MARKET INSIGHT
AUTUMN 2020

Forecast special

HAMPTONS INTERNATIONAL

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ECONOMIC BACKDROP

The economy has taken a hit this year, but the real effects will not be felt until 2021

The unprecedented effects of the pandemic have caused the UK economy to fall into the deepest recession since records began, raising unemployment and reducing earnings among some of those who remain in their jobs.

At the peak of the outbreak, as many as 9.3 million people were on furlough, with 15% of these workers expected to lose their jobs, according to the Office for Budget Responsibility (OBR).

Despite government intervention through the furlough and other schemes, anxiety is mounting about the pace of economic recovery. It is likely that the most painful consequences of the pandemic may not be felt until next year.

The decision to prolong state support could safeguard more jobs, buying time for the economy to recover. But economists are tempering their previous optimism, shifting away from the prospect of a rapid V-shaped recovery to a more gradual one.

Economic shocks, such as those inflicted by Covid-19, can permanently damage an economy's future growth rate – in a process known as 'scarring'. The level of scarring will depend on how quickly the virus can be brought under control, the pace of economic recovery, and the effectiveness of policy measures in supporting jobs.

Our housing forecasts are based on the OBR's central forecast of a 12.4% decline in economic output this year. But growth is expected to rebound to 8.7% in 2021, assuming a trading arrangement is agreed with the EU by the end of the transition period.

GDP is set to rise by 4.5% in 2022 and 2.1% in 2023 as the economy falls back in line with its longer-term growth trajectory. Nevertheless, the economy may remain 3% smaller after five years than would have been the case without Covid-19.

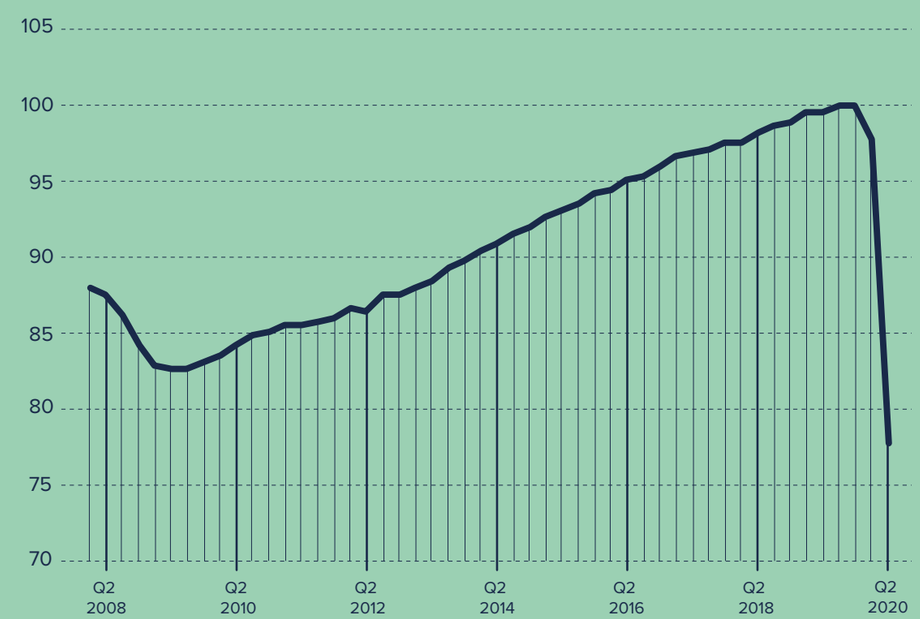
20.4%

Real GDP fell by 20.4% in Quarter 2 2020, the largest quarterly contraction on record

OBR Economic Forecasts (July 2020) Source: Office for Budget Responsibility

	2019	2020 (F)	2021 (F)	2022 (F)	2023 (F)
GDP	1.4%	-12.4%	8.7%	4.5%	2.1%
CPI inflation	1.8%	0.7%	1.3%	1.9%	2.0%
Unemployment (million)	1.3	3.0	3.5	2.4	2.1
Unemployment rate	3.8%	8.8%	10.1%	6.9%	5.9%
Earnings growth	2.8%	0.2%	3.7%	2.7%	3.0%
Bank of England base rate	0.7%	0.0%	0.0%	0.1%	0.1%

Quarterly GDP Index (2019 Q4 = 100) Source: ONS



The direction of the housing market is largely determined by employment and the true extent of the pandemic's effect on jobs may not be clear until next year.

