Residential Quarterly | Summer 2021

Research - Market View

Economic Outlook

Global markets have fallen since the outbreak of COVID-19 and its expected effect on economic growth. The FTSE 100 markets rallied 10% over Q4 2020, ending the year 15% down compared to the start of 2020. The index remained reasonably flat over January and February 2021 but rallied by 4% over March 2021. Gains continued to climb over the course of Q2 2021 as the market was up by 8.9% compared to the start of the year. Economic uncertainty still remains a significant factor globally.

In Q3 2020, quarter on quarter UK economic growth was 16%, bouncing back considerably from the Q2 falls experienced (-19%). In Q4 2020, quarter on quarter growth was 1%. Over 2020, the economy is estimated to have contracted by 10%, the largest yearly fall on record.

The Office for Budget Responsibility (OBR) latest forecast (March 2021), growth for 2021 is projected at 4%, lower than the 5.5% which was forecast in the November 2020 forecast. This is less optimistic than the June 2021 HM Treasury consensus forecasts which have an average estimate of 6.8% for 2021. However, for 2022, OBR projects growth at 7.3%, which is more bullish than the HM Treasury consensus forecasts of 5.1%. The recovery predicted for 2021 and 2022 demonstrates that most forecasters expect the fundamentals of the economy to remain strong and for it to be able to return to growth once the current situation has passed.

In their central scenario, the Monetary Policy Committee expects recovery to pre-pandemic levels over the course of 2021 as restrictions continue to be loosened. The OBR's forecasts for peak unemployment were revised after the March 2021 budget, with unemployment expected to peak at 6.5% in 2021, lower than previous estimates. The latest estimates from the HM Treasury consensus forecasts are slightly more optimistic, with a predicted average unemployment rate of 5.7% for 2021, decreasing to 4.9% over 2022.

The latest figures from the Office for National Statistics (ONS) show that inflation (CPI) as of June 2021 is 2.4%. This is 0.4 percentage points above the 2.0% target, which was exceeded for the first time since July 2019 in May 2021 (2.1%). The June 2021 inflation rate was significantly above the year before (0.8% in June 2020). According to the ONS, recent inflationary pressure is mainly attributed to a rise in transport prices, as well as clothing, recreational goods and food & drinks.

At the end of June 2021, the value of the Pound to the Euro was c.1.17; 15.3% lower than the 2015 average, and a slight decrease from the previous quarter. However, this value has rallied over 2021, from 1.11 at the end of December 2020.

The Chancellor had announced an unprecedented package of Government-backed interventions aimed at supporting businesses and individuals through the current situation. This included: a furlough scheme to pay up to 80% of employees' wages, intended to minimise job losses; mortgage holidays agreed with lenders; business rates holidays and loan schemes. As of 31st May 2021, 8% of eligible UK workers were furloughed, rising to 11% of Londoners. The Chancellor announced in the new budget that the furlough scheme would be extended to September 2021. This date is after the final stage of the roadmap, which would provide some additional protection against any delays to the reopening of the economy or offer some transitional support as businesses scale back up to full operations.

As part of the Chancellor's Winter Economy Plan, there will be a new six-month Job Support Scheme to protect viable jobs in businesses that are facing low demand due to the virus, an extension of Self Employment Income Support Scheme, and over one million businesses will get flexibilities to help pay back loans.

Additional measures outlined in the March 2021 budget include widening access to grants to include 600,000 more self-employed people and additional funding for vaccine distribution. Importantly for the housing market, the Stamp Duty holiday for England and Northern Ireland was extended until the end of June 2021, and is now being tapered down until September 2021.

