

# UK Housing Market Update



## COVID-19 presses 'pause' on the housing market

Activity levels across the UK housing market have fallen dramatically over recent weeks as a result of the lockdown, with most aspects of the market put on hold. This was reflected in the March RICS survey, traditionally a good lead indicator. Unsurprisingly, in a market where physical house viewings had become impossible, the survey shows that 87% of surveyors had seen falls in new enquiries and 86% had seen falls in new instructions to sell. This reflects the effect of the lockdown on the simple practicalities of buying and selling homes.

It also shows that buyers and sellers are putting their plans on hold at the same rate, meaning that there is no disconnect between supply and demand levels that might cause a substantial movement in house prices. The same survey reported that more surveyors were experiencing price rises than price fall in March, reflecting the market optimism that had prevailed since the general election.

Alongside the physical restrictions, the spread of COVID-19 has had an immediate impact on consumer confidence, with the GfK consumer confidence index dropping to levels not seen since the Global Financial Crisis (GFC). Any buyers managing to remain active are facing a restricted

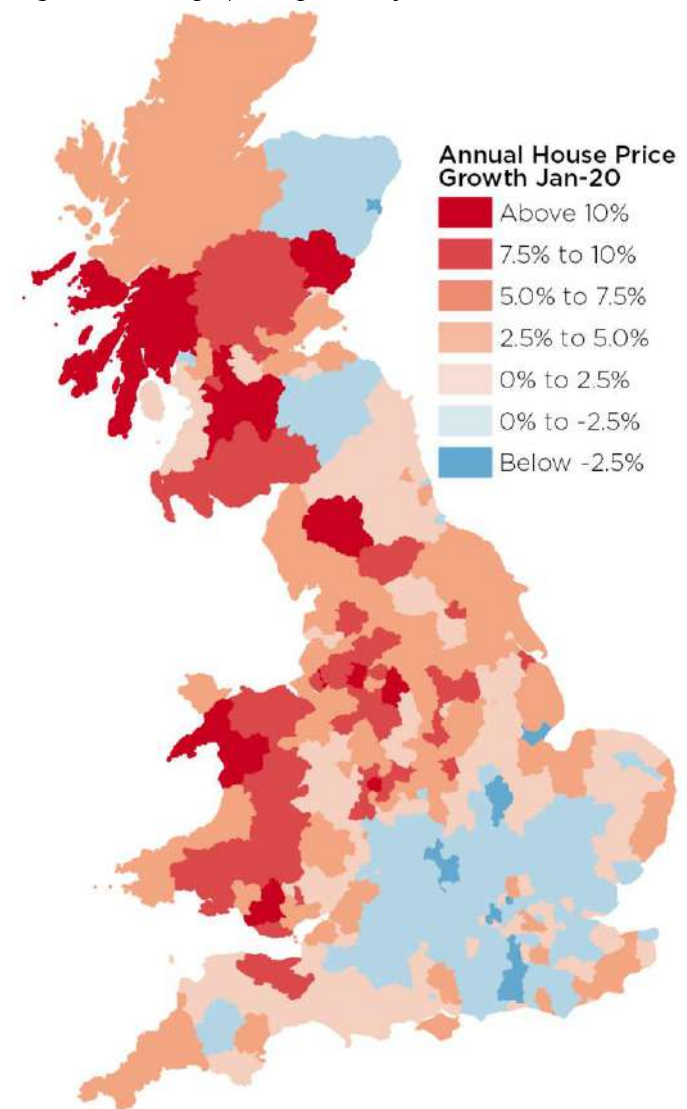
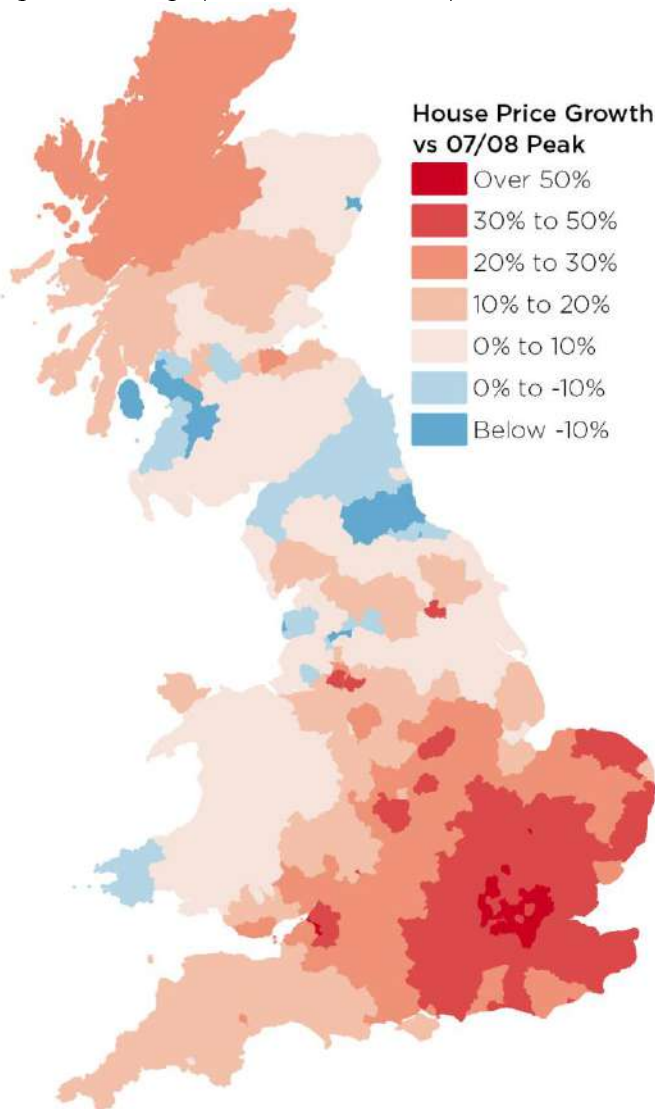
mortgage market. Most lenders have restricted their mortgage offer to only lower loan-to-value products. This reduces both their exposure to the risk of price falls and cuts the number of applications for new loans. At the same time, lenders are facing high levels of mortgage holiday requests to process.

