



COVID-19 UPDATE: EMERGING FROM LOCKDOWN

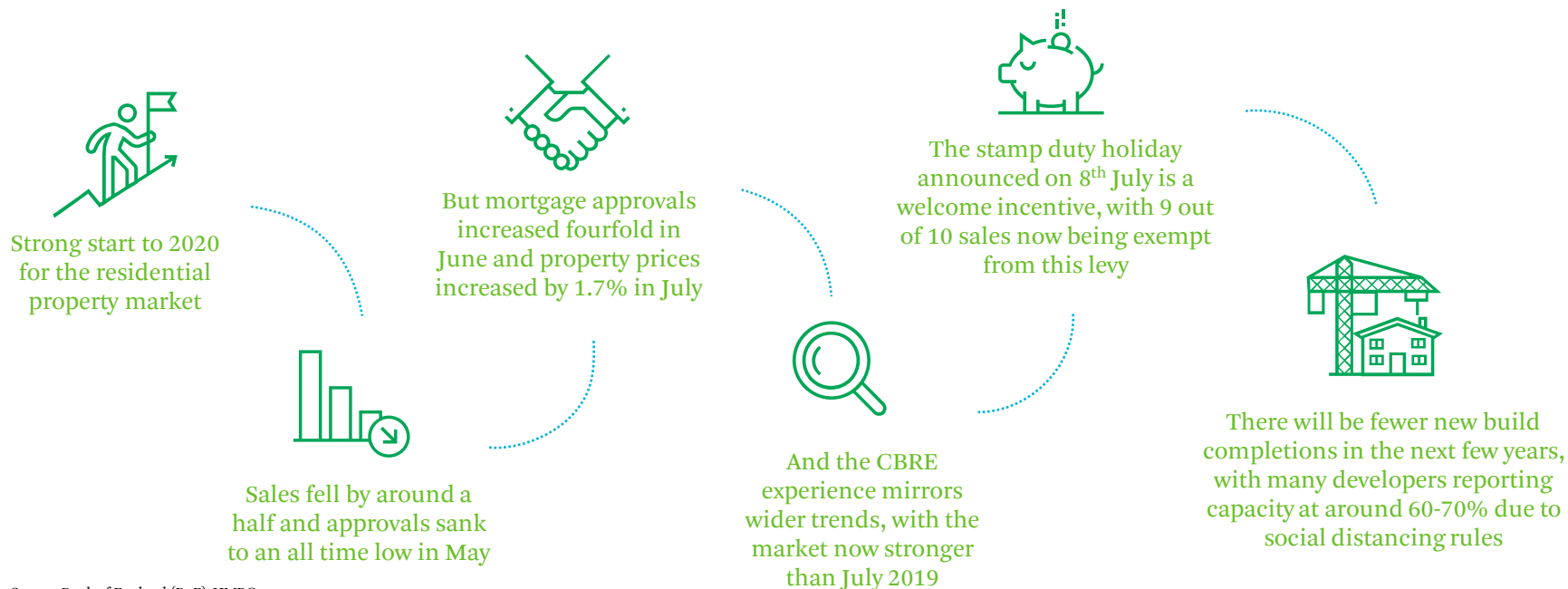
IS A RESIDENTIAL REBOUND ON THE CARDS?

