Residential Quarterly | Spring 2021

Research - Market View

Economic Outlook

A third national lockdown was announced on 4th January 2021. The roadmap announced on 22nd February 2021 allowed for gradual reopening of the economy from late March. In any event, the housing market has stayed open throughout this lockdown, with safety measures in place to reduce the spread of COVID-19.

Moving away from Coronavirus, the Brexit Transition period ended on 31st December 2020. On the 24th December 2020, the negotiators from the EU and UK reached an agreement on a new partnership which sets out the rules that apply between the EU and the UK as of 1st January 2021. This agreement has been approved by the EU member states and the UK Parliament and provisional application of the agreement took effect on 1st January 2021.

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. Economic uncertainty remains a significant factor globally.

In Q3 2020, QoQ UK economic growth was 16%, bouncing back considerably from the Q2 falls experienced (-19%). In Q4 2020, QoQ growth was 1%. Over 2020, the economy is estimated to have contracted by 10%. In the OBR's 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 on par with the March 2021 HM Treasury consensus forecasts which have an average estimate of 4.8% for 2021. For 2022, OBR projects growth at 7.3%, which is more bullish than the HM Treasury consensus forecasts of 6.1%. 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.

The latest figures from the ONS show that inflation (CPI) as of February 2021 is 0.7%. This is 1.3 percentage points below the 2.0% target, which has not been hit since July 2019. The February 2021 inflation rate was well below the year before (1.7% in February 2020).

The Chancellor has announced an unprecedented package of Government-backed interventions aimed at supporting businesses and individuals through the current situation. This includes: 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 28th February 2021, 15% of eligible UK workers were furloughed, rising to 17% 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 has been extended until the end of June 2021, tapered until September 2021.

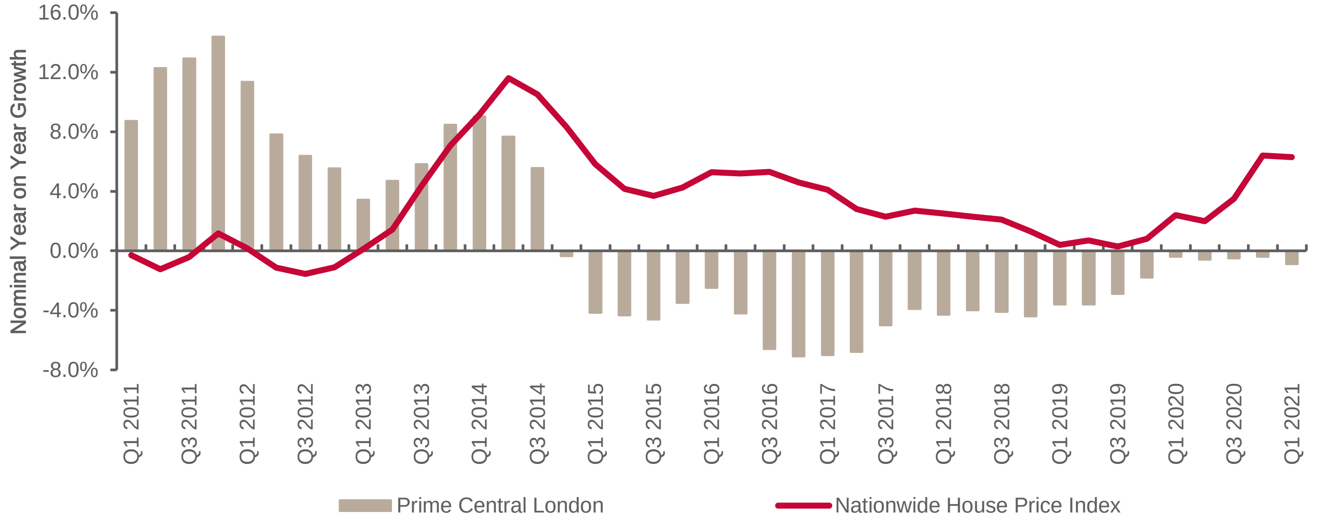
Despite the negative economic outlook, the economic interventions announced by the Government should minimise the rate of unemployment and cushion some businesses. The speed of the recovery will depend upon latent stressors in the economy, which will not be fully realised until all temporary measures (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 6.3% in the year to Q1 2021, on par with growth in the year to Q4 2020 (6.4%). These quarters are the highest YoY growth since the year to Q4 2014. YoY growth over the year to Q1 2021 shows that, on a regional basis, the best performers were the North West (8.2%), West Midlands (7.6%) and Northern Ireland (7.4%). London saw the lowest positive growth at 4.8% and no regions saw negative growth. Quarter on quarter growth in the UK was 1.2% in Q1 2021, down from 3.0% in Q4 2020.