The speed of recovery from what is expected to be a short sharp shock will depend on its length and the success of Government measures to limit its economic effect. We currently anticipate transactions in 2020 to fall to 20%-40% of the five year average, and recover to 60%-80% of this by January 2021. This general view is shared by respondents to the RICS survey, 88% of whom said they expected a fall in sales volumes over the next three months, but only 60% of whom expected a fall over the next 12 months.

We also expect short term price falls of -5% to -10%, assuming that the economic downturn is short and sharp, and that no significant disconnect opens up between supply and demand in the housing market. But the economic outlook is shifting rapidly and we will publish regular briefing notes as things change, which can be found [here](#).

Figure 1 Average price versus 2007/8 peak, Jan-20

Figure 2 Average price growth, year to Jan-20



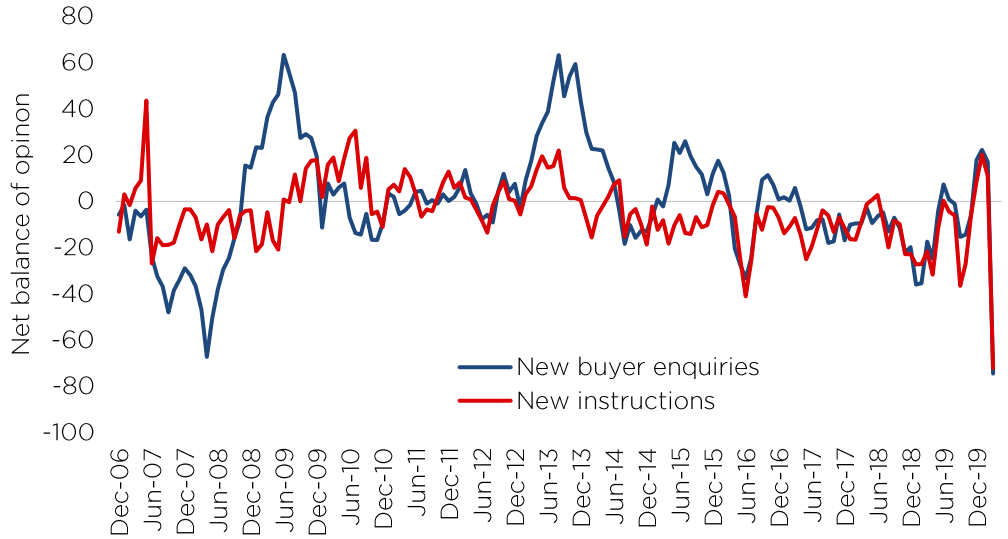
Source Savills using HM Land Registry and Registers of Scotland (6 month smoothed)\*

The RICS survey had shown surveyor sentiment rising since the general election. The housing market was making a strong recovery from a period of low price growth and declining activity levels.

COVID-19 has cut this away, with reports of both new enquires and instructions now below levels seen at the height of the GFC in 2008.

That said, there is greater optimism for the medium term. Although 88% of surveyors said they expected a fall in sales volumes over the next three months, only 60% expected a fall over the next 12 months.