AUGUST 2020 | JENNET SIEBRITS, HEAD OF UK RESEARCH

CBRE

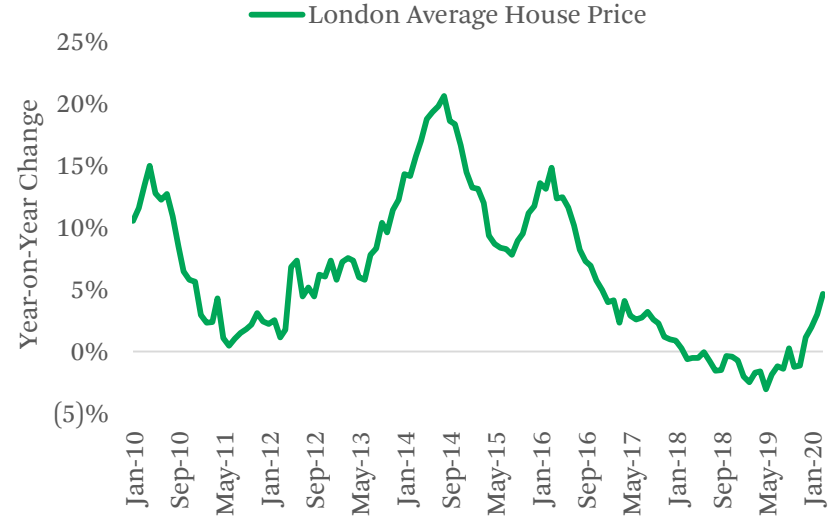
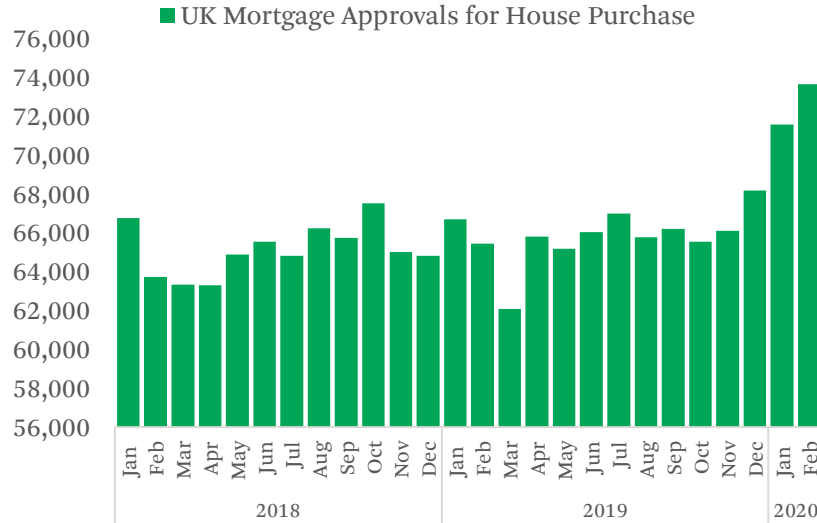
A SUMMARY OF THE STORY SO FAR...

There have been more twists and turns in the first half of 2020 than on a roller coaster. But, we now appear to be emerging from the Covid-19 lockdown relatively unscathed. Following two months of inactivity, the housing market is showing signs of bouncing back, with a pick-up in approvals, sales and price growth. This resurgence reflects the release of pent-up demand of those buyers stymied by the Covid-19 lockdown. We expect this momentum to continue in the short-term, further boosted by the stamp duty holiday.



THE YEAR STARTED STRONGLY...

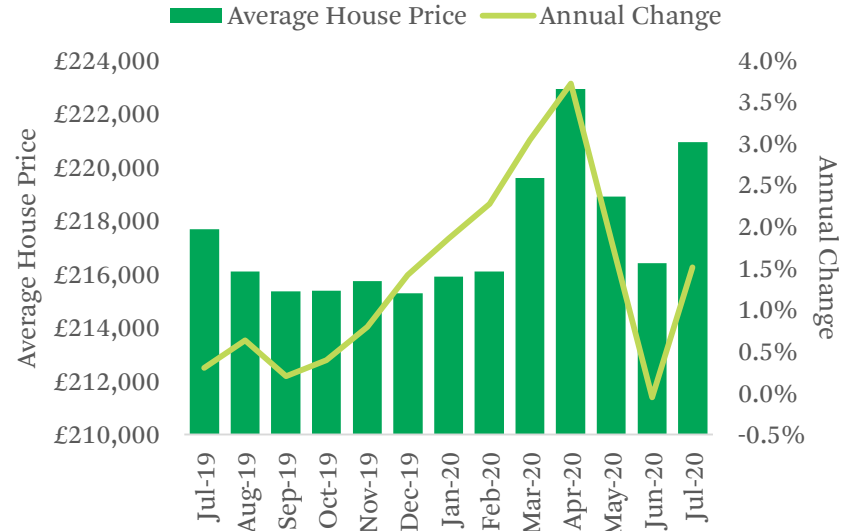
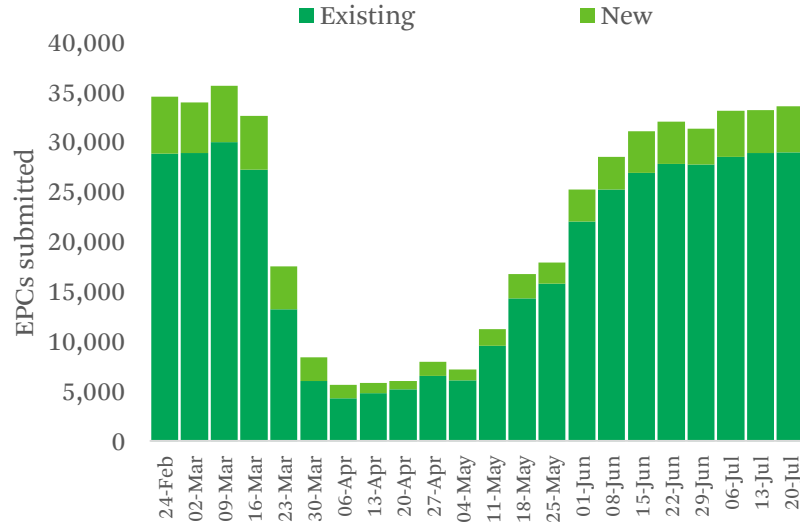
It was a strong start to 2020 for the residential property market. Mortgage approvals hit a six year high and price growth returned to London. However, this momentum came to an abrupt halt mid-March when the Government introduced a lockdown to help prevent the spread of the coronavirus. As a result, around 370,000 home sales were put on hold; sales in April and May fell by around a half and approvals sank to an all time low of 9,300 in May, an 85% fall year-on-year. Zoopla estimates that around 124,000 sales were lost as a result of the lockdown.