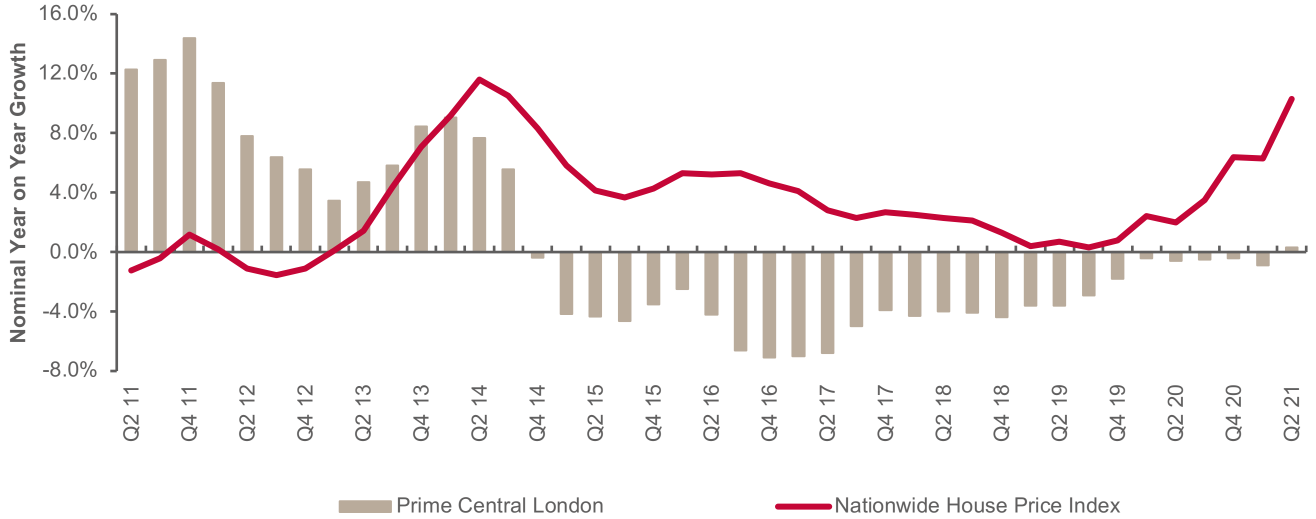
Despite the negative economic outlook, the economic interventions announced by the Government should minimise the rate of unemployment and cushion some businesses. The speed of the recovery will depend upon latent stressors in the economy, which will not be fully realised until all temporary measures (furlough, trading restrictions) are lifted. As a result, considerable uncertainty remains.

Property market pricing

According to the Nationwide House Price Index (NWHPI), UK property prices grew by 10.3% in the year to Q2 2021, exceeding the growth in the year to Q1 2021 (6.3%). YoY growth over the year to Q2 2021 shows that, on a regional basis, the best performers were Northern Ireland (14.1%), Wales (13.3%), and Yorkshire & the Humber (13.0%). Scotland saw the lowest positive growth at 7.0% and no regions saw negative growth. For London, YoY growth was comparatively low at 7.2%, making it the 2nd lowest performing region, although the latest gains still represented positive change compared to previous quarters.

Figure 1

UK house price growth vs Prime Central London (PCL)



