



THE IMPACT OF
COVID-19 ON
THE PROPERTY
MARKET

June 2020

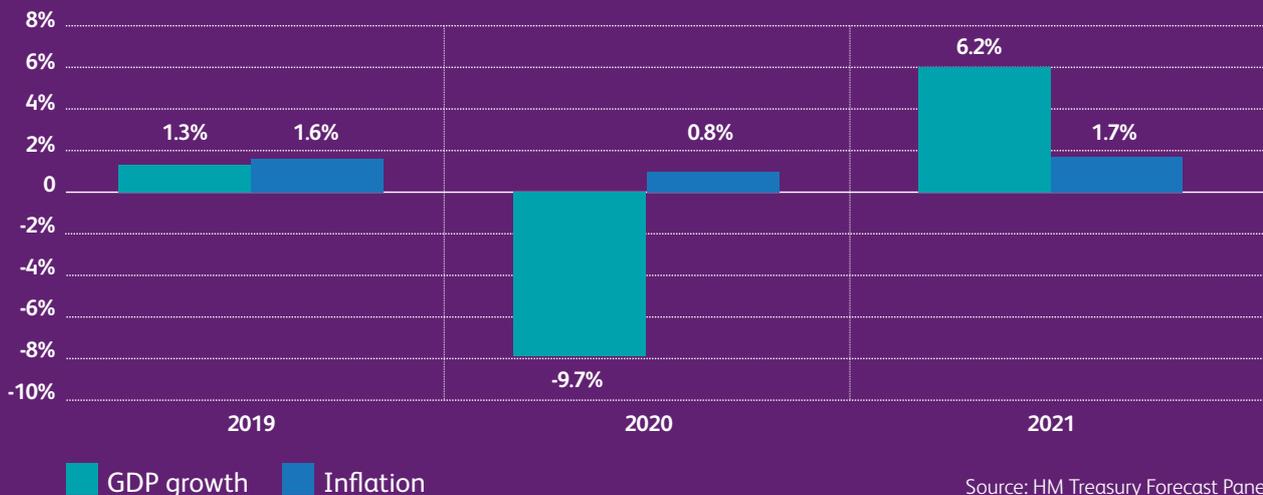
CHESTERTONS

ECONOMIC OVERVIEW

The coronavirus epidemic had a significant impact on the economy even before lockdown and the UK economy is thought to have shrunk by 10.4% between February and April. Although data for May isn't yet available, the Government has warned that the country will probably face a severe recession, although some economists believe it will be short-lived and the National Institute of Economic & Social Research (NIESR) has even suggested that growth could resume as early as the autumn.

There are already some more positive signs, with inflation falling to 0.5% in May and the interest base rate at an all-time low of 0.1%. The FTSE 100 has also recovered from a low of 4,994 at the beginning of lockdown to stand at over 6,000 by mid-June, while the pound is now higher against the dollar than it was at the beginning of lockdown. The Treasury's latest projections suggest that although the economy will shrink by 9.7% for the year as a whole it will bounce back quickly and grow by 6.2% in 2021.