Source: BoE, ONS

BUT NOW THE BOUNCE BACK BEGINS

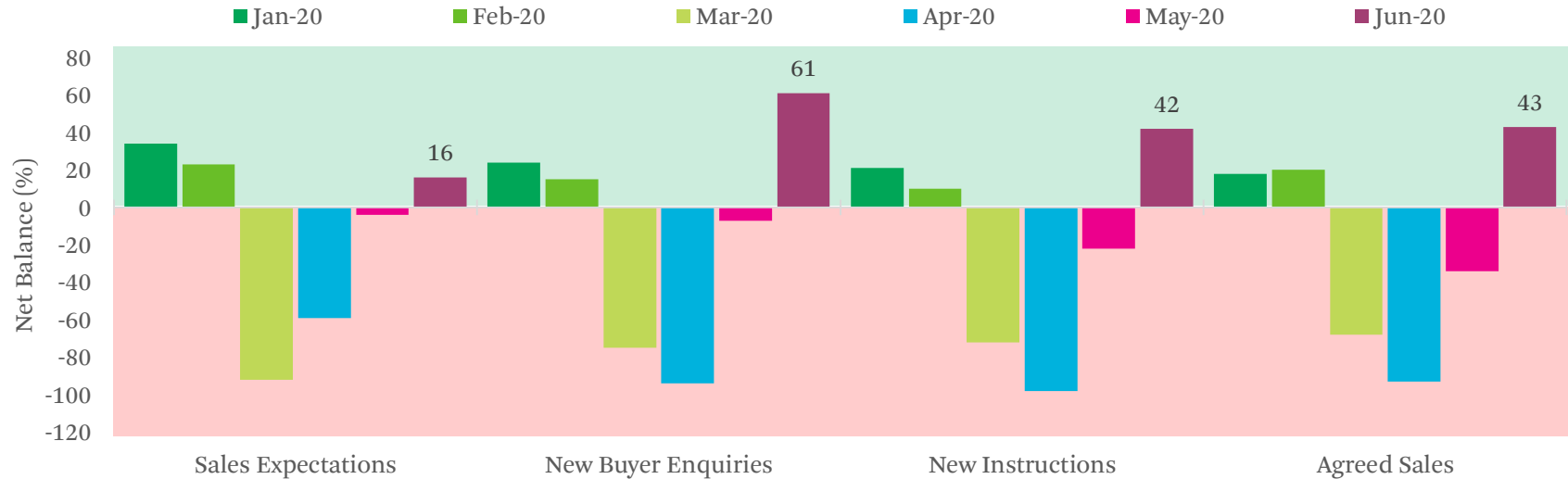
In mid-May the lockdown rules were eased and estate agents re-opened. And despite the weak economic backdrop, the housing market has rebounded. The latest data are hugely positive, with a fourfold increase in approvals in June and based on the number of Energy Performance Certificates (EPCs) submitted, the number of weekly transactions in England is back to pre-Covid levels. Additionally, data suggests a 1.7% increase in UK house prices in July, reversing the fall in June. As a result, annual house price growth recovered to +1.5%. This renewed vigour partly reflects the release of pent-up demand with those buyers thwarted by the lockdown now re-entering the market. In addition, there is some evidence that lockdown has made household re-evaluate where they are living. According to a Nationwide Building Society survey, 15% of people surveyed said they were considering moving as a result of life in lockdown.



