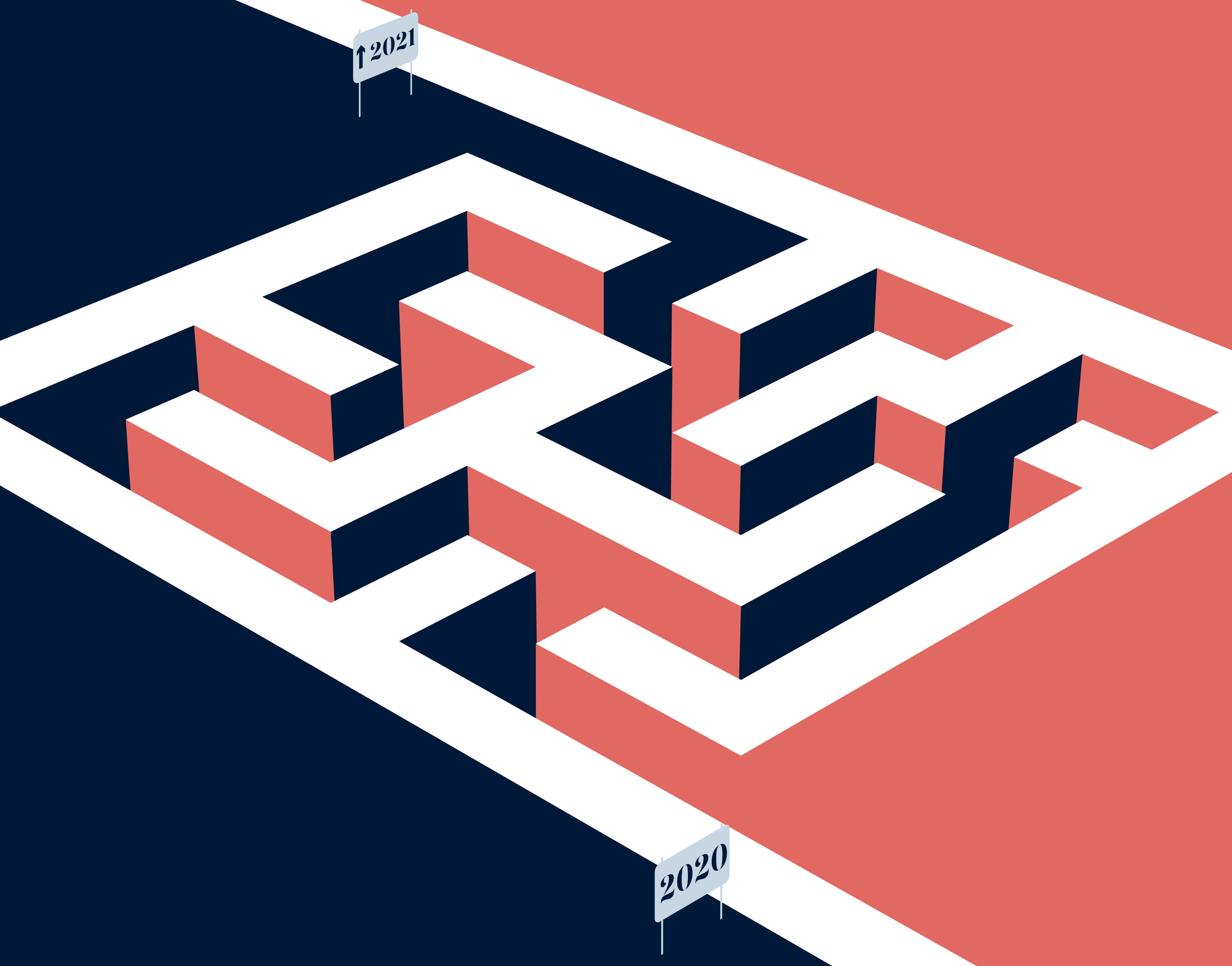
MARKET INSIGHT
WINTER 2021

MOVING ON



Hamptons

THE HOME EXPERTS

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ECONOMY
CORONANOMICS

Expect considerable focus in 2021 on the pandemic's impact on employment. Already it is apparent what types of jobs and locations could be hardest hit, with city centres likely to bear the brunt. London, usually the powerhouse of the economy, seems set to be the most affected region.

The outlook may be downbeat, but pay is predicted to go up, with the Office of Budget Responsibility (OBR) forecasting an average increase of 2.1% this year.

The OBR is also predicting that unemployment will peak at 7.5% in the second quarter of 2021– which would represent a sharp rise on the third quarter of 2020. At that time the unemployment rate was already moving upwards, reaching 4.9%, against 3.7% in the same period of 2019. This equates to 1.69 million people, an increase of 411,000 over the 12-month period.

More timely numbers underline the growing size of the problem. HMRC data, for example, revealed that there were 819,000 fewer people on payrolls in November than at the start of the pandemic. During the third quarter, redundancies soared to a record high of 314,000, an increase of 181,000 on the previous quarter.

