SPOTLIGHT
Savills Research

Revisions to our mainstream residential market forecasts

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Stronger than anticipated rebound

Despite the weak economic backdrop, evidence points to modest price growth in 2020 and far more activity than we previously expected

The pace of change in the UK housing market has taken us all by surprise in the past few months. While we have been concerned about the economic backdrop, other factors have unleashed a wave of activity in the market. Behavioural changes have encouraged many to trade up the housing ladder and others to reassess their work-life balance, adding to the pent-up demand coming out of lockdown.

The introduction of a stamp duty holiday, not factored into our previous forecast, has exacerbated this further.

All of the evidence now points to the prospect of price growth in 2020, quite unlike the pattern seen in any other recessionary period, as demand outpaces supply being brought to the market.

Furthermore, the number of deals being agreed and the increase in mortgage approvals suggest that we will see far higher levels of transactional activity than we had previously expected.

Table 1 UK Five-year outlook - unemployment and interest rate assumptions critical to our revised forecasts

	2020	2021	2022	2023	2024	5 years to 2024
GDP* (whole year)	-9.7%	+8.5%	+3.5%	+2.0%	+1.8%	+5.2%
Income* (whole year)	-3.6%	+3.5%	+3.9%	+3.3%	+3.2%	+10.5%
Unemployment* (at Q4)	6.5%	5.2%	4.2%	3.7%	3.6%	n/a
Base Rate* (at Q4)	0.10%	0.10%	0.10%	0.10%	0.25%	n/a
Average Mortgage Rate	1.80%	1.73%	1.65%	1.72%	1.92%	n/a
New House Price Forecast (September)	+4.0%	0.0%	+4.0%	+6.5%	+4.5%	+20.4%
Previous Forecast (June)	-7.5%	+5.0%	+8.0%	+5.0%	+4.5%	+15.1%
New Transaction Forecast (September)	1,059k	1,209k	1,187k	1,187k	1,186k	n/a
Previous Forecast (June)	775k	1,083k	1,330k	1,187k	1,186k	n/a

Source: *Oxford Economics, Savills Research

Risks and divisions

That is not to say there aren't risks and divisions in the market. As a clearer picture emerges, regarding the search for a vaccine, future requirements for social distancing or a second lockdown, as well as the pace and geography of the economic recovery and the government's policy response – so the outlook for the housing market will inevitably change.

With the prospect that economic forecasts will be downgraded over the coming weeks, we can be fairly confident that the current level of momentum in the market will be difficult to sustain through the remainder of the year, particularly as furloughing unwinds, despite the replacement Jobs Protection Scheme.

Because of the underlying economic risks and the sheer volume of mortgage applications currently being submitted, there is evidence that lenders are seeking to focus their resources on low-risk lending.

This means equity-rich buyers are driving a market which is more favourable to home movers than first-time buyers and cash as opposed to mortgaged buy-to-let investors. We expect this trend to continue over at least the next 12 months.

Because of this and changing lifestyle priorities, not all property types will fare the same over our forecast period. For example, good quality family housing with plenty of outside space is likely to perform better than smaller flats and houses in the short term at least. In particular, prime properties are expected to perform differently, that market having been the most robust to date.

Table 2 Mortgage availability as of 21st September - pressure on once the stamp duty holiday ends

Number of Products	First-time Buyer	Home Mover	Buy-to-Let Investor
75% LTV	253	252	286
80% LTV	156	148	59
85% LTV	76	69	8
90% LTV	15	8	0
95% LTV	4	3	0

Source: Moneyfacts Website

Outlook for the rest of this year

With Nationwide reporting house price growth of 3.2% in the first eight months of the year and the RICS reporting continued growth in buyer interest across the summer, we believe that house prices will end the year 4.0% higher than at the end of 2019. This is despite an expected potential loss of momentum in the final quarter of the year given the end of furloughing and renewed Brexit uncertainty.

With a surge of buying activity over the summer, it looks increasingly like total transaction levels will end the year much closer to those of last than we were previously expecting, even though the mix of what's sold is likely to be somewhat different. Assuming the market remains open, the key variable appears to be the ability (and desire) of mortgage lenders to keep pace with the demand evident in the market.

