Property market report Q1 2021

By George Dibb

LandlordVision

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Property Market Report

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The right of George Dibb and Landlord Vision to be identified as the authors of this report.

About this Report

The property market can fluctuate according to various economic and social pressures, but it is possible to reflect on the movements of the market to inform yourself when it comes to making future investments.

This report looks at a range of data sources related to the housing market and the economy to reflect on the performance of the market over the last quarter and to provide a picture of what we may expect to see from the property market in the coming quarters.

Quarter 1, 2021 – Property Market Update

The start of 2021 is proving to be a case of the 'haves' and the 'have-nots'. Property owners and landlords have benefitted from ample opportunity to sell or let their properties at a premium. Those looking to find a new home or invest their capital have faced a shortage in supply, inflated prices and a competitive bidding process.

For those landlords that have weathered years of increasing government legislation, things are starting to look up. The long-term trend of falling supply in the private rental market over the past five years is expected to lead to annual rental growth of c.4% over the next 5 years. Outside of London, there are reports of increasing net tenant demand and a reduced supply of lettable properties. Given the effects of Covid, city centre locations have underperformed with falling demand from overseas tenants and a general move from the urban to the suburban.

Property prices throughout the first quarter of 2021 remain buoyant. Covid uncertainty has caused a chronic lack of properties listed for sale in many areas, whilst the Stamp Duty Holiday and the desire for more space have spurred prospective demand to new highs. Reportedly, a significant number of properties are selling in a matter of days and receiving multiple bids in the process. Though there is some concern as to how sustainable such activity is in the medium term. Easing lockdown restrictions, seasonal supply and the expiry of the Stamp Duty Holiday will help to balance supply and demand. Some purchases which complete after the scheme expires may fall through. However, it is suggested that these factors are likely to stall the market rather than lead to a potential fall in values.

Highlights of Q1 2021

- The Halifax House Price Index shows a quarterly increase in average house prices of +0.3% and an increase of +6.5% over the past 12 months.
- The current supply and demand balance suggests a 'sellers market', however this is expected to even out as 2021 progresses.
- A shortage in the supply of private rental properties is applying upward pressure on rents outside of city centres.
- Mortgage approvals fell for the third consecutive month, though remain 20% higher than February 2020 according to the Bank of England.

Rental Market

The first quarter of 2021 saw a continuation of broader themes for the UK rental market. The Registered Institute of Chartered Surveyors (RICS) reported increasing net tenant demand throughout the UK with the Midlands, Yorkshire & Humber and East Anglia performing the strongest. Comparatively, landlord instructions are continuing their long-term downward path since 2016, as the supply of private rental properties continues to fall. The falling supply of private rental properties was most pronounced in East Anglia and the North.

The disparity between supply and demand in the UK private rental market will provide some cheer for landlords. Net rental expectations reached their highest balance in 8 years, with the majority of chartered surveyors expecting rents to increase across most of the UK. The one outlier is London, where rents are expected to see continued downward pressure in the short-term. Over the long-term, expectations have returned to pre-Covid levels, with rental growth expected to be around 4% per annum over the next five years.

Anecdotally, suburban and rural lets have outperformed as tenants search for greater indoor and outdoor space. Equally, terraced and detached 2-3 bedroom properties are both sought after and in short supply. In contrast, flats - especially city centre ones – are proving to be less appealing and have seen reduced demand. One-bedroom flats in London are proving decidedly less attractive to new tenants, with landlords facing pressure on rents and a lack of good quality applications. Finally, short-term lets have been buffeted by the uncertainty of Coronavirus as people increasingly seek temporary accommodation whilst they search for their ideal property.

Property Market

The government's decision to extend the Stamp Duty Holiday to the end of June has provided further support to an already buoyant housing market. Cheap financing, tax holidays and shifting dynamics in the property market have super-charged the demand for properties outside of London. Thus far, supply has failed to keep up with demand and the first part of 2021 has proved to be a seller's paradise. Those houses which do come to market are often selling in a matter of days and receiving multiple bids.

The considerable demand for properties has translated into a notably busy period for sales agents. Monthly property transactions in February 2021 reached their highest point since March 2007, according to data released by HMRC. The number of transactions is up 48.5% compared to February 2020.

On average, house prices have increased +0.3% on the quarter and +6.5% over the past 12 months. Rural and 'quality' properties have outperformed as people seek to move out of city centres and into more spacious suburban and rural properties. This theme has been most pronounced in the South East and South West, as buyers move out of London. However, the pattern remains consistent throughout the rest of the UK as well. Understandably, city centre locations continued to struggle during the first part of 2021. City centre's such as Manchester, London and Edinburgh have languished as homeowners move in search of more space, coupled with Covid related reductions in overseas demand.

It is likely that some balance will return to the UK property market throughout the rest of 2021 as normality (hopefully) returns. Seasonality and a reduction in Covid uncertainty should help to support increased supply, whilst the expiry of the Stamp Duty Holiday will help to mute demand. It might be expected that a fair proportion of purchases may fall through should delays in conveyancing mean that they extend beyond the Stamp Duty deadline. That being said, this may only stall the housing market for a short period rather than lead to any noticeable fall in valuations. On balance, the RICS still suggests that property prices will continue to increase by 4-5% annually over the next 5 years.