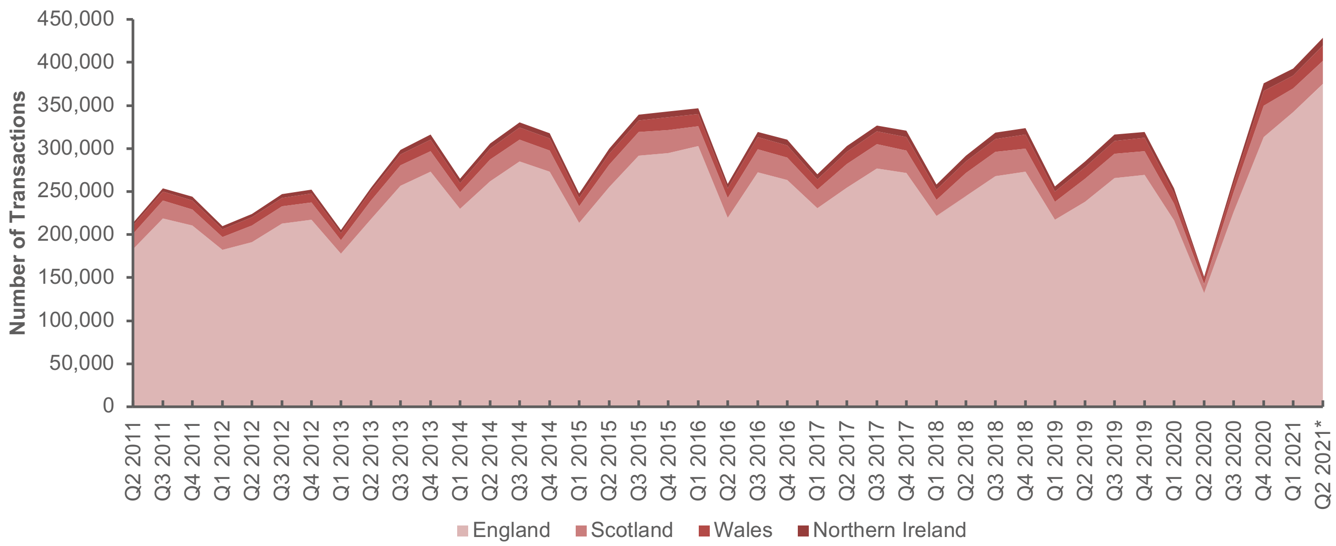
Source: *Nationwide House Price Index, Volterra*

Regional residential sales transactions

The provisional data for Q2 2021 is the highest amount of recorded residential transactions for a quarter since Q3 2007 when the UK registered 442,930 transactions. This high level is likely to be driven by a multitude of factors, including the COVID-19 pandemic and the behavioural changes seen as people re-evaluate their housing choices. However the largest driver will have been the Stamp Duty Land Tax (SDLT) holiday in England and Northern Ireland where taxpayers rushed to complete property transactions early to take advantage of the temporarily increased nil rate band to £500,000 for SDLT which ended on 30 June 2021. The temporarily increased nil rate band for SDLT has now reduced to £250,000 until 30 September 2021.

Figure 2

Number of recorded properties sold in across the UK on a quarterly basis from 2011 through Q2 2021



** Provisional*

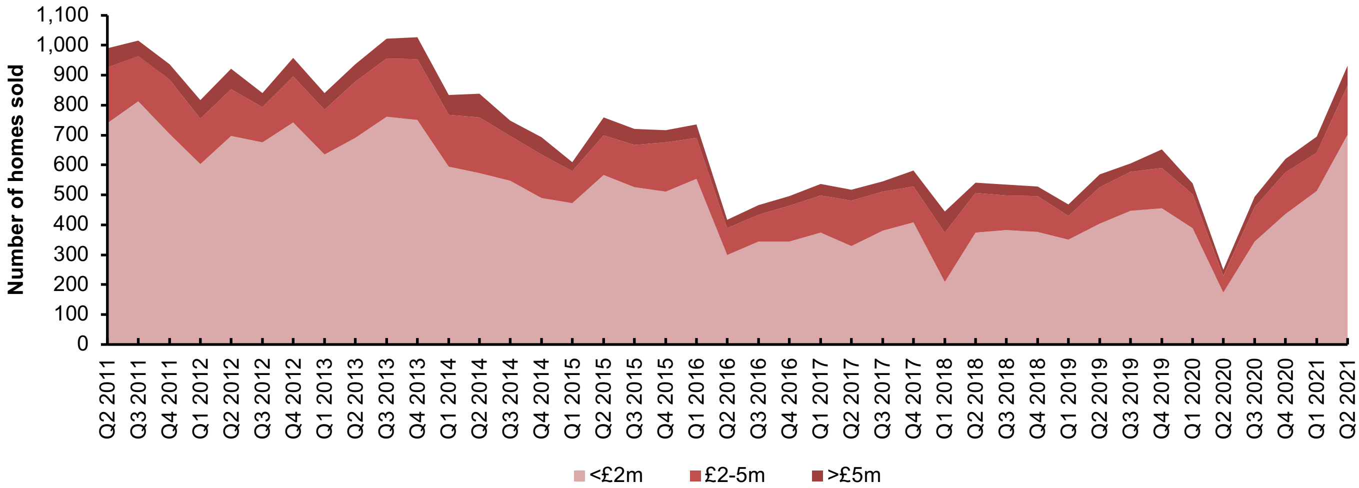
Source: *HMRC; Monthly property transactions completed in the UK with value of £40,000 or above as at July 2021.*

