The London Borough of Enfield (Meridian Water Strategic Infrastructure Works) Compulsory Purchase Order 2020 - Reference PCU/CPOP/Q5300/3258664

Proof of Evidence of Stephen Armitage

Appendix 2 – Market Commentaries

- **(i) Savills Market Report Q4 2020**
- **(ii) Hamptons Market Insight Winter 2021**
- **(iii) Hamptons Market Insight Autumn 2020**

UK Development – Q4 2020

Residential Development Land

savills

Robust activity with an eye to risk

Land values have remained robust over the past quarter with UK greenfield and urban values increasing by 0.3% and 0.6% respectively. Activity levels in the land market have been higher than previous quarters, new sites continue to be launched on to the market, and buyers appear more motivated and decisive but with an eye to risk management due to market uncertainties ahead.

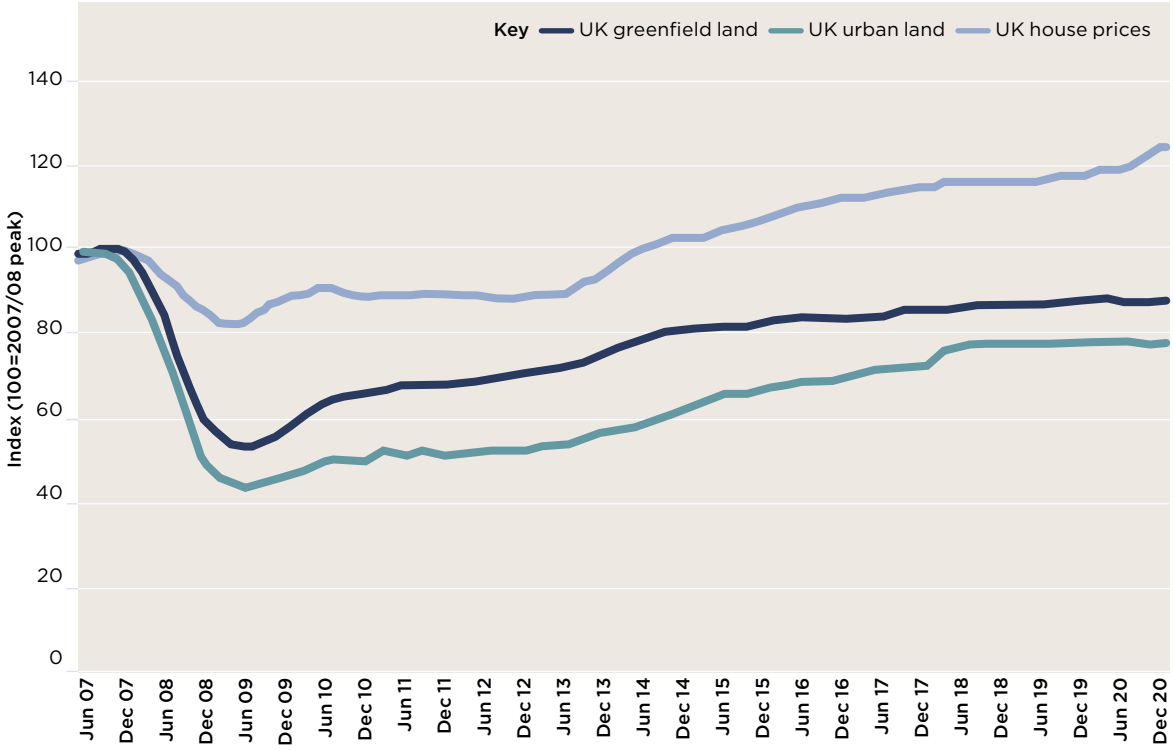
Land values and the numbers of bids per site have proved resilient, both recovering to stronger than pre-Covid levels in some markets. A net balance of 22% of Savills development agents reported that new sites continue to be brought on to the market, while a net balance of 37% reported an increase in the number of bids compared to normal levels.

There could be some pent-up demand for sites, as although some major housebuilders bought as much land in 2020 compared to normal levels, there are those who bought c.50-70% fewer plots in 2020 and others with a c.20-25% reduction in plots bought. Taylor Wimpey stands out for buying considerably more land in 2020, significantly ahead of normal rates of acquisition.

The strength of the housing market in the second half of 2020 has given land buyers more confidence. House prices grew by 7.3% in the year to December 2020 according to Nationwide, and transactions in November 2020 were 19.3% higher than the previous year, according to HMRC.

However, smaller sites (50-100 units) in primary locations have continued to attract strong interest over the past quarter, another sign of risk aversion from parties. Deferred payments terms remain common, allowing developers to spread their outgoings. There are also more examples of parties considering conversions of private plots to affordable and bulk sales to build to rent, as developers look to de-risk sites at a time of increasing market uncertainty with the end of the stamp duty holiday in March – around the same time that unemployment is expected to peak.

Resilient land values reflecting the strong housing market



Source Savills Research, Nationwide

Demand for sites in urban locations

Demand for urban sites across many areas persists, underlining that the vast majority of parties are resuming previous land buying activity, albeit that some remain cautious about developing in these locations.

The Government has increased its emphasis on brownfield development and in December 2020 announced £167 million of new funding to support development on such land. This includes a £100 million brownfield land release fund to facilitate regeneration and development on public sector land. £67 million has been allocated specifically to Greater Manchester and the West Midlands. The most recent figures published show that 53% of new homes in England were built on brownfield land in 2017-18, according to MHCLG.

Focal points

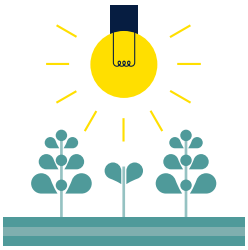
Development news and analysis in brief

RESILIENT ACTIVITY CONSIDERING RISK

Land values in Q4 remained stable with increasing demand levels, supported by a strong housing market, albeit with sales rates slowing to more normal levels and an eye to risk management

NORMALISING SALES RATES

High sales rates in 2020 have depleted housebuilders' stocks of new homes and land, meaning that land replenishment is likely to be a feature of the 2021 market



MOVING TOWARDS NET ZERO

Housebuilders have been factoring higher build costs into land bids, in anticipation of the higher energy efficiencies that will be part of building regulations with effect from June 2022

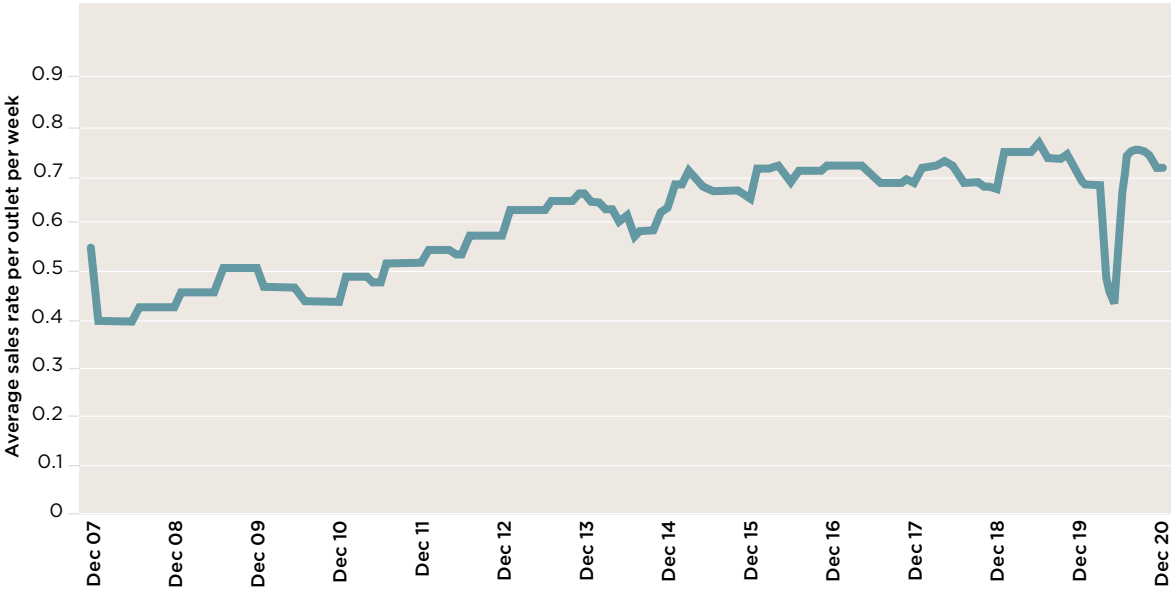
UK land value growth

Planning for beyond Help to Buy

Sales rates for the major housebuilders in H2 2020 were very strong, averaging 0.72 sales per outlet per week, and for many exceeding pre-Covid levels. This performance has been fuelled by pent-up demand after the spring 2020 lockdown, the stamp duty holiday and the 2013-21 Help to Buy Equity Loan scheme which closed for new reservations on 15 December. Enhanced affordability from low interest rates and buyer demand for more space has also bolstered sales performance.