We expect job losses to peak in the first half of 2021, after the unwinding of the furlough scheme and the ending of the job retention bonus grant in January 2021. The unemployment rate is set to reach a record high in 2021 and remain above 2019's historic low of 3.8% until at least 2023.

There are many risks on the horizon, including the consequences of a no-trade deal Brexit, a second wave of Covid-19 or delay in the arrival of a vaccine. Yet if a vaccine, or an effective Covid-19 treatment become available more swiftly, a quicker economic recovery is still possible.

To date, the pattern of unemployment has not been uniform. A division is opening up between those whose earnings have been unaffected, and those who have had to take an income cut or lost their jobs. The latest ONS data highlights that the young, who are either renting or are first-time buyers, have been hardest hit. This will have an influence on the sales and the rental markets.

But there is some good news. People's incomes are expected to keep rising, albeit by just 0.2% in 2020. Thereafter, earnings will increase by 3.7% in 2021, 2.7% in 2022 and up to 3.0%. If inflation remains low, as forecast, this should boost living standards.

> *The economic shock from covid-19 will have a deep impact on the economy, but it will start returning to its long-term growth path in 2022*

MARKET ROUNDUP

The post-lockdown bounce, driven by the stamp duty holiday and the demand for green space

40%

First-time buyer numbers are more than 40% higher year-on-year

The surprising strength of the housing market bounceback has dominated the headlines. The major surveys highlight this extraordinary recovery - which has been driven by the demand that's built up over the last few years, lockdown induced lifestyle changes and also the nine-month stamp duty holiday announced in July.

The market's upward move has, however, overshadowed some of the key factors that determine the longer-term direction of house prices, such as affordability and mortgage availability. In a conversation about property prices, people may rarely mention the cyclical nature of the housing market, but its impact on performance is significant.

The re-opening of the market in mid-May sparked an almost immediate rebound. Some observers argued that the government's list of requirements, such as the wearing of PPE to view properties, would dampen buyers' ardour. But by early June, there were more people looking to move home than at the same time last year, a trend in line with other global markets that were emerging from lockdown.

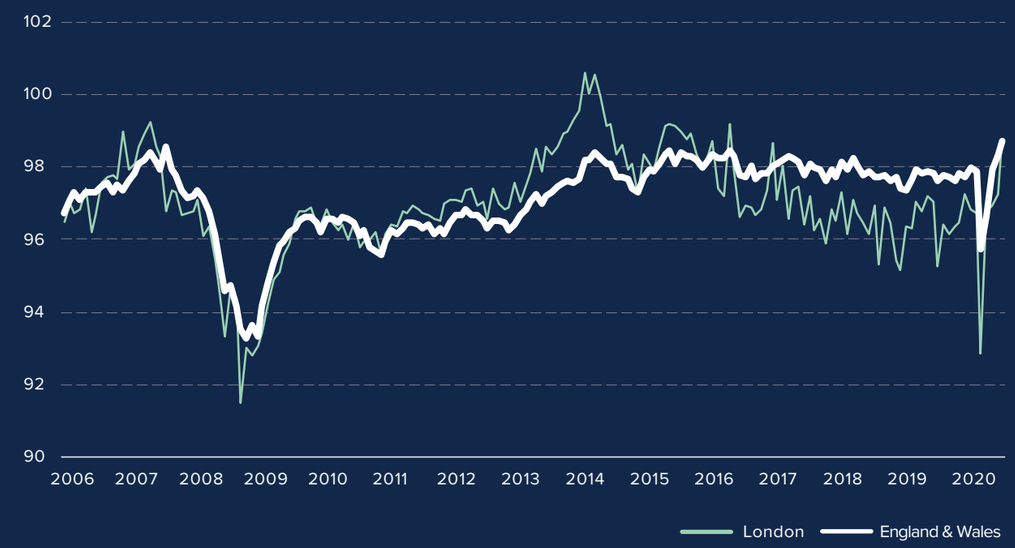
The stamp duty holiday increased the eagerness to move; households who had been locked down in cramped properties without outdoor space led the way. Chancellor Rishi Sunak, determined to reignite the housing market, raised the stamp duty threshold in England to £500,000, giving an average saving of £4,500. The tax payable on a home of £500,000-plus was cut by £15,000.