Figure 1

UK house price growth vs Prime Central London (PCL)



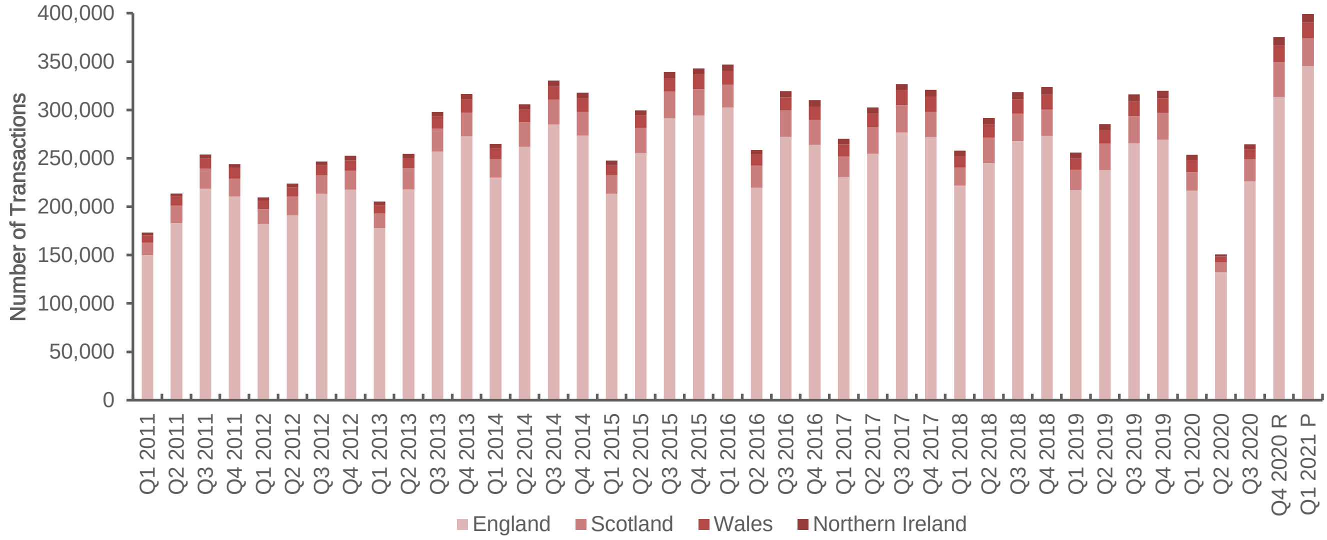
Source: *Nationwide House Price Index, Volterra*

Regional residential sales transactions

The provisional data for Q1 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, the Stamp Duty holidays of both SDLT and LBTT and the the rush of buyers to complete property purchases in time for the original end dates of 31 March 2021 and the introduction of different rates for non-UK resident purchasers of residential property in England and Northern Ireland from 1 April 2021.