Source: EPC, ONS

AND THE LATEST DATA IS ENCOURAGING

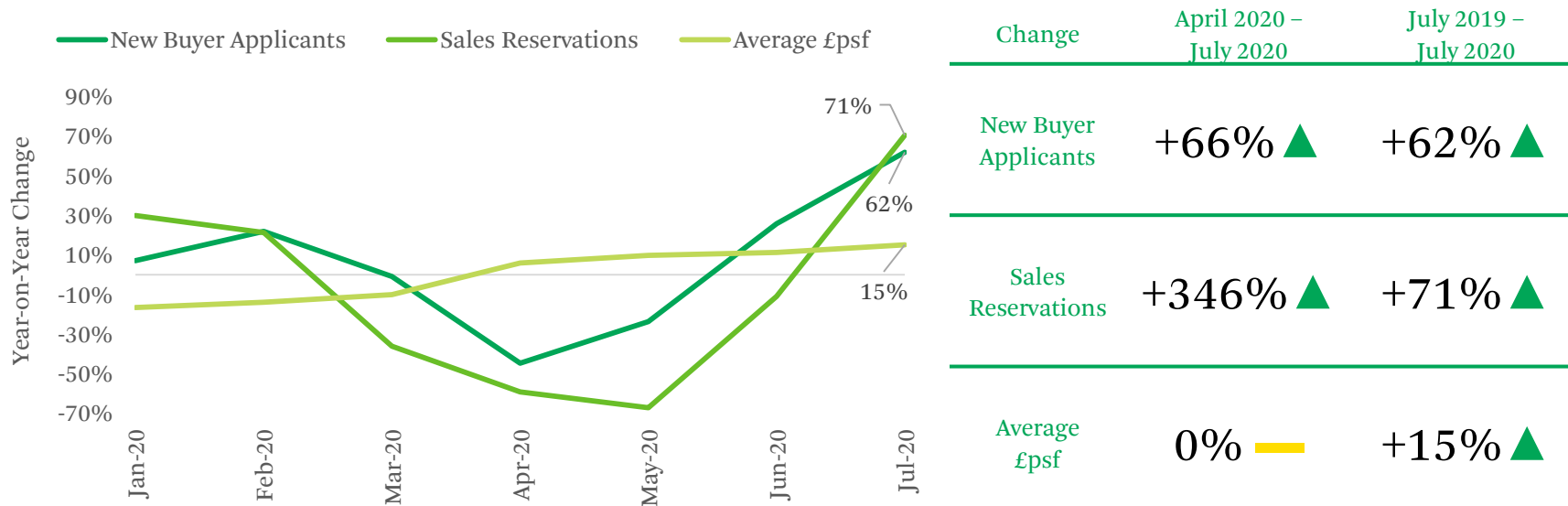
Property portals such as Rightmove and Zoopla are reporting incredibly high demand. For example, according to Rightmove, buyer enquiries were 75% higher in July 2020 compared with 2019 and the number of monthly sales agreed is up 15% on last year. It also reported that 44% of all properties newly listed in the first month the market re-opened are already sale agreed, which compares with 34% for the equivalent dates last year. Similarly, Zoopla report buyer demand is 1.5 times higher than June 2019 and 46% higher than pre-Covid levels. The RICS survey is also positive with 'agreed sales' at it's highest since September 2013 and both 'new instructions' and 'new buyer enquires' at their second highest readings since the survey began. Lonres data show in the last week of July there were 438 properties were put under offer in prime central London, with 193 sold. This compares with 330 put under offer and 108 sales in the last week in June.



