Residential Quarterly | Autumn 2021

Research - Market View

Economic Outlook

As reported by The World Bank, the latter half of 2021 continues to show promising signs that advanced economies (including the UK) will continue on a path of well-sustained recovery, particularly for the labour markets and sectors that bore the brunt of the pandemic induced losses over the course of 2020. At the core, this positive outlook is largely based on avoidance of wide-scale national lockdowns, increased vaccine rollout, and sustained fiscal support for the vital areas of the economy, all three of which seem to have been generally maintained in the UK during the last quarter. Of course, the lasting impact of the pandemic remains a concern, especially for the labour market. Even when the health concerns of the coronavirus pandemic are curtailed, the pandemic has the potential to result in persistent social and behavioural impacts, changing attitudes to travel and human interaction.

Since the removal of restrictions on the 19th July 2021, the UK has managed to avoid any drastic lockdown measures. Whilst there have been periods where concern has mounted over a potential spike in cases, they have been relatively brief and offset by the continued vaccine rollout. The economy has therefore remained consistently open, with further recent announcements on the removal of travel restrictions on several countries previously on the red list of travel. In any event, the housing market has stayed open throughout this recovery, with safety measures in place to reduce any potential spread of COVID-19.

Amongst other equally important and relevant current affairs is the issue of Brexit. The start of the year saw the approval of a new partnership agreement between the EU and UK, which set out the rules that apply between the EU and the UK as of 1st January 2021. Despite the success of finalising a deal, there were still concerns for the markets around the deficiencies of the deal. These concerns have been somewhat validated in recent months, as parts of the UK have experienced a shortage of HGV drivers which has materialised into widespread supply chain issues.

Global markets have fallen since the outbreak of COVID-19 and its expected effect on economic growth. The FTSE 100 markets ended 2020 approximately 15% down compared to the start of the year and markets only rose by 4% in Q1 2021. Q2 2021 and Q3 2021 have seen reasonable growth at 8.9% and 9.7% (respectively) compared to end of Q4 2020, but Q3 2021 levels are still approximately 6% lower than at the beginning of 2020. Economic uncertainty still remains a significant factor globally.

Over 2020, the economy was estimated to have contracted by 10%, the largest yearly fall on record. In the OBR's latest forecast (October 2021), GDP growth for 2021 is projected at 6.5%, higher than the 4.0% which was predicted in the March 2021 forecast. This is less optimistic than the October 2021 HM Treasury consensus forecasts, which have an average estimate of 7.0% for 2021. For 2022, the OBR projects growth at 6.0%, which is more bullish than the HM Treasury consensus forecasts of 5.0%. The recovery predicted for 2021 and 2022 demonstrates that most forecasters expect the fundamentals of the economy to remain strong.

The latest estimates from the HM Treasury consensus forecasts (October 2021) predict an average unemployment rate of 5.0% for 2021, decreasing to 4.6% over 2022. This is on par with the OBR's forecasts for unemployment (October 2021), which are 4.9% in 2021 and 4.8% in 2022. The OBR expect unemployment to peak this year in Q4 2021, at 5.2%.

2.9%

September 2021 inflation (CPI) was at 2.9%, up from September 2020 (0.7%) Source: ONS (Oct 21)

PMI Services up from 55.4 & PMI Manufacturing up from 57.1 Source: IHS Markit/CIPS (Oct 21)

Real average weekly earnings (total pay, seasonally adjusted) rose to £581 in Aug 2021, compared to £550 in Aug 2020. Source: ONS (Oct 21)

The latest figures from the ONS show that inflation (CPI) as of September 2021 is 2.9%. This is 0.9 percentage points above the 2.0% target, which was exceeded in May 2021 (2.1%) for the first time since July 2019. The September 2021 inflation rate was significantly above the year before (0.7% in September 2020). According to the ONS, recent inflationary pressure is mainly attributed to a rise in transport prices, restaurants and hotels, housing and household services, and recreation and culture. This will put temporary pressure on households' disposable incomes, although it is not envisaged that this will be sufficient to feed through into PCL prices.

The Autumn budget was delivered by the chancellor on October 27th 2021. A set of government interventions were also announced, including the cancellation of a planned rise in fuel duty amid the highest fuel prices in years, thus providing some relief to consumers. Workers are also set to benefit from a 6.6% increase in the National Living Wage, to £9.50 per hour. The budget also included an update on the state of the economy and Government finances, which, generally speaking, reinforced the positive outlook that has formed over 2021. Notable, however, are concerns from the Institute for Fiscal Studies, who state that despite the success of the furlough scheme, significant challenges remain in the labour market. These include concerns around additional job losses, low re-employment rates for those made redundant, and high vacancies in vulnerable sectors once the scheme fully comes to an end. The issue of inflation continues to be emphasised; the recent OBR forecasts expect CPI to reach above 4.0% in 2022.

