

# UK housing: Three factors driving the recovery - and three risks that could derail it

The jump in UK housing market activity since lockdown is a welcome but surprising development, given the sharp fall in GDP. We take a look at three driving forces behind this resilience, as well as three key headwinds we think could still challenge the market later in the year



We now estimate that around two-thirds of the UK's mortgage squeeze has come and gone and the impact on households will be more modest this year than previously expected.

## The property market has sprung back to life

The UK economy has experienced the [sharpest decline in GDP of modern times](#), but you wouldn't know that looking at the property market.

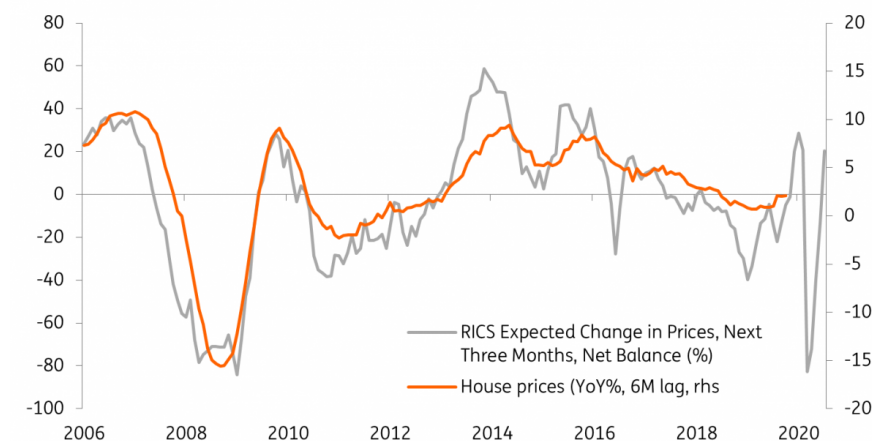
Buyer enquiries have surged according to Rightmove, while mortgage applications have partially rebounded in the weeks following the market's reopening in mid-May. All of this helped lift prices by 1.6% in July according to Halifax, offsetting initial pandemic losses.

But with unemployment starting to rise, the question is: can the housing market continue its solid run, or are we heading for a price correction, as various major forecasters (including the Office for Budget Responsibility) have predicted?

We're inclined to think the market will come under renewed pressure later in the year, although there's little to suggest the 'mini-boom' currently being experienced is going to abate imminently. The latest RICS survey - a good barometer of what's going on beneath the surface - shows a higher net balance of agents expecting higher prices and sales than in most of the period since the 2016 Brexit referendum.

We think this flurry of activity stems from three main factors.

## Estate agents are looking for higher prices in the near-term



Source: Macrobond

### 1 The year started off well

Firstly, the property market had a good start to the year. You can see from the RICS data in the chart above that there did appear to be a bit of a 'Boris bounce' in sentiment and activity back in February, as the market kicked back into life after the UK election. And while the decision to enter lockdown in late-March coincided with a historically busy time in the annual housing market, putting sales on hold, the evidence so far suggests many of these transactions have since completed.

Why? Well in all likelihood, lockdown will have only increased homebuyers' desire to move. For those either already in the market, or tempted to move, spending more time indoors during Covid-19 (and for many, the prospect of more home working in future) will have only highlighted the things they dislike about where they currently live.

The latest RICS report contains numerous references to buyers seeking more green space, for instance.

### 2 Homebuyers are likely to have been less affected by the Covid-19 hit so far

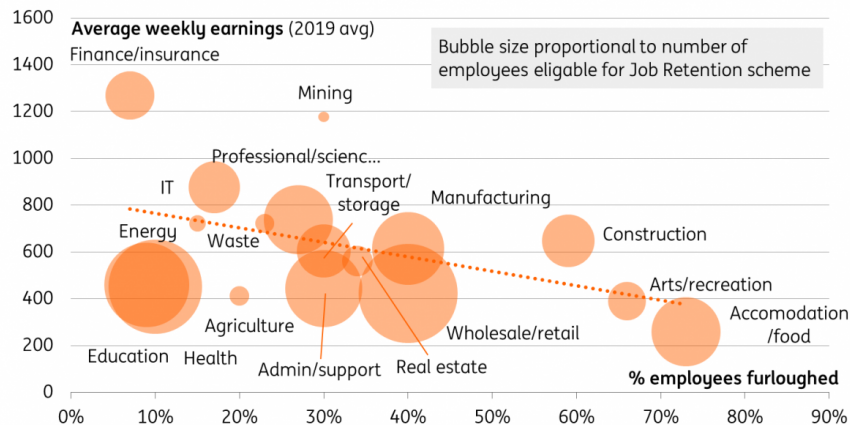
Perhaps the biggest driving factor is that those most affected by the crisis so far are less likely to be prospective home-buyers. One of the harsh realities of the crisis so far is that it is the lowest paid, and those in more insecure forms of employment, have been hit hardest financially.