Looking Ahead

Whilst 2020 was undoubtedly a challenge for many landlords, the start of 2021 will hopefully provide some rays of light. Strong tenant demand and a reduced supply of private rental properties are helping to reduce void periods and increase upward pressure on rental values. Additionally, a strong sales market has supported property valuations and hopefully contributed some capital gains for investors – albeit potentially unrealised gains.

The government extended Covid related eviction restrictions in the March budget. Landlords in England will continue to be required to provide 6-

months' notice when seeking to evict tenants, up until the 31st of May. Enforcement of evictions using bailiffs remains banned until the same date. Even beyond May, the backlog of court cases will cause further delays to any necessary eviction enforcements. Landlords in Wales and Scotland will face similar extensions until the 30th of June and 30th of September respectively.

Landlords looking to expand their portfolios should do so cautiously in the short-term. Inflated prices will mean relatively lower yields on investments and the RICS is advising surveyors to be cautious with valuations, which may impact those seeking to refinance or acquire higher loan-to-value investments. That being said, brave investors may see city centres as a unique opportunity to pick up flats at relatively more affordable prices. Additionally, a greater number of opportunities will begin to become apparent as 2021 progresses and supply and demand begin to realign.

Q1 – Monetary Policy Update

On the 17th of March 2021, the Monetary Policy Committee (MPC) announced the results of their most recent meeting.

Highlights

- The MPC Committee voted unanimously to maintain the Bank Rate at 0.1% and maintain the rate of Quantitative Easing (£895 billion).
- Economic activity is expected to increase through 2021 as lockdown restrictions are eased, with a sharp rebound in 2022.

- The Committee is unlikely to raise interest rates until inflation reaches a sustainable 2% level. This suggests it could be 2023-24 before rates rise meaningfully.

Monetary Policy Stance

In its most recent meeting, the MPC chose to maintain its current monetary policy. There was a unanimous decision to hold the Bank Rate at 0.1% and to maintain the current stock of assets held for Quantitative Easing (£895 billion).

What does this mean for landlords and property investors? In the short to medium term, borrowing costs are expected to remain at their current low levels. The Bank of England is unlikely to increase interest rates unless they see consistent and sustainable inflation over or above 2% (currently 0.6%).

Given the recent lockdowns in the UK, the MPC believes that there is a significant amount of 'spare capacity' in the economy. This may help to allow the economy to grow and return to pre-covid levels without material increases to inflation. That being said, there is still the potential that monetary policy may be eased and borrowing costs reduced (to a level similar to those in Europe) if inflation fails to increase. Understandably, with the unprecedented circumstances over the past 12 months, any projections remain more uncertain than usual.

Current Economic Conditions

UK GDP in the first quarter of 2021 is expected to be 12% below its level at the end of 2019 as a result of lockdown measures. Inflation was believed to be around 0.6% in December 2020, a level around which it is expected to remain for the first few months of 2021.

The Office for National Statistics (ONS) estimates that 395,000 –1% of all UK employees – were made redundant in in the three months running up to November 2020. This is more than any three-month period during the financial crisis. Even more startlingly, HRMC payrolls suggest that the figure might even be greater than this, with 800,000 fewer employees on company payrolls since the start of 2020. Nevertheless, the MPC expects the UK unemployment rate to be 5.5% at the end of Q1 2021 – 1.6% higher than the end of 2019.

Economic Outlook

The MPC expects that covid-related restrictions will ease throughout 2021. GDP is forecast to recover as lockdown restrictions are withdrawn, whilst inflation is expected to accelerate towards the 2% target by the end of the year. Though this may be spurred more by short-term increases to shipping costs and withdrawals of current VAT and tax breaks.

Looking forward, 2022 is predicted to see a sharp rebound with GDP increasing 14.2% and inflation rising to 2.1%. Unemployment should peak around 5.7% (0.2% higher than current levels) before falling back down to 4.5% in 2024. The forecasts are still predicting that the Bank Rate will be 0% or even negative, however financial markets suggest that the likelihood of negative rates has reduced since these forecasts were released.

Forecasts	2022	2023	2024
GDP	14.20%	1.30%	1.30%
Inflation	2.10%	2.10%	2.00%
Unemployment	5.70%	5.00%	4.50%
Bank rate	-0.10%	-0.10%	0.00%

Supply of Credit

The interest rate on new mortgages has remained reasonably consistent since November 2020, whilst mortgage approvals have increased slightly in recent months on the back of strong demand for housing. Despite this, interest rates on new 75% and 90% mortgages are still 0.34% and 1.60% higher than during the start of 2020. This reflects the increased covid related risks, which have negated the MPC's monetary policy expansion last year.

What Does This Mean for Property Investors?

There is still a significant amount of uncertainty at the moment. However, whilst projections should be treated with a certain amount of caution, there is the suggestion that things may improve from here on in. Although, this is entirely conditional on there being no new strains of covid that might derail a recovery.

The increasing rate of unemployment is an expected, though still worrying indicator. This could lead to an increased likelihood of tenants becoming unemployed and being unable to afford their rent. The risk is especially prevalent among young workers, who are most likely to be affected due to their overrepresentation in the hospitality and retail sectors. Landlords with a high proportion of young professional tenants might find it prudent to hold an increased cash buffer if possible.

For those landlords or investors looking at the prospect of taking out finance, the current low-rate environment looks set to persist into the future. A Reuters poll of economists predicted that the Bank of England interest rate is likely to remain at 0.1% until 2024. Borrowing costs might even fall slightly as economic fears subside and the end of the Stamp Duty Holiday cools demand for mortgages.

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