ACADATA JUNE 2020 SPECIAL REPORT

THE GREAT BRITAIN HOUSING MARKET: A LONGER TERM VIEW, JAN 2005 – JAN 2020

Due to a lack of data emerging from Land Registry at present, which prevents us commenting in detail on current market trends, we are using this opportunity to look at the Great Britain Housing Market from a regional perspective over the period January 2005 – January 2020. This period does, of course, include the last housing crisis of 2008, which we explore in the context of potential lessons from it for the present day.

The last fifteen years

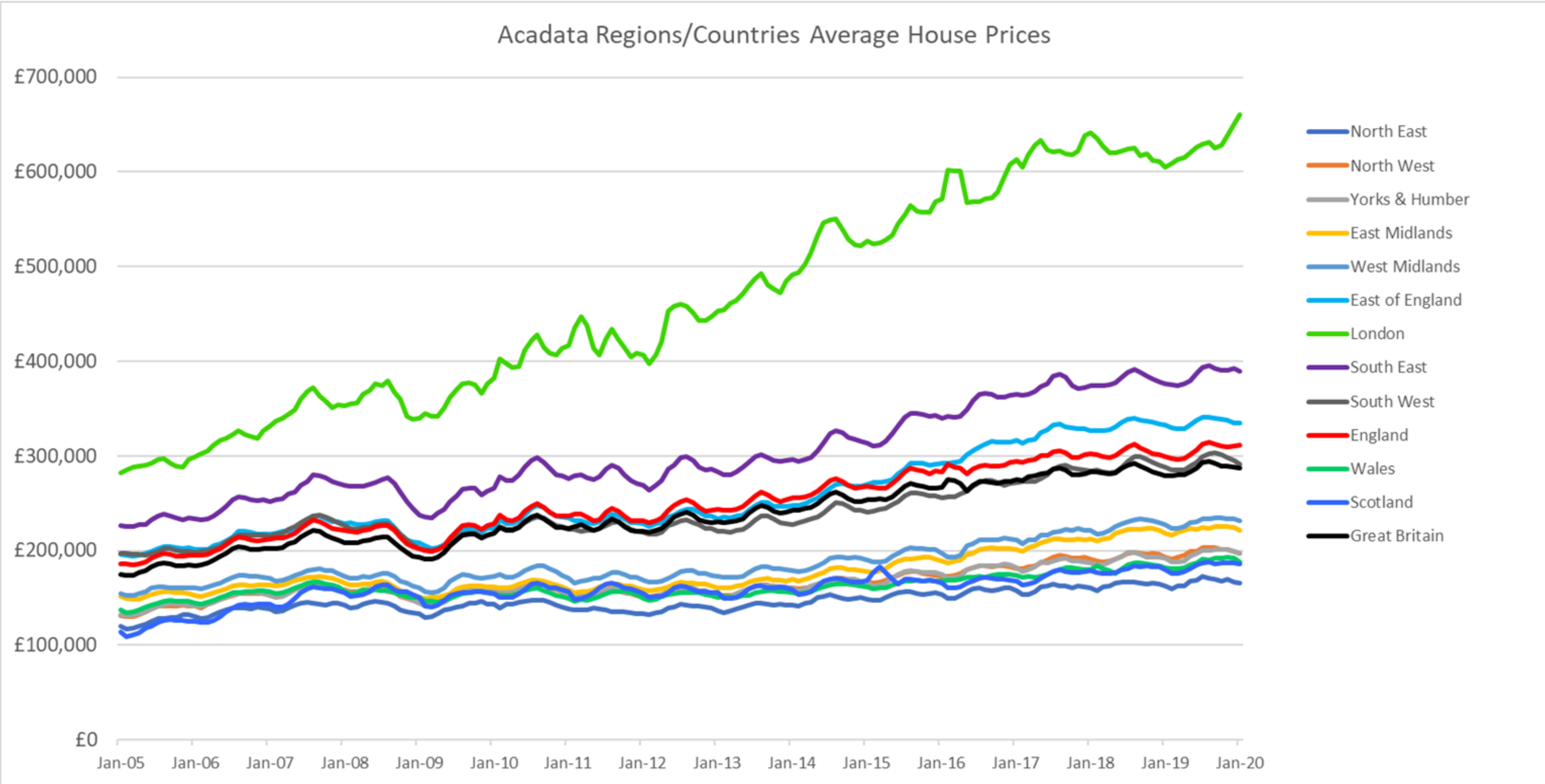


Figure 1 Acadata Average House Prices by Region/Country Jan 2005 – Jan 2020

There are three significant features that stand out in Figure 1. The first is the dominant position of Greater London in comparison to the other regions/countries in terms of the growth in price since 2005. We can see how Greater London exists on a different level compared to the rest of the market, this being especially true over the last ten years. Our second observation is that the downturn in 2008/09 does not appear particularly significant when put into a 15-year perspective. We explore this feature in further detail later in this report. Our third observation is that Great Britain can perhaps be subdivided into three groups by price – i) Greater London, ii) the South of England, which comprises the South East, the East of England and the South West, and iii) the remainder of the regions and countries, which congregate together at the lower end of the price scale.

ANALYSIS 1: HOUSE PRICES IN FIVE YEAR BANDS

In our initial analysis of the growth in regional house prices, we split the data into three five-year periods, from 2005 – 2010, 2010 – 2015 and 2015 – 2020. This split largely ignores the downturn in 2008/09 – which we consider in Analysis 2 below.

					5 Year Growth			15 Years