Prime Central London residential sales market

In Q2 2021, total sales transactions in PCL improved on the record set in the previous quarter, as transaction levels were the highest number seen since Q4 2013. YoY growth was 273% and QoQ growth was 34%. This excessively high YoY growth rate is expected given that Q2 2020 was the most affected quarter of 2020 after the outset of the COVID-19 pandemic. However, total PCL transactions in Q2 2021 were still only 60% of the previous peak in Q4 2013. In Q1 2021, YoY growth was 29% and QoQ growth was 12%.

Agents reporting on buyer market activity in Q1 2021 stated that it is one of the strongest markets they have ever seen, and this strength has continued to Q2 2021. Transactions were the highest they have been since 2014. However, agents reported that there are still a number of unknowns in the market which means that the outlook is positive but not necessarily bullish. These uncertainties include unemployment which may come to the fore once the furlough scheme ends, office policies on home working, and the impact of recent rising cases. All these could impact housing demand in different ways in different locations.

Figure 3
Historic number of homes sold in PCL

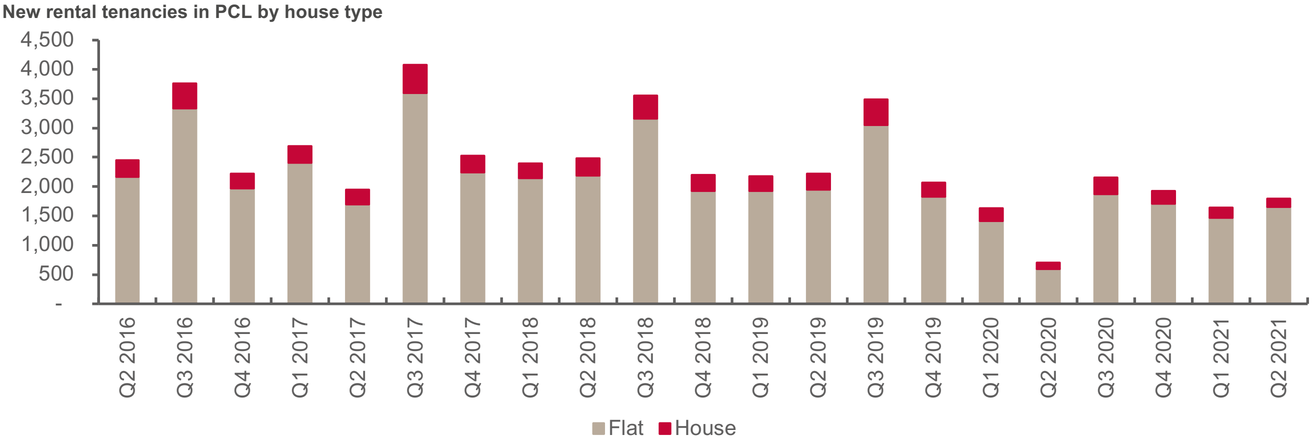


Source: *Dataloft, Lonres.com, Strutt & Parker as at 7th July 2021.*

Prime Central London lettings market

Over Q4 2020, QoQ price growth for PCL letting market was still negative at -2.0% and YoY growth was -6.7%. The outlook for PCL lettings is improving slightly with more activity reported in the market by agents. However, a lack of stock and the inability of international renters to partake in the market is impacting prices. In terms of lettings transactions, Q1 2021 and Q2 2021 saw 132% and 155% growth (respectively) on historically low 2020 levels. However, there is still some considerable market uncertainty given the wider economic outlook.