Source: RICS

CBRE'S EXPERIENCE MIRRORS THIS

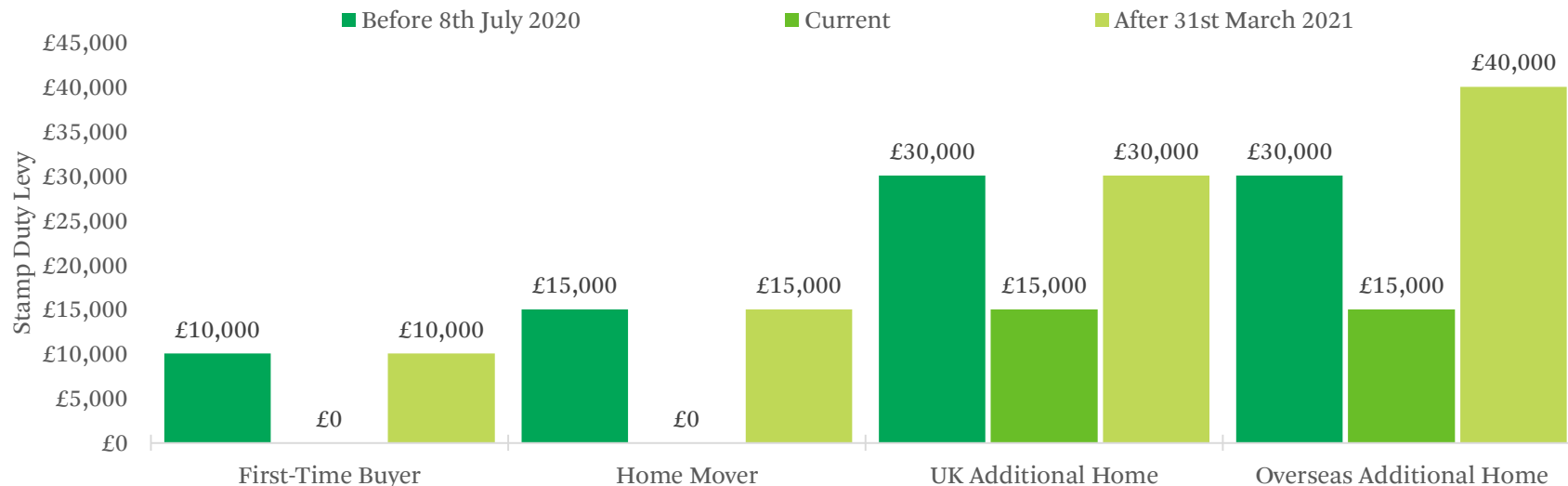
CBRE applicant numbers and reservations have also picked up significantly since the trough of the lockdown period. Since lockdown was eased in May and estate agents re-opened, new buyer applicants have increased by 66%, while sales reservations were 346% higher than in April. Moreover, CBRE's performance in July is now stronger than the same period in 2019.



Source: CBRE Research

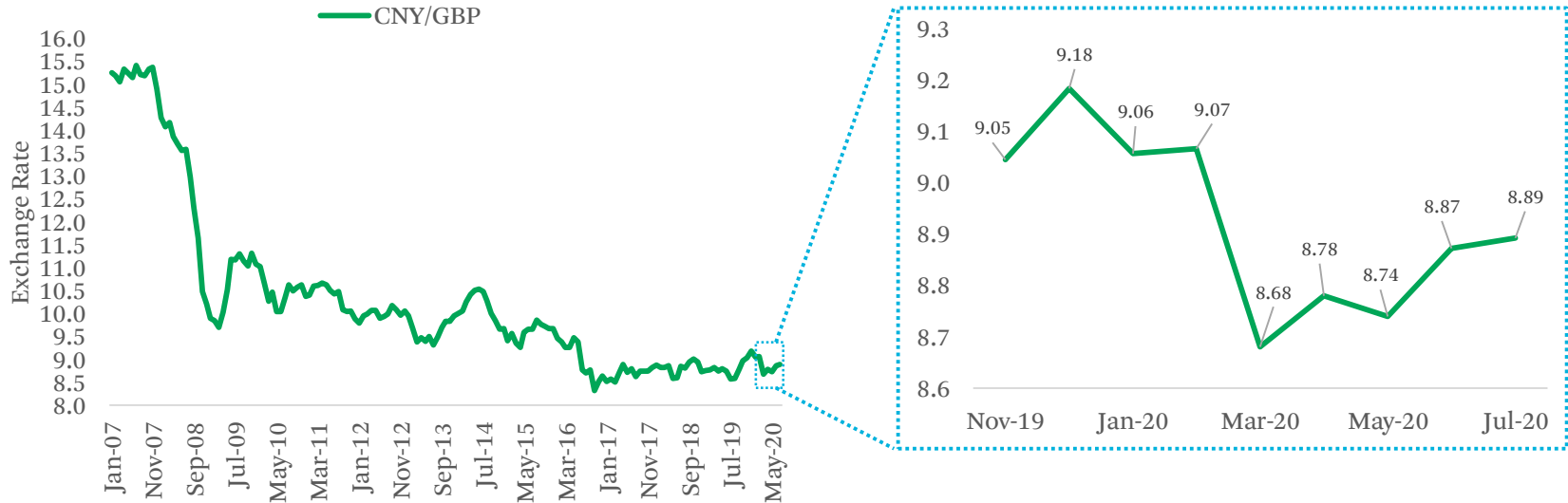
POLICY INITIATIVES WILL BOOST DEMAND FURTHER

