

# Housing Market Note

## HOUSING MARKET ACTIVITY

### Sustained Recovery or Osborne's Bounce

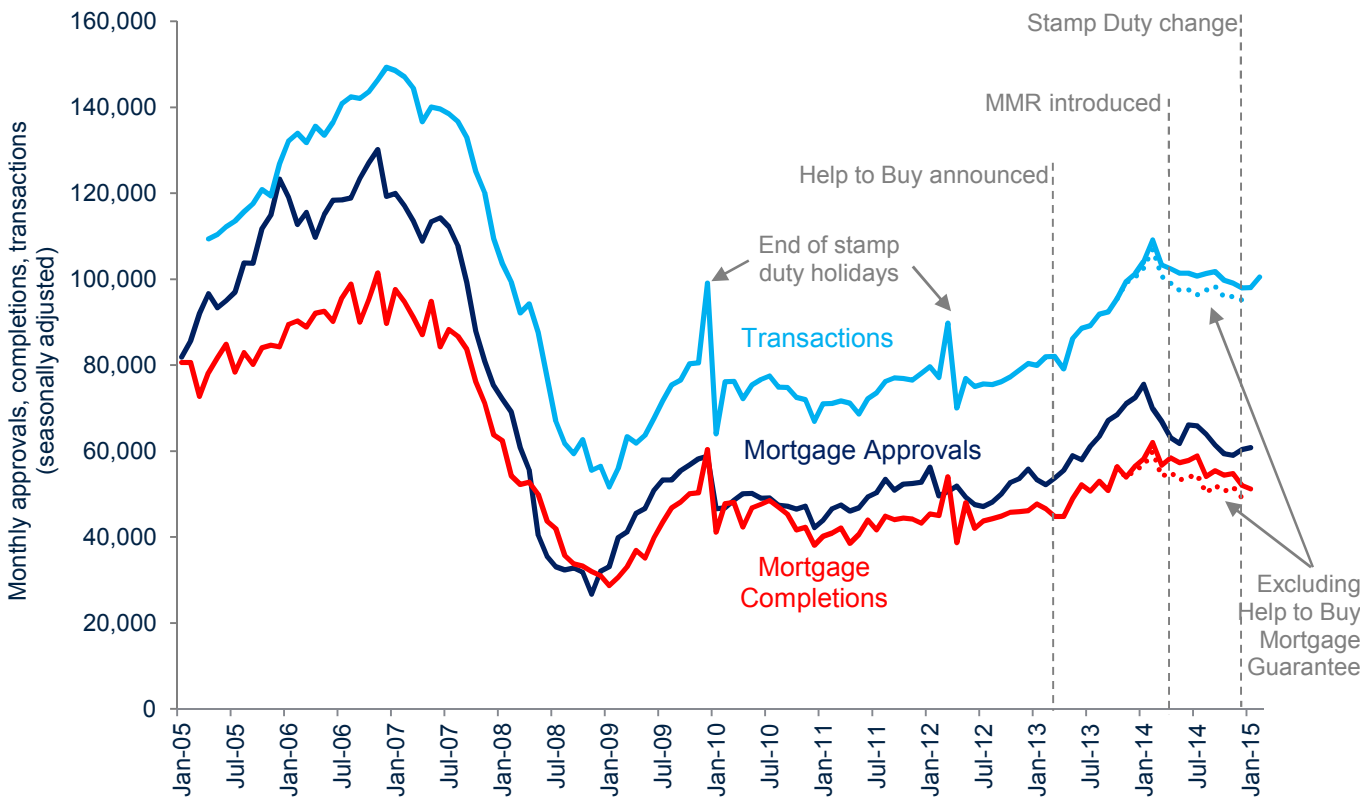
The UK is still predominantly a country of home-ownership and that requires a liquid housing market. Despite the continued rise in private renting, the majority of households still live in their own home, either owned outright or with a mortgage. With transactions constrained by a lack of debt post credit crunch, many households were left unable to react to changing economic conditions or lifestyle needs. People have found it difficult to move for a new job or into a larger home to accommodate their growing family. A rise in the so called 'accidental landlord' helped some but was no substitute for a healthy and liquid housing market.

Following the immediate recovery from the market trough in early 2009, the only divergence from an average 75k transactions per month (900k per year) was the end of the two stamp duty holidays. They provided short spikes in transactions but were partially undone the following month. It took until 2013 for activity to begin increasing following the announcement of Help to Buy. Although the mortgage guarantee element didn't arrive until later that year, the signal from Government that it was prepared to support current house price levels (and higher) alongside an improving economy was sufficient to drive increased activity from both borrowers and lenders. The increased demand drove transactions up to 110k in Feb 2014.

