INSIGHT

Housing Market Summary

Quarterly update of housing market activity

Q2 2021

AVISON YOUNG

Overview

- The first half of 2021 has seen the strongest year-on-year house price growth since 2004, with June's 0.7% growth (Nationwide) bringing the total so far this year to 13.4%.
- Transactional activity has also been remarkably high in the first half of the year. The provisional (non-seasonally adjusted) estimate of 449,030 UK residential transactions during Q1 was the highest since statistics started being recorded in their current format in 2005.
- Since peaking in March at 183,670, transactions levels have been falling back with 119,540 provisionally reported for April and 114,940 for May. However despite the slowing, these levels are still well ahead of the 013-19 average.
- According to the RICS Residential Market Survey, buyer demand has cooled over the last few months which is reflected in the slowing transaction levels. New buyer enquiries remains still firmly positive though, which will help to underpin continued strength in the market in the coming months.
- Another factor which will help support price growth is declining supply. The RICS survey in June reported that the majority of surveyors saw a decline in the level of new instructions.
- With the unwinding of the SDLT holiday, we expect wider macro-economic factors to return as the key drivers of the housing market. Our near-term economic outlook is broadly positive and our view is that the inflation we are seeing is transitory and will not impact interest rates.

The Housing Market

The Nationwide House Price Index (HPI) showed a 0.7% month-on-month increase in June 2021, down from 1.7% in May. This brought the annualised growth rate to 13.4%, the highest level since 2004.

Other measures of house prices paint a similar picture of the market, the ONS House Price Index (HPI) recorded annualised growth of 10% in May, with a 0.9% increase on April. Rightmove reported 10% year-on-year growth in May (based on the closest comparison month as the index was suspended in May last year).

The average price of a property in the UK according to the ONS HPI was £254,624 in May, higher than the Nationwide figure of £242,832 and Rightmove reported a new national record for the average price of property coming to market, at £333,564 in May. This was £5,767 (1.8%) higher than April (the previous all-time high).

High demand from potential buyers has also led to the average time it takes to sell a home nearly halving to just 22 days, down from 42 days in May 2019 (Zoopla).

The RICS Residential Market Survey is one of the better leading indicators of market performance, and the most recent survey points to the continuation of solid levels of activity for housing transactions. Having said this, the net balance of surveyors reporting an increase in new buyer enquiries has notably moderated in the last couple of months. This likely reflets the tapering of the Stamp Duty Holiday from the end of June and that a proportion of the pent up demand has now been spent.

In terms of current pricing dynamics, the survey is pointing to a clear excess of demand over supply. The net balance for new seller instructions came in at -34% (down from -24% previously) during June, the third consecutive monthly fall and an accelerated rate of decline. This compares to four successive positive months for new buyer enquiries. This imbalance will help maintain upward pressure on pricing even as the stimulus of the Stamp Duty Holiday is tapered from the market.

Help to Buy

The extended Help to Buy scheme expired on 31st March 2021 following an extension due to Covid-19. An adapted version will now continue with a more limited capacity through to 2023. Under the new iteration, the government will still provide an equity loan of up to 20% for the purchase of a new build home to enable buyers with only a 5% deposit to acquire the remaining 75% through a mortgage. From April 2021, only first-time buyers will be eligible for the scheme rather than all home buyers. The previous price cap is being replaced by significantly lower regional price caps, defined as 1.5 times the average price of a first-time buyer property for each region. While the original version of the scheme was used by over 270,000 home buyers since its inception in 2013, there were questions around its efficacy – many of which have persisted with the new changes. The latest evolution also may disrupt the viability of some developments which were targeting the Help to Buy market at above the new regional price caps.