Since July, there have been double-digit percentage increases in buyer numbers in every region. There have been particularly large increases in London and the South East of England, as workers became more willing to tolerate a longer commute if they could secure a larger garden, or space for working from home.

First-time buyers have been at the forefront of the recovery, although they have the least to gain from the stamp duty holiday. Their numbers are more than 40% higher year-on-year. There has also been an increase of a third in the numbers of people taking the next step up the housing ladder.

Difference between asking and achieved prices (%)

Source: Hamptons International



Buy-to-let investors have also been active, seemingly undeterred by tax changes and the weakness in rents. These buyers still pay the 3% surcharge on rental and second homes, but will pay less as a result of the holiday. This means the tax bill on a £250,000 investment property is £7,500, against £10,000 before the announcement of the stamp duty holiday.

The stamp duty savings seem set to sustain the bounceback. But it's still worth noting that, in the early months of 2020, house price growth was strongest in the Midlands and the North, the regions where affordability remains less stretched.

> *Sellers achieved a record share of their asking price in England & Wales in August*

This is consistent with the trends observed 13 years into the last housing market cycle which began in the early 1990s and ended in 2007, as the global financial crisis took hold. The pandemic has not fundamentally altered the rules of the housing market cycle but they will influence direction in the months ahead.

TIMELINE

QUARTER 3

The easing of lockdown combined with government support reinvigorated the housing market, extending the summer selling season. These sales form Q4 completions. Record numbers of homes achieve asking prices with no price falls.

QUARTER 4

Job losses expected to increase, and Brexit uncertainty deepen. Housing market activity likely to be maintained as moves are brought forward. Most resilient markets to be those with the highest levels of pent-up demand and the lowest share of people hit by income and job cuts.

QUARTER 1

A rise in number of people trying to beat the stamp duty deadline offsets the impact of forced sales, as lenders make forbearance schemes available. Demand set to slow towards the end of the quarter as stamp duty deadline passes and labour market weakens.

QUARTER 2

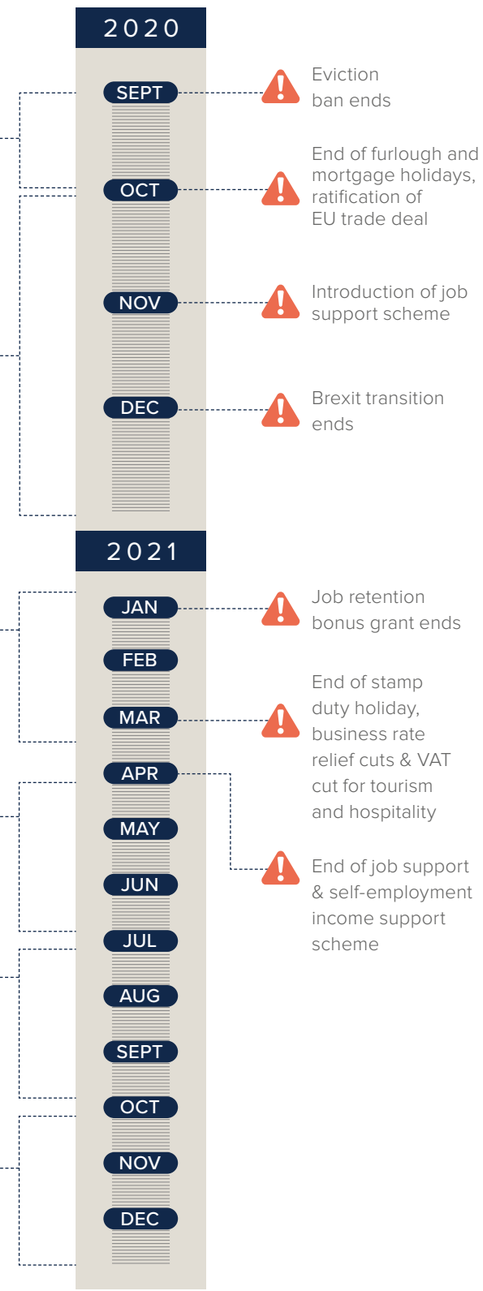
Economic recovery should be underway. But unemployment is set to peak, causing market to soften, particularly between £250,000- £750,000. Small house price falls forecast, especially in London and South where affordability is the most stretched.