This, combined with delays in the conveyancing process, is likely to push the completion of a high number of sales agreed this year into the early part of next. Such price growth and activity would represent a quite remarkable outcome given the economic backdrop. But it is increasingly clear that, as far as the housing market is concerned, the experience of lockdown means that normal rules do not apply - for now at least.

Looking into next year

Ultimately, it will be economic drivers that dictate the movement in prices and strength of transactions in the housing market over our five-year forecast period to the end of 2024.

But as we go into next year, we expect other factors to distort market behaviour especially given the end of the stamp duty holiday in March. This will help support transaction levels and prices in the first quarter of 2021 even though this is when unemployment is expected to peak.

What happens after that will depend on the extent to which the economic recovery has gained a foothold (which, as things stand, presents the biggest risk to our forecasts).

At the time of writing, Oxford Economics expects the economy to contract by -9.7% this year as a whole, despite the recent bounceback in some of the lost economic output.

Next year, the economy is forecast to grow by +8.5%. Even though this would leave output 2% lower than 2019 in real terms, unemployment is expected to fall progressively in the last nine months of 2021 which limits the potential for price falls over the course of the year as a whole.

This progressive fall in unemployment specifically assumes a Covid-19 vaccine is made available next year. Even with this assumption, we expect prices will soften in the spring of 2021, before firming up again later in the year, as the outlook for the employment market improves.

Table 3 Economic predictions – weaker household income growth more than offset by lower interest rates

	As at November	As at June	Now (September)
Net GDP Growth 2019 - 2024	9.4%	5.6%	5.2%
Net Income Growth 2019 - 2024	15.6%	13.4%	10.6%
Bank Base Rate end 2024	2.00%	0.92%	0.25%

Source: Oxford Economics

Over the longer term

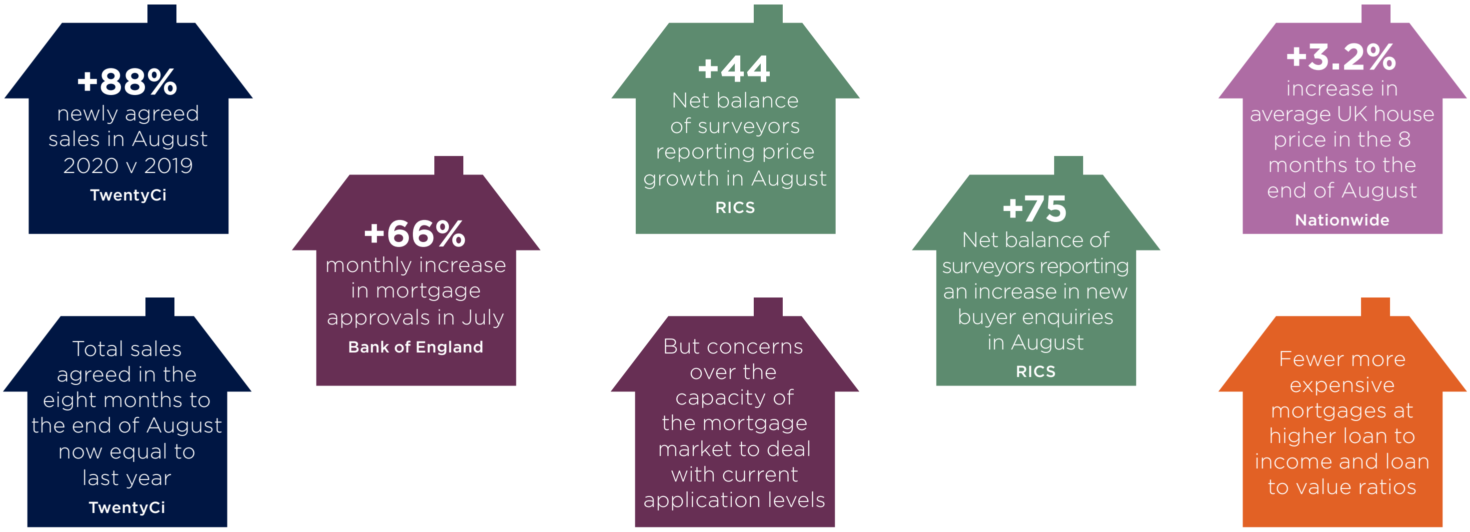
Since we last reforecast in June, we have seen a further fall in forecasts for both net economic growth and net growth in incomes over the period 2019 to 2024.

