



Market briefing: June 2021

Key developments in the housing and mortgage markets

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Executive Summary

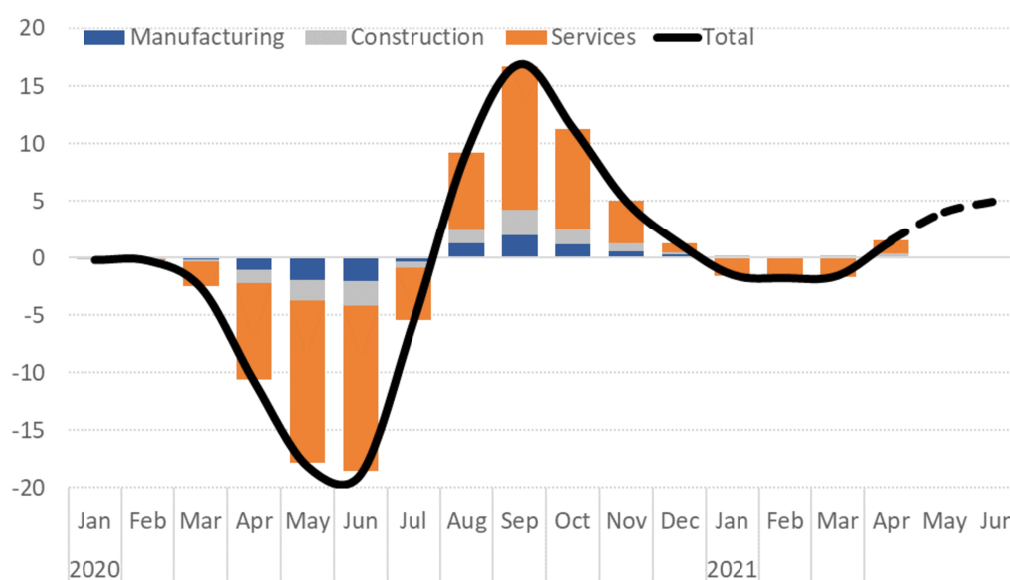
- The UK economy is currently enjoying a post-lockdown bounce in economic activity, amid growing confidence that the successful roll-out of our Covid vaccination programme will allow further easing despite the ongoing challenge of new variant strains.
- Housing market sales and house prices have recently been running at their strongest since the global financial crisis and look set to continue strongly for much of the year.
- It is a similar story for mortgage lending, with gross and net industry mortgage lending this year set to deliver their strongest performance since 2007.
 - First-time buyer numbers have lagged somewhat, as higher house prices have exacerbated affordability pressures by lifting the size of loans needed and deposit requirements. This may be mitigated by better availability and keener pricing of high LTV loans.
- The Bank of England is currently happy to look through short-term inflationary pressures and to maintain an accommodative monetary stance.

The Economy

Growth

The UK economy is enjoying a post-lockdown bounce, with strong monthly growth figures and household and business confidence running high because of the easing of social distancing restrictions.

Chart 1: Sources of GDP growth, %



Source: Office for National Statistics

Note: Figures show contribution to growth, latest 3 months on previous 3 months. Dashed line represents future direction of overall GDP growth.

The Q1 dip in activity associated with the recent lockdown was vastly different in nature to the first one and turned out to be much gentler than originally expected, reflecting the degree to which the behaviour of businesses and households has adapted.

The most recent growth figures for the three months to April (see Chart 1) show that overall GDP grew by 1.5%, mainly because of services output, which has been boosted by strong retail sales following the re-opening of non-essential retail.

April's GDP also marks a post-pandemic high for economic activity. Although still 3.7% below pre-pandemic levels seen in February 2020, this represents a big improvement on three months earlier when the shortfall was 9%.

More recent survey evidence points to a broadly-based and strong recovery.

The economic outlook has brightened significantly since our last briefing, despite the emergence of the Delta (or Indian) variant strain of Covid. The decision to delay the end of lockdown restrictions by four weeks to 19 July, although unwelcome news for those sectors directly impacted such as hospitality, events and retail, should have only a limited effect on GDP more widely.

Real-time data suggests that economic growth will be as much as 5% in the second quarter.