REGION	Jan-05	Jan-10	Jan-15	Jan-20	2005-10	2010-15	2015-20	2005-20
Greater London	£281,969	£382,461	£526,945	£660,722	35.6%	37.8%	25.4%	134.3%
South East	£226,546	£265,853	£313,063	£388,971	17.4%	17.8%	24.2%	71.7%
East of England	£196,238	£223,520	£270,021	£334,502	13.9%	20.8%	23.9%	70.5%
West Midlands	£154,215	£173,264	£190,084	£231,819	12.4%	9.7%	22.0%	50.3%
North West	£131,205	£156,590	£167,340	£196,993	19.3%	6.9%	17.7%	50.1%
Yorks and Humber	£132,726	£159,800	£165,637	£196,709	20.4%	3.7%	18.8%	48.2%
South West	£197,363	£218,241	£240,123	£291,542	10.6%	10.0%	21.4%	47.7%
East Midlands	£151,588	£161,932	£177,798	£221,583	6.8%	9.8%	24.6%	46.2%
North East	£120,075	£143,025	£148,993	£165,403	19.1%	4.2%	11.0%	37.7%
England	£186,121	£228,905	£267,713	£310,981	23.0%	17.0%	16.2%	67.1%
Wales	£137,054	£154,299	£161,480	£187,656	12.6%	4.7%	16.2%	36.9%
Scotland	£113,997	£154,528	£168,905	£186,174	35.6%	9.3%	10.2%	63.3%
Great Britain	£174,686	£217,836	£253,467	£287,374	24.7%	16.4%	13.4%	64.5%
CPIH Index (2015=100)	78.3	88.8	99.2	108.3	13.4%	11.7%	9.2%	38.3%

Table 1 The growth in average house prices by Country / Region Jan 2005 – Jan 2020

The last column of Table 1 shows the growth in average house prices per region/country over the 15-year period 2005 – 2020. Greater London, at 134% over this period, has seen nearly twice the growth in prices, compared to the second- and third-placed regions of the South East and the East of England, which both achieved price growth in excess of 70% over the same period. The growth in London prices was at its highest over the period 2010 – 2015, at 38%. During this period, George Osborne, David Cameron's chancellor, made some significant changes to stamp duty while in office. In December 2014, Osborne scrapped the slab structure of stamp duty, which applied the top layer of tax to the whole property price, putting in its place a graduated system of taxation.

