

AC/BC - How Covid Rocked the Market

North East Housing Market

Spring 2020



At Year Zero?

As any pedant will tell you, there was no Year Zero in the Western calendars. At the moment though, it does feel as if time is being reset. Pronouncements and commentaries on the property markets as recently as mid-March look hopelessly out-of-date, and we are now viewing trends and patterns in a 'BC' and 'AC' context, or Before and After Covid-19.

As we sit in isolation, scrolling through numerous articles beginning with 'unprecedented', and processing the contradictory range of speculation that have been proffered over the past 3 weeks, it can be hard to discern whether this is an epoch changing event, as some have suggested, or something more short-lived which will see 'normality' restored within a few weeks or months.

Evidence of new listings coming to the market in March and April shows the impact of Government measures and social distancing on the market. Against this backdrop there are a number of lessons we can learn from past experiences and overseas health outbreaks.



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Key Findings

- Social distancing and Government measures have effectively placed much of the residential sales market on-hold.
- In Newcastle the number of new properties listed for sale in the first week of April has dropped 95% year-on-year.
- Experiences of other housing markets hit by public health outbreaks suggest transactions rather than values see the immediate fall. Transaction falls during major crises are typically between 40% to 70%.
- During the Global Financial Crisis transactions fell between 50-60% across the UK in a year.
- Current transaction falls have occurred more rapidly than previous cycles due to the measures in place. However, there are positive signs of recovery emerging from overseas markets, but these remain nascent.
- It is difficult to see when circumstances will be back to normal, until there is a date for the end of the lockdown.

Unprecedented?

Mark Twain, the go-to polemicist and humourist for all occasions, said, "History doesn't repeat itself, but it often rhymes." While the current Covid-19 pandemic may be unique, that is not to say economies and housing markets have not been impacted by health outbreaks before, and these may give some clue to our own future. Most recently, we have seen events in China and before then there are case studies in Hong Kong on the 2003 SARS outbreak ([link](#)). Going back further, there have been many academic studies looking at the impacts of pandemics from the Black Death ([link](#)) through to the Spanish Flu ([link](#)). For our purposes, concentrating on the most recent examples might be most insightful.

In China under the Coronavirus, data from Barclays suggests that sales transactions fell in the region of 70% in February as restrictions were implemented. There are also higher estimates, which suggest new homes sales falling by 90% and existing home sales by 91% in eight cities, according to China Merchants Securities Co. ([link](#)). In the UK, with under the lockdown, transactions may fall by a similar margin. The question then becomes how does the market return? With China now lifting restrictions, Barclays have reported homes sales in March down 40% compared to last year. Price growth to February remains over 5% up year-on-year and forecasts for Tier 1 cities remain positive, at 0% to 2%, due to strong underlying market fundamentals. In 2003, the SARS outbreak in Hong

Kong also triggered a severe economic and housing market reaction. At its peak, monthly GDP dropped by 5.1%. Studies of the housing market during this period estimate house prices during the pandemic fell around 1.6% to 1.9% ([link](#)). There was a much heavier fall in transactions, with estimates ranging from a one-third to three-quarters drop.

In both these cases, the outbreak and associated lockdown measures saw a sharp and deep retreat in transactions but relatively robust house prices as buyers and sellers chose to 'wait and see'. The psychology of deferring transactions until there is greater certainty has been one, which to a lesser extent, has been prevalent in the UK markets in the run up to General Elections and Brexit.

The difference in this case is the potential economic downturn caused by the Covid-19 lockdown, especially if the measures persist for an extended period. There is a range of current forecasts for UK GDP, ranging from -15% quarterly fall, through to 2% to 5% annual falls in 2020. Many commentators believe the Government's intervention and furlough scheme, combined with strong underlying fundamentals, will see a comparatively quick recovery compared to recessions caused by major economic imbalances such as the Global Financial Crisis (GFC) of 2008/09 and Dot Com Crash of 2000/02. It does appear likely though that we are witnessing a collapse in transactions rather than house prices and this has been the response in other UK housing market crises.