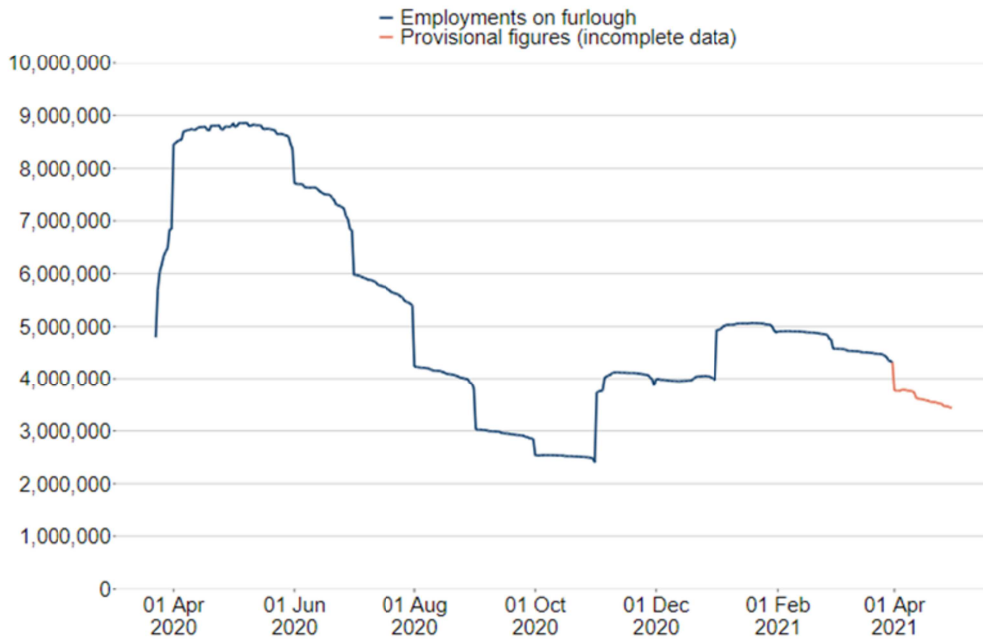
Optimism for the year as a whole has grown over recent months, helped by the Budget measures and the continuing success of the vaccination programme. The consensus is for economic growth of about 7%, according to the latest HM Treasury [compilation of forecasts](#). As the Bank of England pointed out when it upgraded its assessment in its May [Monetary Policy Report](#), the UK economy should return to its pre-Covid level by the year-end.

Jobs

The jobs market, though still worse than before Covid, is showing signs of picking up as the economy improves:

- The official unemployment rate has declined over recent months, falling from its post-pandemic high of 5.1% to stand at 4.7% for the three months to April.
- Payroll numbers – up by 197,000 in May 2021 to 28.5 million – have increased for six months in a row.
- There were 758,000 job vacancies in the March to May period, almost back to the pre-pandemic level.

Chart 2: Employees on furlough



Source: HMRC CJRS data

The numbers on furlough have fallen away sharply with the partial re-opening of hospitality and retail. Although the latest official figure shows that 3.4 million employees were fully or partially on furlough at the end of April, more timely [estimates](#) suggest that the percentage of the workforce on furlough is now the lowest since the scheme began. Even in the pub, restaurant and hotel and the arts and entertainment sectors most affected by the four-week delay in ending lockdown restrictions, there have been notable falls in the proportion on furlough leave.

As things currently stand, the Government will begin to taper its furlough support from July prior to the scheme closing fully at the end of September.

While some jobs will disappear as furlough ends, there is growing confidence that, with the economy already recovering strongly, the adverse jobs impact as the government's support measures are unwound will be limited. The Bank of England view is that the unemployment rate will peak at 5.5%.

Inflation

Amid all this optimism about the short-term economic outlook, a possible “fly in the ointment” is inflation.

As we mentioned last quarter, global bond markets are wary that monetary easing and fiscal stimulus packages could feed through into higher prices. A recent spike in inflationary numbers, principally in China and the US, have allowed inflationary worries to resurface.

Here in the UK, the Consumer Prices Index including owner occupiers’ housing costs (CPIH) rose by 2.1% in the 12 months to May 2021, up from 1.6% to April (see Chart 3). This was a larger jump than expected jump, and there has been evidence of higher input costs feeding through into selling prices.

Although one of the Monetary Policy Committee (MPC) members, the outgoing chief economist, Andy Haldane, has been [warning](#) about the return of inflationary pressures for a while, the mainstream view of the Bank of England continues to be that short-term inflationary pressures are to be expected as economies bounce back from the straitjacket of Covid restrictions, but that they should prove transitory.

