

RESEARCH

RESIDENTIAL MARKET UPDATE

July 2020

MARKET OVERVIEW

Over four months have passed since the start of the COVID-19 crisis and subsequent lockdown and it appears we have been through the worst, not just in terms of the health crisis but also the bottom of the economic downturn has past, and the dip in the residential market back in April now seems to have dissipated. Enquiry levels in both sales and lettings reached epic levels in the days and weeks following the reopening of the housing market, and we continue to see strong levels of enquiries, valuation requests and agreed sales.

The stamp duty holiday announced in early July will substantially boost confidence in a market that was already attracting buyers back. With potential savings of up to £15,000, the stamp duty holiday will help not just first-time buyers but those looking to move home as well. The savings have the added potential of attracting investors back to the market, where previously they had been in a significant decline.

We have also begun to see 90% loan to value (LTV) mortgages

return to the market as lenders note that the housing market is more active than they had thought it would be (following the lockdown), and now even more attractive with the stamp duty holiday. This will be a relief to many, particularly first-time buyers, who can take advantage of reduced or negligible stamp duty, while still being able to benefit from good mortgage rates.

Sales Prices

- According to **Nationwide's latest house price index, UK house prices during Q2 2020 rose 2.0% over the same quarter one year ago**. This is encouraging since the second quarter has been overshadowed by the coronavirus crisis and various government restrictions, including halting buying, selling, and letting homes during April and part of May. On a monthly basis the report finds prices fell 1.4% in June compared to May but this must be treated with caution given that transaction volumes are still not consistent or back to 'normal' levels.
- **Annual house price growth of 2.5% was registered by Halifax during June**, although again transaction levels are lower than they would normally be at this time of year. On a monthly basis,



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2.5%

growth in house prices as registered by Halifax
(annual, June 2020)

3.4%

rise in rents outside of London compared with the same quarter last year
(Source: Rightmove)



Halifax reported a 0.1% decline, the fourth month in a row of falling prices, although the pace of decline continues to slow.

- **Rightmove reports a 'mini boom' in the sales market, with average asking prices now 3.7% higher than the same time last year, and 2.4% more than in March, before lockdown began.**
- Zoopla's UK House Price Index for May (published end June by Hometrack) found that house prices were up 2.4% year on year, while asking **prices were up a whopping 7% in the first two weeks of June, compared with the same period in 2019.**
- **The rental market is holding up well outside of London** as



52%

rise in enquiries to our offices compared to February

Rightmove reports that the second quarter of 2020 saw rents outside of London rise around 3.4% compared with the same quarter last year, the highest rise in four years. Inside London however rents have reportedly declined by around 0.6%.

Activity

- The level of enquiries across all of our Carter Jonas offices continues at a robust pace. Compared with February (before lockdown restrictions began) **enquiries to our offices are up by an average of 52%.** This varies across our regions, with our **offices in the North**

indicating exceptionally strong demand, with enquiries doubling since February.

- The past two months have seen **significant rises in almost all areas of the home purchasing process, in our Carter Jonas offices.** Over the four weeks between June and July we saw internet enquiries (from both property portals and direct to our website) rise over 75% compared with the same time last year, while viewings have rocketed up 53% and most importantly, agreed sales have increased by almost a third (see Figure 2). There is clearly confidence in the market and the stamp duty holiday will only enhance this interest over the coming weeks and months.
- Halifax reports that activity levels have bounced back strongly during June, as their new mortgage enquiries rose 100% compared with May.
- As the government announced a new stamp duty holiday on all house sales up to £500,000, **Rightmove reported the number of people enquiring at estate agents about property for sale hit a new record on the day of the announcement, up 93% on the same day in 2019.**
- Encouragingly, the site further reported that **valuation requests from potential vendors also hit a record high, up 89% over the same time one year ago, and 35% above the previous record just two weeks prior.** In the prime market where Carter Jonas primarily operates we have seen a 47% increase over the same timescale. The supply of homes for sale has been one of the stumbling blocks in the recovery of the housing market so this is very positive news.
- The Zoopla / Hometrack Index reported that while demand levels had surged following the easing of lockdown, they have since eased slightly, albeit from a very high level. What is more, the index reports that **supply has not kept up with demand, hence prices have come under rising pressure.**
- In the lettings market **demand is very strong in the regions,** and the lack of available supply on the market will continue to keep rents propped up. **In London however demand remains subdued** as the international community has not yet returned as it normally would during the summer months, and consequently available supply levels remain lofty.