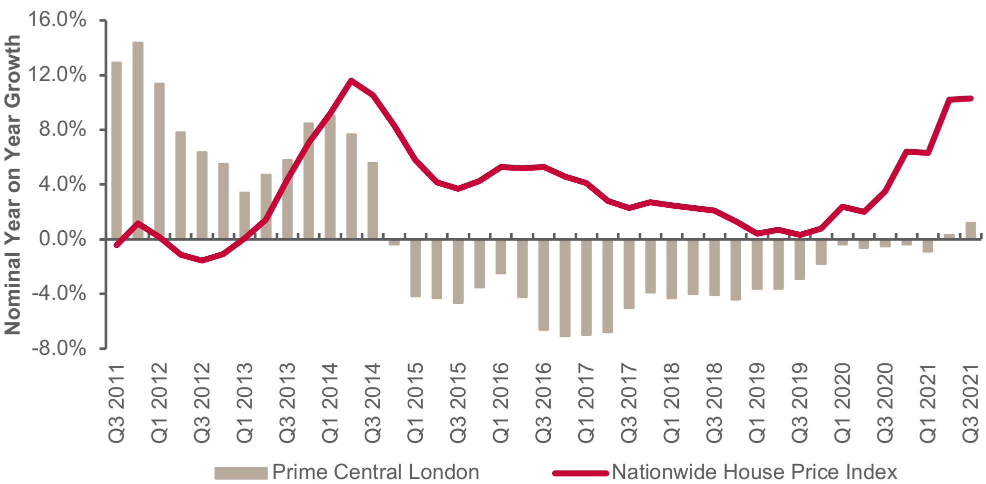
Overall, the economic outlook appears to be cautiously optimistic as the recovery continues into the final quarter of the year. The speed of the recovery will depend upon latent stressors in the economy, which will not be fully realised until all temporary measures are withdrawn. As a result, considerable uncertainty remains.

Property market pricing

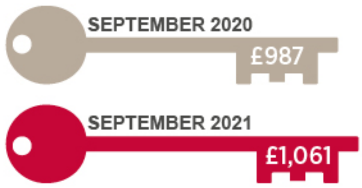
According to the Nationwide House Price Index (NWHPI), UK property prices grew by 10.3% in the year to Q3 2021, on par with the growth in the year to Q2 2021 (10.2%). The latest quarter was the highest YoY growth since the year to Q3 2014. YoY growth to Q3 2021 shows that, on a regional basis, the best performers were Wales (15.3%), Northern Ireland (14.4%), and Yorkshire & the Humber (12.3%). London saw the lowest YoY growth at 4.2% and no regions saw negative growth. However, the capital did in fact see negative growth on quarterly basis at QoQ rate of -1.1%, the first QoQ fall in prices since Q3 2019.

Figure 1

UK house price growth vs Prime Central London (PCL)



Source: *Nationwide House Price Index, Volterra*



UK Average Rent
£1,061pcm
Source: HomeLet (September 2021)

UK property prices grew 10.3% YoY to Q3 2021
Source: Nationwide HPI

"The residential market has made a significant recovery in the last 12-months. This has been fuelled by high levels of demand across the market and attractive mortgage rates, while a rebound in the economy gave buyers and sellers confidence to trade up or down the housing ladder. Following significant house price growth year to date, rising at a rate that had not been seen for seven years, the outlook remains positive for 2022 and beyond."