Despite the changes to the Help to Buy scheme and the ending of the stamp duty holiday, there are strong forward sales for completion beyond March 2021 and cancellation rates have remained stable, which provides housebuilders with greater certainty going into 2021. However, there are early indications of recent sales rates returning to more normal levels after a strong performance in H2 2020, which for some is a result of a lack of stock to sell, limiting the number of sales. Many of the housebuilders are anticipating 10-15% fewer completions for the coming year compared to 2019.

Strong sales rates for the major housebuilders



Source Savills Research using Housebuilder reports

Addressing the green agenda

The Government has reiterated its green agenda in the Ten Point Plan published in November 2020. The Future Homes Standard will require a 75-80% reduction in emissions in new build homes by 2025 compared to current levels, including a ban on gas boilers in new homes, with an interim uplift in building regulations taking effect from June 2022.

Higher build costs as a result of these changes to Part L building regulations are increasingly being referenced and factored into land bids. These additional costs to meet the standard are predicted to be in the range of 1-2.5% per house, according to figures published by some of the major housebuilders.

Many of the major housebuilders are already adopting measures to improve their environmental performance. This includes research into low carbon technologies, developing net zero carbon house types and implementing policies of biodiversity net gain. There are also efforts by some to reduce carbon emissions not only across their developments, but also from their supply chains. Some are making greater progress than others adopting science-based targets for carbon reduction and achieving a c.20% reduction in Scope 3 carbon emissions. However, all listed housebuilders are legally required to report on their own direct emissions and emissions from their purchase of energy. Despite this progress being made by many, the sector still has a long way to go to reach net zero carbon standards. Over the longer term, greater costs to providing net zero standards may put pressure on land values, unless buyer preferences for energy efficient homes result in a boost to sales rates and/or prices.

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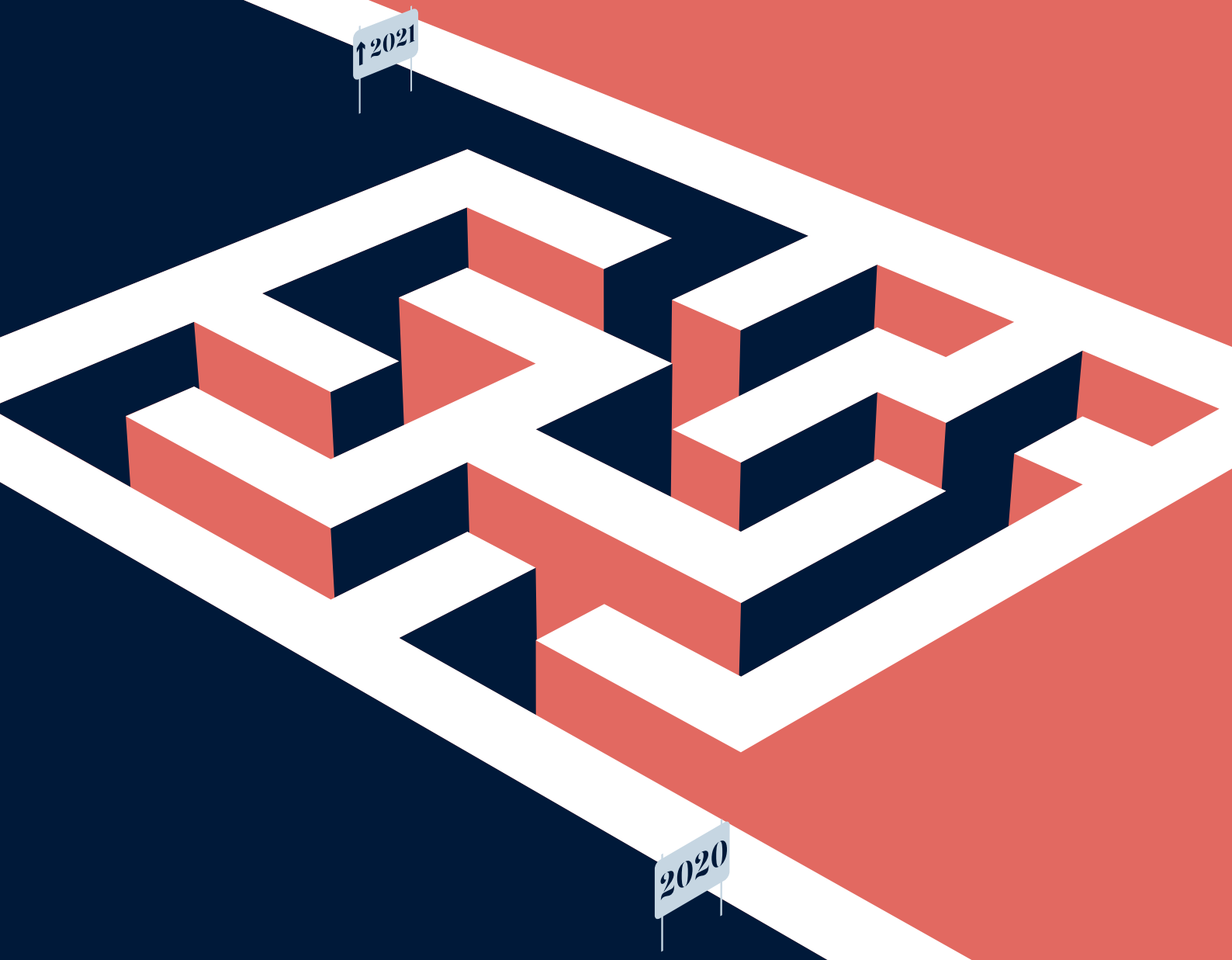
savills

MARKET INSIGHT
WINTER 2021

MOVING ON



Hamptons

THE HOME EXPERTS

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ECONOMY
CORONANOMICS

Expect considerable focus in 2021 on the pandemic's impact on employment. Already it is apparent what types of jobs and locations could be hardest hit, with city centres likely to bear the brunt. London, usually the powerhouse of the economy, seems set to be the most affected region.

The outlook may be downbeat, but pay is predicted to go up, with the Office of Budget Responsibility (OBR) forecasting an average increase of 2.1% this year.

The OBR is also predicting that unemployment will peak at 7.5% in the second quarter of 2021– which would represent a sharp rise on the third quarter of 2020. At that time the unemployment rate was already moving upwards, reaching 4.9%, against 3.7% in the same period of 2019. This equates to 1.69 million people, an increase of 411,000 over the 12-month period.

More timely numbers underline the growing size of the problem. HMRC data, for example, revealed that there were 819,000 fewer people on payrolls in November than at the start of the pandemic. During the third quarter, redundancies soared to a record high of 314,000, an increase of 181,000 on the previous quarter.

The extension of the furlough scheme until 30th April 2021 has softened the blow somewhat, but more businesses have announced redundancies. The pain is not being equally felt: the aviation, hospitality and retail sectors have made the largest job cuts. Other employers are reluctant to hire amid the uncertainty.

London has been at the centre of the crisis: a large proportion of employment depends on retail and hospitality. A higher proportion of workers in the capital have been furloughed than in other areas; there has been a sharper drop in job vacancies and a jump in work-related benefit claims.

Despite these conditions, average total pay (including bonuses) still went up by 2.7% in the three months to the end of October 2020. Earnings in the public sector showed the highest growth. But earnings fell in several sectors: construction, hotels, manufacturing, restaurants, retail and wholesaling.

The furlough scheme played a key role in supporting earnings in 2020. It is expected to help cushion the employment market until the roll-out of vaccines start to provide population immunity.