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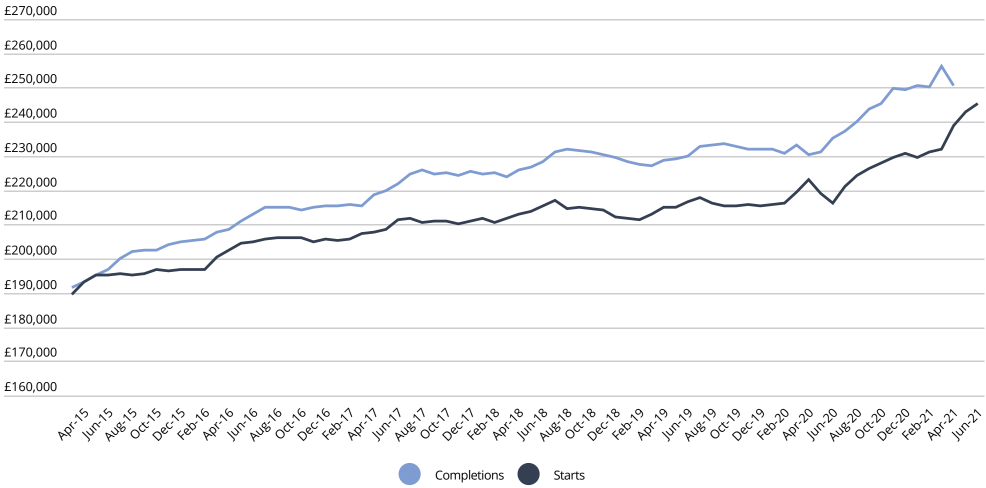
Data

