rented homes have been selling.

Market Commentary

Our approach is limited in multiple ways but it does allow us to investigate some underlying trends given we have identified the actual properties involved. There are many limitations with this data as we don't know for sure that it is landlords selling – for example it could be a property that had already been sold by a landlord and is more recently being sold by a homeowner. We also have no clues on who is buying – is it just being bought by another landlord or by a homeowner? However, we can identify some key trends that raise further questions.

Fig 2: Sales of Rental Properties by Type

Source: DLUHC, HM Land Registry, Harness - ¾ of 2022



The single biggest factor that the analysis highlights is the high proportion of rented flats selling. As Figure 2 shows, the proportion of transactions that have been rented are relatively small for detached and semi-detached property types. However, the rates are much higher for terraced properties and even higher for flats – not particularly surprising given the stock profile of the private rented sector. The latest English Housing Survey reported 44% of private rented dwellings were flats compared to just 11% in the owner occupied sector.

The prevalence of flats also explains why the data for London in Figure 1 is so much higher than the national average – all other regions generally follow this national average. The rate of sales of rented homes in London is higher simply because there are more rented flats. As Figure 3 shows, the rate of rental flat sales in London may have seen the biggest percentage point increase since 2019 (12.2%) but is very similar to other regions.

Fig 3: Sales of Rental Flats by Region

Source: DLUHC, HM Land Registry, Harness - ¾ of year

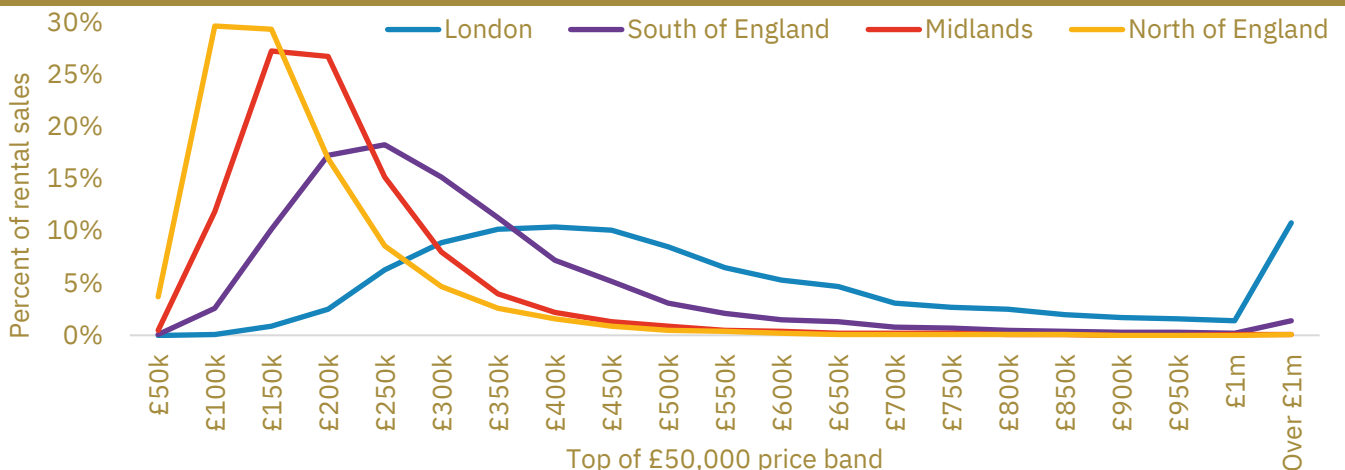


With flats making up large proportions of these rented homes that have sold, it is inevitable that they are priced towards the lower end of their respective regional housing market. In theory, these homes should be ideal to meet the needs of first time buyers and, at an aggregate level, not contribute to a fall in supply when sold. However, the increase in mortgage rates will be a bigger barrier for those with smaller deposits and flats have got a deservedly poor reputation amongst buyers in England given their multiple issues along with changes in buyer preferences since the pandemic.

In summary, it appears there has been an increase in rented homes being sold and many of these are lower priced flats. However, the increase is not substantial – around 5% of total sales - and it is not clear who the buyers are. Understanding this will be key to assessing the impact on both rental and wider housing availability.