**Figure 3** Activity levels hit historic lows as the lockdown began



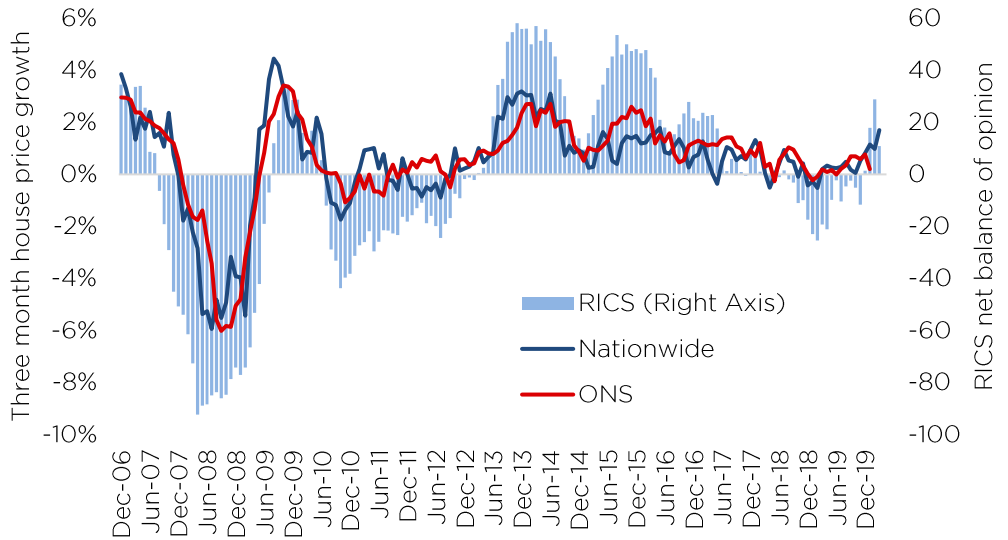
Source RICS (seasonally adjusted)

The RICS Survey has, at times, been a good forward indicator of house price movements, which are later picked up by the indices. But current events are moving at such a pace that it may only reflect what is happening now.

Surveyors are more upbeat on prices than activity levels, with 55% reporting growth in March, although that is a fall from the high of February.

Nationwide reported the strongest March since 2014, taking three month price growth to its highest level since May 2016. The ONS index lags behind by a few months, but despite showing a weak January, has also been trending upwards

**Figure 4** All metrics continue to show strong growth for the time being

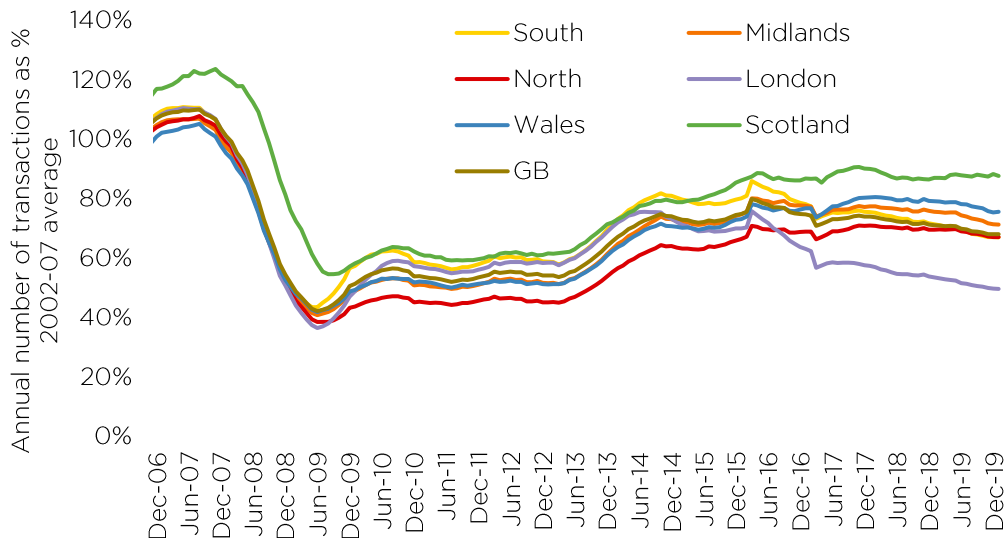


Source RICS, Nationwide, ONS

February saw transaction levels rise marginally. This was part of a few months of relatively stable volumes, an easing off of the gentle downward trajectory that had prevailed since late 2017.

That stability has been disrupted by the effects of COVID-19, but the magnitude of this will not appear in the data for another couple of months.