Guy Robinson

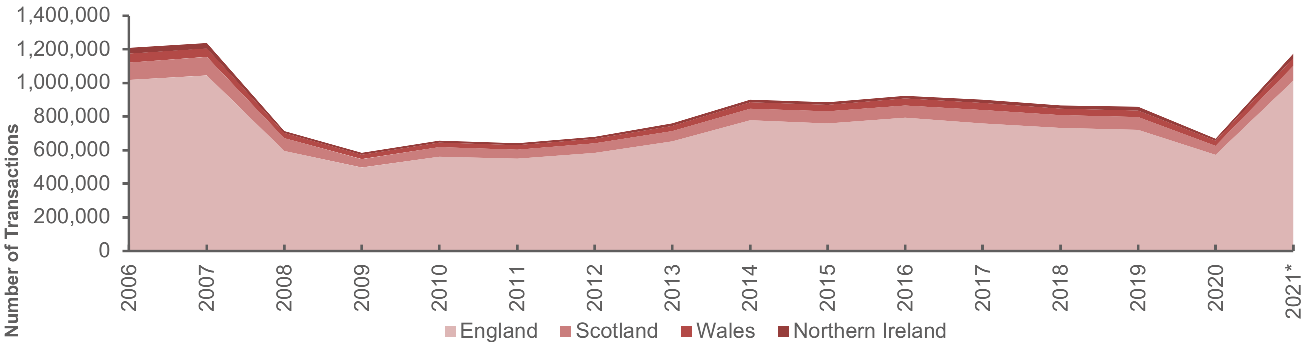
Head of Residential Agency

National residential sales transactions

As people re-evaluated their housing choices throughout COVID-19 and the tax incentives to purchase residential property provided by the UK government were in place, the provisional UK data for Q3 2021 reflects a YoY increase of 33%. Q3 2021 also was the highest amount of recorded residential transactions for the third quarter since Q3 2007 when the UK registered 442,930 transactions.

Figure 2

Number of recorded properties sold across the UK, annual combined total for Q1 through Q3, for 2006 through 2021



** Includes revised Q2 2021 and provisional Q3 2021 data*
Source: *HMRC; Monthly property transactions completed in the UK with value of £40,000 or above as at October 2021.*

Regional residential sales & lettings

Across the regions, activity in 2021 has surpassed 2020 transactions, as the housing market was able to operate under relatively normal measures. In Q2 2021, agents had reported that market activity remained very strong as transaction levels continued to gain momentum during the first half of the year. Since then, market activity has slowed down from a transaction standpoint, with agents reporting a chronic shortage of stock accentuated by the difficulty for developers to build in the pandemic. In Q3 2021, this stock shortage has meant that sustained demand from buyers and renters has been unmet.

In the lettings market, demand has remained exceptional high with an extreme shortage of stock as accidental Landlords who rented out property that could not be sold two years ago returned to the sales market. Coupled with the trend to country living we have seen since the pandemic this has meant rents across the regions increased.

Table 1.

Number of registered properties sold by regions for Q1-Q3 2019, Q1-Q3 2020, Q1-Q3 2021

Region	All Property Q1-Q3 2019	All Property Q1-Q3 2020	All Property Q1-Q3 2021
East Midlands	44,732	26,988	32,496
East of England	54,527	33,880	47,725
Greater London	50,617	32,302	46,292
North East	24,283	14,504	16,836
North West	67,850	40,659	48,629
Scotland	73,962	48,374	86,383
South East	77,857	48,882	73,002
South West	54,017	32,344	45,158
Wales	27,020	15,558	18,567
West Midlands	48,797	28,911	35,181
Yorkshire and Humber	50,535	29,810	35,884

Source: *Dataloft, Land Registry Q1-Q3 2019 data as at 11th October 2019, Q1-Q3 2020 data as at 8th October 2020, Q1 –Q3 2021 data as at 7th October 2021; Land Registry data has a data lag which is why we compare equivalent registered data for the same reporting period. Registers of Scotland 2019, 2020 and 2021 data as at 1st November 2021.*

"Beyond London, we have seen every part of the UK outperform in terms of transactions in 2021. We expect this will continue and anticipate properties in attractive country villages with good connections and amenities to show the strongest growth in 2022. One trend however that appears here to stay is more and more sellers are entering the regional markets, but supply remains constrained."

Kate Eales

Head of Regional Agency

Greater London residential new homes

Across Greater London, at the end of Q3 2021 there were 55,400 new build units under construction with just over 5,100 new build for sale units sold across London during Q3 2021. These figures continue to highlight the significance of the build to rent (BTR) market as it again accounted for a significant portion of activity as confidence has returned in the lettings market, according to Molior.