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OUTLOOK

Sales market

The COVID-19 crisis has exacted immense changes in the way many of us are working, shopping and using leisure time. In response to this, **we expect demand levels and enquiries to remain strong** as buyers and renters look to 'new ways' of living and new locations over the next few weeks and months.

However, these initial robust **levels of demand have not been met with an equally strong rise in new supply. This has kept pressure on prices** and as a result all the housing indices are reporting

annual price increases. While there has been some downward pressure on pricing month-on-month (nationwide), much of this will have been people reassessing offers made pre-lockdown.

In early July the Chancellor announced **a temporary stamp duty holiday on all house purchases on the first £500,000.** Effective 8 July 2020 – 31 March 2021, the suspension means that anyone completing on a main residence costing up to £500,000 will not pay any stamp duty, and more expensive properties will only be taxed on their value above that amount. This will undoubtedly increase activity levels as people look to 'cash in' on the savings they will achieve by purchasing during this period, and with lenders now looking for higher deposits, this will also go some way to helping offset this increase. The

last time there was a stamp duty holiday (Sept 2008-Dec 2009) transactions rose by over a third, and we expect a similar rise during this period.

Lettings market

Across the lettings market, the last three months have seen a virtual standstill in terms of rent rises, as many landlords did not increase rents as they recognised the current financial difficulties facing many tenants during the COVID-19 crisis. ARLA Propertymark reports that agents noted just 14% of landlords increased rents during May 2020, compared with a figure of 45% over the same period last year.

Looking ahead, we continue to believe that the **lettings market is still fairly insulated from the worst of the economic effects of the COVID-19 crisis.** Even before

the crisis many private landlords were departing the sector with many areas finding demand outstripping supply already. Going forward there may be even more landlords who will be forced to quit the sector as they find themselves victims of rent arrears during the crisis. These tightening supply levels will, perversely, keep rent levels and rent rises sustained.

In contrast to what many of the regional areas are experiencing, across the central London lettings market applicant demand has been low during the COVID-19 crisis. We believe this relates to overseas applicants and students who are not currently looking for rental properties. Although this will likely improve and demand will rebound, this will be a gradual process as travel opens up and the international community feels more comfortable returning.

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THE CORONAVIRUS CRISIS AND THE HOUSING MARKET

After 14+ weeks of social distancing and the temporary suspension of the housing market, we take a closer look at some remarkable and unexpected ways in which the COVID-19 crisis may change housing market over the longer term.

1 Land Registry

In May, HM Land Registry temporarily allowed electronic images of signatures and video calls to verify people's identities when registering completed transactions and title deeds. These were made because of social distancing requirements however in the longer-term it makes sense

to allow for an increased use of e-signature platforms and virtual / digital conveyancing. The use of virtual and digital platforms will undoubtedly help to expedite the buying and selling process and the Land Registry is working on developing such a system, but perhaps this crisis will accelerate the implementation.

2 Mortgage approvals

In a similar manner as completing Land Registry deeds, government restrictions and social distancing meant that during the height of lockdown most mortgage approvals were being made using simple desktop valuations rather than physical viewings (apart from more complex cases). This meant that lenders were able to approve mortgages at much faster rates, ultimately speeding up the whole sales procedure, a process which has been much derided over the last few years as being far too

slow and cumbersome. During lockdown and in the weeks after the housing market reopened, some mortgage brokers were reporting that offer times were outperforming pre-lockdown levels with timeframes slashed, even with the added pressures of the crisis and social distancing. If these desktop valuations continue to be used even after social distancing measures are relaxed, it will undoubtedly help to improve the housing market and the buying and selling timeframe.