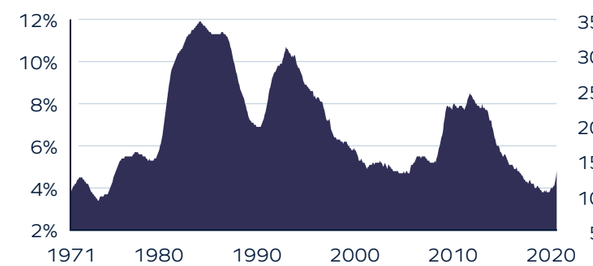
QUICK FACTS

819,000

fewer people on payrolls in November than at the start of the pandemic

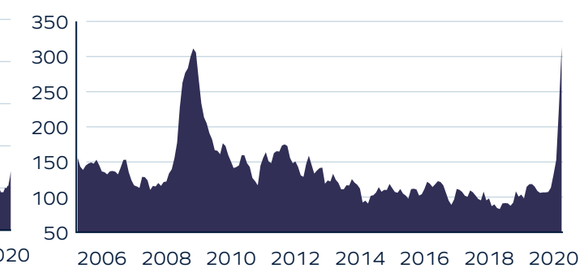
UNEMPLOYMENT RATE *(%)*

Source: ONS



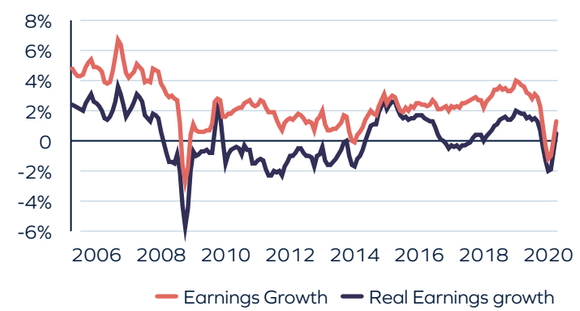
REDUNDANCIES *(THOUSANDS)*

Source: ONS



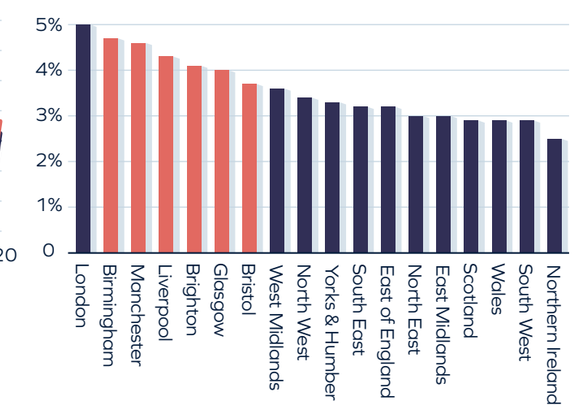
EARNINGS GROWTH *(%)*

Source: ONS



CHANGE IN CLAIMANT COUNT *(OCT 19 V OCT 20)*

Source: ONS



FOCUS
LESSONS FROM 2020

What lies ahead for the property market after the extraordinary events of 2020? After the pandemic freeze, the market re-opened to a clamour of demand for relocation that defied all expectations. Households, with the wherewithal to move, wanted larger houses with big gardens and ample space for home working, either in a leafy suburb or the country.

This relocation frenzy was fuelled further by the stamp duty holiday and cheap mortgage deals for borrowers with plenty of equity. The key statistics of 2020 hint at some of the trends that could continue into 2021, despite the challenges facing the residential sector.

BUYER TYPES

Buyer numbers, based on registrations with estate agents, were slowing towards the end of 2020, although they were still above their 2019 levels. In November 2020, buyer registrations were 12% higher than in the same month of 2019. The pace of growth in registrations was fastest in the South East, the East of England and the South West, as a North-South divide opened up. But the principal source of demand came from those with a home to sell. In November, there was a 96% jump in such house hunters in the South East. Interest from first-time buyers and people seeking a second home slowed. Could this be the pattern of 2021?

CASH PURCHASES

The share of homes bought by cash buyers fell to near-record lows, despite the rock-bottom rates on deposit accounts. This shift is partly explained by the lack of downsizers, some of whom may have been shielding. In the third quarter of 2020, cash buyers accounted for 24% of sales, against 26% in the same period of 2019. Just 17% of London homes were bought by a cash buyer in the final quarter of the year, the lowest figure on record. The proportion of £1 million-plus homes bought by cash buyers tumbled to 20% in the third quarter of 2020 – again the lowest ever - down from 33% in the same quarter of 2019.

"In the third quarter of 2020, the average gross profit made on a home, bought within the previous 20 years, was £85,620, up from £83,240 in the same period of 2019"

ANNUAL CHANGE IN SELLER PROFIT

Source: Hamptons and Land Registry

FOCUS
LESSONS FROM 2020

There was slightly more enthusiasm to buy a home of between £750,000 and £1 million with cash. Perhaps the buyers of these homes were more motivated by the stamp duty holiday?

SELLER PROFIT
In the third quarter of 2020, the average gross profit made on a home, bought within the previous 20 years, was £85,620, up from £83,240 in the same period of 2019. In August and September, the average gross profit rose to £90,000-plus, due to families with larger homes making moves. Their allure overshadowed flats: the average detached house that changed hands in the third quarter of 2020 sold for 49% more than its original purchase price. The average flat sold for 29% more although it has been owned for a shorter period of time.

MOVING DISTANCE
The most highly-publicised trend of 2020 was the move to the country. The average buyer moved 4.7 miles, slightly farther than in 2019 when the average was 4.2 miles. Households relocating in the countryside moved by an average of 7.6 miles. London families leaving the bright lights want a home in a tranquil rural setting. But they are now willing to consider a rather more remote location. The average moving distance for a city-dweller heading to the countryside grew to 21.9 miles by the end of the year, against 18.6 miles at the start of 2020.

EXCHANGE TIMES
Exchange times were lengthening for buyers in all locations at the beginning of 2020. By July, thanks to delays caused by pent-up demand during the market's closure, the time between an offer and exchange hit an average of 143 days. Conditions improved in subsequent months. But, by October, the time between an offer and an exchange was more than 100 days in all parts of the North and the Midlands. Delays in the processing of loan applications and conveyancing bottlenecks explain this trend. Lenders are becoming more cautious as buyers race to beat the March 31 stamp duty holiday withdrawal deadline. This is set to be one of the key dates of 2021.

MOVING DISTANCE
Source: Hamptons

Move	Ave. Distance	Annual Change
Within cities	1.7 miles	+0.3 miles
City to town/suburbs	8.1 miles	+0.1 miles
City to Country	16.7 miles	+3.9 miles

QUICK FACTS

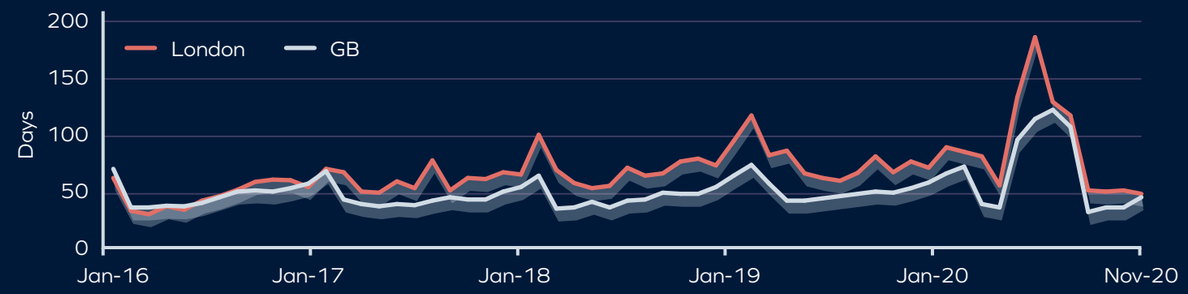
20%

The proportion of seven figure sales bought in cash, the lowest figure on record.

MARKET METRICS

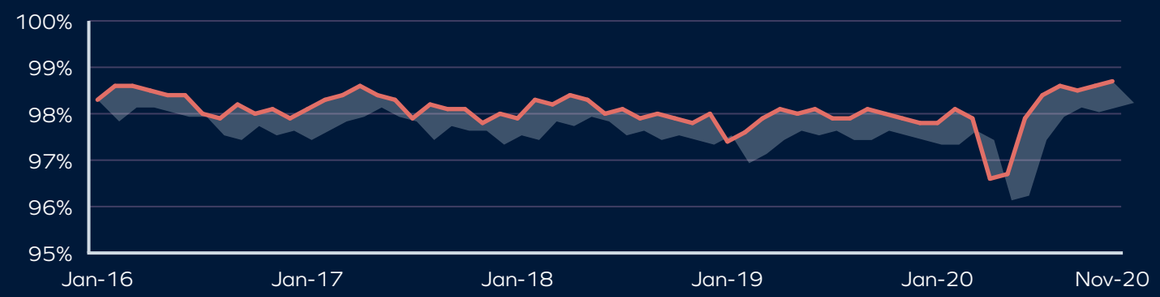
DAYS TO SELL

Source: Hamptons



SHARE OF INITIAL ASKING PRICE ACHIEVED

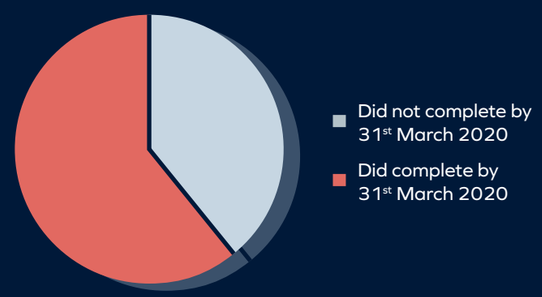
Source: Hamptons



SALES AGREED *IN DECEMBER 2019*

Source: Hamptons

Most of the sales agreed in December 2020 will go on to complete before the end of the stamp duty holiday, despite lender's and conveyancer's workloads. 61% of sales which were agreed in December 2019 went on to complete before the end of March 2020.