**Figure 5** Transactions data shows only the calm before the storm



Source Savills using HM Land Registry (adjusted for count lag) and Registers of Scotland

## UK Housing Market Update

House prices rose by 0.9% in March, according to Nationwide, reflecting pre-lockdown confidence. This was the largest monthly increase since early 2014, and left prices up 3% on March 2019. The strongest growth over Q1 was in the North West, with prices up 2.9%, closely followed by Wales and the East Midlands, both up 2.7%. Growth was weakest in the North East and Scotland, where values fell by -0.9%, followed by the South West, where prices fell -0.5%. London was middle of the pack, seeing growth of 1.3% over the quarter. This pattern of regional price growth was in line with our

forecasts.

The strongest house price growth in the 12 months to January 2020 was in Angus, Knowsley and Rhondda Cynon Taf, where prices rose 12.8%, 9.3% and 9.1% respectively. The weakest growth was in Aberdeen, Boston and Watford, where prices fell -5.0%, -4.1%, and -3.1% respectively.

UK annual rental growth fell slightly to 1.4% in February. Growth was the strongest in the South West at 2.3% and weakest in Scotland, at 0.6%.

**Table 1** Recent house price growth

	Nationwide (to Mar-20)			ONS (to Jan-20)			Savills (to Jan-19)		
	m/m	q/q	y/y	m/m	q/q	y/y	m/m	q/q	y/y
<b>UK</b>	0.9%	1.7%	3.0%	-0.4%	0.2%	1.3%	0.1%	0.6%	1.9%
<b>London</b>	-	1.3%	1.0%	-1.1%	0.9%	1.4%	-0.2%	0.8%	0.7%
<b>South East</b>	-	2.0%	1.7%	-0.9%	-0.2%	-0.5%	0.1%	0.3%	-0.1%
<b>East of England</b>	-	1.3%	1.3%	-1.6%	-0.6%	-0.6%	0.0%	0.1%	0.0%
<b>South West</b>	-	-0.5%	1.5%	-1.6%	-1.2%	-0.1%	0.1%	0.5%	1.3%
<b>East Midlands</b>	-	2.7%	3.6%	0.3%	1.3%	2.3%	0.1%	0.8%	2.6%
<b>West Midlands</b>	-	0.5%	2.5%	1.7%	1.5%	2.6%	0.2%	0.8%	2.6%
<b>North East</b>	-	-0.9%	-0.4%	0.1%	0.8%	0.8%	0.1%	0.0%	1.6%
<b>Yorks &amp; Humber</b>	-	2.5%	4.2%	0.5%	0.5%	3.1%	0.0%	0.6%	3.2%
<b>North West</b>	-	2.9%	4.1%	-0.4%	0.2%	2.1%	0.2%	0.8%	4.0%
<b>Wales</b>	-	2.7%	6.3%	-1.8%	-1.0%	2.0%	0.2%	1.2%	4.6%
<b>Scotland</b>	-	-0.9%	0.9%	0.0%	-0.4%	1.5%	0.0%	0.8%	3.4%

**Source** Savills using HM Land Registry and Registers of Scotland\*, Nationwide (seasonally adjusted), ONS (seasonally adjusted)

Based on the pace of the post-recession recovery predicted by Oxford Economics, we would expect the pandemic to have a more limited and shorter-lived impact on house prices than either the early 1990s recession or the GFC. Short term price falls could be in the order of -5% to -10%, but on very low levels of transactions.

The pace of recovery from that point will depend on the state of the wider economy. Brexit uncertainty may act as a drag on confidence and dampen any recovery in house prices and transaction levels from Q4 2020.

On the upside, households whose incomes remain stable and secure will be able to take advantage of historically low interest rates. This should support a return to stronger levels of price growth in the medium term. Assuming long term damage to the economy is contained, we expect the five year outlook for prices to remain similar to our November 2019 forecasts

but with a different distribution of growth year to year (see Table 2).

We expect transaction levels to be most significantly impacted over the short term, in line with the results from the March RICS Survey. If transactions were to fall to between 20% and 40% of the five year average by June and remain there until September, total transactions for 2020 would be 27% to 45%

**Table 2** Savills house price forecasts (five years to 2024)

<b>UK</b>	15.3%	<b>West Midlands</b>	18.2%
<b>London</b>	4.0%	<b>North East</b>	19.9%
<b>South East</b>	10.9%	<b>Yorks &amp; Humber</b>	21.6%
<b>East of England</b>	10.9%	<b>North West</b>	24.0%
<b>South West</b>	13.1%	<b>Scotland</b>	19.9%
<b>East Midlands</b>	18.2%	<b>Wales</b>	18.1%

**Source** Savills (November 2019)

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\*Savills index is an unadjusted repeat sales index based on HM Land Registry and Registers of Scotland price paid data. Note that Savills national index (labelled UK) is for Great Britain, not including Northern Ireland.