UK GDP Growth & Inflation Outlook

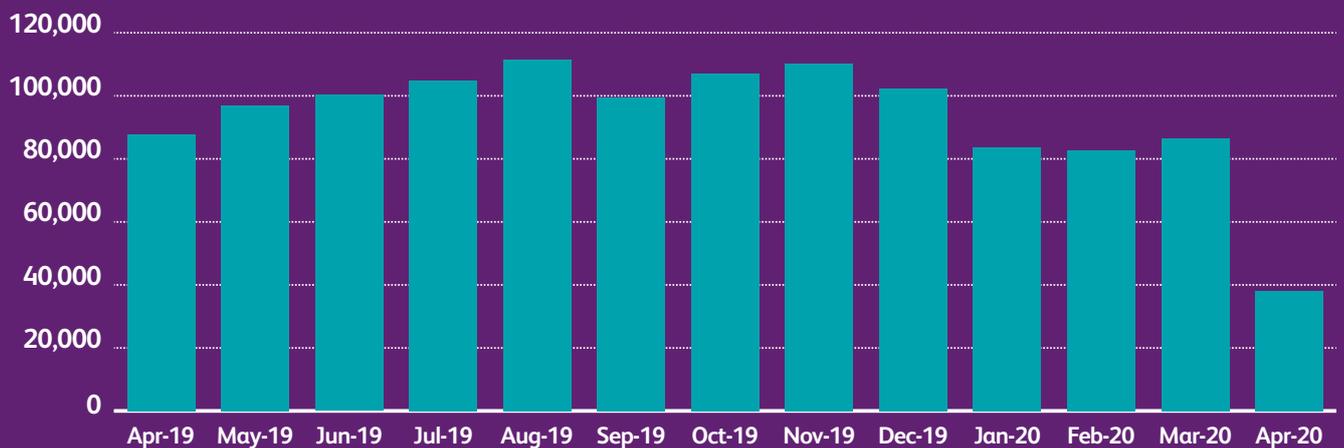


UK SALES MARKET

The number of properties on the market and being sold by agents across the UK jumped following the General Election in mid-December, as people predicted a period of relative stability. However, Covid-19 cases increased in the UK in early March and the lock-down measures

that were announced on 23rd March effectively froze the market, with activity only resuming on 13th May when the Government allowed people to view properties and move home again. In the midst of the lock-down period, the number of properties sold across the UK fell by 56%¹.

Number of Properties Sold in the UK



Source: HMRC

The re-opening of the housing market on 13th May triggered a flurry of interest from buyers and the number of people visiting the Rightmove website returned to normal levels, with 4% more visitors than on the same day in 2019. The number of actual enquiries about properties also leapt up and was only 10% lower than on the same day in 2019, while the number of people visiting Rightmove and the amount of time they spent on the site reached new highs during the last week of May.

The fact that there is a lot of pent-up demand from buyers who are still keen to move, regardless of Covid-19 can be seen by looking at the rate of recovery of property sales: in the first half of lockdown, there was a 94% drop in the number of property sales, but as soon as the market re-opened on May 13th, sales numbers recovered quickly and, by early June, 40,000 new sales had been agreed, just 3% down from last year.

However, although buyers are obviously keen, people appear to have become more hesitant about selling their properties and Rightmove reported that there were 90% fewer properties coming onto the market in the first half of May compared to the same period a year ago.

Mortgage trends

Mortgage lenders have played an important part in supporting the housing market by granting mortgage payment holidays for 1.86 million homeowners², which equates to one in six mortgages in the UK. The Government has reassured worried homeowners by extending the ban on involuntary repossession until 31 October 2020 on both residential and buy-to-let properties.

Property prices

Given the small number of sales since lockdown began, it is difficult to establish exactly how property prices have been affected and the Office of National Statistics (ONS) has made the decision to temporarily suspend its UK House Price Index until further notice*.