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3 Virtual viewings

The use of virtual viewings was necessitated by the need for social distancing; however, it also means that viewings can take place much more flexibly not only in terms of time, but also buyer location. Where and when viewings take place is more straightforward when not having to travel to a specific

location or to meet someone at a specific time. And although this won't replace physical viewings altogether, it may again help to speed up the buying process as the physical viewing will be saved for those who are the most serious and far enough down the whole process.

4 Cars, bicycles, and public transport

For those living in more densely packed, urban locations, the need for a car may have come into question during the lockdown. Many car users report not setting foot in their car for several weeks at a time during the crisis, with yet others taking up cycling on a much more regular basis (the Bicycle Association reported a 50% rise in bicycle sales during April alone). This, as well as an increase in environmental awareness generally, could lead to a desire to go 'carless' or at the very least a further increase in the car-share economy, which has already taken off over the last few years. Together, this will lead to fewer households looking for off-street parking or 'better' parking options, which has sometimes limited home searches in the past.

What's more, as social distancing and fears of coronavirus linger on, public transport use has also declined, while at the same time bicycle use has increased. Commuting patterns are changing rapidly, and we have already seen the widening of cycle lanes throughout many cities in the UK, with the resultant narrowing or eliminating of some car lanes and routes. With 1.3 million UK consumers (5% of all consumers) purchasing a bicycle during lockdown, and retailers reporting selling out of bicycles and long waiting lists and pre-orders, many signs are pointing to a surge in bicycle use and changes in commuting habits.



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1.3m

bicycles were purchased during lockdown

(Source: Cycling Weekly)





5 Changing priorities for households and home buyers

The COVID-19 crisis and related lockdown restrictions will have meant that many have had time to re-examine how they use their home, neighbourhood and local areas. Being confined to a house and the immediate local area will bring frustrations into sharp focus – whether it be layout, size, local services and amenities, or access to open space.

Specification

ONS figures suggest that although 88% of households in the UK have a private garden, the average size of the garden varies widely across the country and even within cities. The average garden in the UK is roughly 2,000 sq. ft, while in Scotland it is 2,400 sq. ft and in London it is less than 1,500 sq. ft. The smaller size of garden in urban locations is just one reason why many agents have reported a surge in interested buyers looking to more rural locations. In June Rightmove reported that both buyers and renters are now prioritising a bigger garden more

than any other issue, while they look for a new home, with 63% of buyers and 59% of renters responding to a survey that a larger garden or access to one is their biggest a priority.

Working from home more often has also shone a spotlight on just how much area and square footage some households need in their homes. Extra space for a home office including a garage, outbuilding or a spare bedroom will be a new priority for some homeowners and renters who previously had no need for such ‘extra’ space. Analysis from Rightmove during May 2020 found that four to six-bedroom homes are now one of the most sought-after property types, while a survey from the Home Builders Federation (HBF) found that 40% of people will now prioritise space for a home office, in the search for a new home.

Broadband access and Wi-Fi speed will also now be featuring even more highly

on the list of necessities when buying or renting a property. In our own survey of tenants last September, it was found that nearly 90% of respondents considered high-speed broadband to be either essential or important when looking for a new property. Undoubtedly this figure will rise even further as people look to work from home more often and although government statistics found that nearly 93% of households had access to the internet, the speed of this access varies greatly between areas and locations. As more people work from home we may see demands for high-speed broadband and access to fibre optic infrastructure to start playing a key role in where people choose to move and live.

Location

In addition to changing ideas about specification and outdoor space, some households may now want to move location on the basis that they are now more likely to work from home more often, commute less and therefore live

farther from their office location. The lockdown has undoubtedly suppressed the advantages of urban living and highlighted the same for rural and countryside locations. In April, at the height of lockdown restrictions, Rightmove reported the 10 locations with the biggest increase in searches year on year, were largely in rural locations, such as Inverness and the Shetland Isles, coastal areas across the south England and locations around Devon and Cornwall. Our Carter Jonas offices in the North have seen the highest increase in enquiries (Harrogate + York) and this may be explained due to more people looking away from urban centres to more rural areas, even if they are further from their office base.