The extension of the furlough scheme until 30th April 2021 has softened the blow somewhat, but more businesses have announced redundancies. The pain is not being equally felt: the aviation, hospitality and retail sectors have made the largest job cuts. Other employers are reluctant to hire amid the uncertainty.

London has been at the centre of the crisis: a large proportion of employment depends on retail and hospitality. A higher proportion of workers in the capital have been furloughed than in other areas; there has been a sharper drop in job vacancies and a jump in work-related benefit claims.

Despite these conditions, average total pay (including bonuses) still went up by 2.7% in the three months to the end of October 2020. Earnings in the public sector showed the highest growth. But earnings fell in several sectors: construction, hotels, manufacturing, restaurants, retail and wholesaling.

The furlough scheme played a key role in supporting earnings in 2020. It is expected to help cushion the employment market until the roll-out of vaccines start to provide population immunity.

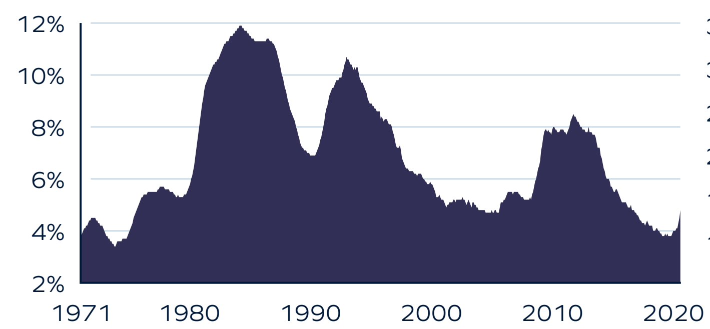
QUICK FACTS

819,000

fewer people on payrolls in November than at the start of the pandemic

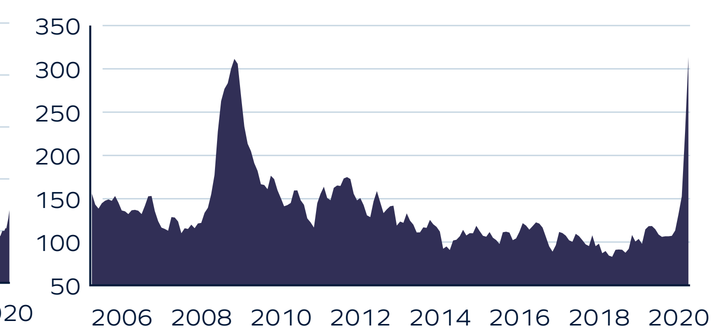
UNEMPLOYMENT RATE *(%)*

Source: ONS



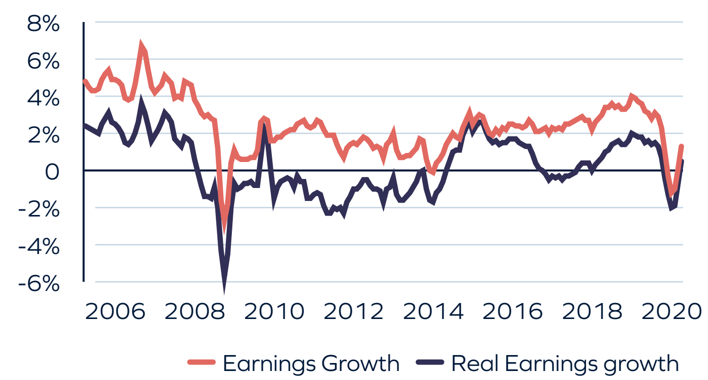
REDUNDANCIES *(THOUSANDS)*

Source: ONS



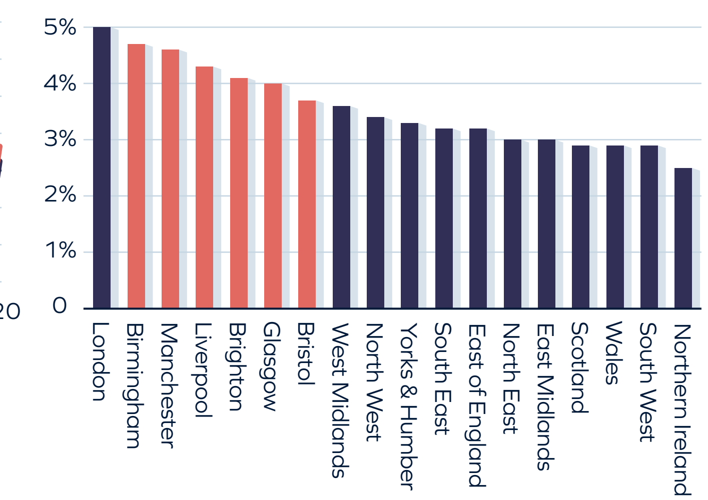
EARNINGS GROWTH *(%)*

Source: ONS



CHANGE IN CLAIMANT COUNT *(OCT 19 V OCT 20)*

Source: ONS



FOCUS
LESSONS FROM 2020

What lies ahead for the property market after the extraordinary events of 2020? After the pandemic freeze, the market re-opened to a clamour of demand for relocation that defied all expectations. Households, with the wherewithal to move, wanted larger houses with big gardens and ample space for home working, either in a leafy suburb or the country.