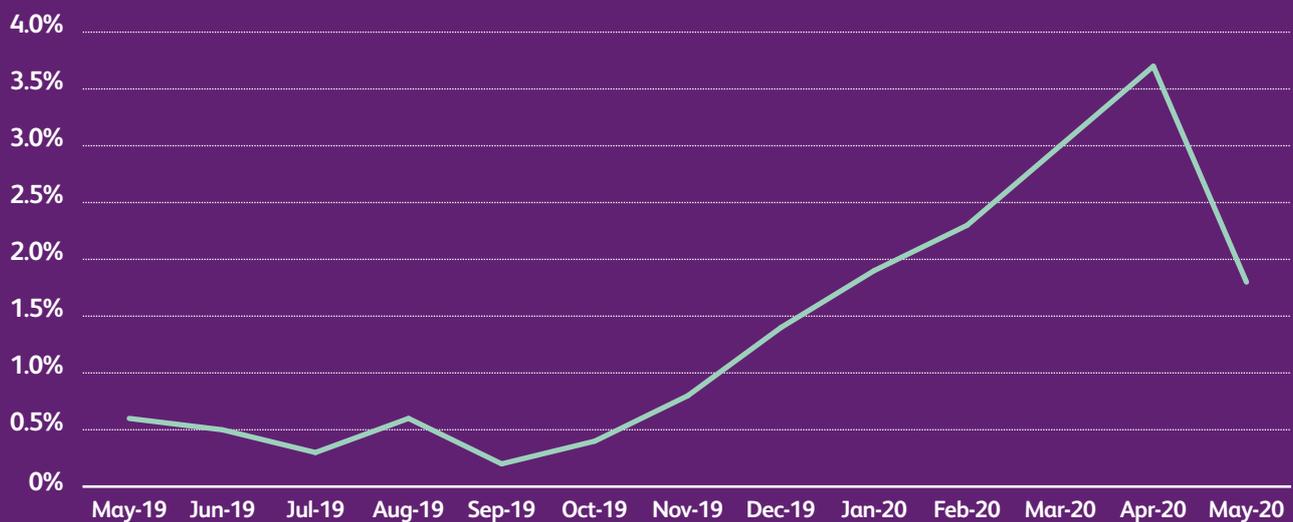
Latest available Land Registry data shows that average house prices across the UK rose by 2.1% in the year to March and the Nationwide Index showed a 3.7% increase in the year to April.

Having reduced the number of mortgages available early on during the pandemic crisis, some lenders are now beginning to focus again on new borrowers. Two-year fixed rate mortgages are as low as 1.14% for home movers, 1.79% for first time buyers and 1.13% for those looking to re-mortgage.

However, in the month of May it recorded prices falling by 1.7% – the steepest monthly decline since February 2009. Nonetheless, average prices were still nearly 2% higher in May than they were 12 months ago.

More recent data from Rightmove which includes the period since the market re-opened shows just how quickly prices are recovering. The average asking price of properties coming onto the market between 13th May and 4th June was 1.9% higher than in pre-lockdown March. Analysis of new sales that have been agreed over the period shows that buyers paid 97.7% of the asking price on average, up from 96.6% in February.

UK Average Annual House Price Growth



Source: Nationwide

*See full statement at <https://www.ons.gov.uk/economy/inflationandpriceindices/articles/coronavirusandtheeffectsonukprices/2020-05-06>

LONDON SALES MARKET

Like the rest of the country, London's housing market also benefitted from a post-election bounce at the start of the year and Rightmove reported that there were 34% more properties sold between 7th Feb and 7th March this year than in the same period last year, the highest number of sales seen at this time of year since 2016.

In the first three months of 2020, Chestertons recorded a 75% increase in website enquiries, a 12% increase in new buyer registrations, an 18% increase in property viewings and a 21% increase in offers made on properties compared to the same period in 2019.

Official statistics are not yet available for the lockdown period but there has certainly been a sharp fall in the number of properties being sold during lockdown.

However, since May 13th, most estate agents have re-opened and reported a large increase in buyer enquiries as pent-up demand is gradually being released again.