Most property commentators at the time approved of this change, which reduced the amount of stamp duty payable for most house purchasers: however, Osborne also increased the rate of stamp duty payable at the top end of the market, for example the rate of tax on properties costing in excess of £1 million increased from 5% to 10% - with a top rate of tax of 12% above £1.5 million- compared to the previous top-rate of 7% above £2 million. This resulted in an increase in total taxation for anyone buying a property in excess of £937,000. As most properties having a value in excess of £937,000 were located within Greater London and its surrounding areas, this was seen as a tax on those living in the south-east of the country. With effect from April 2016, Osborne also introduced a 3% surcharge over the standard rate of stamp duty on the purchase of second homes and buy-to let properties. Both these increases in tax are likely to account for a significant element of the reduction in price growth seen in Greater London during the period 2015 – 2020, slowing the sale of properties at the top-end of the market.

Table 1 also shows that there was a relatively tight banding in the increase in average house prices over the period from 2005 – 2020 for the remainder of England, outside the south-east, ranging from 50.3% in the West Midlands to 46.2% in the East Midlands. Wales and the North East saw a lower rate of growth in house prices over this period, compared to the rest of Great Britain, partly due to the low rates of growth in their respective economies during the period.

Slightly surprisingly, Scotland saw the highest rate of property price growth over the fifteen year-period outside of the south-east of England. In part this was due to 'affordability' benefits – Scotland had the highest rate of median earnings outside of Greater London, which when combined with some of the lowest median prices for property, made the country particularly attractive for those looking to purchase a new home. However, the main period of house price growth in Scotland occurred in the period 2005 – 2010, when its growth in prices amounted to 35.6%, being the same rate as that seen in Greater London over the same period. The Scottish Parliament has been responsible for setting its own stamp duty rates since April 2015.

For the record, the CPIH has seen an increase of 38.3% over the period Jan 2005 – Jan 2020, indicating that all countries / regions, except for Wales and the North East, have seen an increase in house prices in real terms over this period. In addition the lower rates of growth in some areas and conversely the high rates elsewhere bear comment. Low rates might in part be explained by a better balance between supply and demand in the former, and a failure to achieve that in the latter. There are of course other factors at work, but high growth in house prices is not always a mark of success.