This relocation frenzy was fuelled further by the stamp duty holiday and cheap mortgage deals for borrowers with plenty of equity. The key statistics of 2020 hint at some of the trends that could continue into 2021, despite the challenges facing the residential sector.

BUYER TYPES

Buyer numbers, based on registrations with estate agents, were slowing towards the end of 2020, although they were still above their 2019 levels. In November 2020, buyer registrations were 12% higher than in the same month of 2019. The pace of growth in registrations was fastest in the South East, the East of England and the South West, as a North-South divide opened up. But the principal source of demand came from those with a home to sell. In November, there was a 96% jump in such house hunters in the South East. Interest from first-time buyers and people seeking a second home slowed. Could this be the pattern of 2021?

CASH PURCHASES

The share of homes bought by cash buyers fell to near-record lows, despite the rock-bottom rates on deposit accounts. This shift is partly explained by the lack of downsizers, some of whom may have been shielding. In the third quarter of 2020, cash buyers accounted for 24% of sales, against 26% in the same period of 2019. Just 17% of London homes were bought by a cash buyer in the final quarter of the year, the lowest figure on record. The proportion of £1 million-plus homes bought by cash buyers tumbled to 20% in the third quarter of 2020 – again the lowest ever - down from 33% in the same quarter of 2019.

"In the third quarter of 2020, the average gross profit made on a home, bought within the previous 20 years, was £85,620, up from £83,240 in the same period of 2019"

ANNUAL CHANGE IN SELLER PROFIT

Source: Hamptons and Land Registry

FOCUS
LESSONS FROM 2020

There was slightly more enthusiasm to buy a home of between £750,000 and £1 million with cash. Perhaps the buyers of these homes were more motivated by the stamp duty holiday?

SELLER PROFIT

In the third quarter of 2020, the average gross profit made on a home, bought within the previous 20 years, was £85,620, up from £83,240 in the same period of 2019. In August and September, the average gross profit rose to £90,000-plus, due to families with larger homes making moves. Their allure overshadowed flats: the average detached house that changed hands in the third quarter of 2020 sold for 49% more than its original purchase price. The average flat sold for 29% more although it has been owned for a shorter period of time.

MOVING DISTANCE

The most highly-publicised trend of 2020 was the move to the country. The average buyer moved 4.7 miles, slightly farther than in 2019 when the average was 4.2 miles. Households relocating in the countryside moved by an average of 7.6 miles. London families leaving the bright lights want a home in a tranquil rural setting. But they are now willing to consider a rather more remote location. The average moving distance for a city-dweller heading to the countryside grew to 21.9 miles by the end of the year, against 18.6 miles at the start of 2020.

EXCHANGE TIMES

Exchange times were lengthening for buyers in all locations at the beginning of 2020. By July, thanks to delays caused by pent-up demand during the market's closure, the time between an offer and exchange hit an average of 143 days. Conditions improved in subsequent months. But, by October, the time between an offer and an exchange was more than 100 days in all parts of the North and the Midlands. Delays in the processing of loan applications and conveyancing bottlenecks explain this trend. Lenders are becoming more cautious as buyers race to beat the March 31 stamp duty holiday withdrawal deadline. This is set to be one of the key dates of 2021.

MOVING DISTANCE

Source: Hamptons

Move	Ave. Distance	Annual Change
Within cities	1.7 miles	+0.3 miles
City to town/suburbs	8.1 miles	+0.1 miles
City to Country	16.7 miles	+3.9 miles