Fig.1 Nominal house prices remained robust in the wake of previous downturns, but real prices took some time to recover

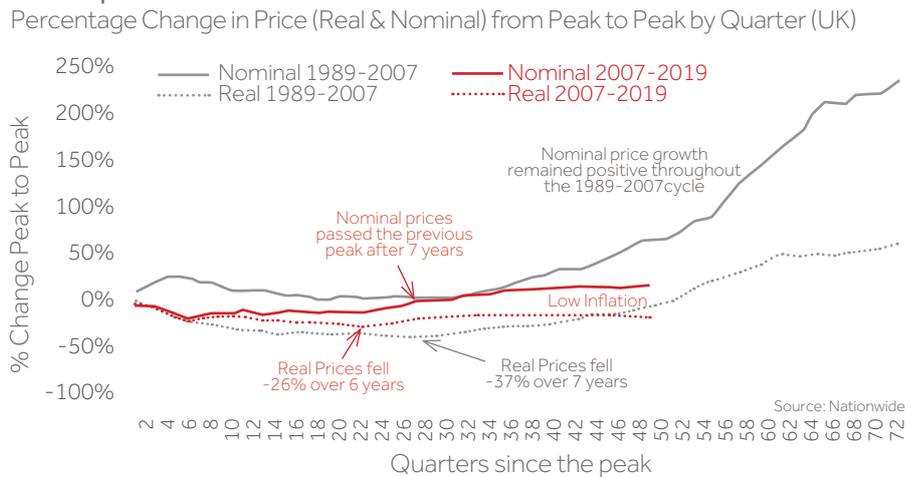
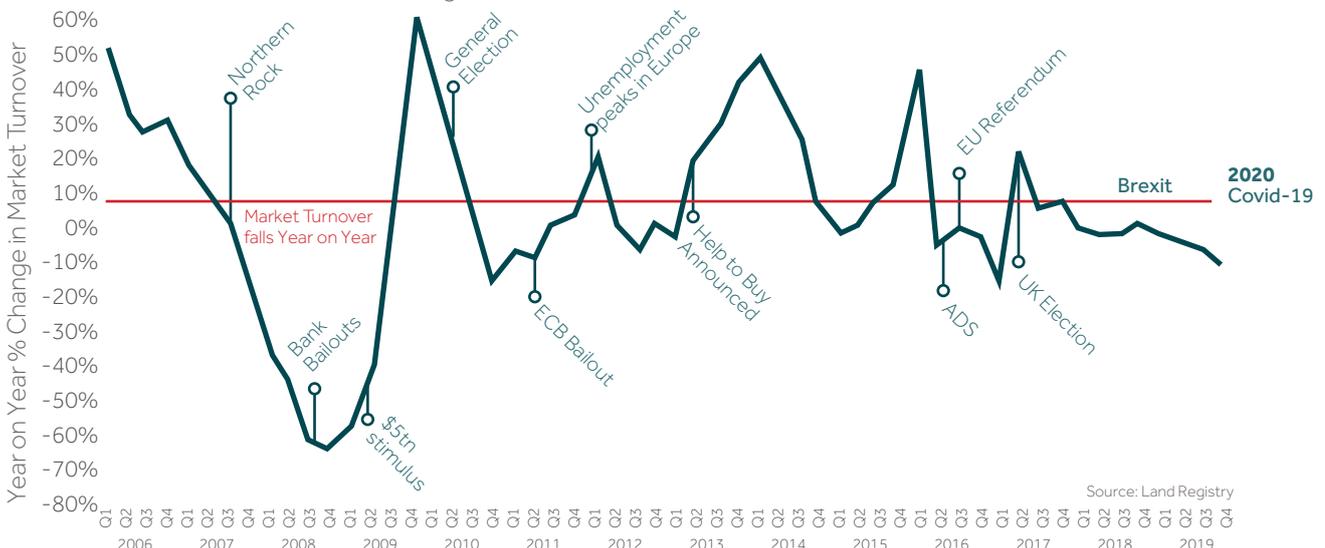


Fig.2 The UK has been shaped by events over the past 15 years

Timeline of Events: Year on Year % Change in UK Market Turnover



Previous Volume & Value Responses

While the UK housing market has not seen the effects of a pandemic since the 1918 Spanish Flu, which actually saw house prices rise during the period ([link](#)), there have been recent market downturns from which we can learn. Fig.1 shows the changes in UK house prices in previous recessions – actual and inflation adjusted. Each line starts at the house price peak before the downturn and then tracks the fall in average values.