ANALYSIS 2: THE DOWNTURN

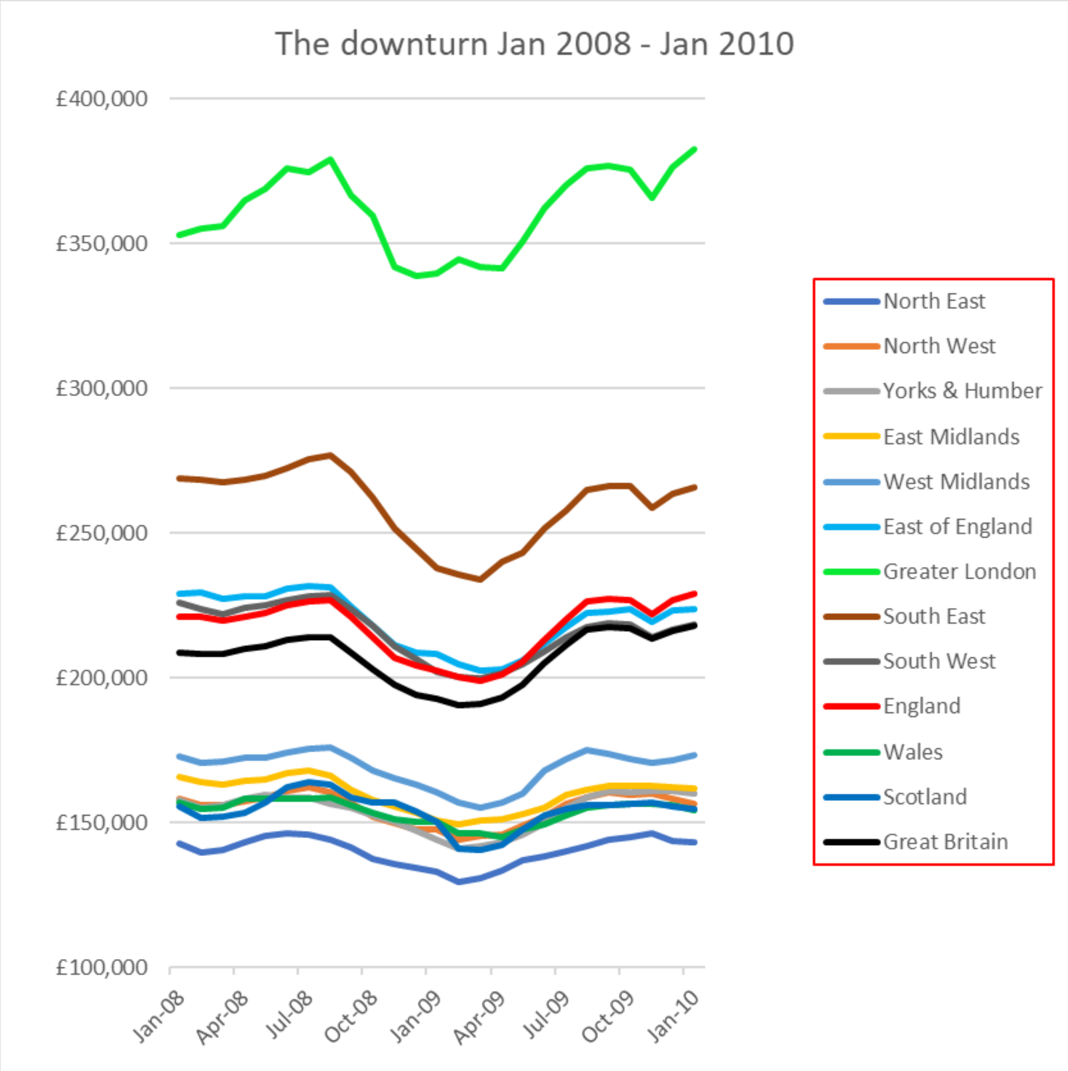


Figure 2 Acadata Average House Prices Jan 2008 – Jan 2010

Here we consider the period 2008 – 2009 in more detail, which covers the period of the last housing downturn.

Figure 2 illustrates the downturn in the housing market associated with the credit crisis of 2008/09. The graph shows that the downturn broadly affected the housing market in a similar fashion across all regions and countries, in terms of both timing and the extent of the price falls. In Great Britain overall, average house prices fell by 11.0%, or £23,580, from a mini-peak in July 2008 to their low-point in February 2009.

The recovery in the market was less uniform than that of its decline, with Greater London having a longer stay at the bottom of the trough than most other areas, but then experiencing a faster climb in prices once the turnround point had been reached.

The lower priced areas at the bottom of the graph show that prices at the close of 2009 and 2010 remained below the high points achieved in the summer of 2008, or earlier. Wales, for example, had reached an average price of £166,500 in August 2007. This fell to a low point of £145,150 in April 2009 during the credit crisis, and it took until July 2015 before the average price in Wales had returned to a level above the £166,500 mark.