QUICK FACTS

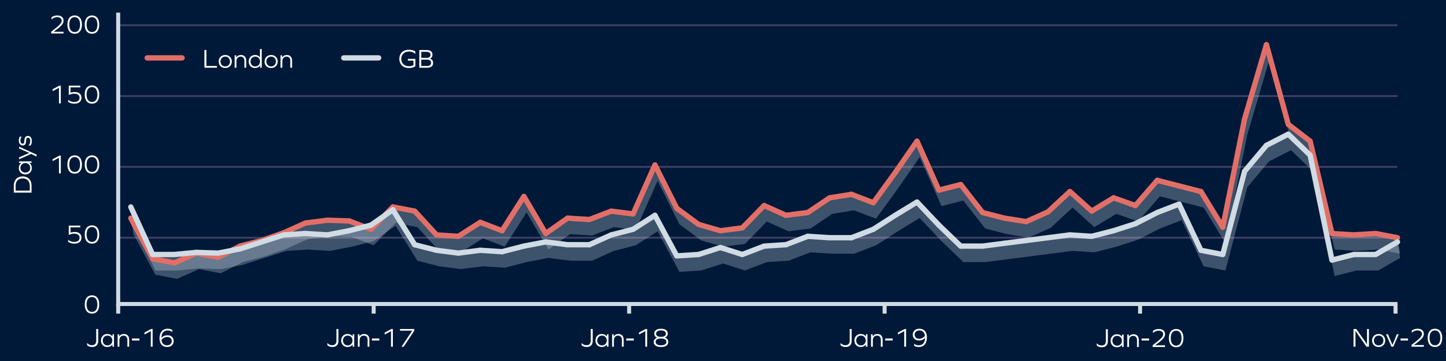
20%

The proportion of seven figure sales bought in cash, the lowest figure on record.

MARKET METRICS

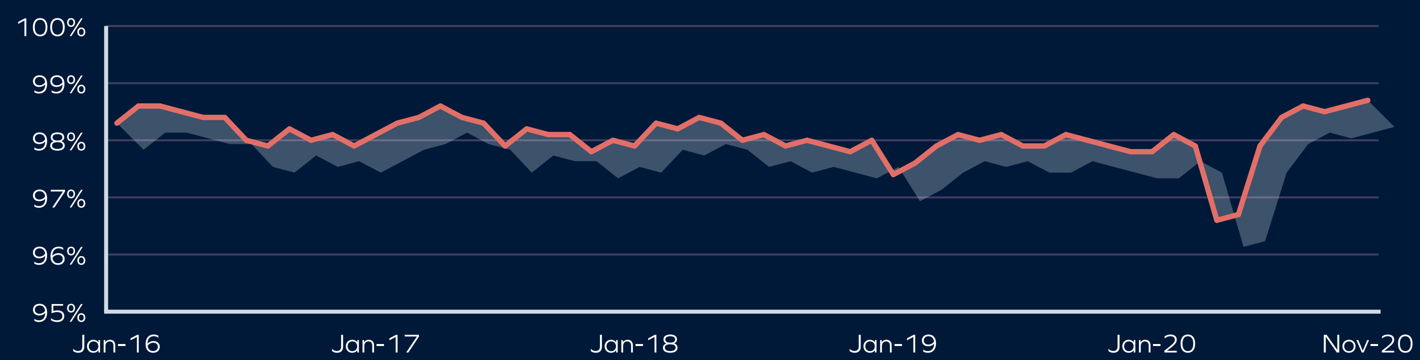
DAYS TO SELL

Source: Hamptons



SHARE OF INITIAL ASKING PRICE ACHIEVED

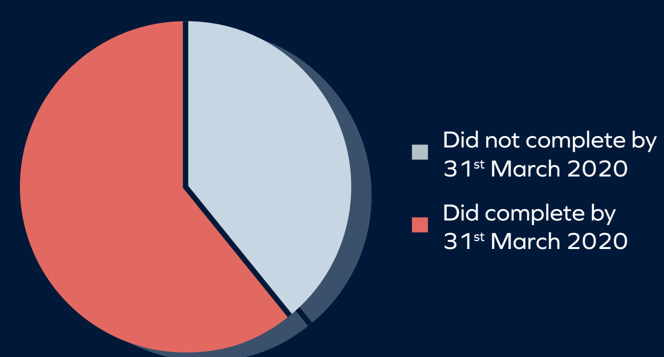
Source: Hamptons



SALES AGREED *IN DECEMBER 2019*

Source: Hamptons

Most of the sales agreed in December 2020 will go on to complete before the end of the stamp duty holiday, despite lender's and conveyancer's workloads. 61% of sales which were agreed in December 2019 went on to complete before the end of March 2020.



TOP 2020 AVERAGE SELLER GAIN *IN ENGLAND AND WALES*

Source: Hamptons and Land Registry

Region	2020 seller gain	Change from 2019
Kensington and Chelsea	£580,340	(£28,810)
City of Westminster	£452,450	£35,790
Islington	£292,150	£61,670
Hammersmith and Fulham	£283,860	£5,860
Richmond upon Thames	£278,730	£15,640
Camden	£265,880	(£65,090)
Wandsworth	£256,040	£21,080
Brent	£221,500	£13,460
Haringey	£218,740	(£18,110)
Hackney	£215,970	(£8,090)