The bounce looks set to continue and will be boosted by the stamp duty holiday announced on the 8th July. The holiday will run until the 31st March 2021, and until then stamp duty is only payable on properties above £500,000. Albeit those buying an additional property, such as buy-to-let, will still be subject to the additional 3% surcharge. It is a welcome incentive, and with 9 out of 10 sales now being exempt from this levy, it should help stimulate sales and sustain the rebound in activity. Rightmove reported a 35% jump in annual sales volumes in the five days immediately following the announcement. In addition, the Centre for Economics and Business Research has estimated that the current holiday could lead to a 6% rise in transactions over the next 9 months – equivalent to just over 40,000 sales. The government also announced a two month extension to Help to Buy (H2B) to allow for delays caused by coronavirus.



AND THERE ARE MORE POSITIVE REASONS TO BUY NOW...

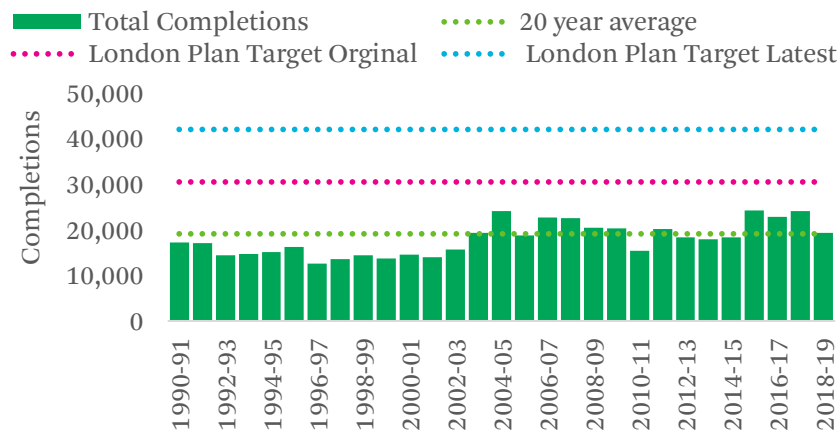
The cost of debt is at record lows, which makes it a good time to buy property. Although the number of mortgage deals has reduced, the average mortgage rates on two and five year fixed deals have hit historic lows (the current average two year fixed mortgage rate stands at just 2.09%). The London new build market will be boosted by the weak pound, which will encourage overseas investors into the London market. And although exchange rates have reverted to pre-Covid levels, they still remain low when compared to the end of 2019 and start of 2020.



Source: Macrobond

ALTHOUGH, SUPPLY MAY NOT KEEP UP WITH DEMAND

There will be fewer new build completions in the next few years, reflecting lower capacity due to workers on sites adhering to social distancing rules. Many house builders are reporting capacity at between 60% and 70% of normal rates. As a result, we expect lower completions coming forward in 2020. However, many developers are focusing on finishing off stock already underway. Fewer starts in 2020 will have a knock on effect in 2021 and 2022, so the undersupply may continue for several years. We expect this continued lack of supply, coupled with the Government initiatives, will sustain demand and prices as the market returns to 'normality'.



AND OVERALL THE MARKET FUNDAMENTALS REMAIN STRONG IN LONDON AND WILL CONTINUE TO DO SO...



Resilient economy



Low interest rates



Favourable exchange rates



Strong legal structure and asset protection



Centrally located between Asia and North America



World class education



Favourable time zone



Crossrail



London population expected to increase



Strong rental demand



London as a 'safe haven'



Leading technology and research centre

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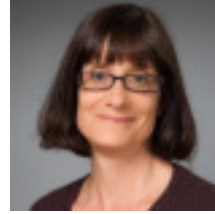
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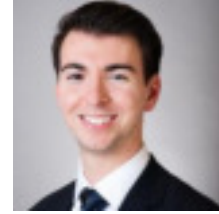
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CBRE Global Research

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