QUARTER 3

Labour markets are beginning to recover, but affordability pressures remain. Market starting to find 'new normal' after small price adjustments. These sales will form Q4 completions.

QUARTER 4

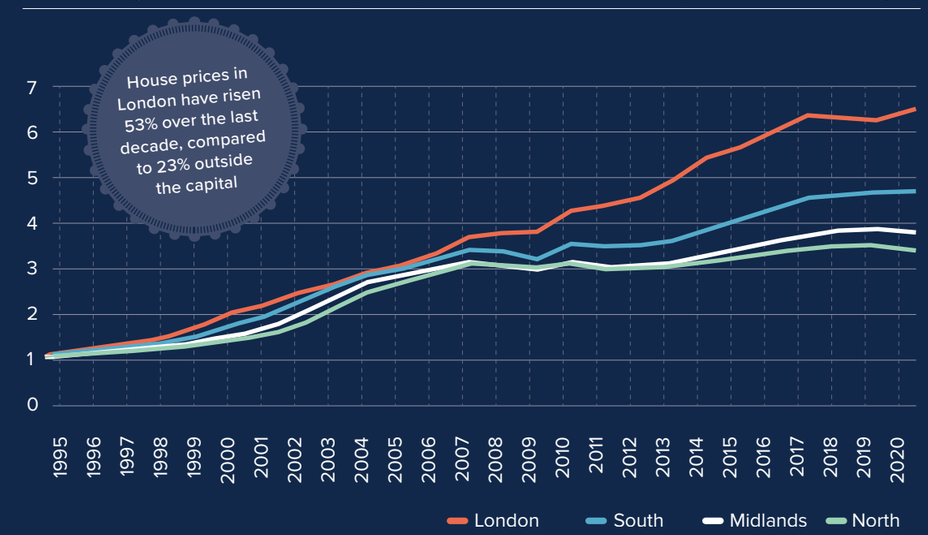
Housing market should fall back in line with longer-term growth patterns, providing economic recovery is underway. Northern markets which have more scope for growth likely to show the greatest price rises.



MARKET METRICS

Furlough take-up rate (July 2020) Source: ONS

House price growth index since 1995 (1995=1.0) Source: Hamptons International & Land Registry



SALES FORECAST

The regions playing catch-up will drive price growth in the longer-term

0.0%

house price forecast for GB in 2021

The pandemic precipitated the deepest recession on record in the second quarter of 2020. But government support schemes have cushioned the blow and we are forecasting a 2.0% rise in house prices for 2020.

There has, rightly, been much emphasis on the number of furloughed workers who may lose their jobs. But many homeowners have not been furloughed, or suffered a decline in earnings. They are seizing the opportunity offered by the stamp duty holiday to relocate.