Chart 3: Headline inflation rate, %



Source: Office for National Statistics

Note: 12-month change in the Consumer Prices Index including owner occupiers’ housing costs (CPIH)

At its recent June meeting, the Committee suggested that headline CPI would exceed 3% for a period. While the Bank of England remains vigilant to inflationary risks, it has kept to its current monetary stance and reaffirmed that it will not be rushed into tightening policy.

Housing and mortgage markets

Underpinned by a resurgence in buyer interest from established homeowners looking to move, market conditions continue to be extraordinarily strong, with sales activity and prices at their strongest since the global financial crisis (GFC).

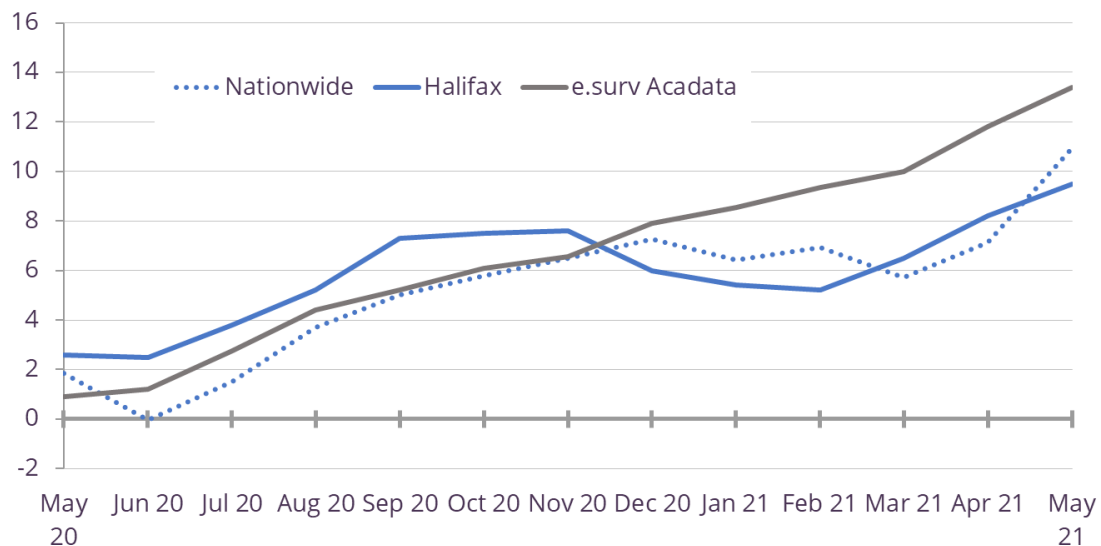
There was a significant bunching of completions in March, that is just before the original deadline for the stamp duty holiday was due to expire, with seasonally adjusted property sales hitting a record 183,000.

The decision to extend the end date (in England, Wales and Northern Ireland) has added a second wave of demand. Much of this should work through by the end of June, although non-first-time buyers in England and Northern Ireland will continue to enjoy a concession on purchases up to £250,000 through to the end of September.

Sales fell back to 120,000 in April and a still robust 115,000 in May and are likely to remain at elevated levels for much of the year.

Hometrack/Zoopla recently forecast that sales would reach 1.5 million this year, up from 1.04 million last year and the highest level since 2007.

Chart 4: National house price inflation, %



Source: Nationwide, Halifax, e.surv Acadata

Halifax, Nationwide and e.surv Acadata estimate that the annual rate of house-price inflation nationally in May was 9.5%, 10.9% and 13.4% (for England and Wales) respectively. While each measure suggests that house price inflation was

accelerating over the past couple of months, these figures are distorted by the weakness of house prices when the housing market was closed during the first lockdown last year.