Figure 2

Number of recorded properties sold in across the UK on a quarterly basis from 2011 through Q1 2021



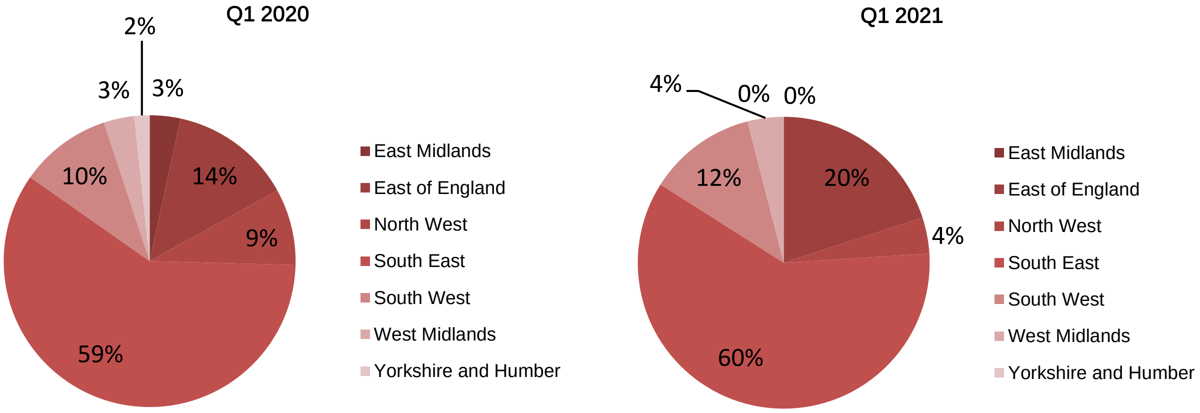
R – Revised; P - Provisional

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

Country house highlights

COVID-19 has been given credit for accelerating transaction levels outside of urban centres for the majority of 2020 when the markets were allowed to participate. The South East continued to dominate sales for homes sold over £2M in Q1 2021 outside of Greater London, albeit the overall transaction figures were lower than those seen in Q1 2020.

Figure 3
Number of recorded properties sold over £2M in England & Wales excluding London for Q1 2020 and Q1 2021



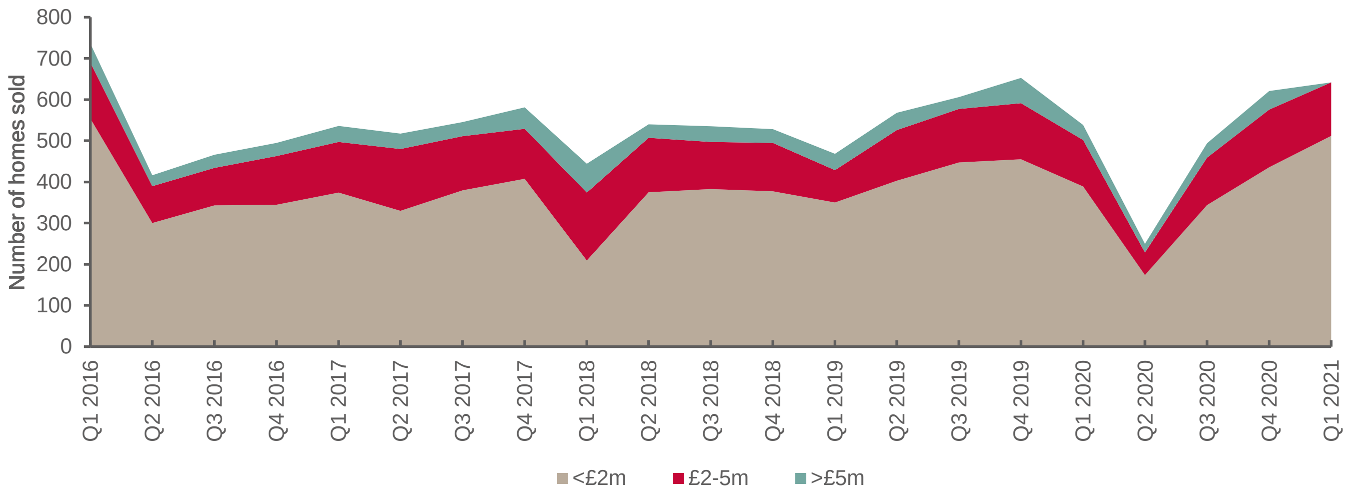
Source: *Dataloft, Land Registry 2020 data as at 7th April 2020, 2021 data as at 11th April 2021; Land Registry data has a reporting data lag which is typically why one will see such a large difference in figures and should not be viewed as a drop in transactions, however the transactional market was paused for a large portions of 2020 due to COVID-19 so it is expected that figures will be even lower than typical for reporting purposes; Registers of Scotland data is not available for transactions above £2M.*

Prime Central London residential sales market

In Q1 2021, total sales transactions in Prime Central London (PCL) recovered to the highest number seen since Q1 2016. YoY growth was 29% and QoQ growth was 12%. However, total PCL transactions in Q1 2021 were still only 68% of the previous peak in Q4 2013.