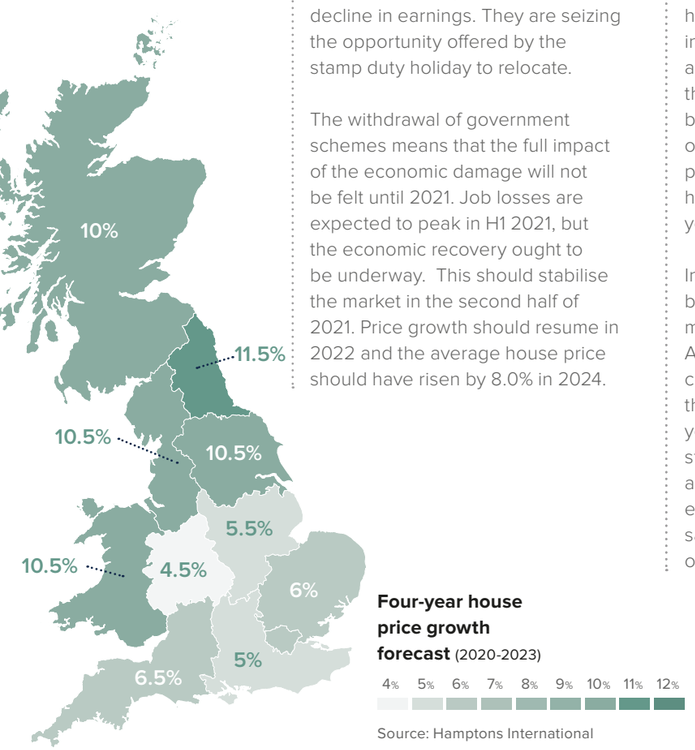
The withdrawal of government schemes means that the full impact of the economic damage will not be felt until 2021. Job losses are expected to peak in H1 2021, but the economic recovery ought to be underway. This should stabilise the market in the second half of 2021. Price growth should resume in 2022 and the average house price should have risen by 8.0% in 2024.

LONDON

Early in 2020 confidence was returning in London which had been in the doldrums since the first quarter of 2018. The housing market in the capital bounced back quickly, driven by pent-up demand and people choosing to bring forward a long-planned move. Buyers in London benefit most from the stamp duty holiday.

We forecast a 2% rise in London house prices in 2020, but a fall of 1% in 2021. This is based on affordability and the surge in households leaving the capital. By 2024, prices should still be 6.0% higher than today, although other regions will perform better. To put this into context, London prices have risen by 53% over the last 10 years - against 23% elsewhere.

In prime central London international buyers are scarce and people are moving out in search of green space. As a result, we forecast that the prime central postcodes will underperform the rest of the capital over the next two years. But, gradually, buyers should start to see these neighbourhoods as a great place to live, with real estate that's good value and also a safe haven asset. We forecast growth of 6.5% over the next four years.



Source: Hamptons International

SOUTH

The South East has the country's lowest furlough take-up rate. It should also benefit the most from the rise in Londoners leaving the city. We expect growth of 5.0% between now and 2024.

The East of England has the second lowest furlough take-up rate and better affordability than the South East. As a result, we expect prices to rise by 6.0% over the next four years.

By contrast, the South West has the highest furlough rate and its economy has been hard hit. We expect its market to underperform in 2020 and 2021. But this region's affordability should help it achieve 6.5% growth by 2024.

MIDLANDS

The pandemic has taken its toll on the Midlands which rely on manufacturing. We forecast that the East Midlands and the West Midlands will remain flat this year, and that these regions will be the weakest performers over the next four years, with growth of 5.5% and 4.5% respectively.

NORTH

We forecast Northern regions to lead the price league over the next four years. By 2024, we expect prices in the North East - the most affordable region - to have risen by 11.5%.

The North West should also prosper. We forecast that prices in this region will grow by 10.5% by 2024. Also moving upwards should be Yorkshire and the Humber, thanks to a competitive labour market. We forecast 10.5% growth by 2024.

WALES & SCOTLAND

Wales has the lowest unemployment rate - and a low take-up of the furlough scheme. As a result, we expect house prices to rise 3.0% this year, with 10.5% growth by 2024.

Scotland is the second most affordable region: prices have risen 19% over the last decade, against 53% in London. As a result, we forecast that prices will increase by 10.0% over the next four years.

House price forecasts

Source: Hamptons International

	2019	2020 (F)	2021 (F)	2022 (F)	2023 (F)	4Y
Greater London	-0.4%	2.5%	-1.0%	1.5%	3.0%	6.0%
South East	-0.1%	1.5%	0.5%	1.0%	2.0%	5.0%
East	-0.7%	1.0%	1.0%	1.5%	2.5%	6.0%
South West	0.3%	2.0%	-1.0%	2.5%	3.0%	6.5%
East Midlands	1.3%	1.5%	-0.5%	2.0%	2.5%	5.5%
West Midlands	1.1%	1.0%	-1.5%	1.5%	3.5%	4.5%
North East	0.1%	1.5%	1.0%	4.0%	5.0%	11.5%
North West	1.5%	2.5%	0.5%	3.0%	4.5%	10.5%
Yorks & Humber	2.4%	2.5%	1.0%	3.0%	4.0%	10.5%
Wales	3.7%	3.0%	1.0%	3.0%	3.5%	10.5%
Scotland	1.9%	1.5%	0.0%	3.5%	5.0%	10.0%
GB	**0.9%**	**2.0%**	**0.0%**	**2.5%**	**3.5%**	**8.0%**
Prime Central London	4.8%	1.0%	-1.0%	2.5%	4.0%	6.5%