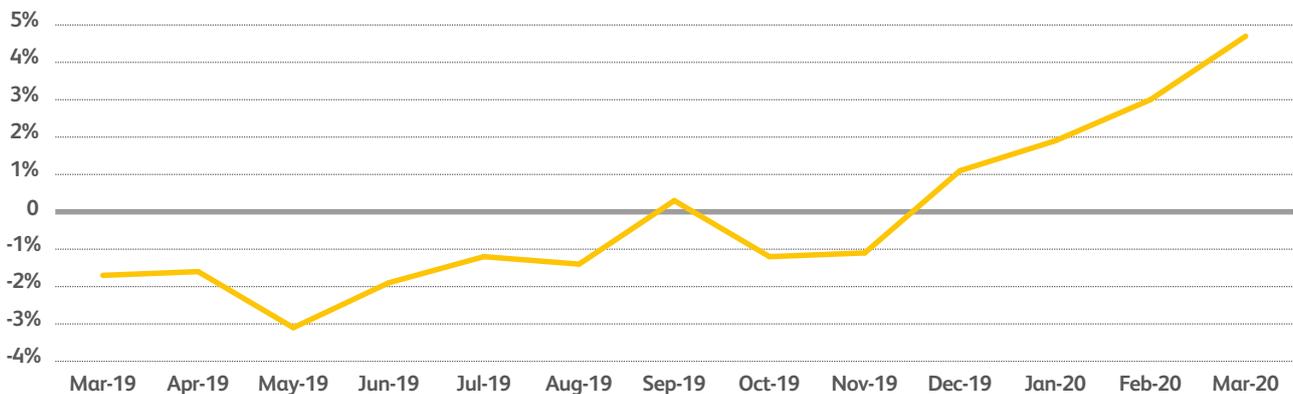
In the higher value locations, there is evidence that buyer confidence remains strong despite the turmoil caused by Covid-19. Chestertons saw a 43% increase in website enquiries in May compared to the same period last year and a 158% increase compared to April. The number of property viewings was 150% higher in May than in April and the number of offers being made by buyers and sales agreed both nearly doubled in May.

Property prices across Greater London began to rise towards the end of 2019 and by March this year had increased 4.7%³ in 12 months, the strongest annual growth since December 2016.

As noted above, current pricing is hard to gauge due to the smaller number of sales taking place and also the differing reactions which lockdown has provoked from buyers and sellers.

London property prices

Annual Price Growth In Greater London



Source: Land Registry

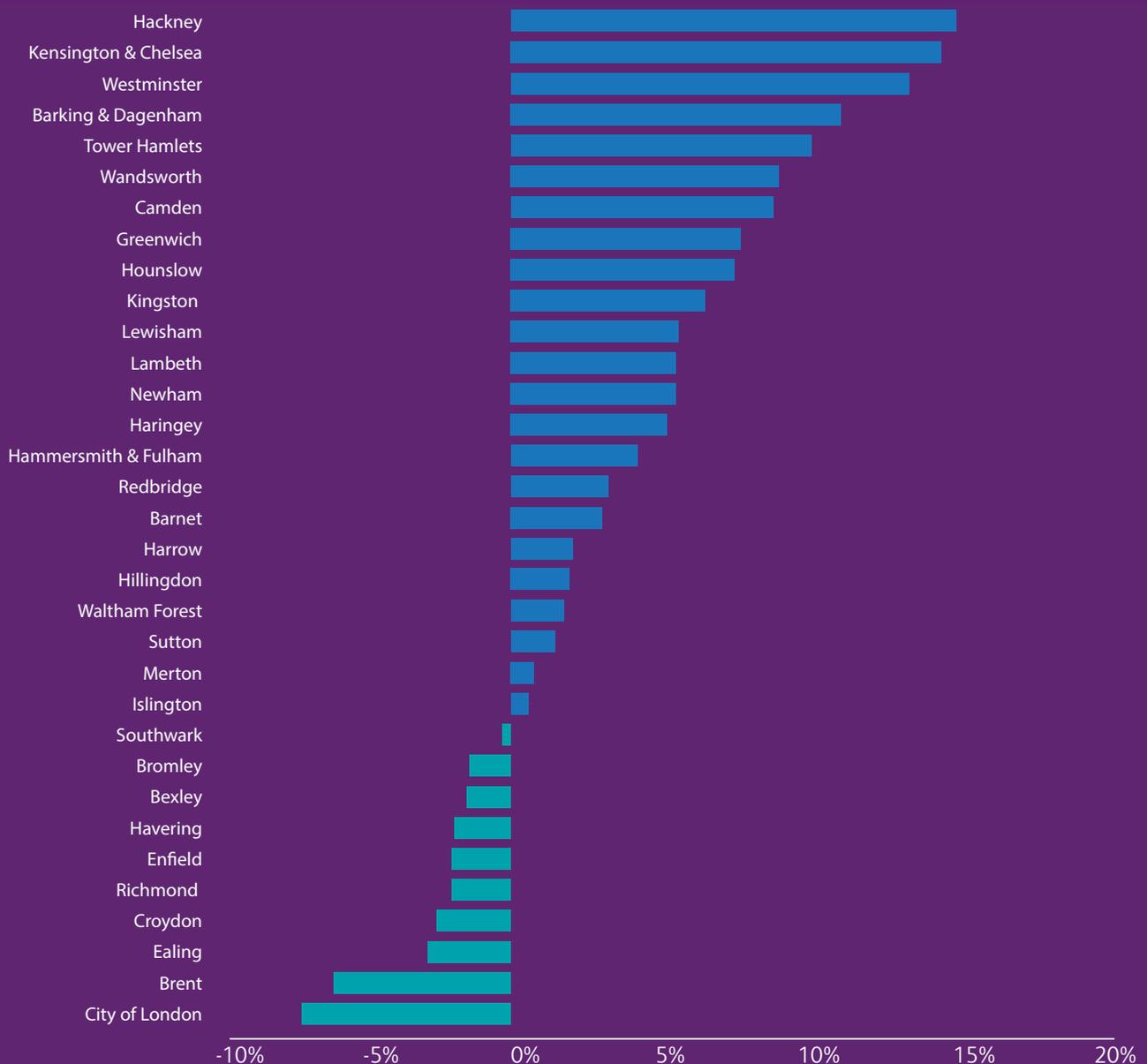
In the higher value locations, Chestertons has seen some properties achieve above asking price, in particular in central London, while other properties have needed to be priced lower in order to sell. This reflects the different level of motivation driving buyers and sellers.