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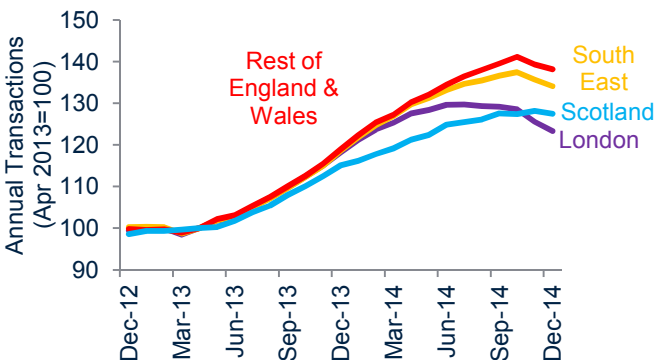


Figure 1 – Housing Market Activity, UK



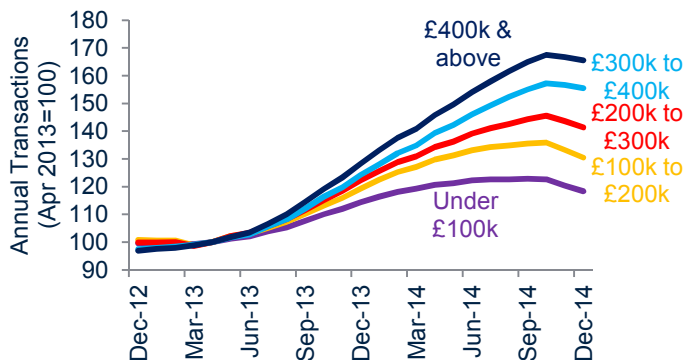
Source: Bank of England, HMRC, CML

Figure 2 – Recent Transactions Indexed by Region

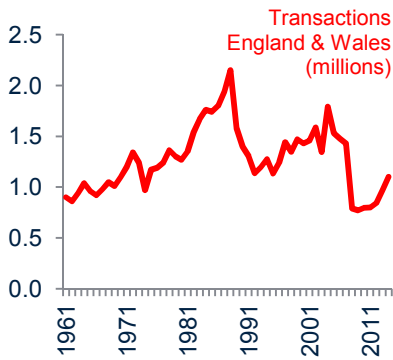


Source: HM Land Registry, Registers of Scotland

Figure 3 – Recent Transactions Indexed by Price Band



Source: HM Land Registry, Registers of Scotland



Since the market peak in early 2014, transaction levels have eased and were 97k in Jan 2015 (1.17 million annually). That is an improvement on recent years but still well below historic levels as shown by the chart opposite. Analysis of transactions by price band and region on the previous page show the recovery has been strongest for higher value properties, suggesting that consumer confidence has been more important than Help-to-Buy. Meanwhile, the recent fall in transactions has been most acute in London and that trend is also reflected in recent house price growth.

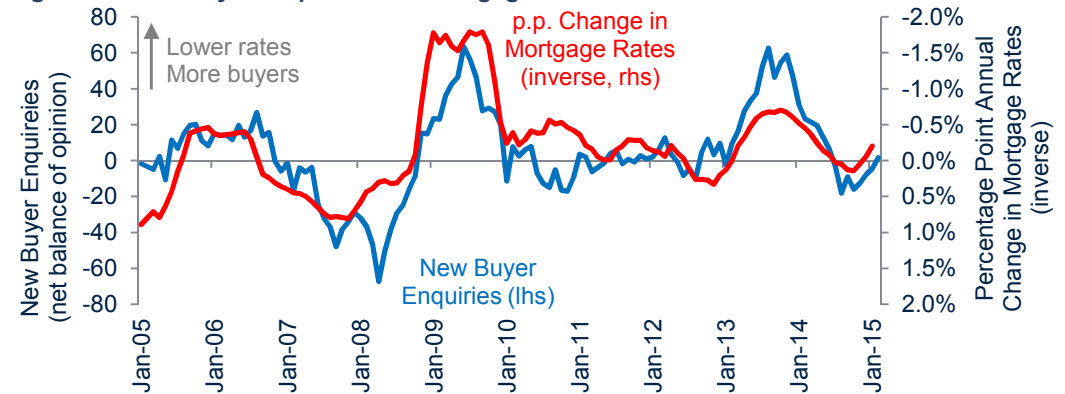
The change to stamp duty in late 2014 appears to have helped mortgage approvals and transactions bounce back this year (just in time for the election) but this will probably be a short-lived effect as the changes get priced in. The challenge that remains is how to increase transactions when so many prospective buyers are priced out of the market (see my previous note on first time buyer affordability <http://sav.li/3r0> ). Demand side measures such as the Help-to-Buy ISA may help in the short term but without an equal level of supply side measures, they will just serve to drive up prices over the longer term.