TOP 2020 AVERAGE SELLER GAIN *IN ENGLAND AND WALES*

Source: Hamptons and Land Registry

Region	2020 seller gain	Change from 2019
Kensington and Chelsea	£580,340	(£28,810)
City of Westminster	£452,450	£35,790
Islington	£292,150	£61,670
Hammersmith and Fulham	£283,860	£5,860
Richmond upon Thames	£278,730	£15,640
Camden	£265,880	(£65,090)
Wandsworth	£256,040	£21,080
Brent	£221,500	£13,460
Haringey	£218,740	(£18,110)
Hackney	£215,970	(£8,090)

TOP 2020 INCREASES IN AVERAGE SELLER GAIN *IN ENGLAND AND WALES*

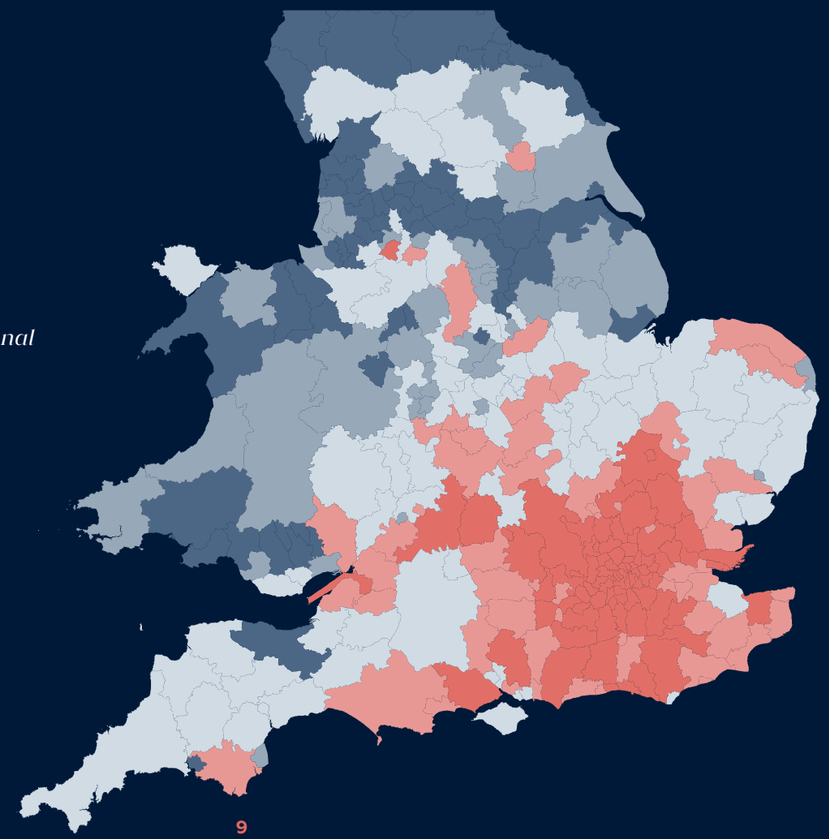
Source: Hamptons and Land Registry

Region	2020 seller gain	Change from 2019
Islington	£292,150	£61,670
City of Westminster	£452,450	£35,790
Waverley	£178,840	£35,080
Hounslow	£183,560	£23,740
Wandsworth	£256,040	£21,080
Surrey Heath	£139,860	£15,980
Richmond upon Thames	£278,730	£15,640
Derbyshire Dales	£80,910	£14,820
Brent	£221,500	£13,460
Hart	£128,790	£12,940

AVERAGE 2020 SELLER GAIN

Source: Hamptons International and Land Registry

- Over £100,000
- £75,000 - £100,000
- £50,000 - £75,000
- £40,000 - £50,000
- Under £40,000



LETTINGS
SIGNS OF RECOVERY

The downbeat mood in the lettings market in 2020 was in marked contrast to the excitement in sales. The average rent remained unchanged between the start of the first lockdown in March and September, but October marked a turning point when rents in Great Britain began to rise again. And by November the rate of growth had picked up.

But this average figure masks variations in the performance of the regions, with London lagging behind the rest due to a realm of factors unique to the capitals rental market.

Nationally rents rose 3.0% in November, twice the rate of increase recorded in October. Rents in both the South West and North led the way, rising by 8.1% and 6.5% year-on-year in October respectively, thanks to a shortage of properties. Renters' incomes in these regions were supported by the furlough scheme and other Government stimulus schemes. Rural rents increased at a faster rate than those in cities, illustrating that tenants were keen to move to the country - like homebuyers.

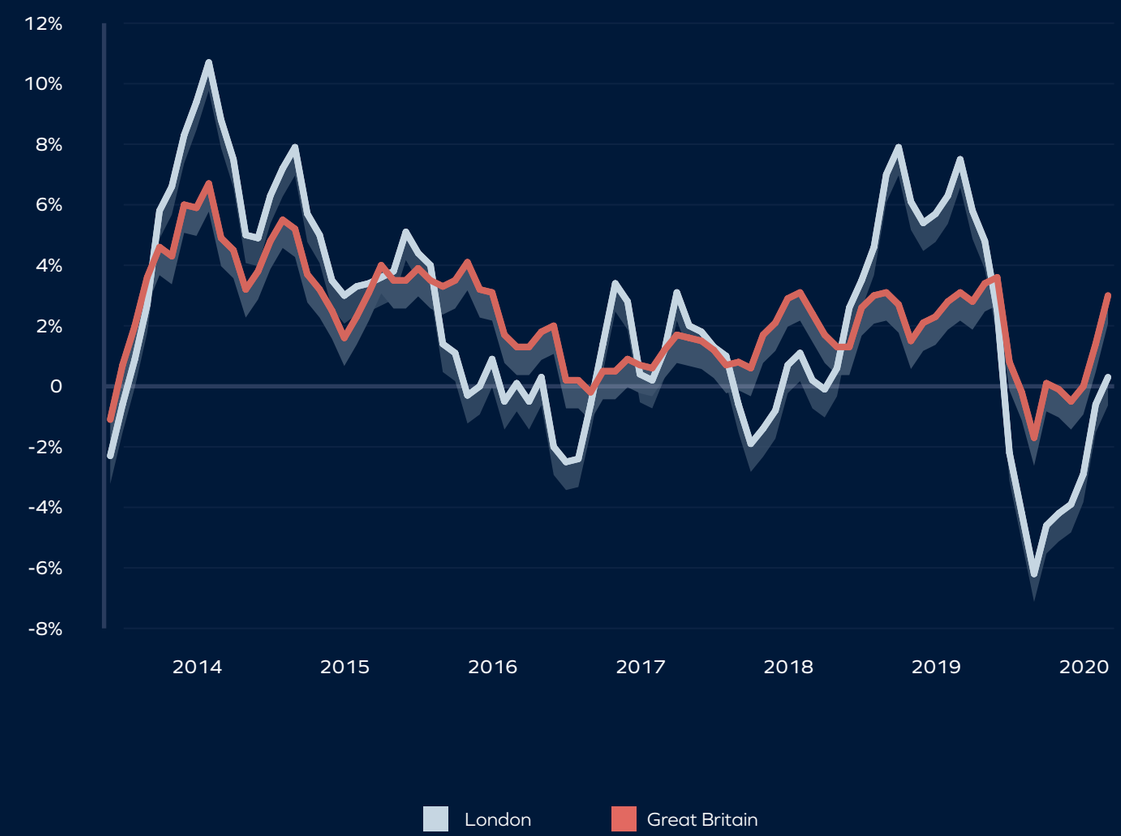
Households moving out of town, seeking extra space for home working and gardens, helped produce the glut of homes that drove down rents in London in 2020. There was also a slump in demand for the apartments and houses that would normally be let on a short-term basis to overseas executives, tourists and international students. These groups stayed away as a result of travel bans.

Many of these short-let properties came onto the long-term market, exacerbating the excess supply issue. But rents in outer London have been more immune from these challenges. Rents in London's suburbs rose by 3.8% in November, exceeding pre-pandemic levels. This meant that it was 21% more expensive to rent in inner London than in Outer London in October, compared to 44% more the previous year. We expect the slide in inner London rents to continue in early 2021 before levelling off.

At the end of summer 2020, we forecast that the average rent would fall by 1% during the year, given the pandemic chill that descended on much of the market following the initial lockdown. But this may turn out to be an underestimate. In fact, the rental market is showing signs of recovery, driven by households whose finances haven't been affected by the economic crisis.