TOP 2020 INCREASES IN AVERAGE SELLER GAIN *IN ENGLAND AND WALES*

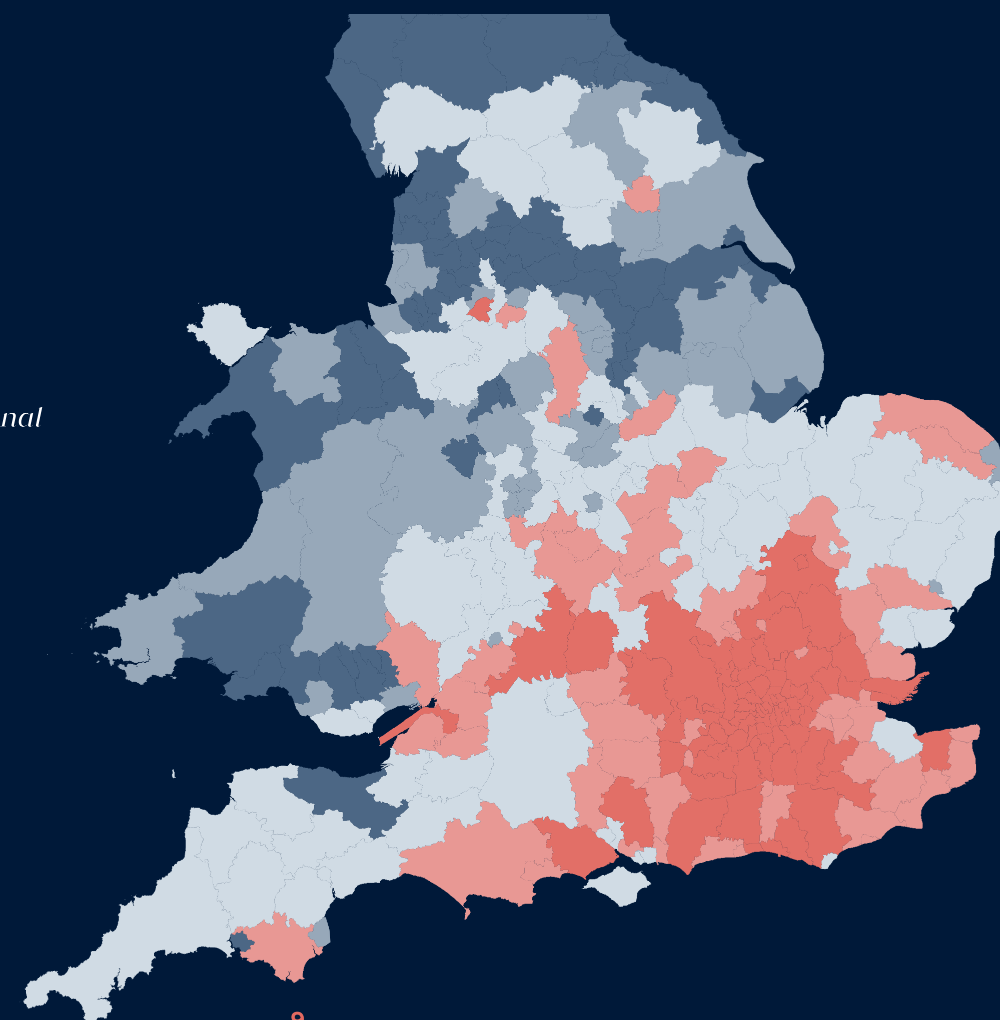
Source: Hamptons and Land Registry

Region	2020 seller gain	Change from 2019
Islington	£292,150	£61,670
City of Westminster	£452,450	£35,790
Waverley	£178,840	£35,080
Hounslow	£183,560	£23,740
Wandsworth	£256,040	£21,080
Surrey Heath	£139,860	£15,980
Richmond upon Thames	£278,730	£15,640
Derbyshire Dales	£80,910	£14,820
Brent	£221,500	£13,460
Hart	£128,790	£12,940

AVERAGE 2020 SELLER GAIN

Source: Hamptons International and Land Registry

- Over £100,000
- £75,000 - £100,000
- £50,000 - £75,000
- £40,000 - £50,000
- Under £40,000



LETTINGS
SIGNS OF RECOVERY

The downbeat mood in the lettings market in 2020 was in marked contrast to the excitement in sales. The average rent remained unchanged between the start of the first lockdown in March and September, but October marked a turning point when rents in Great Britain began to rise again. And by November the rate of growth had picked up.

But this average figure masks variations in the performance of the regions, with London lagging behind the rest due to a realm of factors unique to the capitals rental market.

Nationally rents rose 3.0% in November, twice the rate of increase recorded in October. Rents in both the South West and North led the way, rising by 8.1% and 6.5% year-on-year in October respectively, thanks to a shortage of properties. Renters' incomes in these regions were supported by the furlough scheme and other Government stimulus schemes. Rural rents increased at a faster rate than those in cities, illustrating that tenants were keen to move to the country - like homebuyers.

Households moving out of town, seeking extra space for home working and gardens, helped produce the glut of homes that drove down rents in London in 2020. There was also a slump in demand for the apartments and houses that would normally be let on a short-term basis to overseas executives, tourists and international students. These groups stayed away as a result of travel bans.