Figure 4
New rental tenancies in PCL by house type



Source: *Dataloft, Lonres.com, Strutt & Parker as at 7th July 2021.*

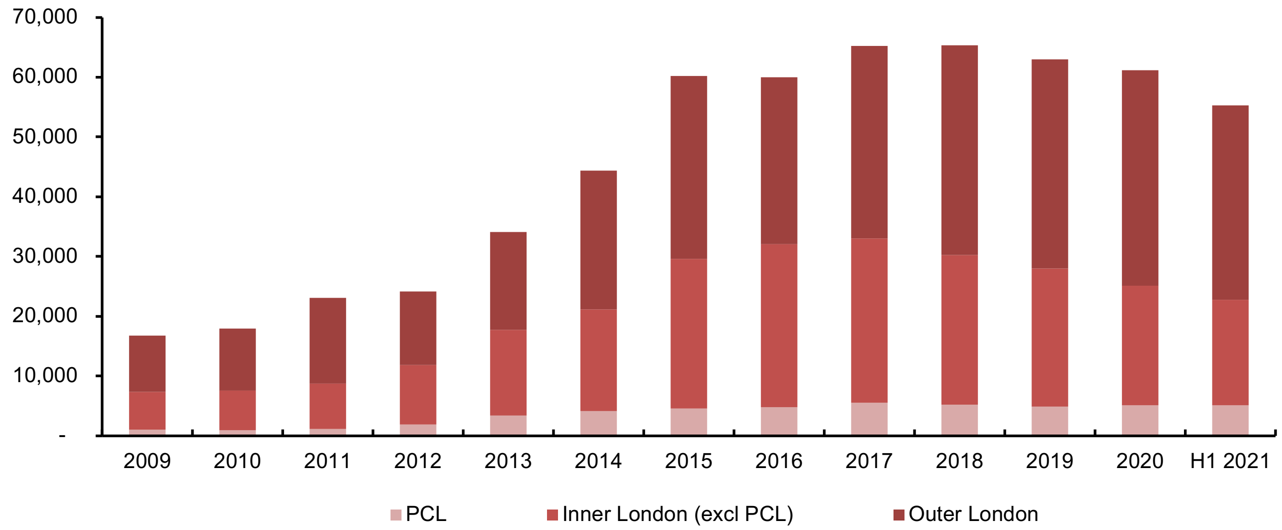
Greater London residential new homes

Across Greater London, there was just over 55,000 new build units under construction at the end of Q2 2021. Nearly 4,200 new build for sale units sold across London during Q2 2021, however build to rent (BTR) accounted for a third of that activity so removing them from the overall figure shows that just over 2,800 units sold almost a 10% decline from Q1 2021 activity, according to Molior.

At the end of Q2 2021, there was over 27,000 units that are under construction and remain unsold and an additional 3,000 units of completed construction stock that have not sold, that later figure being up 8% on the end of 2020 figure. This however is not entirely surprising based on the continued lack of ability to participate in long-haul international flights and social distancing measures that continue to be the norm both domestically and abroad.

Figure 5

Number of private sale units under construction in schemes of 20+ private units in Greater London



Source: *Molior, Strutt & Parker as at 14th July 2021; PCL defined as Local Authorities of Hammersmith & Fulham, Kensington & Chelsea and Westminster; Inner London defined as Local Authorities of Camden, City of London, Hackney, Islington, Lambeth, Southwark, Tower Hamlets, Wandsworth; Outer London defined as remaining 22 Greater London boroughs.*

Forecast

The economy proved itself more resilient over 2020 than the early forecasts had anticipated. UK-wide house price growth was stronger than our best-case scenario. In the PCL sales market, prices did not move much in 2020, but finished close to our best-case forecast.