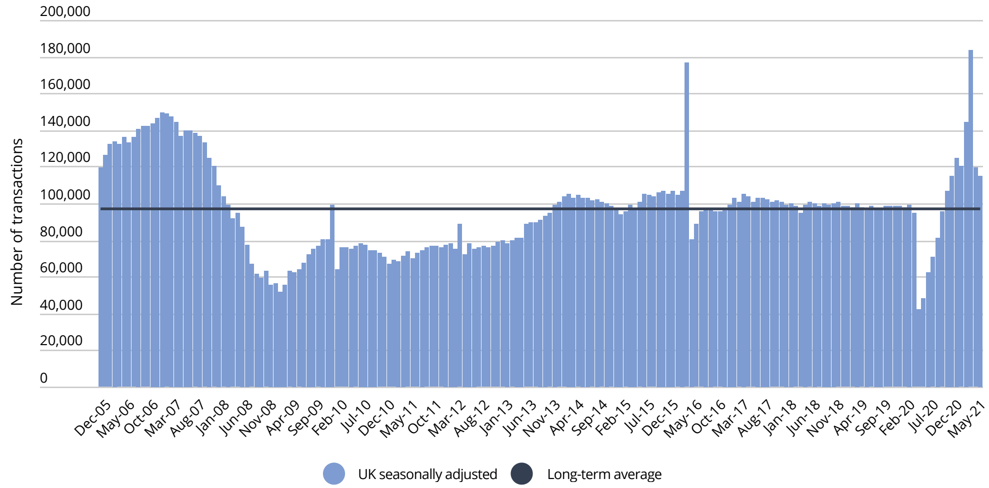
UK HOUSE PRICES INDICES

Source: Land Registry, Nationwide



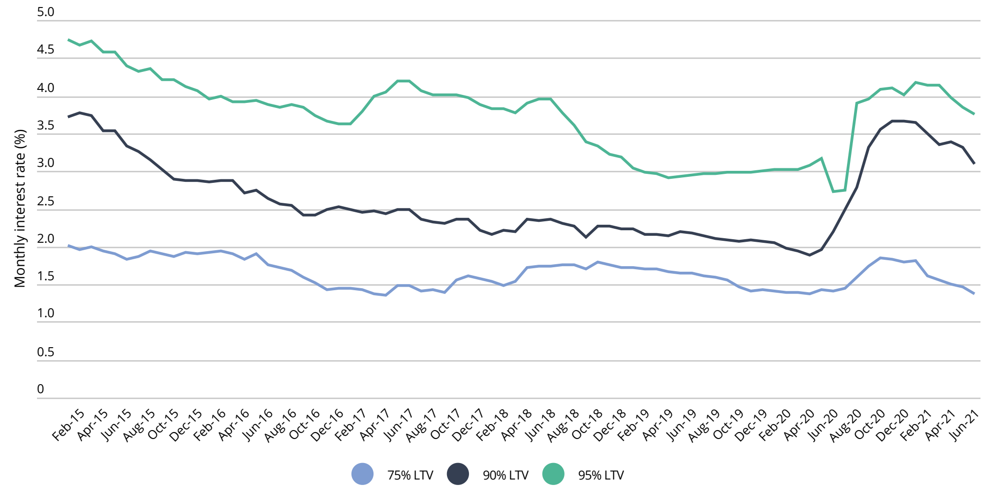
HOUSING TRANSACTIONS IN THE UK

Source: HMRC



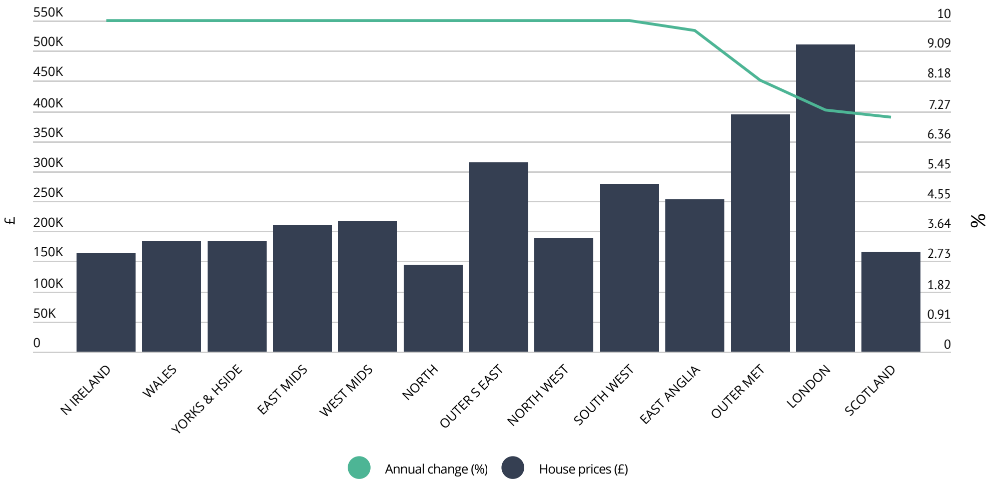
INTEREST RATE ON 2-YEAR FIXED MORTGAGES

Source: Bank of England



REGIONAL HOUSE PRICES & ANNUAL GROWTH - Q1 2021