The shortage of properties on the market for sale has prompted many buyers to act quickly to acquire the home they really want while it is still available. Lockdown has also changed attitudes towards housing requirements, most notably the desire for outdoor space and properties offering this will typically get much closer to asking price.

On the other side, owners who need to sell for whatever reason are more likely to give ground on price and accept lower offers, while those who are not in a rush and under no pressure to sell are prepared to bide their time to get their full price.

The average reduction on asking prices in central London was 5.9% in the period March-May and at the beginning of June 39% of properties on the market had been reduced in price⁴. Although the number of properties available to buy has also risen over the past month, there are still relatively few compared to the number of buyers in the market, which has prevented any further fall in prices so far.

Annual Price Growth by London Borough (March 2020)



Source: Land Registry

Sales market outlook

What happens to property prices over the next few months will largely depend upon how quickly the wider economy recovers, as this will determine consumer confidence and job security.

There were a lot of buyers seeking a home before we went into lockdown and it is clear that many of these people are still looking, as demonstrated by the high volume of visitors to websites like Rightmove and Zoopla and the level of enquiries that estate agents have received since the market re-opened in mid-May.

This suggests that the property market could recover very quickly and prices could even recover in some locations before the end of the year, assuming no further major shocks. A recent Zoopla survey revealed that around 60% of would-be movers across England say they plan to go ahead with their property plans.

Although many buyers will feel they have the upper hand in negotiations with sellers at the moment, there is growing competition among buyers who are faced with a shortage of properties available to buy – with the Royal Institution of Chartered Surveyors (RICS) reporting that the number of new properties coming onto the market in April was at its lowest ever level across the country – and this has helped to cushion price falls.

We think that average prices in the UK will fall by 6%-8% over 2020 as a whole but, assuming there is no significant increase in forced sales, they could flatten next year but with a lower number of sales.

Across London, we expect prices to fall 7%-9% this year, as the full impact of lockdown is felt. However, we'd expect prices to bounce back relatively quickly and we could see a slight return to growth by the end of 2021, assuming the economy is recovering.

In the higher value central London locations, we forecast that prices will fall by 5%-7% this year but will recover to 2%-4% growth next year, supported by the return of wealthy foreign buyers benefiting from a likely continuing weak pound and investors looking to take advantage of prices which are lower than for many years.