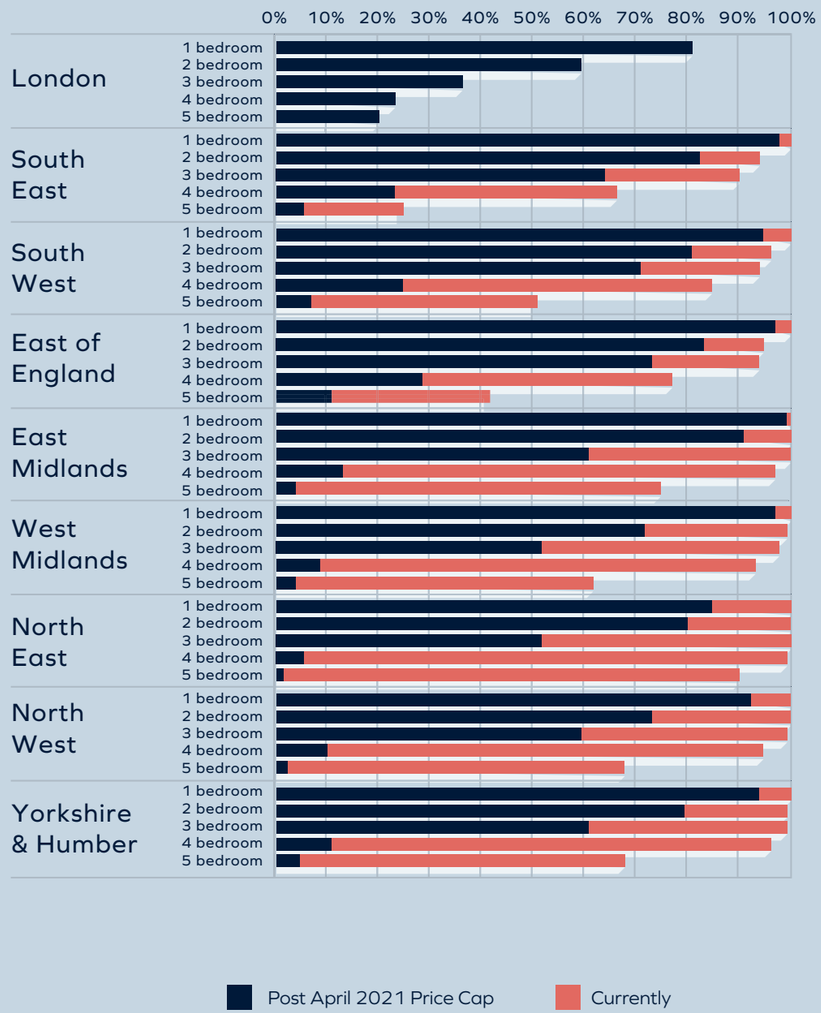
For 2021, we are forecasting an average decline of 1% in rents because, despite the arrival of the Covid-19 vaccines, we argue that the full impact of the virus on the economy will not be felt until 2021. We forecast that rents will drop by 3% in London. But the pace of decrease could slow, as the economy recovers and more people are vaccinated enabling them to travel again.

ANNUAL RENTAL GROWTH
Source: Hamptons



NEW HOMES *QUALIFYING FOR NEW HELP TO BUY PRICE CAP*

Source: Hamptons



SALES
HELP TO BUY *PRICE CAPS*

Help to Buy, the government Equity Loan scheme that covers new-build homes in England, is to be restricted this year, ahead of its planned abolition in 2023. But we are forecasting that this may not limit the popularity of this aid package which was launched in 2013.

From April 1, Help to Buy will only be available to first-time buyers. Regional price caps will also be introduced, set at 1.5 times the average price paid by first-time buyers in that region. As a consequence of this measure, as many as 45% of new homes that were marketed in 2020 would no longer be eligible for the scheme because their values were above the caps.

Our calculations show that 93% of five-bedroom homes and 82% of four-bedroom homes marketed would not qualify, although, of course, fewer such properties are bought with Help to Buy.

But some of the smaller properties, popular with first-time buyers, would also be excluded, with 40% of three bedroom homes, 26% of two-bedroom homes and 11% of one-bedroom homes being priced above the cap. As our graph illustrates, some of the cheaper northern markets seem set to be hard hit by these changes.

Yet, although many homes will be above the price caps, we expect that Help to Buy will still be in demand, attracting more first-time buyers than in 2020.

Why do we reach this conclusion? Lenders will still be severely rationing the supply of the 90% loan-to-value (LTV) deals that many first-time buyers require. This means that, for many, Help to Buy may be the only way to climb onto the ladder. Under the terms of the scheme, applicants must have a 5% deposit. But since they can secure a 20% government loan (40% in London) which is interest-free for five years, they have access to a wider choice of mortgages.

As a result of the price caps, we forecast that a two-tier new-build market will emerge this year, with 50-80% of one and two-bedroom homes in every region being sold with Help to Buy. Just 10-20% of properties with more than three bedrooms will be sold using the scheme.

QUICK FACTS

43%

of the new homes marketed in 2020 will not qualify for Help to Buy from April 2021

FOCUS SPECIAL
LOOKING *TO THE YEAR* AHEAD

By Aneisha Beveridge, Head of Research

In January, the question that almost everyone will ask me is: "So, what's going to happen to house prices?" But this year, I am also preparing to hear: "Do you think it's possible that the stamp duty holiday will be extended beyond March 31st"

In answer to the first question, we will as we always do throughout the year, be keeping a close eye on the housing market and how any changes might impact our forecasts, which we put together in September 2020. Back then we explained that the average price is likely to remain flat in 2021, with small falls in some areas. This assessment was based on the agreement of a Brexit deal, but also on the arrival of vaccines early in 2021 and the ending of the stamp duty holiday as planned in March.

The market seems set to pause for breath after 2020, an extraordinary year when as many as one million homes are likely to have been sold. This was despite the economic ravages of the pandemic and the temporary closure of the market.

What would be the result if Rishi Sunak, the chancellor, opted to keep the stamp duty holiday in place until the end of year? Such a decision would be welcome news for the buyers who may narrowly miss the deadline as the result of legal and other delays that have been causing some deals to stall.

In the event of a change of heart on the part of Chancellor Sunak, we would expect slightly stronger house price growth, particularly in London and the South. First-time buyers and second-steppers in more expensive parts of the country in particular would be able to contemplate a purchase thanks to the tax savings and hopefully a return in higher loan-to-value mortgages as the economy recovers towards the end of the year.

We also think that around 10%, or 100,000, more homes could be sold, returning transaction numbers to their 2016 levels. But economic weakness and mortgage rationing will still serve to keep a cap on the numbers.

"The market seems set to pause for breath after 2020, an extraordinary year when as many as one million homes are likely to have been sold"

QUICK FACTS

100,000

The projected number of extra sales in 2021 if the stamp duty holiday is extended.

If Sunak does not relent, and the stamp duty holiday ends, as currently planned, its removal will also coincide with a number of other key deadlines. The furlough scheme is also due to be withdrawn at the end of April and unemployment is expected to peak thereafter. These factors will, obviously, weaken sentiment and activity in the market.

However, the arrival of the vaccines should aid the recovery – and, for the second half of 2021, we are forecasting an economic pick-up and more availability of higher loan-to-value mortgages.

In the prime markets, the fate of the stamp duty holiday will be less of a concern since the tax savings make up a smaller share of the typical property's price. Also, the affluent are eligible for the best mortgage deals because they have cash or equity.

Even if travel restrictions are loosened, international buyers face the introduction of the 2% surcharge in April. But this extra tax may be counteracted by sterling's weakness, which will continue to make UK property appear an attractive proposition.

Whatever unfolds in 2021, we will still be talking about what happened in the market in 2020. Last September, two months after the surprise announcement of the stamp holiday, we forecast that overall growth for the year would be 2%. We now expect that the final figure may be higher, given that the demand for relocation continued almost unabated to the end of the year.

This demand was immediately evident in May when the market re-opened. The first lockdown, which lasted seven long weeks, had forced people to consider what they really wanted from a home. Most concluded that they wanted more space for home working and a larger garden. Some immediately acted to achieve that goal. Others who were planning to move sometime in the future started viewing potential properties when the stamp duty holiday was announced.

However, not everyone was able to start the search for more space given the economic uncertainty. Therefore the arrival of a vaccine does not necessarily mean the end of this trend. In 2020, the market was driven by wealthy homeowners whose jobs were largely unaffected by the economic crisis.

First-time buyers and second-steppers were held back by unemployment fears and the rationing of high loan-to-value mortgages. In 2021 all eyes will be on Chancellor Sunak's policies for jobs, and also on the progress towards those 95% state-backed loans promised by the Prime Minister.

But if we've learnt anything from 2020, it's to expect the unexpected.

"If Sunak does not relent, and the stamp duty holiday ends, as currently planned, its removal will also coincide with a number of other key deadlines."

ESTABLISHED 1869

THE HOME EXPERTS

MARKET INSIGHT
AUTUMN 2020

Forecast special

HAMPTONS INTERNATIONAL

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ECONOMIC BACKDROP

The economy has taken a hit this year, but the real effects will not be felt until 2021

The unprecedented effects of the pandemic have caused the UK economy to fall into the deepest recession since records began, raising unemployment and reducing earnings among some of those who remain in their jobs.

At the peak of the outbreak, as many as 9.3 million people were on furlough, with 15% of these workers expected to lose their jobs, according to the Office for Budget Responsibility (OBR).

Despite government intervention through the furlough and other schemes, anxiety is mounting about the pace of economic recovery. It is likely that the most painful consequences of the pandemic may not be felt until next year.

The decision to prolong state support could safeguard more jobs, buying time for the economy to recover. But economists are tempering their previous optimism, shifting away from the prospect of a rapid V-shaped recovery to a more gradual one.

Economic shocks, such as those inflicted by Covid-19, can permanently damage an economy's future growth rate – in a process known as 'scarring'. The level of scarring will depend on how quickly the virus can be brought under control, the pace of economic recovery, and the effectiveness of policy measures in supporting jobs.

Our housing forecasts are based on the OBR's central forecast of a 12.4% decline in economic output this year. But growth is expected to rebound to 8.7% in 2021, assuming a trading arrangement is agreed with the EU by the end of the transition period.