Figure 3
Number of private sale units under construction in schemes of 20+ private units in Greater London

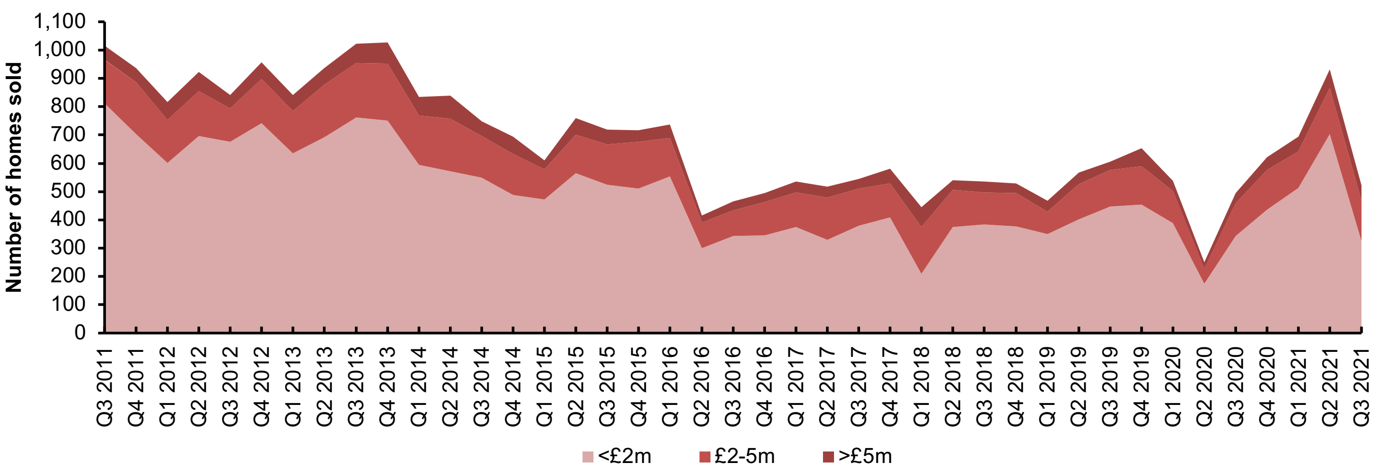
Source: *Molior, Strutt & Parker as at 1st November 2021; PCL defined as Local Authorities of Hammersmith & Fulham, Kensington & Chelsea and Westminster; Inner London defined as Local Authorities of Camden, City of London, Hackney, Islington, Lambeth, Southwark, Tower Hamlets, Wandsworth; Outer London defined as remaining 22 Greater London boroughs.*

Prime Central London residential sales market

PCL sales index data for Q3 2021 recorded QoQ growth of 0.7%, slightly higher than Q2 2021 (0.1%). YoY growth to Q3 2021 was 1.2%. This is the first time YoY growth has been above 1% since Q3 2014, but prices remain circa 20% down from their 2014 peak.

In contrast, Q3 2021 sales transactions for PCL properties were unable to sustain or build on the record set in the previous quarter. QoQ transaction levels decreased by 44%, halting the positive growth that was recorded in the four previous quarters (Q3 2020 to Q2 2021). The decreases were driven by the <£2m price bracket, which saw a decline of 54% in transactions compared to Q2 2021. This price bracket would have been more positively impacted by the stamp duty holiday, so it follows that the decreases are the largest for this group. YoY growth on the other hand was positive, albeit at a minimal rate of 6%. This was driven by 60% YoY increase in the >£5m bracket. The QoQ contraction in PCL transactions may be an indication that the market is cooling down after consecutive periods of high buyer demand, which may have been propped up by stamp duty tax incentives that have now ended. Total PCL transactions in Q3 2021 were still only 51% of the previous peak in Q4 2013.

Figure 4
Historic number of homes sold in PCL



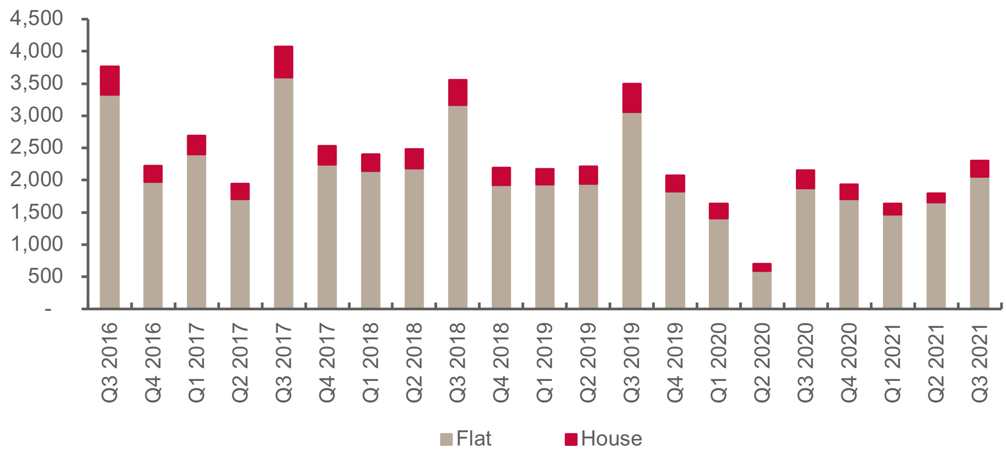
Source: *Dataloft, Lonres.com, Strutt & Parker as at 7th October 2021.*