Average House Prices	Max		Min				Price	Recovery	Price	Recovery	Price	Recovery
Region / Country	in 2008	Date	in 2008/09	Date	% Fall		Dec-09	from 2008	Dec-10	from 2008	Jan-20	from 2008
North East	£146,210	Jun-08	£129,276	Feb-09	-11.6%		£143,451	-1.9%	£140,197	-4.1%	£165,403	13.1%
North West	£162,174	Jul-08	£144,206	Feb-09	-11.1%		£158,213	-2.4%	£156,943	-3.2%	£196,993	21.5%
Yorkshire and The Humber	£159,669	May-08	£141,041	Feb-09	-11.7%		£160,859	0.7%	£156,937	-1.7%	£196,709	23.2%
East Midlands	£167,807	Jul-08	£149,248	Feb-09	-11.1%		£162,161	-3.4%	£161,610	-3.7%	£221,583	32.0%
West Midlands	£176,025	Aug-08	£155,209	Mar-09	-11.8%		£171,700	-2.5%	£173,419	-1.5%	£231,819	31.7%
East of England	£231,719	Jul-08	£202,576	Mar-09	-12.6%		£223,485	-3.6%	£235,483	1.6%	£334,502	44.4%
Greater London	£378,878	Aug-08	£338,589	Dec-08	-10.6%		£376,239	-0.7%	£413,281	9.1%	£660,722	74.4%
South East	£276,846	Aug-08	£234,042	Mar-09	-15.5%		£263,352	-4.9%	£278,886	0.7%	£388,971	40.5%
South West	£228,408	Aug-08	£199,646	Mar-09	-12.6%		£216,619	-5.2%	£225,789	-1.1%	£291,542	27.6%
England	£226,819	Aug-08	£199,133	Mar-09	-12.2%		£226,655	-0.1%	£236,958	4.5%	£310,981	37.1%
Wales	£158,662	Aug-08	£145,152	Apr-09	-8.5%		£155,925	-1.7%	£151,100	-4.8%	£187,656	18.3%
Scotland	£164,048	Jul-08	£140,755	Mar-09	-14.2%		£155,757	-5.1%	£158,797	-3.2%	£186,174	13.5%
Great Britain	£214,104	Jul-08	£190,525	Feb-09	-11.0%		£216,225	1.0%	£224,381	4.8%	£287,374	34.2%

Table 2 Analysis of price movements during the housing downturn Jan 2008 – Jan 2010

Table 2 provides a selective snapshot of the average house prices per region / country during the last major downturn in the housing market in 2008/09. In 2008, then as now, there was a mini-peak in the housing market prior to the downturn. Columns 2 and 3 of the Table show the maximum price for each area during this peak and the month in which the peak occurred. Most areas achieved their peak in August 2008, although some areas in the north of England saw a slightly earlier date. Columns 4 and 5 show the lowest average price for each area during 2008/2009 and the month in which that minimum occurred. For most areas, the lowest price was in March 2009, although Greater London reached its minimum three months earlier in December 2008, with Wales being the last in April 2009. Column 6 shows the % fall in average price that occurred for each area during the downturn. The average % fall in Great Britain was -11.0%: the smallest fall was seen in Wales at -8.5%, followed by Greater London at -10.6%. The largest fall was in the South East at -15.5%, with the second largest in Scotland at -14.2%.

Columns 7 to 12 show the recovery in prices from the mini peak that occurred in 2008, immediately prior to the downturn in 2008/09. In December 2009, only Yorkshire and the Humber were showing a return to pre-recession price levels, with some areas such as the South West, Scotland and the South East being some 5% lower in average price than during 2008. A further downturn in prices had hit several northern regions of England during the latter half of 2010 and especially so in

Wales, at -4.8%, and the North East at -4.1%. Meanwhile Greater London had seen a 9.1% climb in prices by December 2010. By January 2020 all areas were showing an increase in prices over the peaks achieved in 2008.

ANALYSIS 3: TRANSACTIONS

Finally, we look at what happened to transactions in the housing market over the period Jan 2005 – Jan 2020.