GDP is set to rise by 4.5% in 2022 and 2.1% in 2023 as the economy falls back in line with its longer-term growth trajectory. Nevertheless, the economy may remain 3% smaller after five years than would have been the case without Covid-19.

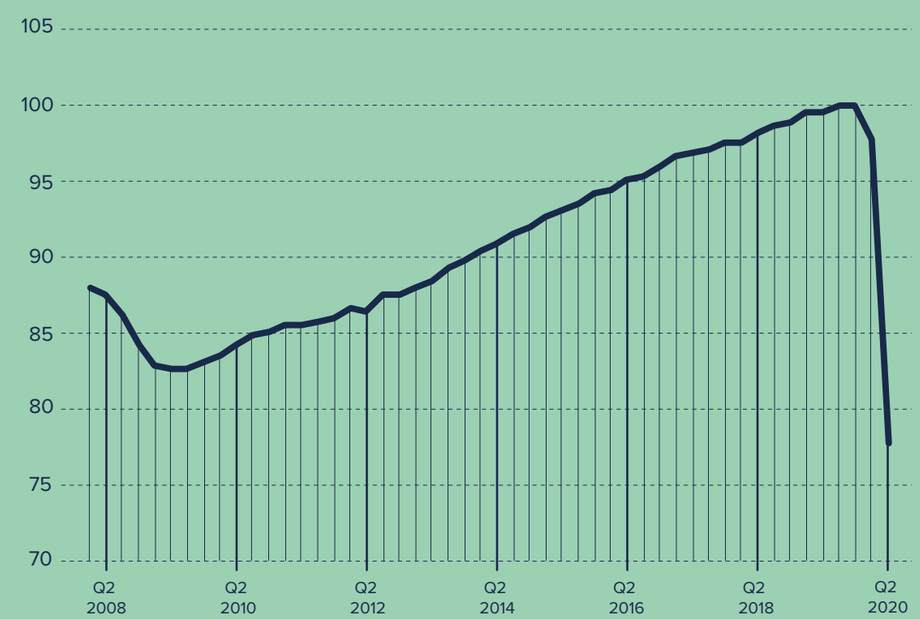
20.4%

Real GDP fell by 20.4% in Quarter 2 2020, the largest quarterly contraction on record

OBR Economic Forecasts (July 2020) Source: Office for Budget Responsibility

	2019	2020 (F)	2021 (F)	2022 (F)	2023 (F)
GDP	1.4%	-12.4%	8.7%	4.5%	2.1%
CPI inflation	1.8%	0.7%	1.3%	1.9%	2.0%
Unemployment (million)	1.3	3.0	3.5	2.4	2.1
Unemployment rate	3.8%	8.8%	10.1%	6.9%	5.9%
Earnings growth	2.8%	0.2%	3.7%	2.7%	3.0%
Bank of England base rate	0.7%	0.0%	0.0%	0.1%	0.1%

Quarterly GDP Index (2019 Q4 = 100) Source: ONS



The direction of the housing market is largely determined by employment and the true extent of the pandemic's effect on jobs may not be clear until next year.

We expect job losses to peak in the first half of 2021, after the unwinding of the furlough scheme and the ending of the job retention bonus grant in January 2021. The unemployment rate is set to reach a record high in 2021 and remain above 2019's historic low of 3.8% until at least 2023.

There are many risks on the horizon, including the consequences of a no-trade deal Brexit, a second wave of Covid-19 or delay in the arrival of a vaccine. Yet if a vaccine, or an effective Covid-19 treatment become available more swiftly, a quicker economic recovery is still possible.

To date, the pattern of unemployment has not been uniform. A division is opening up between those whose earnings have been unaffected, and those who have had to take an income cut or lost their jobs. The latest ONS data highlights that the young, who are either renting or are first-time buyers, have been hardest hit. This will have an influence on the sales and the rental markets.

But there is some good news. People's incomes are expected to keep rising, albeit by just 0.2% in 2020. Thereafter, earnings will increase by 3.7% in 2021, 2.7% in 2022 and up to 3.0%. If inflation remains low, as forecast, this should boost living standards.

> *The economic shock from covid-19 will have a deep impact on the economy, but it will start returning to its long-term growth path in 2022*

MARKET ROUNDUP

The post-lockdown bounce, driven by the stamp duty holiday and the demand for green space

40%

First-time buyer numbers are more than 40% higher year-on-year

The surprising strength of the housing market bounceback has dominated the headlines. The major surveys highlight this extraordinary recovery - which has been driven by the demand that's built up over the last few years, lockdown induced lifestyle changes and also the nine-month stamp duty holiday announced in July.

The market's upward move has, however, overshadowed some of the key factors that determine the longer-term direction of house prices, such as affordability and mortgage availability. In a conversation about property prices, people may rarely mention the cyclical nature of the housing market, but its impact on performance is significant.

The re-opening of the market in mid-May sparked an almost immediate rebound. Some observers argued that the government's list of requirements, such as the wearing of PPE to view properties, would dampen buyers' ardour. But by early June, there were more people looking to move home than at the same time last year, a trend in line with other global markets that were emerging from lockdown.

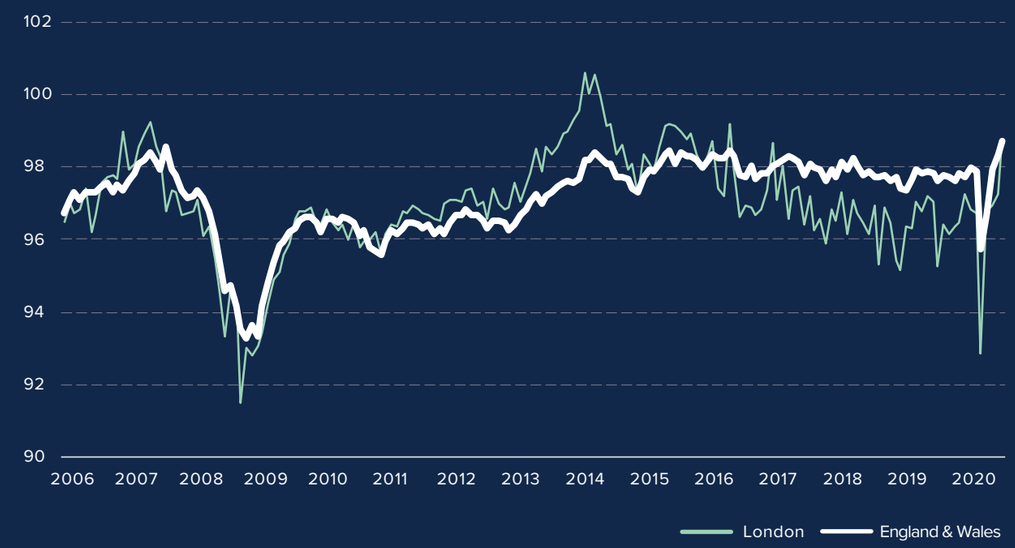
The stamp duty holiday increased the eagerness to move; households who had been locked down in cramped properties without outdoor space led the way. Chancellor Rishi Sunak, determined to reignite the housing market, raised the stamp duty threshold in England to £500,000, giving an average saving of £4,500. The tax payable on a home of £500,000-plus was cut by £15,000.

Since July, there have been double-digit percentage increases in buyer numbers in every region. There have been particularly large increases in London and the South East of England, as workers became more willing to tolerate a longer commute if they could secure a larger garden, or space for working from home.

First-time buyers have been at the forefront of the recovery, although they have the least to gain from the stamp duty holiday. Their numbers are more than 40% higher year-on-year. There has also been an increase of a third in the numbers of people taking the next step up the housing ladder.

Difference between asking and achieved prices (%)

Source: Hamptons International



Buy-to-let investors have also been active, seemingly undeterred by tax changes and the weakness in rents. These buyers still pay the 3% surcharge on rental and second homes, but will pay less as a result of the holiday. This means the tax bill on a £250,000 investment property is £7,500, against £10,000 before the announcement of the stamp duty holiday.

The stamp duty savings seem set to sustain the bounceback. But it's still worth noting that, in the early months of 2020, house price growth was strongest in the Midlands and the North, the regions where affordability remains less stretched.

> *Sellers achieved a record share of their asking price in England & Wales in August*

This is consistent with the trends observed 13 years into the last housing market cycle which began in the early 1990s and ended in 2007, as the global financial crisis took hold. The pandemic has not fundamentally altered the rules of the housing market cycle but they will influence direction in the months ahead.

TIMELINE

QUARTER 3

The easing of lockdown combined with government support reinvigorated the housing market, extending the summer selling season. These sales form Q4 completions. Record numbers of homes achieve asking prices with no price falls.

QUARTER 4

Job losses expected to increase, and Brexit uncertainty deepen. Housing market activity likely to be maintained as moves are brought forward. Most resilient markets to be those with the highest levels of pent-up demand and the lowest share of people hit by income and job cuts.

QUARTER 1

A rise in number of people trying to beat the stamp duty deadline offsets the impact of forced sales, as lenders make forbearance schemes available. Demand set to slow towards the end of the quarter as stamp duty deadline passes and labour market weakens.