PCL has always been an attractive market for international buyers and the continued COVID-19 travel restrictions has shown that the demand from domestic buyers has more than filled the gap, removing the uncertainty around the impact the restrictions are having in this respect. PCL sales index data rose to 0.3% over Q1 2021, the largest quarterly growth since Q1 2020 (0.9%). This is in line with the flat 2020 and prices still remain c. 21% down from their 2014 peak.

Figure 4
Historic number of homes sold in PCL

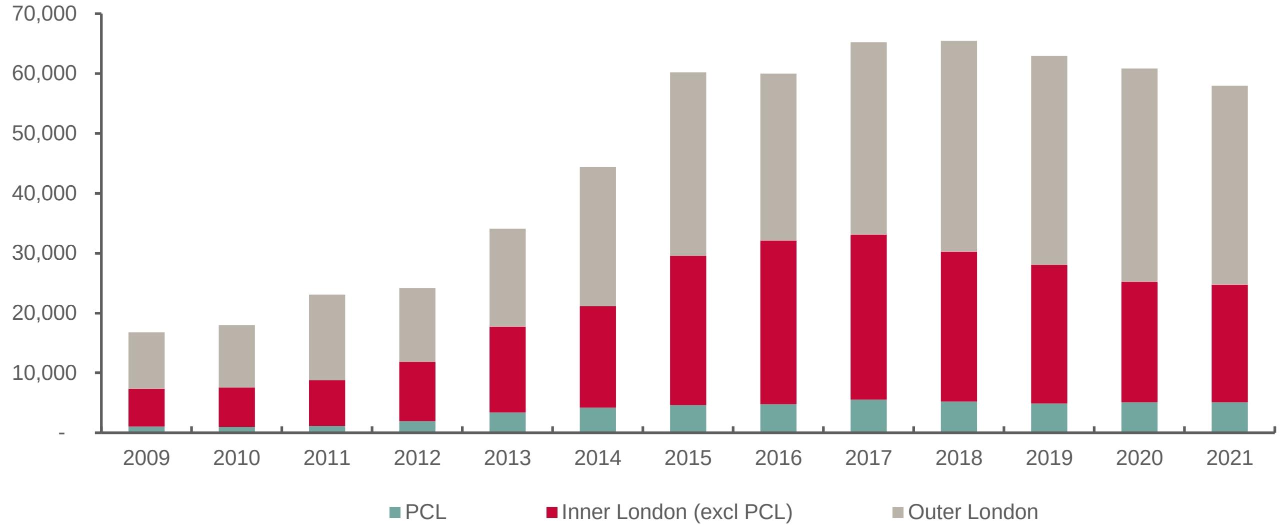


Source: *Dataloft, Lonres.com, Strutt & Parker as at 11th April 2021.*

Greater London residential new homes

Across Greater London, there was just under 58,000 new build units under construction at the end of Q1 2021. Nearly 3,800 new build for sale units sold across London during the quarter, the lowest figure since 2012, and mainly driven by the Stamp Duty Land Tax holiday and the Help to Buy programme according to Molior.