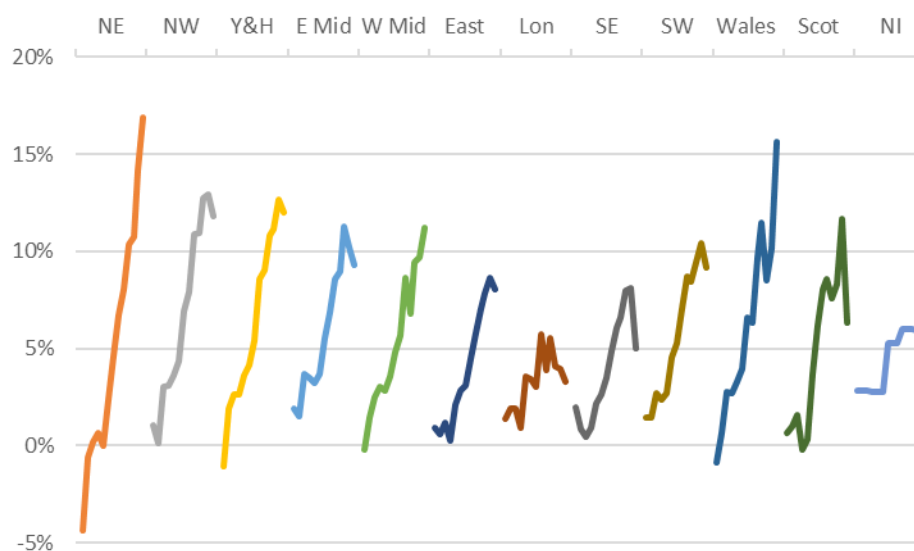
The underlying rate of inflation is probably less than 10%. This happens to be more in line with the 8.9% for the year to April recently reported by the Office for National Statistics.

That said, looking at how house prices have moved by geography (see Chart 5), we see that house price rises are much sharper in one or two areas. Two other points are worth noting: the relatively subdued nature of house price inflation in London and Northern Ireland and the sharp fall in reported prices in Scotland in April.

The limited pace of house prices rises in the capital reflects the well-documented shift in household preference for larger properties and away from urban centres.

The recent reversal in Scotland reflects the bunching of higher-priced sales before the stamp duty holiday north of the border ended in March and the lower proportion of such sales in April. This shaved 1.5% off monthly house prices in Scotland, according to data from Walker Fraser Steele.

Chart 5: How regional prices have moved year to April 2021, % year-on-year



Source: Office for National Statistics

Mortgage lending

The turn-round in house purchase activity has been supported by high levels of mortgage lending.

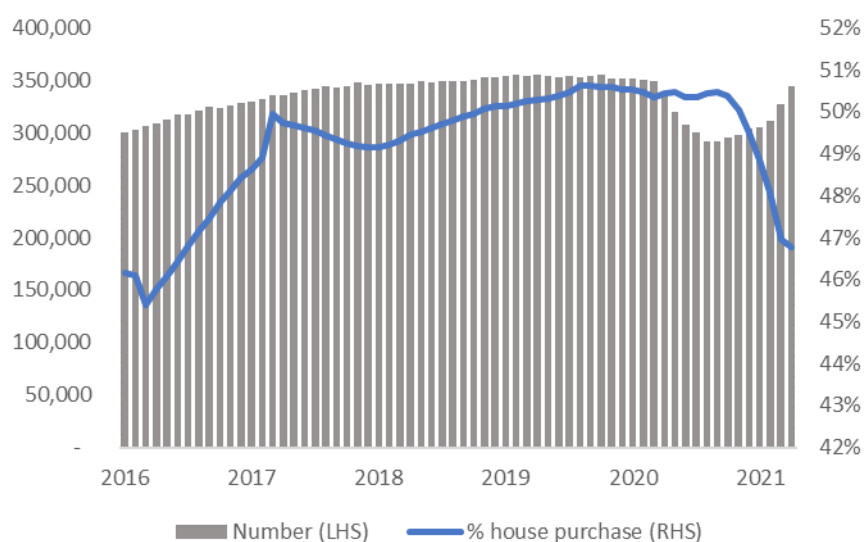
As an aside, it is also worth noting that cash purchases have also been running strongly and may exceed half a million this year for the first time ever.

Monthly approval numbers actually peaked (at more than 100,000) in November and December last year but have continued to run at relatively high levels ever since. There were nearly 87,000 approvals for house purchase in April, nearly a third higher than two years ago (comparisons with last year are distorted by lockdown arrangements).

The buoyancy of the housing market has of course also boosted gross and net mortgage lending, with seasonally adjusted March totals of £35.7 billion and £11.8 billion setting new records. Although easing back notably in April (to £21.7 billion and £2.7 billion respectively), the broader recovery in lending is such that gross and net lending this year should comfortably notch up their best performances since the GFC. Their rolling 12-month totals are already £269 billion and £58 billion respectively and these totals will be exceeded over the coming months.


It is important to note that the surge in lending has not been uniform.