LETTINGS FORECAST

Rents to underperform house prices

44%

of landlords achieved an increase in rents when reletting in 2020, down from 47% in 2019

To some surprise, the lettings market has recovered more slowly from lockdown than the sales market. Although activity appears to be returning, the recovery in this market has been more U-shaped than V-shaped.

Demand from tenants is down, partly as result of a leap in the number of first-time buyers – another thing that has surprised this year. Job insecurity means that other younger people are delaying a move out of the family home and into rental accommodation.

At the same time, the number of homes to let has fallen. The reluctance of landlords to invest is lowering the supply of rental homes which may put a floor under rents at some point in the future.

There has been much government intervention in the form of mortgage repayment holidays for landlords and a ban on evicting tenants in arrears. This strategy has kept tenants in their homes. Nevertheless many have suffered a loss of earnings, affecting their ability to meet their rent in the coming months.

The outlook for the rental market depends on whether tenants' earnings start to pick up - and how many may lose their jobs. Until the direction of the economy becomes more clear, we expect rental growth to lag behind house price growth at least until 2022, with falls in rents this year and next. However, the market should stabilise towards the end of 2021.

The decline in rents seems set to be deepest in London, where Airbnb and other short-term let properties have been switched to the long-term market. This has been prompted by a drop in the number of international students and tourists. There are also fewer well-paid overseas executives seeking temporary homes in London. As a result, we forecast a 3% fall in rents in the capital this year and a 1% fall in 2021.

But the easing of travel restrictions and the arrival of a vaccine should mean these tenants begin to return, allowing the London rental market to bounce back faster than elsewhere. By 2023, rents should be 3% higher than today.

The drop in tenants' incomes and unemployment will hit rental markets in other regions. But outside London, tenant demand is almost exclusively domestic and the supply of rental homes is also less plentiful. Higher income workers are less likely to have been affected by job cuts, which will support prime rents outside the capital where supply is short.

How will the size of the private rented sector in 2023 compare with today? In the wake of the last recession, which was sparked by the global financial crisis, home ownership rates tumbled.

But this trend has been reversed, with more people in the 25-34 age group climbing onto the housing ladder. There is less competition than before from landlords for smaller properties - and some lenders have been reintroducing high loan-to-value mortgages.

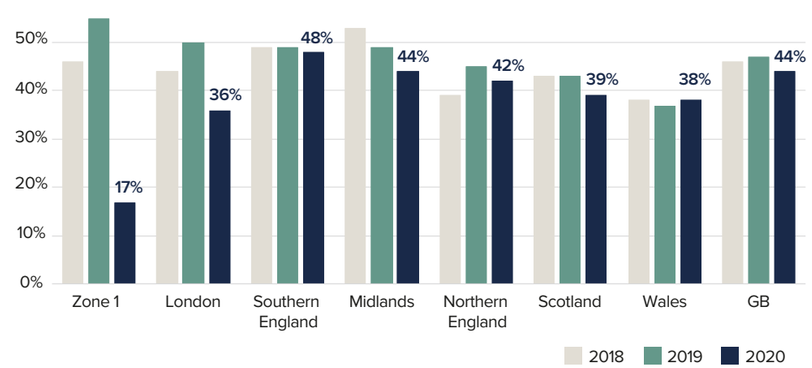
This means that we do not forecast that the sector will be larger in 2023 than today. More homes in build to rent blocks, funded by private institutions may become available. But this boost to supply, particularly outside of city centres, is likely to be offset by a reduction in the ranks of private landlords.