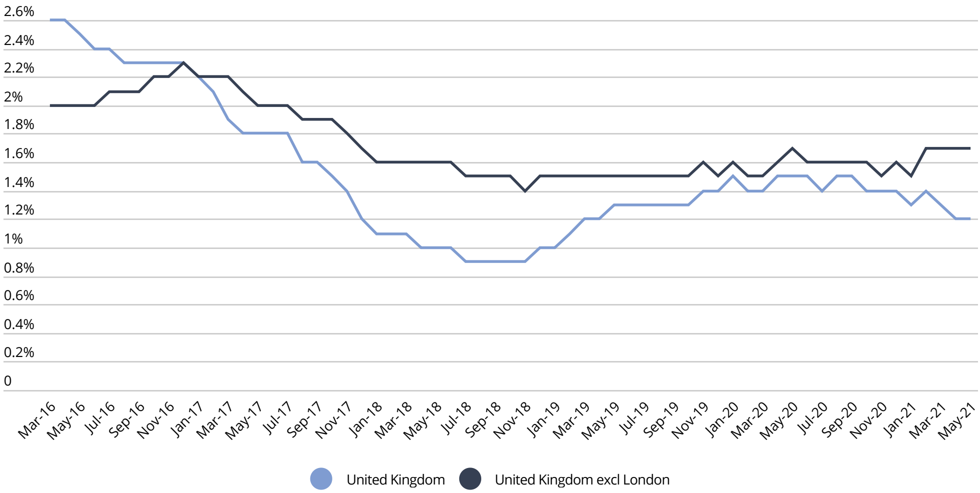
Source: Nationwide



Data

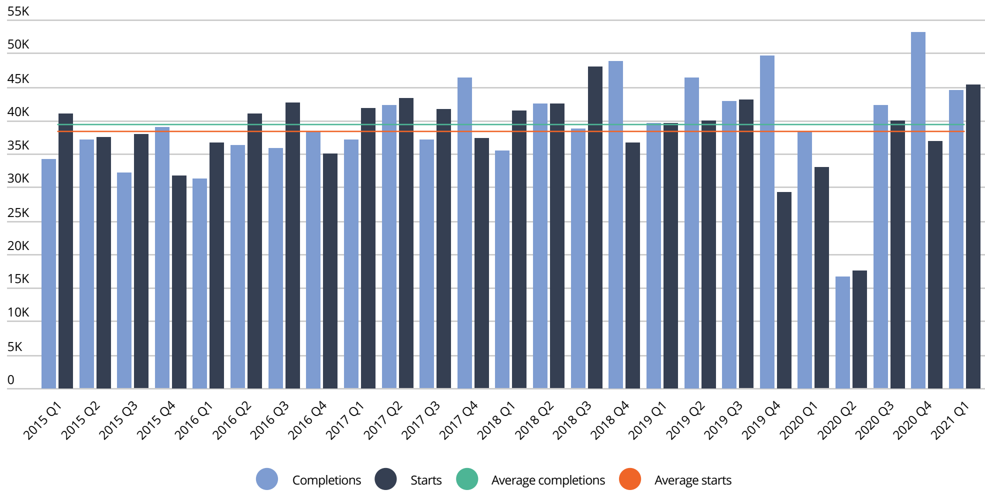
ANNUAL PRIVATE RENTAL GROWTH

Source: ONS



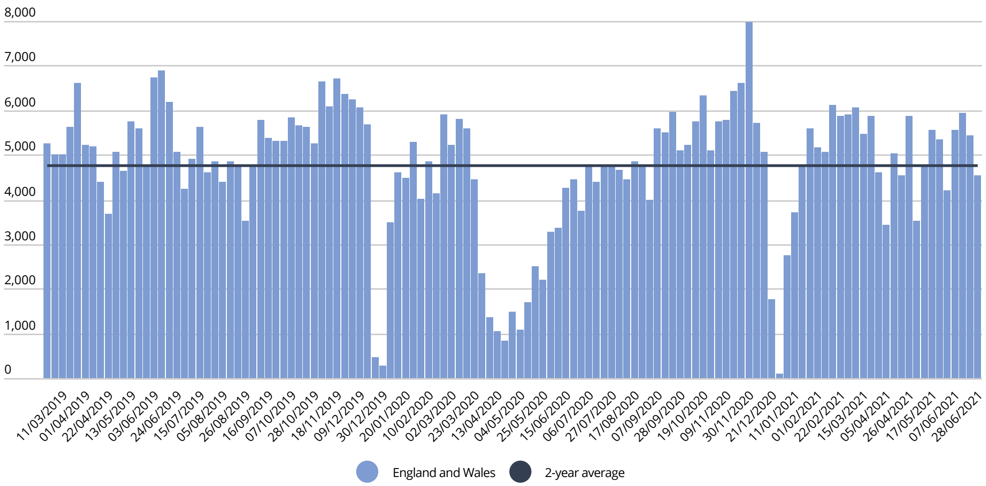
QUARTERLY PERMENANT DWELLING STARTS AND COMPLETIONS IN ENGLAND

Source: MHCLG



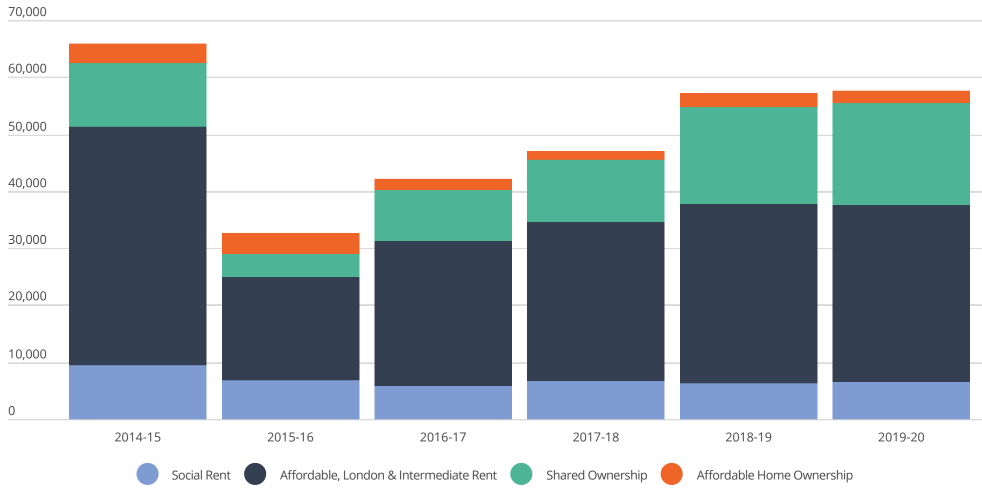
WEEKLY EPC LODGEMENTS FOR NEW DWELLINGS IN ENGLAND AND WALES