Chart 6: First-time buyer numbers and market share, rolling 12-month basis



Source: UK Finance

Note: Market share figures show FTBs as a share of regulated house purchase activity



Given that most first-time buyers already enjoyed some preferential stamp duty treatment before the holiday, landlord investors, those moving home or buying second homes have been the main beneficiaries of the stamp duty holiday. The recent strong increases in house prices have also added to the affordability pressures facing would-be first-time buyers, lifting the size of loan needed and deposit requirements, with the consequence that recent house purchase activity has favoured those with higher incomes, large deposits or significant housing equity.

Although first-time buyer numbers have picked up sharply over recent months (Chart 6), the rolling 12-month total is still below the levels of 2018 and 2019. By contrast, movers are enjoying their strongest performance since the GFC by a comfortable margin.

The upshot is that the first-time buyer share of regulated sales has dipped to their lowest proportion since 2017. It is a similar story for first-time buyers as a share of all transactions.

By contrast, landlords have taken full advantage of the stamp duty holiday, with more than 12,000 purchases in March, the highest since March 2016 (just before the 3% higher rate for additional dwellings was introduced). We estimate that buy to let's share of industry net lending grew to about a third in the first quarter, its strongest showing for four years.

Landlords have also benefited from strong rental demand away from London. Across London as a whole, rents are at their most affordable levels in a decade, and there is growing confidence that demand is starting to recover as lockdown eases and offices and amenities start to open and that the supply of rental properties will tighten over the next year or so with the return of global tourism and business travel.

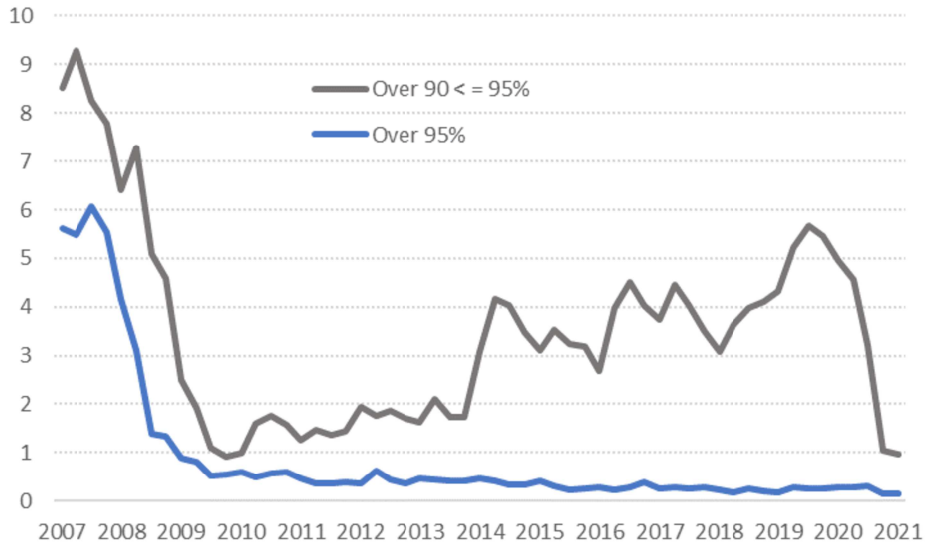
With respect to refinancing, the industry has seen further inroads by product transfers at the expense of remortgaging. A total of 324,200 product transfers took place in the first quarter, up from less than 290,000 a year earlier.

Remortgages, where activity has fallen year-on-year more or less continuously over the past year, fell by a larger amount. While large numbers of maturing products in the second half may slow this trend, it is clear that the current frenetic housing market conditions favour product transfers, as they can be carried out without the need for mortgage advice, valuation or conveyancing.

Mortgage products

The recent publication of regulatory data shows that in the first quarter the provision of high LTV loans had fallen to the lowest proportion of new business since records began.