Annual growth forecast

	2019	2020 (F)	2021 (F)	2022 (F)	2023 (F)
Great Britain	3.7%	-1.0%	-1.0%	2.5%	3.0%
London	4.4%	-3.0%	-2.0%	3.5%	4.0%

Source: Hamptons International

Share of landlords achieved a higher rent when re-letting



Source: Hamptons International

DEMOGRAPHIC TRENDS

A rural revolution

31%

of Londoners waving goodbye to the capital chose to relocate to the country

The rural retreat is beginning to displace the suburban idyll, as urbanites seek more living space and a larger garden. This trend became immediately apparent when the property market reopened in May after its lockdown freeze.

Between May and September, 31% of Londoners waving goodbye to the capital chose to relocate to the country - wishing to escape the confinement they had felt in lockdown. In the first quarter in the year, 27% opted for a new life in the country.

Suburbs and towns were the destination of 68% of the people who were moving out of London at the start of the year. This fell to 63% between May and September, as a switch in preferences drove leavers to more rural locations.

As many as 83% of the respondents to the latest RICS survey expect increasing demand over the next two years for houses with gardens. Such is the desire already for outdoor space in a country setting that people will spend 13% more on such a property than they have raised from the sale of a London home. Pre-pandemic, they paid 5% less than they received from selling up in the city.

Households who are remaining in the centre of the capital – some people still love the bright lights - are spending 12% more on a property. Whereas those Londoners leaving the capital for a smaller town spent an average of 9% more on their next home.

The willingness of people moving, even within the centre of London, to pay more for a property underlines the growing requirement for space, a need driven by home working.

Additional bedrooms added by upsizers

Region	Bedrooms
London	1.5
East of England	1.4
South East	1.4
Scotland	1.3
East Midlands	1.3
North West	1.3
South West	1.3
West Midlands	1.3
Wales	1.2
North East	1.2
Yorkshire & Humber	1.2
GB	1.3

Source: Hamptons International

This lifestyle change, sparked by the pandemic, seems likely to continue for many workers, even if they start to go to the office several times a week.

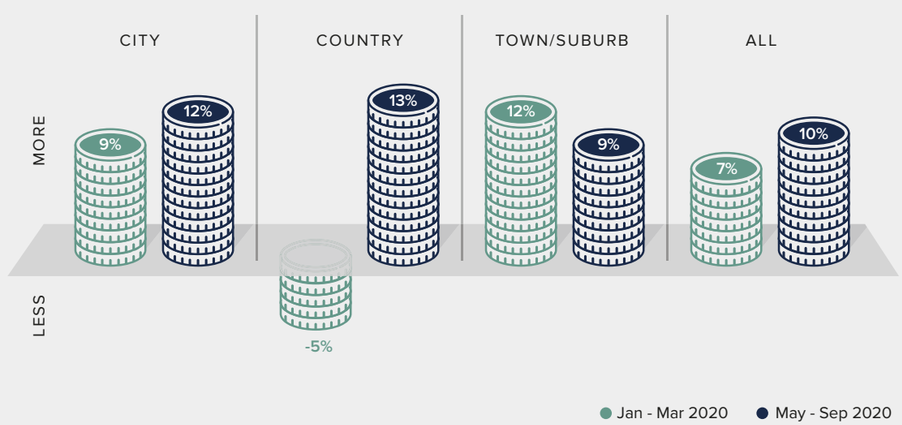
Our research shows that better-off homeowners with savings and equity in their existing homes are bringing forward the decision to acquire a larger place, where they can create a home office. The need to accommodate children who have graduated from university but are struggling to find employment will be a consideration in some cases too.

London homes are traditionally smaller than those elsewhere which means that people who are up-sizing, either in the suburbs or the countryside, buy a property with an average of 1.5 more bedrooms. The GB average is 1.3 bedrooms. People moving from the cities of the East of England acquire an average of 1.4 extra bedrooms.

Lockdown has brought about changes in the way we want to live and work. Whether these will prove permanent, or could be reversed with the arrival of a Covid-19 vaccine, it is too early to tell. But, for the next few months, large-ish houses in the country with generously-sized gardens seem set to remain top of the wish-list for urbanites longing for a different life.

How much London leavers spend on their next home

Source: Hamptons International



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