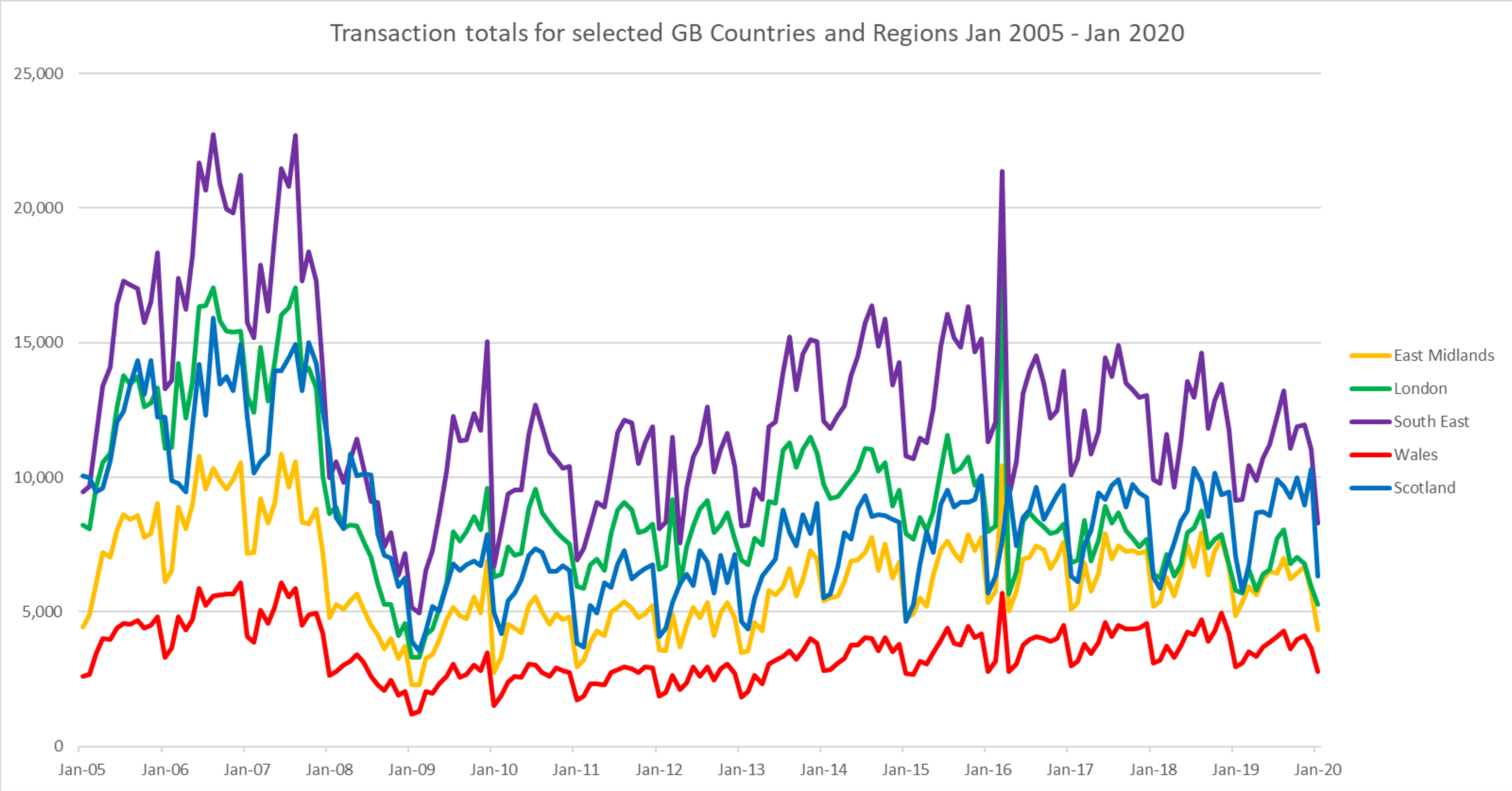


Figure 3 Housing transactions for selected countries and regions in Great Britain Jan 2005 – Jan 2020