QUARTER 2

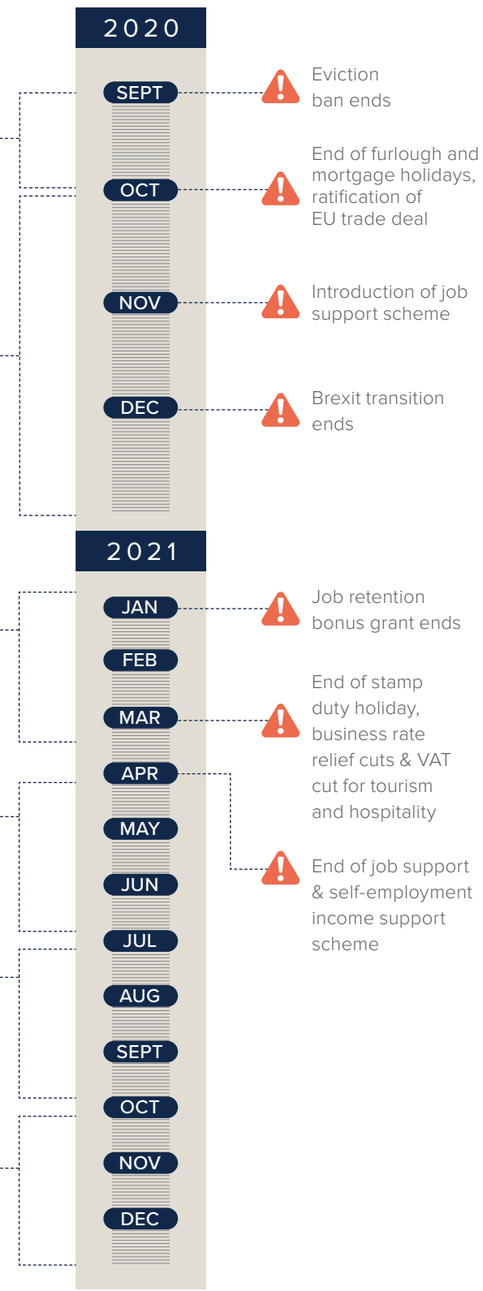
Economic recovery should be underway. But unemployment is set to peak, causing market to soften, particularly between £250,000- £750,000. Small house price falls forecast, especially in London and South where affordability is the most stretched.

QUARTER 3

Labour markets are beginning to recover, but affordability pressures remain. Market starting to find 'new normal' after small price adjustments. These sales will form Q4 completions.

QUARTER 4

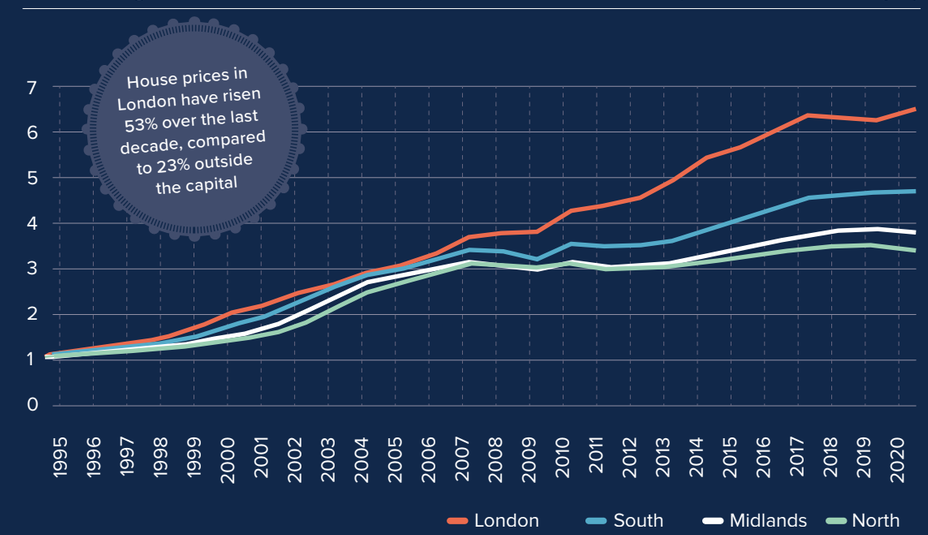
Housing market should fall back in line with longer-term growth patterns, providing economic recovery is underway. Northern markets which have more scope for growth likely to show the greatest price rises.



MARKET METRICS

Furlough take-up rate (July 2020) Source: ONS

House price growth index since 1995 (1995=1.0) Source: Hamptons International & Land Registry



SALES FORECAST

The regions playing catch-up will drive price growth in the longer-term

0.0%

house price forecast for GB in 2021

The pandemic precipitated the deepest recession on record in the second quarter of 2020. But government support schemes have cushioned the blow and we are forecasting a 2.0% rise in house prices for 2020.

There has, rightly, been much emphasis on the number of furloughed workers who may lose their jobs. But many homeowners have not been furloughed, or suffered a decline in earnings. They are seizing the opportunity offered by the stamp duty holiday to relocate.

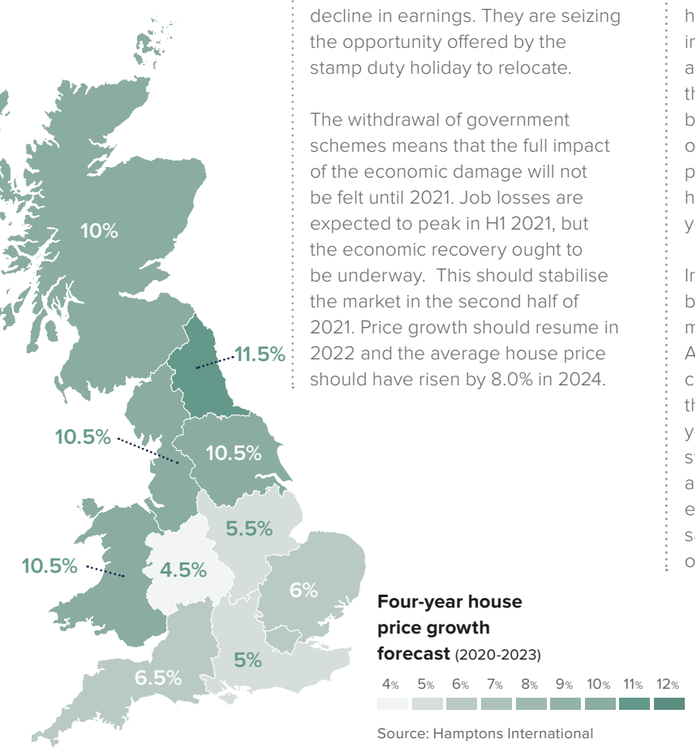
The withdrawal of government schemes means that the full impact of the economic damage will not be felt until 2021. Job losses are expected to peak in H1 2021, but the economic recovery ought to be underway. This should stabilise the market in the second half of 2021. Price growth should resume in 2022 and the average house price should have risen by 8.0% in 2024.

LONDON

Early in 2020 confidence was returning in London which had been in the doldrums since the first quarter of 2018. The housing market in the capital bounced back quickly, driven by pent-up demand and people choosing to bring forward a long-planned move. Buyers in London benefit most from the stamp duty holiday.

We forecast a 2% rise in London house prices in 2020, but a fall of 1% in 2021. This is based on affordability and the surge in households leaving the capital. By 2024, prices should still be 6.0% higher than today, although other regions will perform better. To put this into context, London prices have risen by 53% over the last 10 years - against 23% elsewhere.

In prime central London international buyers are scarce and people are moving out in search of green space. As a result, we forecast that the prime central postcodes will underperform the rest of the capital over the next two years. But, gradually, buyers should start to see these neighbourhoods as a great place to live, with real estate that's good value and also a safe haven asset. We forecast growth of 6.5% over the next four years.



Source: Hamptons International

SOUTH

The South East has the country's lowest furlough take-up rate. It should also benefit the most from the rise in Londoners leaving the city. We expect growth of 5.0% between now and 2024.

The East of England has the second lowest furlough take-up rate and better affordability than the South East. As a result, we expect prices to rise by 6.0% over the next four years.

By contrast, the South West has the highest furlough rate and its economy has been hard hit. We expect its market to underperform in 2020 and 2021. But this region's affordability should help it achieve 6.5% growth by 2024.

MIDLANDS

The pandemic has taken its toll on the Midlands which rely on manufacturing. We forecast that the East Midlands and the West Midlands will remain flat this year, and that these regions will be the weakest performers over the next four years, with growth of 5.5% and 4.5% respectively.

NORTH

We forecast Northern regions to lead the price league over the next four years. By 2024, we expect prices in the North East - the most affordable region - to have risen by 11.5%.

The North West should also prosper. We forecast that prices in this region will grow by 10.5% by 2024. Also moving upwards should be Yorkshire and the Humber, thanks to a competitive labour market. We forecast 10.5% growth by 2024.

WALES & SCOTLAND

Wales has the lowest unemployment rate - and a low take-up of the furlough scheme. As a result, we expect house prices to rise 3.0% this year, with 10.5% growth by 2024.