However, we have also seen a further significant reduction in expectations of the Bank of England base rate over our forecast period.

Even accounting for slightly higher lenders' margins, this (somewhat perversely) gives more capacity for house price growth over our current forecast period, which we expect to see from early 2022 onwards.

For new buyers, continued low interest rates would maintain mortgage payments at an affordable proportion of incomes, albeit coming off their current low. But the impact this would have on loan-to-income ratios (and, correspondingly, mortgage deposit requirements), together with the stress testing of affordability required of lenders, will put a constraint on price growth over our forecast period.

Figure 1 Short-term indicators for the UK housing market



Source: As stated, Savills Research

Regionally speaking

Over the next five years as a whole, we expect the pattern of regional price growth to reflect the stage we were at in the housing market cycle prior to Covid-19. This points to the markets beyond southern England being the strongest performers over the medium term. In the short term, the changes in buyer behaviour seen since mid-May are expected to dominate the pattern of house price growth over the remainder of this year and the early part of next.

This suggests stronger growth in London's hinterland than elsewhere in the country, which have seen the strongest levels of market activity as people reassess their work-life balance and corresponding housing needs.

Table 4 5-year house price forecasts, September 2020

	H1 2020 (actual)	H2 2020	2021	2022	2023	2024	5 years to 2024
London	3.7%	1.5%	0.0%	1.0%	4.0%	2.0%	12.7%
South East	2.3%	3.5%	0.0%	2.5%	5.0%	3.0%	17.3%
East of England	2.3%	3.5%	0.0%	2.5%	5.0%	3.0%	17.3%
South West	1.3%	3.0%	0.0%	3.0%	5.5%	3.5%	17.3%
East Midlands	1.5%	1.5%	0.0%	5.0%	7.5%	5.5%	22.6%
West Midlands	0.7%	1.5%	0.0%	5.0%	7.5%	5.5%	21.7%
North East	0.3%	0.5%	0.0%	5.5%	8.0%	6.0%	21.7%
North West	3.9%	0.5%	0.0%	6.0%	8.0%	6.5%	27.3%
Yorkshire and The Humber	1.8%	1.0%	0.0%	5.5%	8.0%	6.0%	24.1%
Wales	1.7%	1.0%	0.0%	5.0%	7.5%	5.5%	22.3%
Scotland	1.8%	2.0%	0.0%	5.5%	8.0%	6.0%	25.4%
UK	4.0%		0.0%	4.0%	6.5%	4.5%	20.4%

Source: Savills Research

Less exposure to the anticipated spike in unemployment is expected to support the market here and in London in the near term. However, we anticipate that this will be offset by the withdrawal of the stamp duty holiday after March 2021. In the same way that this has provided the greatest financial boost to buyers in these areas since its introduction, so it is likely to have the biggest dampening effect over the remainder of next year.

Figure 2 Composition of transactions in 2020 and 2021 – the effect of a reweighting to cash-funded buyers and the equity-rich mortgaged home movers

MORTGAGED FIRST-TIME BUYERS	MORTGAGED HOME MOVERS	MORTGAGED BUY-TO-LET	CASH BUYER
2019 - Actual **351,480** **+26% on 2013**	**2019 - Actual** **343,910** **+6% on 2013**	**2019 - Actual** **71,700** **-14% on 2013**	**2019 - Actual** **409,690** **No change 2013**
Activity constrained by less mortgage availability at higher LTVs and LTIs Increased reliance on Help to Buy and Bank of Mum and Dad	Experience of lockdown, increased working from home and a requirement for more space act as a catalyst for those who have put off moving since the EU referendum	Continued low interest rates provides more breathing space for investors affected by restricted tax relief Less flexibility to recover possession tempers demand	Readily able to respond to behavioural and lifestyle changes Activity unaffected by capacity of mortgage lenders
2020 - Forecast **282,000** **-20% on 2019**	**2020 - Forecast** **331,000** **-4% on 2019**	**2020 - Forecast** **60,000** **-16% on 2019**	**2020 - Forecast** **386,000** **-6% on 2019**
2021 - Forecast **306,000** **+8% on 2020**	**2021 - Forecast** **387,000** **+17% on 2020**	**2021 - Forecast** **65,000** **+8% on 2020**	**2021 - Forecast** **451,000** **+17% on 2020**

Source: Savills Research

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