Chart 7: Higher LTVs as % of new mortgage lending



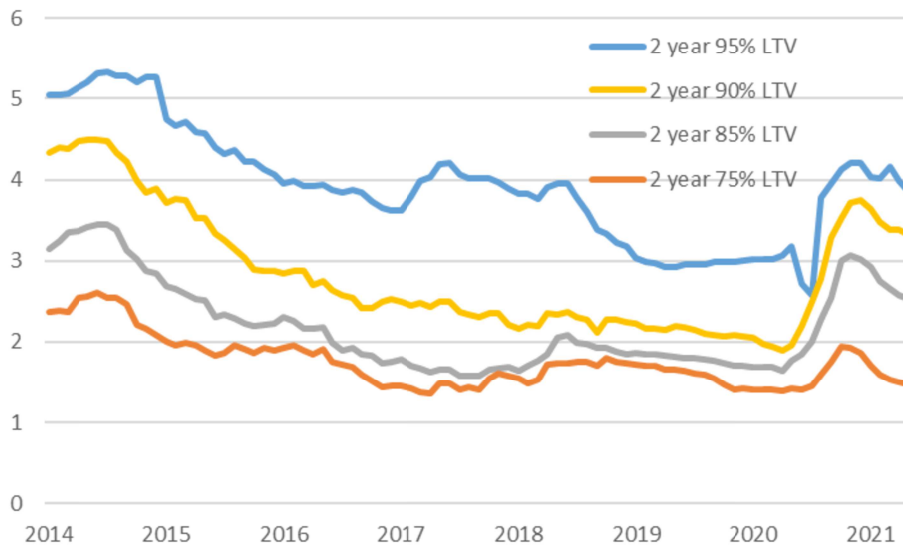
Source: Financial Conduct Authority

The return of firms into higher LTV lending since late 2020 has therefore been a welcome development.

With a greater capacity and appetite to lend, we have begun to see greater product choice and keener pricing across the board over recent months. Lower LTV loans (sub 60% LTV) are in fact cheaper than a year ago, and we have seen the return of sub-1% deals in recent weeks.

For the most part, higher LTV loans continue to be more expensive than pre-Covid, according to the Bank of England figures, but the trend is clearly downwards (Chart 8).

Chart 8: Quoted rates, 2-year fixed rate mortgages



Source: Bank of England

The launch of the Government's Mortgage Guarantee Scheme from mid-April has acted as a catalyst for lenders to offer 95% LTV loans, both under the scheme and independently of the initiative, and this is now being reflected in keener pricing.

These developments will help to support first-time buyers, as should the Government's First Homes Scheme. Further details of the scheme have been provided (see boxed article) and the first site offering the scheme (Bolsover in the East Midlands) announced.

Going forwards, the ambition is to deliver at least 10,000 First Homes annually. The government has also launched its [Own Your Home](#) website, highlighting the various routes to home ownership for first time buyers, including First Homes, Help to Buy, the mortgage guarantee scheme and shared ownership.

First Homes Scheme: Summary

A government scheme offering first-time buyers discounts of at least 30% against market value on new homes from the end of June.

Key features:

- At least a quarter of all the affordable homes that housebuilders are required to supply under planning obligations
- Borrowers with a joint household income of £80,000 (or £90,000 in London) who would not otherwise be able to buy
- After the discount has been applied, the first sale must be at a price no higher than £250,000 (or £420,000 in Greater London).
- Homes only offered to those buying with a mortgage of at least 50% of the property's value, in a bid to deter investors from taking advantage of the scheme.

Local authorities have flexibility to set higher discounts of 40% or 50% and/or lower price caps where appropriate and are encouraged to give priority to key workers.

Although potentially more of longer-term interest, it is also worth noting recent announcements regarding two private sector initiatives aimed at promoting high LTV mortgages – [Deposit Unlock](#) and [Market Mortgage](#). Deposit Unlock has now formally launched, initially in the North East, and a soft launch for Market Mortgage is planned in the summer.

Prospects

A recent [Bank for International Settlements paper](#) highlights that house prices have been growing strongly in real (inflation-adjusted) terms in many advanced economies including many of our European neighbours.

This strengthens our view that the current buoyant conditions in the UK housing market primarily reflect a shift in household demand prompted by the Covid pandemic, rather than the temporary stamp duty holiday.

The latter has of course distorted the monthly pattern of sales and does make it likely that conditions will settle down and house price inflation subside later this year. But, with much buyer demand coming from older and equity-rich homeowners, there is little reason to expect a sharp reversal in sentiment or activity.

While the jobs market may weaken a little as Covid support arrangements are unwound, this now looks less worrying than a few months ago. Given the conservative nature of mortgage underwriting over recent years, low mortgage rates and the range of forbearance policies available, those mortgage payment difficulties that do arise are likely to be relatively small in scale and spread over the medium-term. All of this helps to ensure that while possession numbers will inevitably rise from negligible levels, there will be few forced sellers bearing down on the market.

Short-term inflationary pressures have picked up, and this does raise a question-mark for the medium-term direction of travel, but for the time being this is simply an area to monitor rather than a cause for concern.