Source: MHCLG



AFFORDABLE HOME COMPLETIONS BY TENURE IN ENGLAND

Source: MHCLG



Mortgages

The Bank of England's most recent data showed that mortgage approvalstotalled 87,545 in May 2021, maintaining the very high levels we have seen in recent months. It is well in excess of the 67,000 average in the six months to February 2020 and 32% higher than the 2014-19 average but down on the 104,000 decade-high in November 2020.

There are some nuances in the mortgage market between different types of products. The economic fallout from Covid-19 spurred lenders into placing greater scrutiny on mortgage requirements, including reducing the availability of high Loan to Value (LTV) mortgages. Analysis of interest rates on 2-year fixed mortgages show that high LTV borrowers also experienced a disproportionate rise in borrowing costs over 2020 as lenders became more risk averse.

High LTV mortgages are most common among first-time buyers and are a crucial product for helping people get on the housing ladder. While FCA data shows mortgage completions by first time buyers had recovered at a similar rate to mortgaged movers in the summer and autumn of 2020, since Nov 2020, their numbers have stayed high but not experienced the further growth seen by mortgage movers.

Difficulty accessing or affording high LTV products will present a hurdle to aspiring homeowners, meaning they are likely to remain renting for longer or increasingly look at alternative tenure options such as Shared Ownership. It may also boost demand for Help to Buy properties, where the government equity loan reduces the LTV.

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The London Market

QUARTERLY ANNUALISED HOUSE PRICE GROWTH LONDON

Q2 2021
7.3%

Q3 2020
4.4%

Q4 2020
6.2%

Q1 2021
4.8%

Source: Nationwide

London house prices grew by 7.3% annually in Q2 2021, according to Nationwide, with an average value of £509,935. Although this level of growth was an increase from the 4.8% in the previous quarter, London was the second weakest performing region after Scotland. Despite this, homes in the capital remain by far the most expensive in the UK, roughly 60% above the outer South East – the next highest region.

In the June RICS Residential Market Survey, new buyer enquiries in London remained positive for their fourth consecutive month, although have moderated significantly since March which was the highest figure since January 2016. As with the wider nation, there are signs a significant shortfall of supply relative to demand has emerged in London. The net balance for new instructions in June came in at -22, the fourth consecutive month of decline. This imbalance will help support pricing in London, even with demand moderating from levels earlier in the year.

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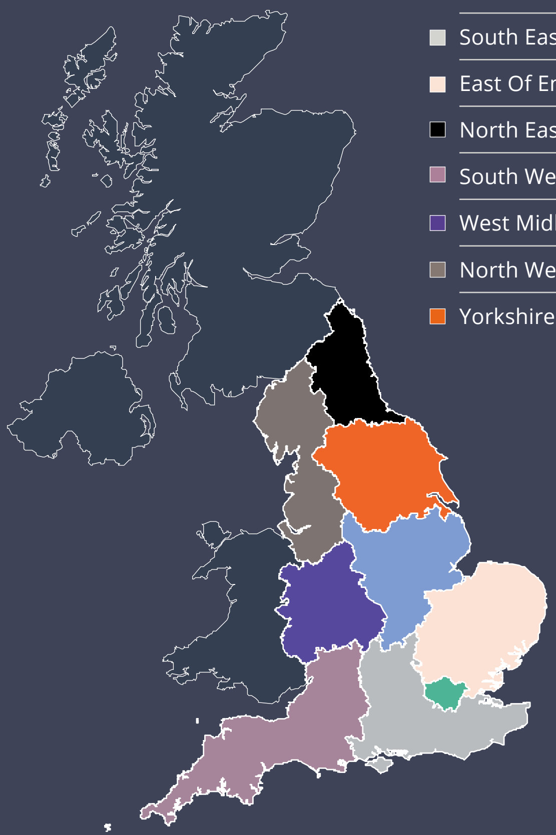
HELP TO BUY: EQUITY LOAN PRICE CAPS – APRIL 2021 TO MARCH 2023
Maximum property price