Fig 4: Sales of Rental Properties by Price Band

Source: DLUHC, HM Land Registry, Harness - ¾ of 2022

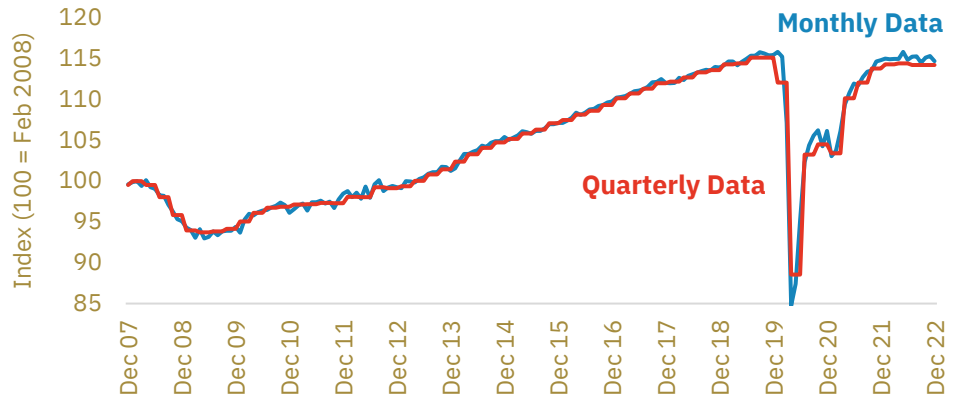


Market Commentary

Market At A Glance

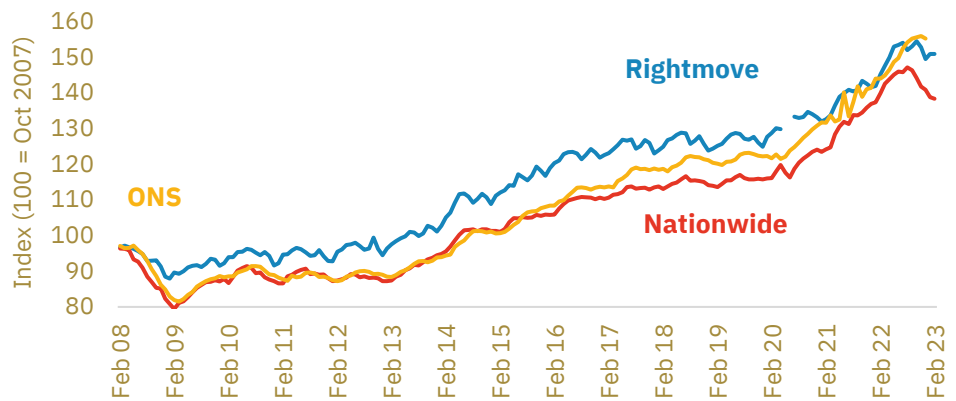
Economy – UK

The ONS monthly estimates reported GDP was 0.1% lower in December 2022 than the same month in 2021. This left monthly GDP 1.0% below the pre-pandemic peak recorded in January 2020. However, this data will inevitably be revised in coming months and years.



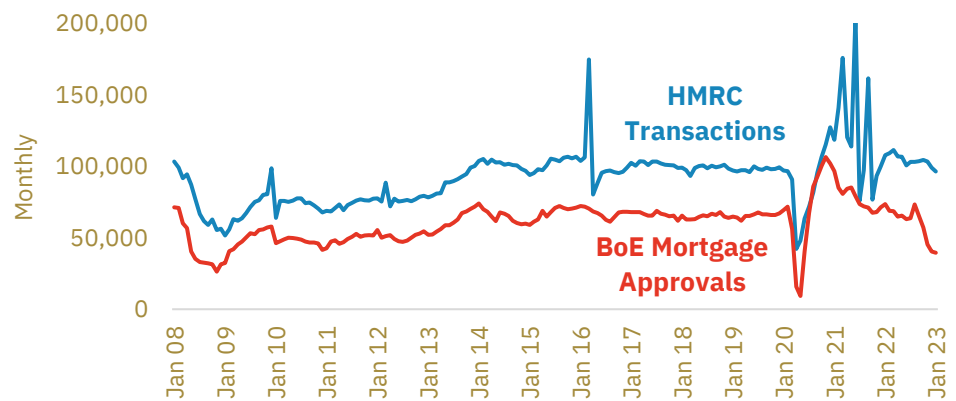
House Prices – UK

Rightmove reported a 3.9% annual rise in asking house prices in February 2023 while Nationwide reported a 1.1% annual fall in their mortgage approval based index in the same period. Meanwhile, the ONS reported 9.8% annual growth in its sales agreed index for the year to December 2022.



Transactions – UK

HMRC provisionally reported 96,700 residential transactions in January. This was 0.7% lower than the same month in 2019. Meanwhile, the Bank of England reported mortgage approvals for house purchase were 39% lower in December 2022 than the same month in 2019.



New Supply – England

The latest net additions data for 2021/22 reported 233,000 net new homes in England with 210,000 new build completions. The latest quarterly house-building data suggests there were 216,500 completions in the year to Q3 2022 while there were 252,500 new build Energy Performance Certificates in the year to Q4 2022 – a leading indicator for net housing supply.