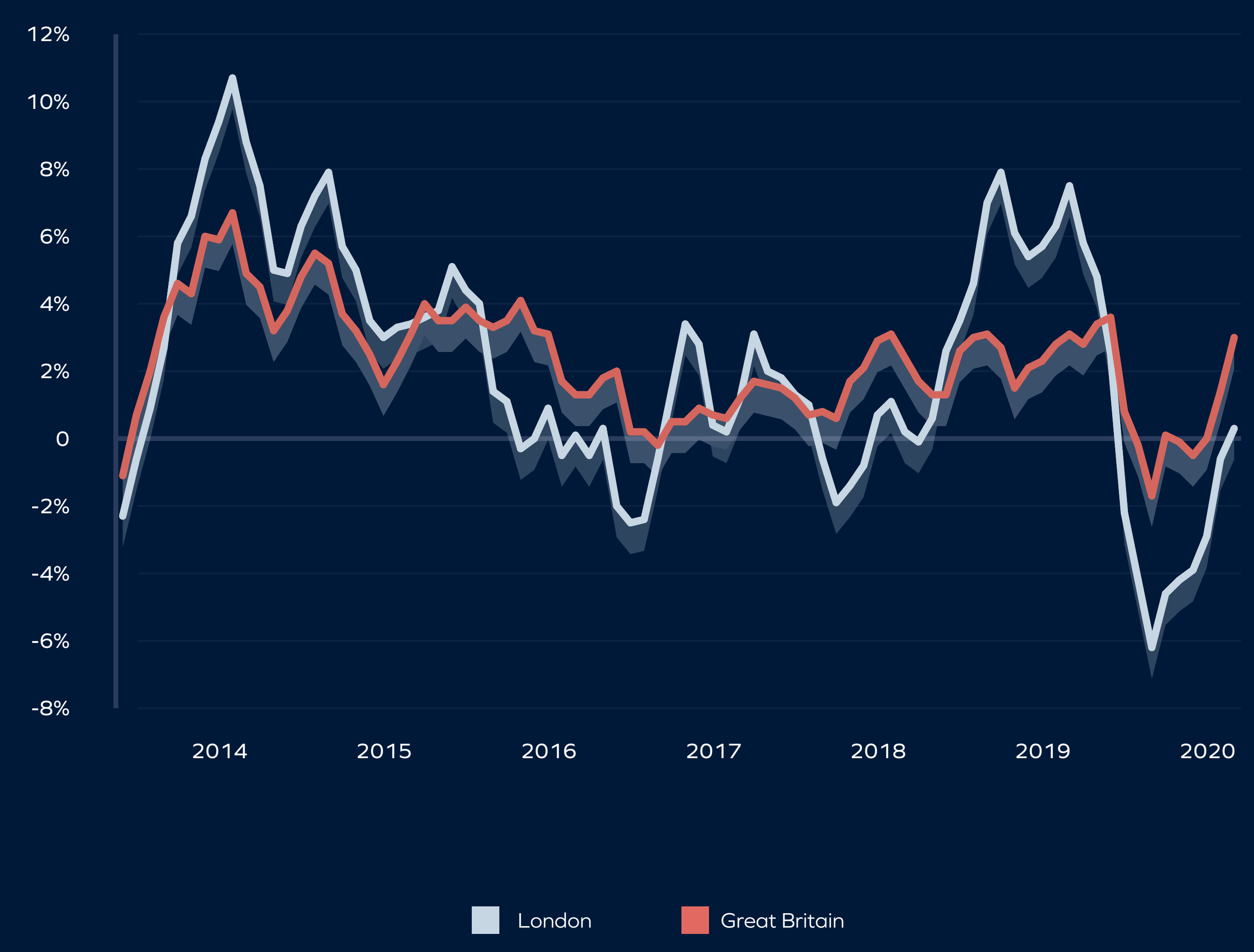
Many of these short-let properties came onto the long-term market, exacerbating the excess supply issue. But rents in outer London have been more immune from these challenges. Rents in London's suburbs rose by 3.8% in November, exceeding pre-pandemic levels. This meant that it was 21% more expensive to rent in inner London than in Outer London in October, compared to 44% more the previous year. We expect the slide in inner London rents to continue in early 2021 before levelling off.

At the end of summer 2020, we forecast that the average rent would fall by 1% during the year, given the pandemic chill that descended on much of the market following the initial lockdown. But this may turn out to be an underestimate. In fact, the rental market is showing signs of recovery, driven by households whose finances haven't been affected by the economic crisis.

For 2021, we are forecasting an average decline of 1% in rents because, despite the arrival of the Covid-19 vaccines, we argue that the full impact of the virus on the economy will not be felt until 2021. We forecast that rents will drop by 3% in London. But the pace of decrease could slow, as the economy recovers and more people are vaccinated enabling them to travel again.