Region	Price cap
East Midlands	£261,900
Greater London	£600,000
South East	£437,600
East Of England	£407,400
North East	£186,100
South West	£349,000
West Midlands	£255,600
North West	£224,400
Yorkshire & Humber	£228,100



Source: Gov.uk

The Regional Market

In Q2 2021, Nationwide data showed an increase in the house prices of all the UK regions. In most cases growth rates were the highest we have seen since the Global Financial Crisis. The largest increases were seen in Northern Ireland and Wales at 14% and 13.4% respectively.

In England, Yorkshire & Humberside was the strongest performing region, with price growth at 13.0% year-on-year. This led average prices to a record high of £183,982. The East and West Midlands both saw exceptionally high levels of annual price growth, both registering 12.2%, as did the North at 11.2%.

London was the weakest performing English region, though still saw a pickup in annual price growth to 7.3%, from 4.8% last quarter. House prices in both the South East and South West regions, saw solid increases on their Q1 rates of growth (both 7.2%), registering 10.9% and 10.4%.

The RICS residential survey shows that all regions other than East Anglia and the East Midlands saw a positive balance of new buyer enquiries in June. With the exceptions of the North, N.Ireland and Wales, they all saw negative balances of new sales instructions, exemplifying the supply and demand imbalance we referred to previously. The survey also reported that over the next three months, surveyors in all regions anticipate growth in house prices.

Changes to the Help to Buy scheme may result in challenges in some regional markets as the new regional price caps will have the greatest impact in high value regional markets. This is because the caps reflect average prices across regions, so markets such as Bath, Cambridge, Winchester and York where average prices are much higher than regional levels are exposed. Housebuilders in these markets will have to adapt their product/pricing to be able to viably deliver homes eligible for the scheme.

The Lettings Market

The ONS UK private housing rental index showed that the price paid by tenants increased by 1.2% in the 12 months to June 2021. Private rental prices grew by 1.1% in England, 1.5% in Wales and 1.2% in Scotland in the 12 months to June 2021. The East Midlands and West Midlands saw the highest annual growth in private rental prices (both 2.4%), while London saw the lowest (negative 0.1%).

Supply and demand pressures can take time to feed through to this index as it reflects price changes for all private rental properties rather than only newly advertised rental properties. Other measures, which track newly advertised properties have reported much sharper price movements.

Zoopla's Rental Index is one of these and it reported that London rents were down 9.4% year-on-year in Q1. At the other end of the scale it reported rental growth hitting 10-year highs in the North East, South West, East Midlands and Wales.

Responses to the RICS survey suggest that the market in London will stabilise in the coming months. Tenant demand is now in positive territory for the third consecutive month whereas new landlord instructions remain steeply negative. This means we are unlikely to see continued falls in rents at the headline level and this is reflected in the RICS survey price expectations which are now flat for the next quarter.

Respondents for all other regions reported sharply positive rental growth expectations for the next quarter with a consistent theme of strong new tenant demand but weak levels of new landlord instructions.

The above sentiment indicators suggest that demand may be outweighing supply in most of the UK markets, placing upward pressure on rents. This narrative is echoed in the 12-month outlook for rents in the RICS survey, with all regions bar London anticipating growth.

Housing Delivery

Housing starts in England totalled 36,770 in Q4 2020, bringing the cumulative starts in 2020 to 127,110. Covid-19 undoubtably had a significant impact on this lower figure which is 16.6% below the 5-year annual average. However there was already some indication that house building was losing some of its momentum, with 2019 also below the 5-year average at 151,750. Both of these figures raise considerable doubt over the government's 300,000 homes built per year by the mid-2020s.

Provisional estimates for housing completions in England for Q4 2020 were 53,180, the highest quarterly figure since 1979 and 33.2% above the 5-year average. This figure is attributed to the delays caused earlier in the year due to Covid-19 causing site closures. Despite the strength in the latter half of the year, completions in 2020 totalled 150,360, falling 5.8% short of the 159,690 5-year average.