We know for instance that those sectors who've used the furlough scheme most heavily - and

therefore probably those more likely to be shedding jobs over coming months - tend to have lower rates of average pay. We know too that those in their late teens or early twenties have been most heavily furloughed demographic.

For reference, the average first-time buyer in the UK is now around 33.

## Sectors with higher rates of furlough tend to be lower paid



Source: UK Government, ONS

Percentage of eligible employees that have been furloughed by sector. Weekly earnings in wholesale/retail an employee-weighted average of the two sectors.

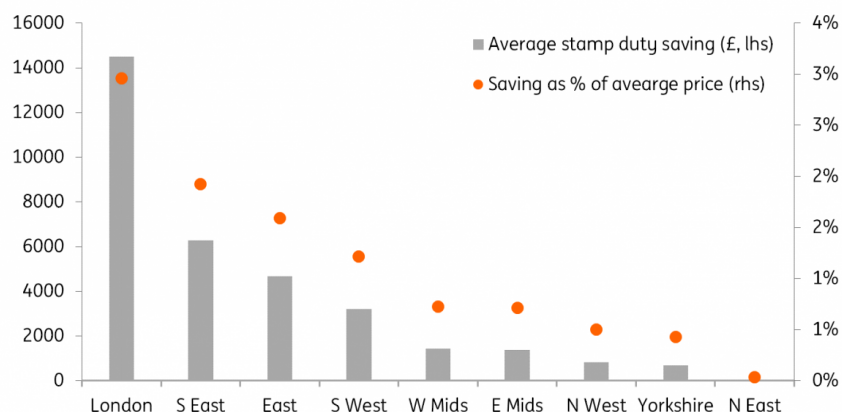
### 3 The stamp duty cut

The Chancellor announced in July that all housing transactions below half a million pounds would not pay any stamp duty until next spring, and for context the average UK property value is less than half that.

Even so, the net saving for buyers in reality will be fairly minimal, given that prices will in all likelihood rise to offset the tax cut. The way the cut is structured also means it will disproportionately benefit London and the South East.

Having said that, the Chancellor's actions should keep volumes supported and help insulate the market against the broader economic tide for the time being.

## Stamp duty cut by region based on average house price



Source: ING calculations, UK Land Registry

## There are a growing number of headwinds

The challenge for the property market is that each of these three factors is likely to prove temporary - and the anticipated rise in unemployment poses a particular risk.

We think there's a fair chance the unemployment rate will rise further than the Bank of England's latest 7.5% forecast. The question at this stage is how quickly, or to what extent, the rise in joblessness broadens out from the hardest-hit consumer services sectors. Business investment is likely to remain weak, particularly in light of the forthcoming changes related to Brexit, and that is likely to lower labour demand for a much broader range of industries.

That said, household finances are generally perceived to be in better shape than they were before the last crisis. Debt-servicing costs remain low, and the fact that overall savings levels have increased through this crisis, albeit involuntarily, should help provide a short-term buffer.

But higher unemployment will inevitably mean lower buyer demand, and there is some uncertainty surrounding the impact of mortgage payment holiday expiries and the forthcoming end to the repossessions ban in October.

## Reduced mortgage availability and a challenging buy-to-let environment also pose downside

There has also been a reduction in the availability and cost of high loan-to-value (LTV) mortgage products, which is likely to further constrain demand, particularly for first-time buyers. According to the Bank of England, those looking to take out a mortgage with a higher, 90% LTV have seen the two-year fixed interest rate increase by 69bp since February, despite the Bank's monetary easing. Rates on 75% LTV products have risen by a mere 5bp.

The buy-to-let market is also something of a wildcard. Demand for rental investments has cooled over recent years following a string of tax changes. But with renters being disproportionately hit financially by the crisis so far, and likely to be hit harder by the initial wave of redundancies, many landlords could face some loss of income.