The 2021 forecasts have been retained at 0% to 5% for PCL sales. The cumulative five year forecast for PCL is also retained at cumulative +15% to +35% in the five years to Q4 2025. Whilst transactions are at their highest level since 2014 and agents are optimistic, agents expect that more time is needed for any clarity over how this market is likely to develop. It is expected it will be positive, but there is no clear evidence yet that it will be any more positive than the previous forecast.

At the UK level, price growth has been extremely strong. Growth would have to be flat for the rest of the year in order to see annual growth of just 5% (the previous best case forecast). Agents report continued lack of stock and state that demand still exists in the market. These are expected to lead to further price rises, albeit at a slower rate than this quarters' results given the end of the stamp duty holiday and a correction in the market after such high price growth. This activity is expected for years; as there has been a permanent shift in behaviour and lifestyles, and the market will take time to adjust to that. The forecast for 2021 is therefore revised upward to between +5% and +10%, and the five year cumulative forecast is also revised upwards to between +20% and +35%.

Considering PCL lettings, the outlook has slightly improved since the last forecast. Agents report that the market is increasing in activity, but some of this is expected to slow after Q2. The best and worst case scenarios are both marginally revised upwards to 0% and –8% for 2021, and the cumulative five year forecasts are upgraded slightly to between 6% and 19%.

Table 1. Residential House Priced Forecast

	2021		5 Years to 2025 (inclusive)
	Best Case	**Downside Risk**	
	Sales		
Prime Central London	5.0%	0.0%	15.0% to 35.0%
UK	10.0%	5.0%	20.0% to 35.0%
	Lettings		
Prime Central London	0.0%	-8.0%	6.0% to 19.0%

Source: *Volterra, Strutt & Parker*

Outlook

The continued strength of Q2 2021 sales has maintained the positive sentiment that came to fruition in the previous quarter. The market is at some of its strongest levels ever seen in terms of price and transactions, although stock is low in the regions. On the other hand, the lettings market is experiencing issues with low market activity and decreasing prices.

Despite the positivity experienced so far in 2021, the threat of COVID-19 and its impact on the market is by no means removed. There is still global economic uncertainty around the pandemic. In the UK, uncertainty remains over unemployment and the future of office working, all of which could impact buyer behaviour. The UK is also adjusting to a new status outside the EU which poses potential risks in terms of trade deals and the attractiveness of Sterling.

Economic and market indicators underpin our house price forecasts. The current economic outlook is optimistic for 2021, but the indicators are currently subject to considerable uncertainty as globally, we face an unprecedented situation.

Contact us

Guy Robinson
Head of Residential Agency
guy.robinson@struttandparker.com

Louis Harding
Head of London Agency
louis.harding@struttandparker.com

Kate Eales
Head of Regional Agency
kate.eales@struttandparker.com

Josh Ayres
Joint Head of London New Homes
josh.ayres@struttandparker.com

Sarah Curtis
Joint Head of London New Homes
sarah.curtis@struttandparker.com

Vanessa Hale
Head of Residential Research
research@struttandparker.com

STRUTT & PARKER
BNP PARIBAS GROUP

Methodology
As the housing market is seasonal, for the purposes of this report; data is compared year on year, i.e. looking at Q2 2021 in light of changes since Q2 2020. Data may also be compared on a rolling month on month basis. When referring to the PCL market it includes those markets which Strutt & Parker operate in (Knightsbridge, Belgravia, Kensington, Chelsea, Notting Hill & Fulham) and as such is reflective of London's most prime markets. Economic views are attributed to Strutt & Parker's retained economic advisors, Volterra. Registers of Scotland does not have a data lag at end of quarter compared to Land Registry data and therefore transaction figures at end of quarter for Scotland may appear abnormally high in comparison. Additionally, Lonres.com data is used to assess the London sales and lettings market. The global economy remains volatile and therefore there is risk that any market commentary provided will become out-dated within a very short timescale.