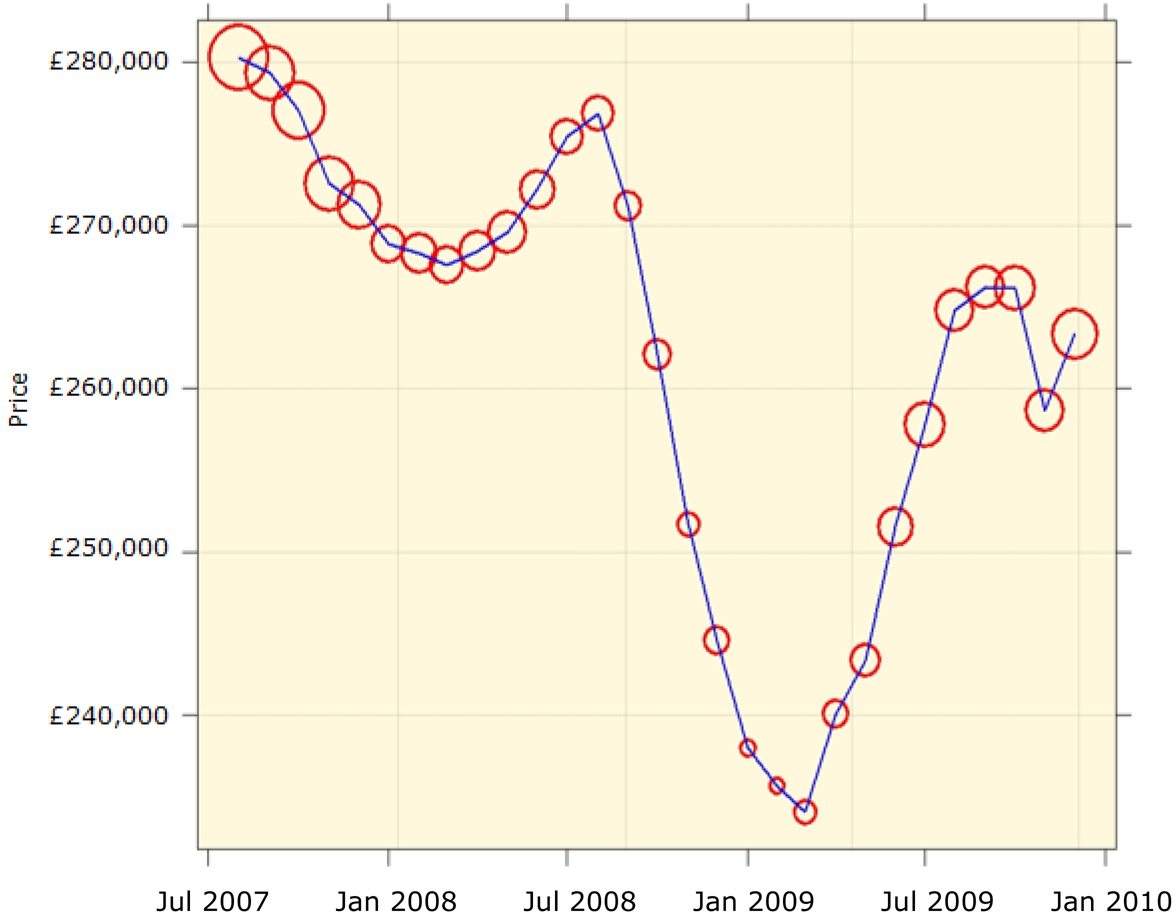
Figure 3 is rather busy as a graph, even though we have restricted the presentation to 2 countries and 3 English regions. The South East region (purple line) had the highest number of transactions of the 9 GOR areas in England and tops Figure 3. It serves as a useful reference to help describe the main features of regional transactions over the period Jan 2005 – Jan 2020.

In general, transactions have a relatively high level of 'seasonality' over a year. Typically, transaction levels are low in January and February, in part due to a reduction in the number of viewing days over the Christmas period in December and poorer weather over the two winter months. The troughs in the transaction lines over the period reflect this slow-down in sales during the winter period. Transactions do however pick up over the spring period, and there is frequently a peak in sales in March and April: however, the highest number of transactions of the year take place typically over the summer months of June – September, although school holidays can interrupt this pattern. The peaks in the transaction lines are however likely to occur in one of the summer months.