More timely data on EPC lodgements for new dwellings – a proxy for housing completions – In England and Wales suggests that the most recent lockdowns have not impacted developments, with sites able to remain open.

The total number of affordable homes completed for 2019-20 – the latest available figure – stands at circa 57,6400, a 0.8% increase on the previous year and the highest annual figure since 2014-15. Of these, the MHCLG reports that 6,570 socially rented homes, 30,950 affordable rented homes (including London and intermediate affordable rents), 18,000 shared ownership homes and 2,080 affordable ownership homes were completed.

The changes to the planning system introduced at the end of summer 2020 by the government will impact development trends, particularly relating to the conversions of vacant retail property into residential units. Such moves would no longer require planning permission from the local authority under the new changes which are likely to have significant repercussions across the whole UK property market, including the housing sector.

Changes to the Help to Buy scheme will also impact developments, particularly those specifically targeting first-time buyers. The regional price caps may mean that some potential developments may need to be considerably altered to either reduce the initial asking prices of properties or look at other arrangements such as moving to a build to rent model.

Build to Rent

Build to Rent (BTR) investments increased 30% year-on-year in 2020, totalling some £3.5 billion despite the pandemic. There are roughly 53,000 BTR units under construction with a further 89,000 in planning – a figure which continues to rise.

The growth in the sector is likely to continue, with BTR investors providing an attractive exit opportunity for house builders in the current market. We expect to see an increase of bulk sales to investors, bringing certainty and reducing risk for the vendor. In general, we expect the sector to see strong interest as its lower cyclical volatility and strong demand profile make it appealing to funds and institutions looking for long-run returns.

Evidence from the mortgage market suggests that it is going to remain challenging for would be first-time buyers to access mortgage finance. This is partly due to the sheer volume of mortgage applications which is having the effect that lenders are focussing on low-risk lending. This means people will remain in the rented sector longer, supporting demand. Once the stamp duty holiday finishes it is also very possible renters will delay buying a home in the face of economic uncertainty, as we have seen previously, lending further support to rents and the BTR market.

Further, house prices have shown considerable strength throughout the course of the pandemic while wages have been less robust. The affordability of homes has therefore fallen in the past year, compounding the appeal of the private rental sector and, by extension, the BTR market.

Outlook

As the pandemic set in last year, you would have been hard pressed to find anyone who thought it would set off a housing boom. However, house prices are rising rapidly, reaching record highs month on month and transaction levels are equally strong.

One of the drivers of this has been the stamp duty holiday and HMRC's statistics for Q1 2021 evidence its impact as buyers rushed to beat the expected end of the holiday - residential property transactions in Q1 2021 were 53% higher than in Q1 2020.

With the SDLT relief being tapered from the end of June the key question is what the outlook is for the housing market in coming months.

Our view is that we will see a cooling in the market but house price growth will continue and transactional activity will remain relatively robust. Fundamentally, this will be underpinned by the economic backdrop and a continuation of some of the factors that have led to people re-evaluating their housing needs over the last year.

From the economic perspective, our successful vaccine rollout, opening-up of the economy and consumer spending has led to a faster and fuller recovery than most expected. Also, the extension of the furlough scheme to September and current surveys of hiring intentions suggest un-employment will probably peak at only 6%. This means the outlook for people's ability and willingness to undertake buying a home is positive.

Also, because interest rates are still very low, mortgage affordability remains good by long term standards. This means despite house prices being at all time highs relative to incomes, monthly mortgage payments remain affordable. The current level of inflation has attracted attention but The Bank of England (and most commentators including ourselves) view it as transitory and not posing a risk of interest rate rises.

The other key driver in the market has been the reassessment of housing preferences, driven by the pandemic working and living experience. This is illustrated by the fact that the majority of house purchases over the last six months have been home-movers. Prior to the pandemic, first time buyers were the majority. As longer-term working arrangements become clear as we emerge from the pandemic, it is likely there will be a continuation of this theme which along with the economic factors will support robust market activity and pricing,

Should you wish to discuss any details within this update please get in touch

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