Prime Central London lettings market

PCL lettings prices continued to rise in Q3 2021 at 3.6% (compared to 0.8% in Q2 2021), the second consecutive quarter of positive QoQ growth (after four quarters of negative growth Q2 2020 to Q1 2021). This growth is the highest quarterly price gain in the last 5 years. YoY growth to Q3 2021 is 0.9%, the first quarter of positive YoY growth since Q1 2020. PCL lettings transactions in Q3 2021 saw 28% QoQ growth and 7% YoY growth.

Figure 5

New rental tenancies in PCL by house type



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

"The first half of the year in PCL saw a record-level of transactions, supporting positive year-on-year growth. However, Q3 was unable to sustain or build on this momentum. As a result, prices have steadied in recent months and have yet to see the same rebound in growth as the mainstream regional market. However, we expect this to come through in the following 12-months as international travel resumes and pent up demand is released in to the market."

Louis Harding

Head of London Residential Agency

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 market, prices did not move much in 2020, but finished close to our best-case forecast.

For PCL, the 2021 house price sales forecasts from the previous commentary are retained at 0% to 5%. Strength in the market is expected to continue to 2022; despite a recent dip in transactions, this is expected to be temporary as agents remain optimistic as pent up demand is set to be released in 2022 as supply starts to gradually grow. A PCL forecast of between 5% and 10% is expected for 2022. The cumulative five year forecast has been revised upwards to cumulative c.+15% to +35% in the five years to Q4 2025.

At the UK level, price growth has sustained its upward trajectory. Agents report continued lack of stock and state that demand still exists in the market. Buyer demand has been robust despite the end of the stamp duty holiday, although it is likely that any correction to the market after such high price growth will materialise in the early stages of 2022. It is still unclear whether the permanent shift in behaviour and lifestyles will materialise into significant shifts in market demand – more time will be needed to adjust to that. Widespread supply chain disruptions have also been a slight cause for concern, especially if they persist into the closing stages of 2021. Uncertainty may still remain around the issue, and as such it may place downward pressures on the recovery. The forecast for 2021 is therefore maintained between +5% and +10%., whilst the 2022 forecast is expected to be slightly lower between +2% and +7%. The five year cumulative forecast is for growth of between +20% and +35%.

Considering PCL lettings, the outlook has improved since the last forecast. The performance of lettings exceeded expectations in Q3 2021, which exhibited the highest quarterly growth for five years. The outlook has been upgraded to account for this strong performance. The outlook for 2021 is now expected to be marginally positive, between 0% and 5%, and the same is expected for 2022. The cumulative five year forecasts are for growth of between 10% and 25%.

Table 2. Residential House Price Forecast

	2021		2022		5 Years to 2025 inclusive
	Best Case	Downside Risk	Best Case	Downside Risk	
Sales					
Prime Central London	5.0%	0.0%	10.0%	5.0%	15.0% to 35.0%
UK	10.0%	5.0%	7.0%	2.0%	20.0% to 35.0%
Lettings					
Prime Central London	5.0%	0.0%	5.0%	0.0%	10.0% to 25.0%

Source: *Volterra, Strutt & Parker*

Outlook

Despite the recent fall in PCL transaction levels over Q3 2021, the outlook remains positive, thus maintaining the sentiment that came to fruition in the previous two quarters. The market is at some of its strongest levels ever seen in terms of prices, although this may be driven by low stock in the regions. The lettings market has also experienced impressive price growth in recent periods with busy market activity.

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, and international travel remains low. In the UK, uncertainty remains over unemployment, the future of office working, and supply chain issues, inflation, and interest rate rises, 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 the closing stages of 2021 and continuing into 2022, but the indicators are currently subject to a significant level of uncertainty as external and internal pressures may test the resilience of the UK's path to recovery.

"The current economic outlook is optimistic for the closing stages of 2021 and continuing into 2022, but the indicators are currently subject to a significant level of uncertainty as external and internal pressures may test the resilience of the UK's path to recovery. At the UK level, the market is at some of its strongest levels ever seen in terms of prices, although this may be driven by low stock in the regions. The lettings market has also experienced impressive price growth in recent periods with busy market activity."

Vanessa Hale

Head of Residential Research and Insights

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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 Q3 2021 in light of changes since Q3 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.