In previous housing market downturns, the drop in nominal average house prices was relatively modest. During the GFC, for example, these prices fell -19% across the UK. When adjusted for inflation, however, the UK market saw falls of between -26% in the current cycle and -37% from 1989. In each case, it took 6 to 7 years to reach their nadir, with values for the recent cycle still down on 2007 levels many years later.

However, the crash in the GFC was much more in market activity than prices. Over the year Q3 2007 to Q3 2008, transactions collapsed 58% in the Newcastle market. Recovery since has been slow, with the UK market being impacted by a series of economic and political events since 2009, the latest of which is Covid-19 (See Fig.2).

Anticipating Change

Activity is still happening in the Housing Market. The Government and Land Registry guidance has summarised the extent to which the market can still function during the lockdown ([link](#)).

However, the measures in place will restrict market activity. The lenders have also heavily restricted mortgage finance (especially on new mortgages) as they battle with reduced staff numbers and dealing with customers who want to take mortgage holidays. Rather than wait for sales data, we can already see that the number of new listings coming on to the market in Newcastle slumped almost 70% year-on-year in Week 13 (w/b 22 March). This slump in listings foreshadows the slump in sales we can expect. In the first week of April new listings in Newcastle are down 95% compared to last year (see Fig. 4). At the moment, this looks likely

to be worse than the -57% collapse in transaction that was experienced in the UK from Q3 2007 to Q3 2008 and at a much greater speed.

Looking Ahead

Where this is heading is anyone’s guess and forums like Twitter have everyone guessing, often generating more heat than light. For now, we are prisoners of fortune to nature. As we learn more over the next few weeks regarding the duration of the lockdown and the depth of its economic impact, there will be greater potential to model likely outcomes. According to the Nationwide House Price Index, house price growth to March 2020 was up 3% year-on-year.

We are in a better position than we were in 2008/09, when the entire international capitalist system

was under real threat. The banking sector is much more robust and the economic fundamentals give some encouragement to a ‘V’ rather than a ‘U’ or ‘L’ shaped recovery once we get to the other side of the pandemic. The sooner Government restrictions are lifted and the lenders can get back to lending again, the quicker we will bounce back. In saying this, there will undoubtedly be hits to people’s wages and savings, and businesses’ accounts and supply chains. It will take time for people, businesses and the entire economy to regather after this.

We will continue to monitor the key economic, sales and rental market indicators to keep our clients up-to-date with the emerging situation and risks and opportunities emerging. In the meantime, Keep Safe.

Fig.3 The North of England had seen rising house prices up until the latest quarter
Nationwide Average House Price and Year-on-Year % Change in Average Price