88%

of households in the UK have a private garden

(Source: ONS)



40%

of people will now prioritise space for a home office



Figure 1 Carter Jonas office leads index

Source: Carter Jonas, Rightmove, Zoopla

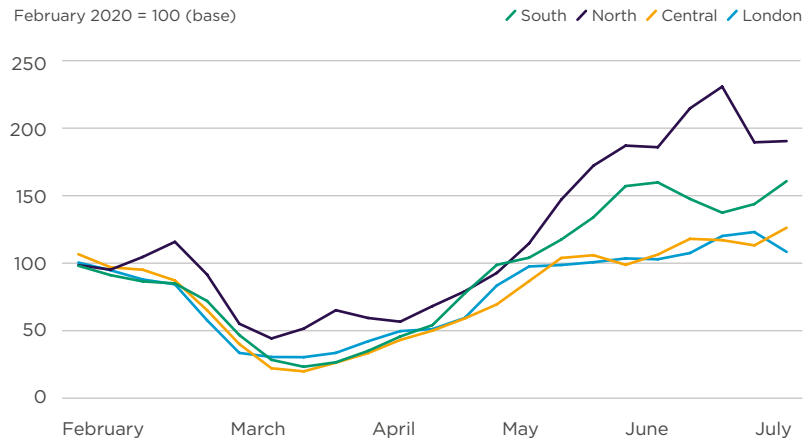
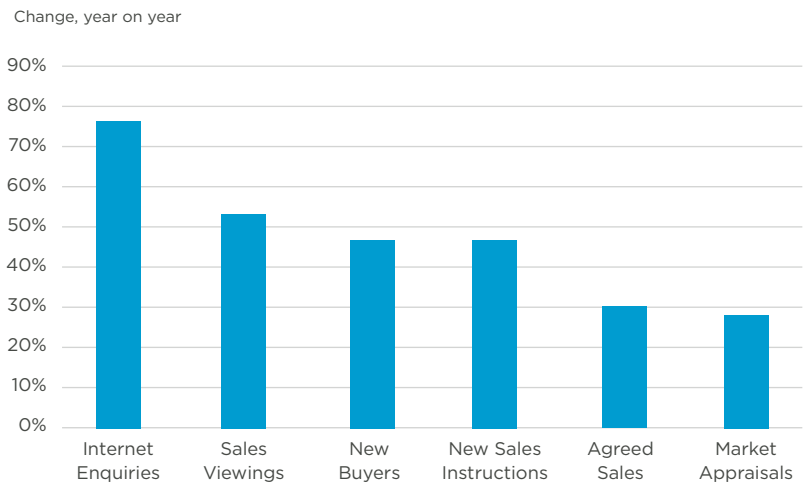


Figure 2 Carter Jonas sales market processes -

June / July 2020 v June / July 2019

Source: Carter Jonas



53%

increase in new buyer registrations compared to Summer 2019

(Source: Carter Jonas internal data)





INCREASE IN ENQUIRY LEVELS SINCE THE MARKET REOPENED IN MID-MAY, AT CARTER JONAS OFFICES

30%
LONDON

63%
SOUTH

82%
CENTRAL

106%
NORTH

CONTACT:

Lisa Simon Partner,
Head of Residential Division
07976 761721
lisa.simon@carterjonas.co.uk

Leslie Schroeder
Head of Residential Research
07775 562081
leslie.schroeder@carterjonas.co.uk

020 7518 3200
One Chapel Place
London
W1G 0BG
chapelplace@carterjonas.co.uk

Sources: Carter Jonas Research, ARLA Propertymark, Bicycle Association, Cycling Weekly, Halifax, HBF, Nationwide, ONS, Rightmove, Zoopla

ABOUT CARTER JONAS

Carter Jonas LLP is a leading UK property consultancy supported by a national network of 33 offices and 800 property professionals. Our team is renowned for their quality of service, expertise and the **simply better advice** they offer their clients.

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