Figure 5
Number of private sale units under construction in schemes of 20+ private units in Greater London

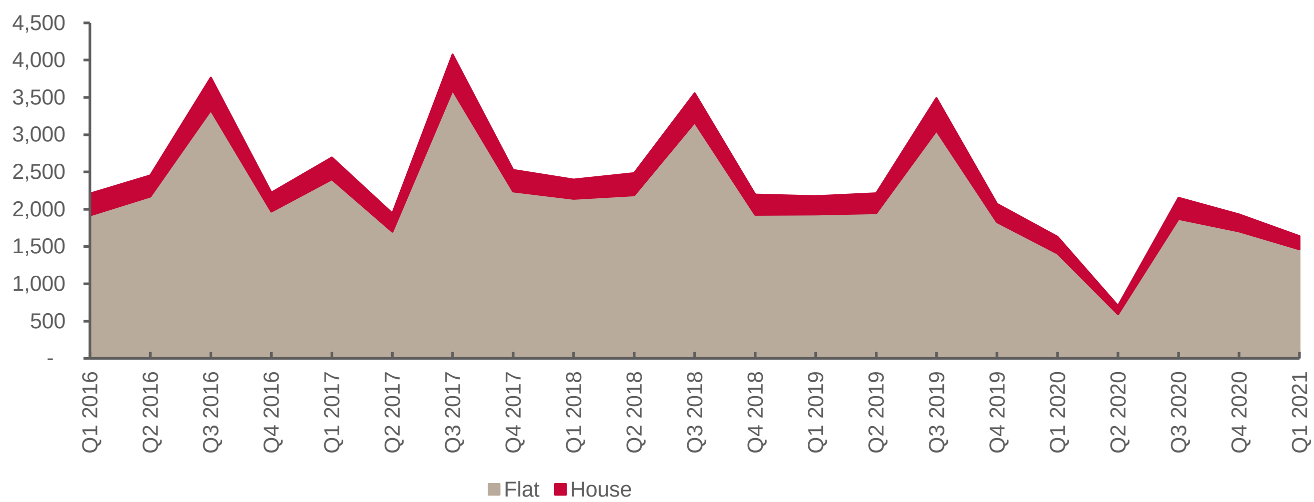


Source: *Molior, Strutt & Parker as at 4th May 2021; PCL defined as Local Authorities of Hammersmith & Fulham, Kensington & Chelsea and Westminster; Inner London defined as Local Authorities of Camden, City of London, Hackney, Islington, Lambeth, Southwark, Tower Hamlets, Wandsworth; Outer London defined as remaining 22 Greater London boroughs.*

Prime Central London lettings market

The PCL lettings market is experiencing issues. There is a lack of stock and the inability of international renters to partake in the market is impacting prices. Restrictions on landlords have made the rental market less attractive. In terms of lettings transactions, Q1 2021 saw 132% growth on historically low Q2 2020 levels. However, there is still some considerable market uncertainty given the wider economic outlook. In the year to Q1 2021, prices declined by -8.3%. QoQ change was -1.4%. The outlook for PCL lettings remains negative as market activity has been low.

Figure 6
New rental tenancies in PCL by house type



Source: *Dataloft, Lonres.com, Strutt & Parker as at 11th April 2021.*

Outlook & forecast

The strength of Q1 2021 sales has moved sentiment from one of cautious optimism to outright positivity. 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.

All economic forecasts anticipate a significant recovery from 2021 onwards. Whilst the shape of these recovery projections may vary, none indicate long-lasting impacts of the shock 2020 recession. This translates to a cumulative forecast medium-term impact on UK prices of between +15% and +25% over the five years to Q4 2025. It is expected that PCL prices will rise by a cumulative c.+15% to +35% in the five years to Q4 2025.

In the year to Q1 2021, PCL lettings prices fell by -8.3%, a larger fall than the year to Q4 2020 (-6.7%), in line with our previous outlook. The previous forecasts for 2021 are retained; it is expected that rents in the central case will fall by 2% and in the worst case by 10% in the year to Q4 2021. Cumulatively over the next five years we would expect a bounce back, but the scale and speed of this could potentially be more dependent upon longer term behavioural shifts resulting from the current situation. The five year cumulative 7% to 12% is retained and positive, reflecting that the lettings market will bounce back.

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 global uncertainty.

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	5.0%	0.0%	15.0% to 25.0%
	Lettings		
Prime Central London	-2.0%	-10.0%	7.0% to 12.0%

Source: *Volterra, Strutt & Parker*

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Methodology
As the housing market is seasonal, for the purposes of this report; data is compared year on year, i.e. looking at Q1 2021 in light of changes since Q1 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.