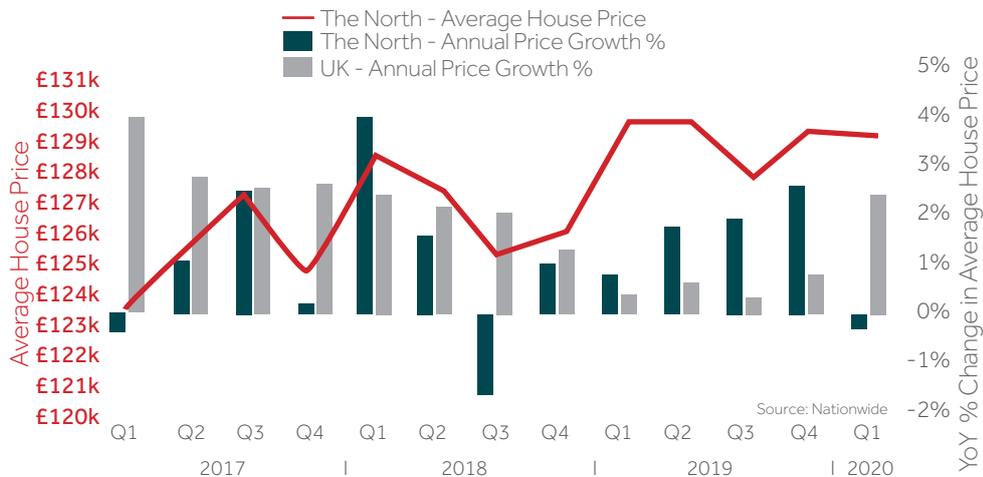
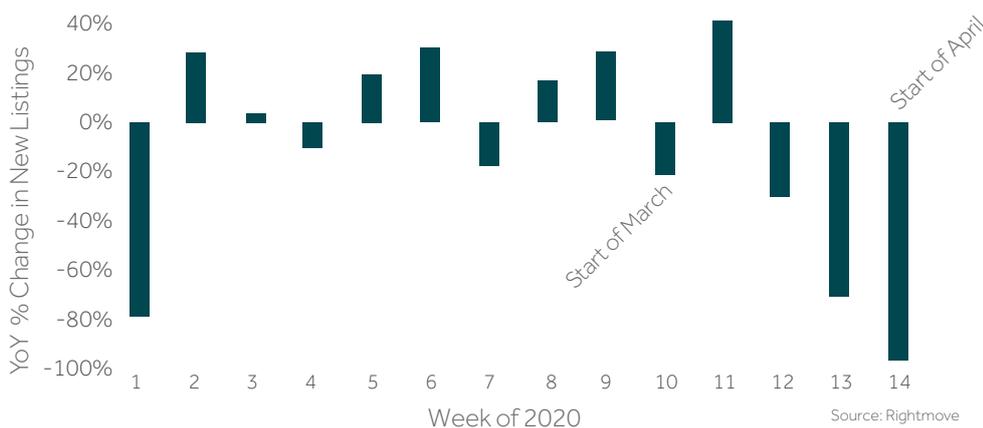


Fig.4 There was a sharp drop in new listings in Newcastle towards the end of March
Year on Year % Change in New Listings on Rightmove in Newcastle (excludes New Build)



Covid-19 Market FAQs

Can I still put my property on the market?

Yes. As long as you have photography & floor plans ready, there's nothing to stop you going to market. However, it's worth considering that the marketing effort is likely to be restricted since interested buyers are not able to view at the present time.

Can I still get a mortgage?

Yes. Despite the news of some lenders suspending mortgage applications, others are still active in the market. Many banks have paused lending above 75% LTV, however, we've already seen some lenders increase this to 80% and expect this to continue increasing in the near future.

Can I still arrange to view a property?

In the spirit of embracing the new normal, virtual viewings are available for a number of properties. Those keen to arrange a physical viewing should register with the agent so that appointments can be made as soon as government restrictions are lifted.

Can I still make an offer?

Yes. It's still possible to make an offer on a property. Sales are still able to progress through to exchange and completion, however, there are a few delays and restrictions in place.

My property is already on the market, what should I do?

Each property and every vendor's individual circumstances are unique. Advice should be taken from your agent to agree the right approach for the sale of your property. If the lockdown was lifted tomorrow, how long will it take for property transactions to get back to normal?

The volume of incomplete property transactions and the time it will take to clear this backlog is unknown. This is dependent on Local search departments and Land Registry to fully reopening as well as the time it takes for The Law Society to instruct its members to resume normal business. Removal firms are unable to operate until the British Association of Movers advises its members otherwise. This will all be key to getting property sales and completions back on track.

If you are confused by all the mixed messages, Rettie & Co. have access to the latest information from Registers of Scotland and Land Registry that can help you untangle the complexities of this changing market. Please get in touch with your local Rettie branch to discuss in more detail.

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