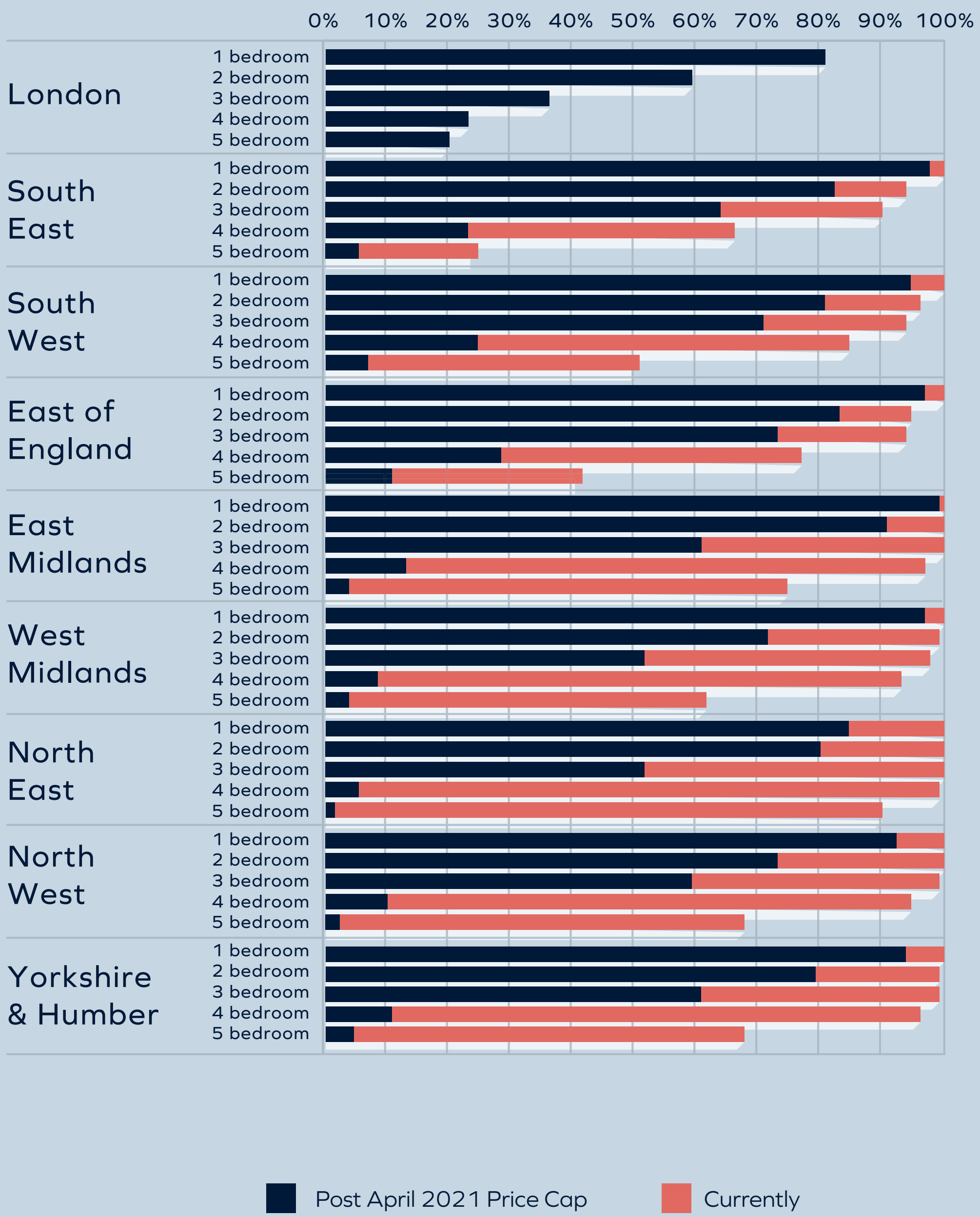
ANNUAL RENTAL GROWTH

Source: Hamptons



NEW HOMES *QUALIFYING FOR NEW HELP TO BUY PRICE CAP*

Source: Hamptons



SALES
HELP TO BUY *PRICE CAPS*

Help to Buy, the government Equity Loan scheme that covers new-build homes in England, is to be restricted this year, ahead of its planned abolition in 2023. But we are forecasting that this may not limit the popularity of this aid package which was launched in 2013.

From April 1, Help to Buy will only be available to first-time buyers. Regional price caps will also be introduced, set at 1.5 times the average price paid by first-time buyers in that region. As a consequence of this measure, as many as 45% of new homes that were marketed in 2020 would no longer be eligible for the scheme because their values were above the caps.

Our calculations show that 93% of five-bedroom homes and 82% of four-bedroom homes marketed would not qualify, although, of course, fewer such properties are bought with Help to Buy.

But some of the smaller properties, popular with first-time buyers, would also be excluded, with 40% of three bedroom homes, 26% of two-bedroom homes and 11% of one-bedroom homes being priced above the cap. As our graph illustrates, some of the cheaper northern markets seem set to be hard hit by these changes.