There are perhaps three distinct patterns that emerge from Figure 3. The period 2005 – 2007 is an era of high numbers of transactions, with the South East having peak levels of sales in excess of 20,000 per month. Transactions then fall during the downturn in 2008 and the start of 2009, with transaction levels falling to 5,000 sales in Jan and Feb 2009. Thereafter, transactions begin to recover (and especially so in December 2009 immediately prior to the cessation of a stamp duty holiday on the basic threshold for the tax, reducing from £175,000 to £125,000 on 31 December 2009). Typically, the peak level of sales in the South East remained at 12,500 for the period 2009 – 2012, increasing to just above 15,000 sales in 2013 – 2015. However, since 2015 there has been a marginal fall in the South East, perhaps a consequence of the increase in stamp duty on high-value properties mentioned earlier. The single spike in sales in March 2016 was also stamp duty-related, immediately preceding the introduction of an additional 3% surcharge in stamp duty payable on the purchase of second homes and buy-to-let properties.

Various reports have explored the "missing movers" post-2009 (eg, Hudson and Green, 2017 for UK Finance) which has been a combination of higher taxation and tighter mortgage regulation, which have resulted in mortgaged home owners staying put and - if needs be - improving their homes in situ. First time buyer numbers recovered, but are likely to be heavily impacted by the Covid induced downturn of recent months.

Figure 4 Average House Price in South East Region July 2007 – Jan 2010 (Size of circle is proportional to Transactions)



In Figure 4 we set out to capture the relationship between the number of transactions in the South East and the fall in the area's average house price during the last downturn.

Those that had to sell their property at the bottom of the downturn in 2009 would have done so at a 12.6% discount to the price they could have obtained in August 2007.

However, the number of such sales only amounted to 4,964 properties in Feb 2009, compared to the 22,687 sales which took place in August 2007, i.e. the level of sales was 78% below that seen at the then top of the market.

It is suggested that a similar pattern may occur in 2020. There could well be lower prices in 2020, but the number of those having to sell will probably be relatively small in relation to the more usual level of housing sales.

CONCLUDING REMARKS

What is striking in some sense is how stable prices have been for much of the country over the past decade or more, with prices gently inflating in line with earnings (which of course were held down). Clearly, relative to London and to a lesser degree the South East of England, some may take the view that much of Great Britain has lost out - but that is a very narrow interpretation of reality. Transactions have been recovering since 2009, but in recent months they have been badly hit. To illustrate that point, the price paid data (PPD) set issued by HM Land Registry for England & Wales at the start of June shows the following transactions by month for 2020: January:- 51,105; February:- 38,460; March:- 5,059; and April:- 2. We would advise that we anticipate that the number of transactions for both March and April 2020 will substantially increase from the figures quoted here, which solely relate to the number of registrations which have been processed by Land Registry to date – which are being delayed in their production by the problems associated with staff working from home. For example, the HMRC estimate of residential transactions in April 2020, which are taken from a relatively simple stamp-duty form count, amount to 46,440 sales – clearly a higher number than the 2 sales processed by Land Registry to date.

Our ability to read what is happening in the market is thus heavily constrained by the lack of data coming from the Land Registry – hence our look back over the last fifteen years. The evidence presented here shows that the market rode through the last downturn reasonably well. But that has to be put in the context of significant government and market intervention to support borrowers in difficulty, and to make sure that lenders kept lending. Clearly, this time round we have seen a furlough scheme, mortgage payment holidays and a ban on possession action in place, as well as support via the Bank of England to some - but not all - lenders. However, we have yet to see the full range of measures put in place that helped see the 2009 market through its crisis.

It would seem unlikely that the government will fail to do this in conjunction with lenders, but we are now seeing the first comments from analysts about the potential for a "cliff edge" effect after furlough is ended. This kind of debate is widespread in other countries, but has been slow to emerge here, given our recent history of market intervention. This does suggest that if government is to control the process, it needs to bring measures forward over the next three months to ensure that market confidence is maintained. History showed that it did work!