Scotland is the second most affordable region: prices have risen 19% over the last decade, against 53% in London. As a result, we forecast that prices will increase by 10.0% over the next four years.

House price forecasts

Source: Hamptons International

	2019	2020 (F)	2021 (F)	2022 (F)	2023 (F)	4Y
Greater London	-0.4%	2.5%	-1.0%	1.5%	3.0%	6.0%
South East	-0.1%	1.5%	0.5%	1.0%	2.0%	5.0%
East	-0.7%	1.0%	1.0%	1.5%	2.5%	6.0%
South West	0.3%	2.0%	-1.0%	2.5%	3.0%	6.5%
East Midlands	1.3%	1.5%	-0.5%	2.0%	2.5%	5.5%
West Midlands	1.1%	1.0%	-1.5%	1.5%	3.5%	4.5%
North East	0.1%	1.5%	1.0%	4.0%	5.0%	11.5%
North West	1.5%	2.5%	0.5%	3.0%	4.5%	10.5%
Yorks & Humber	2.4%	2.5%	1.0%	3.0%	4.0%	10.5%
Wales	3.7%	3.0%	1.0%	3.0%	3.5%	10.5%
Scotland	1.9%	1.5%	0.0%	3.5%	5.0%	10.0%
GB	**0.9%**	**2.0%**	**0.0%**	**2.5%**	**3.5%**	**8.0%**
Prime Central London	4.8%	1.0%	-1.0%	2.5%	4.0%	6.5%

LETTINGS FORECAST

Rents to underperform house prices

44%

of landlords achieved an increase in rents when reletting in 2020, down from 47% in 2019

To some surprise, the lettings market has recovered more slowly from lockdown than the sales market. Although activity appears to be returning, the recovery in this market has been more U-shaped than V-shaped.

Demand from tenants is down, partly as result of a leap in the number of first-time buyers – another thing that has surprised this year. Job insecurity means that other younger people are delaying a move out of the family home and into rental accommodation.

At the same time, the number of homes to let has fallen. The reluctance of landlords to invest is lowering the supply of rental homes which may put a floor under rents at some point in the future.

There has been much government intervention in the form of mortgage repayment holidays for landlords and a ban on evicting tenants in arrears. This strategy has kept tenants in their homes. Nevertheless many have suffered a loss of earnings, affecting their ability to meet their rent in the coming months.

The outlook for the rental market depends on whether tenants' earnings start to pick up - and how many may lose their jobs. Until the direction of the economy becomes more clear, we expect rental growth to lag behind house price growth at least until 2022, with falls in rents this year and next. However, the market should stabilise towards the end of 2021.

The decline in rents seems set to be deepest in London, where Airbnb and other short-term let properties have been switched to the long-term market. This has been prompted by a drop in the number of international students and tourists. There are also fewer well-paid overseas executives seeking temporary homes in London. As a result, we forecast a 3% fall in rents in the capital this year and a 1% fall in 2021.

But the easing of travel restrictions and the arrival of a vaccine should mean these tenants begin to return, allowing the London rental market to bounce back faster than elsewhere. By 2023, rents should be 3% higher than today.

The drop in tenants' incomes and unemployment will hit rental markets in other regions. But outside London, tenant demand is almost exclusively domestic and the supply of rental homes is also less plentiful. Higher income workers are less likely to have been affected by job cuts, which will support prime rents outside the capital where supply is short.

How will the size of the private rented sector in 2023 compare with today? In the wake of the last recession, which was sparked by the global financial crisis, home ownership rates tumbled.

But this trend has been reversed, with more people in the 25-34 age group climbing onto the housing ladder. There is less competition than before from landlords for smaller properties - and some lenders have been reintroducing high loan-to-value mortgages.

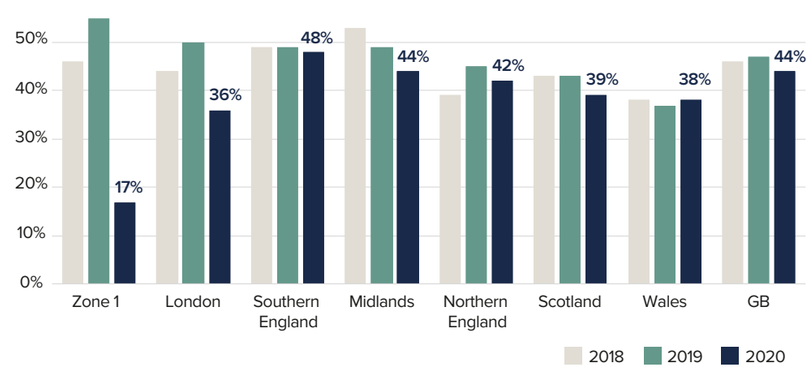
This means that we do not forecast that the sector will be larger in 2023 than today. More homes in build to rent blocks, funded by private institutions may become available. But this boost to supply, particularly outside of city centres, is likely to be offset by a reduction in the ranks of private landlords.

Annual growth forecast

	2019	2020 (F)	2021 (F)	2022 (F)	2023 (F)
Great Britain	3.7%	-1.0%	-1.0%	2.5%	3.0%
London	4.4%	-3.0%	-2.0%	3.5%	4.0%

Source: Hamptons International

Share of landlords achieved a higher rent when re-letting



Source: Hamptons International

DEMOGRAPHIC TRENDS

A rural revolution

31%

of Londoners waving goodbye to the capital chose to relocate to the country

The rural retreat is beginning to displace the suburban idyll, as urbanites seek more living space and a larger garden. This trend became immediately apparent when the property market reopened in May after its lockdown freeze.

Between May and September, 31% of Londoners waving goodbye to the capital chose to relocate to the country - wishing to escape the confinement they had felt in lockdown. In the first quarter in the year, 27% opted for a new life in the country.

Suburbs and towns were the destination of 68% of the people who were moving out of London at the start of the year. This fell to 63% between May and September, as a switch in preferences drove leavers to more rural locations.

As many as 83% of the respondents to the latest RICS survey expect increasing demand over the next two years for houses with gardens. Such is the desire already for outdoor space in a country setting that people will spend 13% more on such a property than they have raised from the sale of a London home. Pre-pandemic, they paid 5% less than they received from selling up in the city.

Households who are remaining in the centre of the capital – some people still love the bright lights - are spending 12% more on a property. Whereas those Londoners leaving the capital for a smaller town spent an average of 9% more on their next home.

The willingness of people moving, even within the centre of London, to pay more for a property underlines the growing requirement for space, a need driven by home working.

Additional bedrooms added by upsizers

Region	Bedrooms
London	1.5
East of England	1.4
South East	1.4
Scotland	1.3
East Midlands	1.3
North West	1.3
South West	1.3
West Midlands	1.3
Wales	1.2
North East	1.2
Yorkshire & Humber	1.2
GB	1.3

Source: Hamptons International

This lifestyle change, sparked by the pandemic, seems likely to continue for many workers, even if they start to go to the office several times a week.

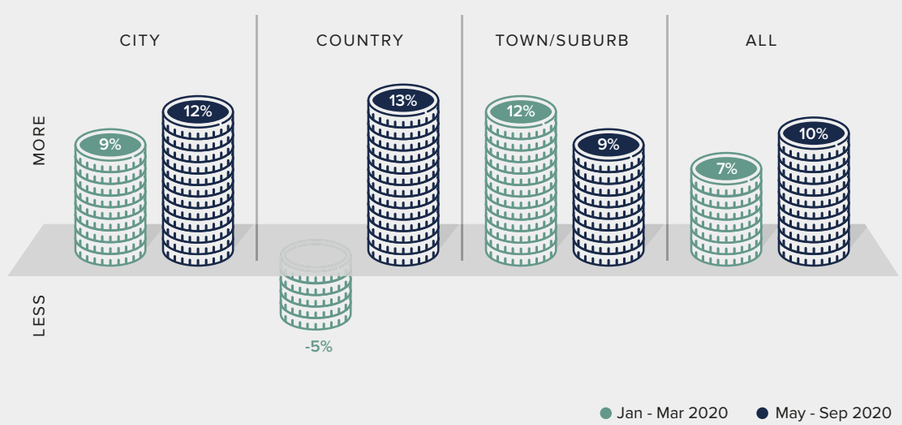
Our research shows that better-off homeowners with savings and equity in their existing homes are bringing forward the decision to acquire a larger place, where they can create a home office. The need to accommodate children who have graduated from university but are struggling to find employment will be a consideration in some cases too.

London homes are traditionally smaller than those elsewhere which means that people who are up-sizing, either in the suburbs or the countryside, buy a property with an average of 1.5 more bedrooms. The GB average is 1.3 bedrooms. People moving from the cities of the East of England acquire an average of 1.4 extra bedrooms.

Lockdown has brought about changes in the way we want to live and work. Whether these will prove permanent, or could be reversed with the arrival of a Covid-19 vaccine, it is too early to tell. But, for the next few months, large-ish houses in the country with generously-sized gardens seem set to remain top of the wish-list for urbanites longing for a different life.

How much London leavers spend on their next home

Source: Hamptons International



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