UK & LONDON RENTAL MARKET

UK rental market

The rental market was buoyant at the start of 2020, with rents across the UK rising by 1.8% in the year to March⁵, taking the average rent to £959 per month. Rents were driven upwards by the number of properties available to rent not keeping pace with demand from tenants, with some estimating that the number of properties available to rent was 18%⁶ lower than in 2019.

However, lockdown affected the ability of some tenants to continue paying their rent and the government was forced to respond by imposing a ban on evictions until 25th June and asking mortgage lenders to give landlords a mortgage payment holiday of up to three months if required. As a result, average UK rents fell by 2% in April⁷ but rose by 2.7% in May⁸.

London Average Monthly Rents



Source: Homelet

London rental market

London's rental market also enjoyed a strong start to 2020 and by March, a general shortage of rental properties in the capital caused average rents to rise by 3.7% compared to the year before, to reach £1,673 a month⁹, 75% higher than the UK average.

However, lockdown forced many tenants to put plans to move on hold and the Government prohibited people from moving unless deemed necessary until 13th May.

Although restrictions have now been lifted, many tenants continue to hold off moving as they wait to see how their employment situation might be affected. In response, many landlords anxious to reduce the amount of time their property was empty became more flexible with regard to rent renewals and rents for new tenancies. Average rents in London fell 0.3% in April¹⁰ and by 4.2% in May¹¹.

Lockdown caused the number of new tenancies in central London to fall by around 54% between March and May and the result of this was 29%¹² more properties available

- The overseas student market has dried up as students no longer know if they will be able to study in September
- Corporate relocations are very low as companies exercise tighter cost control and homeworking has increased

The imbalance between supply and demand and the caution on the part of many tenants means that landlords are

on the market at the beginning of June compared to the same time last year. The fall in demand reflects a combination of factors:

- Existing tenants delaying committing to new leases as they consider cheaper accommodation options in light of falling rents
- Tenants renegotiating lower rents with their landlords to avoid the hassle, cost and risks associated with moving.

now having to discount their properties by 10-15% in order to secure a tenant, or risk facing a lengthy void period with no rental income.

Rental market outlook

Going forward, rents will to some extent be cushioned by the shortage of properties available to rent in some locations across the country and we forecast that average UK rents will fall by 5%-7% for 2020 and are likely to be flat next year, assuming there is not a prolonged recession.

In Greater London, as the proportion of people's incomes spent on rent is higher, we forecast that rents will fall by 10%-12% in 2020 and by 4%-6% in 2021, on the basis that the drop will be cushioned to some extent by the likelihood that more landlords will sell properties as their costs rise and their profitability falls.

Although there are more rental properties available in central London, we believe that there is greater potential for rents to recover more quickly if corporate demand picks up and foreign students return to the UK. For 2020, we forecast rents in central London will fall by 13%-15% – slightly more than Greater London – and by a further 2%-4% in 2021.

1. Provisional government data [May 2020] on national property sales transactions. 2. UK Finance press release 2nd June 2020 (Data as at 28 May)
3. Land Registry 4. Lonres 5. Homelet Index, March 2020 6. Home.co 7. Homelet Index, April 2020 8. Homelet Index, May 2020
9. Homelet Index, March 2020 10. Homelet Index, April 2020 11. Homelet Index, May 2020 12. Lonres

Chestertons is one of London's largest estate agencies and has a network of over 30 offices offering sales and lettings services, in addition to a strong international presence including Caribbean, Middle East, Monaco, France, Spain, Portugal, Switzerland and Australia.

For further information please contact one of the following:

Nicholas Barnes

Head of Research

T: +44 (0) 20 3040 8406

E: nicholas.barnes@chestertons.com

Giles Milner

Press Office

T: +44 (0) 20 3040 8355

E: press@chestertons.com

General Enquiries

E: marketing@chestertons.com