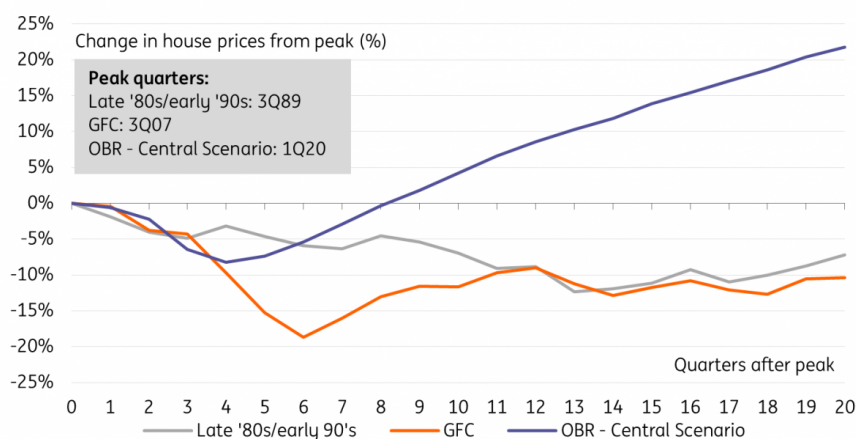
What this means for prices isn't necessarily obvious - the Bank of England noted in its latest [Financial Stability Report](#) that buy-to-let investors generally had a well-diversified income stream, so potentially will be able to weather the storm. Nevertheless, there have long been concerns about parts of the market where investors are perceived to be highly leveraged.

## A correction later in the year can't be ruled out

In short, the number of headwinds facing the property market is likely to grow, making it likely that the market will lose steam later in the year. We, therefore, think there's still a possibility that prices could begin to slip again through the winter, albeit the extent is pretty uncertain, and we're inclined to say any correction wouldn't be as severe as the aftermath of the financial crisis.

For reference, the Office for Budget Responsibility forecasts an 8% peak-to-trough fall in house prices in its central scenario, compared to almost 20% in the post-crisis years.

## The OBR's forecast vs. previous house price declines



Source: Macrobond, ING calculations, OBR forecasts

### Author

**James Smith**

Developed Markets Economist, UK

[james.smith@ing.com](mailto:james.smith@ing.com)

### Disclaimer

This publication has been prepared by the Economic and Financial Analysis Division of ING Bank N.V. ("ING") solely for information purposes without regard to any particular user's investment objectives, financial situation, or means. *ING forms part of ING Group (being for this purpose ING Group N.V. and its subsidiary and affiliated companies).* The information in the publication is not an investment recommendation and it is not investment, legal or tax advice or an offer or solicitation to purchase or sell any financial instrument. Reasonable care has been taken to ensure that this publication is not untrue or misleading when published, but ING does not represent that it is accurate or complete. ING does not accept any liability for any direct, indirect or consequential loss arising from any use of this publication. Unless otherwise stated, any views, forecasts, or estimates are solely those of the author(s).

as of the date of the publication and are subject to change without notice.

The distribution of this publication may be restricted by law or regulation in different jurisdictions and persons into whose possession this publication comes should inform themselves about, and observe, such restrictions.

Copyright and database rights protection exists in this report and it may not be reproduced, distributed or published by any person for any purpose without the prior express consent of ING. All rights are reserved. ING Bank N.V. is authorised by the Dutch Central Bank and supervised by the European Central Bank (ECB), the Dutch Central Bank (DNB) and the Dutch Authority for the Financial Markets (AFM). ING Bank N.V. is incorporated in the Netherlands (Trade Register no. 33031431 Amsterdam). In the United Kingdom this information is approved and/or communicated by ING Bank N.V., London Branch. ING Bank N.V., London Branch is authorised by the Prudential Regulation Authority and is subject to regulation by the Financial Conduct Authority and limited regulation by the Prudential Regulation Authority. ING Bank N.V., London branch is registered in England (Registration number BR000341) at 8-10 Moorgate, London EC2 6DA. For US Investors: Any person wishing to discuss this report or effect transactions in any security discussed herein should contact ING Financial Markets LLC, which is a member of the NYSE, FINRA and SIPC and part of ING, and which has accepted responsibility for the distribution of this report in the United States under applicable requirements.

Additional information is available on request. For more information about ING Group, please visit <http://www.ing.com>.