Yet, although many homes will be above the price caps, we expect that Help to Buy will still be in demand, attracting more first-time buyers than in 2020.

Why do we reach this conclusion? Lenders will still be severely rationing the supply of the 90% loan-to-value (LTV) deals that many first-time buyers require. This means that, for many, Help to Buy may be the only way to climb onto the ladder. Under the terms of the scheme, applicants must have a 5% deposit. But since they can secure a 20% government loan (40% in London) which is interest-free for five years, they have access to a wider choice of mortgages.

As a result of the price caps, we forecast that a two-tier new-build market will emerge this year, with 50-80% of one and two-bedroom homes in every region being sold with Help to Buy. Just 10-20% of properties with more than three bedrooms will be sold using the scheme.

QUICK FACTS

43%

of the new homes marketed in 2020 will not qualify for Help to Buy from April 2021

FOCUS SPECIAL
LOOKING *TO THE YEAR* AHEAD

By Aneisha Beveridge, Head of Research

In January, the question that almost everyone will ask me is: "So, what's going to happen to house prices?" But this year, I am also preparing to hear: "Do you think it's possible that the stamp duty holiday will be extended beyond March 31st"

In answer to the first question, we will as we always do throughout the year, be keeping a close eye on the housing market and how any changes might impact our forecasts, which we put together in September 2020. Back then we explained that the average price is likely to remain flat in 2021, with small falls in some areas. This assessment was based on the agreement of a Brexit deal, but also on the arrival of vaccines early in 2021 and the ending of the stamp duty holiday as planned in March.

The market seems set to pause for breath after 2020, an extraordinary year when as many as one million homes are likely to have been sold. This was despite the economic ravages of the pandemic and the temporary closure of the market.

What would be the result if Rishi Sunak, the chancellor, opted to keep the stamp duty holiday in place until the end of year? Such a decision would be welcome news for the buyers who may narrowly miss the deadline as the result of legal and other delays that have been causing some deals to stall.

In the event of a change of heart on the part of Chancellor Sunak, we would expect slightly stronger house price growth, particularly in London and the South. First-time buyers and second-steppers in more expensive parts of the country in particular would be able to contemplate a purchase thanks to the tax savings and hopefully a return in higher loan-to-value mortgages as the economy recovers towards the end of the year.

We also think that around 10%, or 100,000, more homes could be sold, returning transaction numbers to their 2016 levels. But economic weakness and mortgage rationing will still serve to keep a cap on the numbers.

"The market seems set to pause for breath after 2020, an extraordinary year when as many as one million homes are likely to have been sold"

QUICK FACTS

100,000

The projected number of extra sales in 2021 if the stamp duty holiday is extended.

If Sunak does not relent, and the stamp duty holiday ends, as currently planned, its removal will also coincide with a number of other key deadlines. The furlough scheme is also due to be withdrawn at the end of April and unemployment is expected to peak thereafter. These factors will, obviously, weaken sentiment and activity in the market.

However, the arrival of the vaccines should aid the recovery – and, for the second half of 2021, we are forecasting an economic pick-up and more availability of higher loan-to-value mortgages.

In the prime markets, the fate of the stamp duty holiday will be less of a concern since the tax savings make up a smaller share of the typical property's price. Also, the affluent are eligible for the best mortgage deals because they have cash or equity.

Even if travel restrictions are loosened, international buyers face the introduction of the 2% surcharge in April. But this extra tax may be counteracted by sterling's weakness, which will continue to make UK property appear an attractive proposition.

Whatever unfolds in 2021, we will still be talking about what happened in the market in 2020. Last September, two months after the surprise announcement of the stamp holiday, we forecast that overall growth for the year would be 2%. We now expect that the final figure may be higher, given that the demand for relocation continued almost unabated to the end of the year.

This demand was immediately evident in May when the market re-opened. The first lockdown, which lasted seven long weeks, had forced people to consider what they really wanted from a home. Most concluded that they wanted more space for home working and a larger garden. Some immediately acted to achieve that goal. Others who were planning to move sometime in the future started viewing potential properties when the stamp duty holiday was announced.

However, not everyone was able to start the search for more space given the economic uncertainty. Therefore the arrival of a vaccine does not necessarily mean the end of this trend. In 2020, the market was driven by wealthy homeowners whose jobs were largely unaffected by the economic crisis.

First-time buyers and second-steppers were held back by unemployment fears and the rationing of high loan-to-value mortgages. In 2021 all eyes will be on Chancellor Sunak's policies for jobs, and also on the progress towards those 95% state-backed loans promised by the Prime Minister.

But if we've learnt anything from 2020, it's to expect the unexpected.

"If Sunak does not relent, and the stamp duty holiday ends, as currently planned, its removal will also coincide with a number of other key deadlines."

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