Source: HMRC

Prospective buyer activity (as measured by the RICS net balance of opinion) is strongly correlated with the cost and availability of mortgage debt.

With mortgage rates heading lower, you would expect buyer demand to also increase given the prior relationship. However, that relationship will be tested in today's post MMR lending environment.

Figure 4 – New Buyer Enquiries and Mortgage Rates



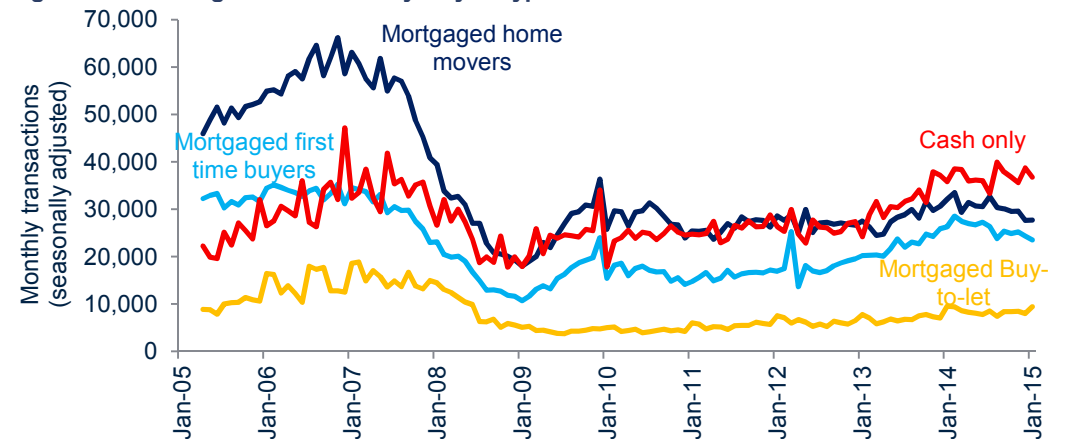
Source: RICS, CML, Bank of England

Mortgage lending is still the largest driver of market activity with 2/3<sup>rd</sup>s of transactions involving a mortgage.

However cash only buyers have increased in both number (440k during 2014) and as a proportion of the market since the downturn. They are now the largest of the four main buyer groups.

That has significant implications for the Bank of England's ability to control the market.

Figure 5 – Housing Transactions by Buyer Type

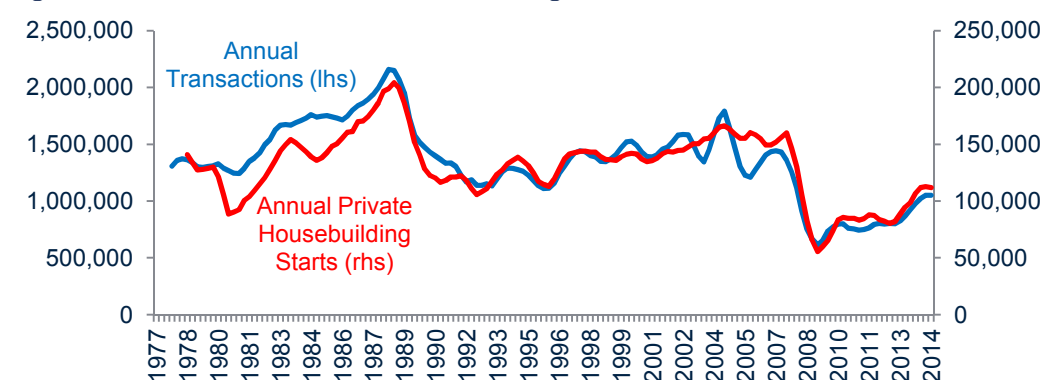


Source: Bank of England, HMRC, CML

The overall level of demand and transactions in the market has important consequences for the private housebuilding sector.

The poorly understood 1 to 10 ratio between private housebuilding starts and transactions has remained firm despite the wide range of recent policy interventions. This important relationship is desperately in need of more detailed research.

Figure 6 – Transactions & Private Housebuilding Starts



Source: HMRC, DCLG