Knight Frank

Property market post lockdown

June 2020

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PROPERTY MARKET POST LOCKDOWN

Transactions

With estate agents now re-open for business, following government guidance on how property transactions can proceed safely, a number of sales on hold will now proceed, producing a short-term spike in activity.

Buyers and sellers had already moved into recovery mode after an uncertain response at the start of the lockdown. The rebound in the number of enquiries via all internet and social media channels in the first week of re-opening was higher than the so-called 'Boris bounce' after the general election and the largest figure over the last year, as figure 2 below shows.

Furthermore, the total potential spend of all buyers registered with Knight Frank in London stands at £52 billion, a rise of 20% from the same point last year. The number of London-based buyers was 28% higher than the five-year average in the first full week of trading (week ending 27 May), as figure 1 shows. This underlines the level of pent-up demand that has built. This has grown during the lockdown period but also in recent years due to tax changes and Brexit-related political uncertainty.

Prices

Knight Frank has revised down its 2020 forecasts based on transactional evidence and the fact government restrictions will not be lifted as quickly as anticipated.

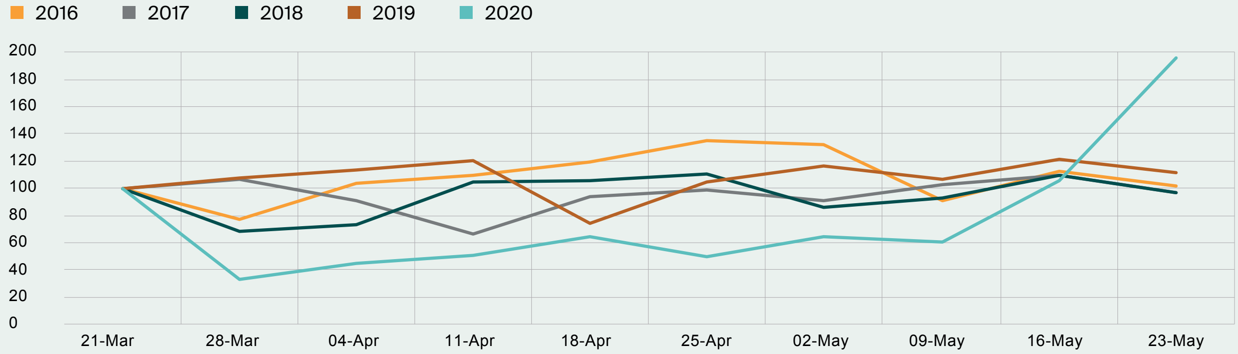
We forecast a decline of 7% in UK markets and 5% in prime London markets before a rebound of 5% and 8% next year, respectively. However much of this adjustment has already taken place and further declines over the summer, as the GDP data remains negative, will be more limited before a more stable price environment returns from the autumn.

If we add in to the mix the fact that we have low new-build rates coming through in 2020, low inventory and low interest rates, it becomes less likely we will see significant further falls from here.

The basis for our assessment is the widening gap between asking prices and achieved prices. The average ratio is currently 94%, with offers price.

Demand rebounds

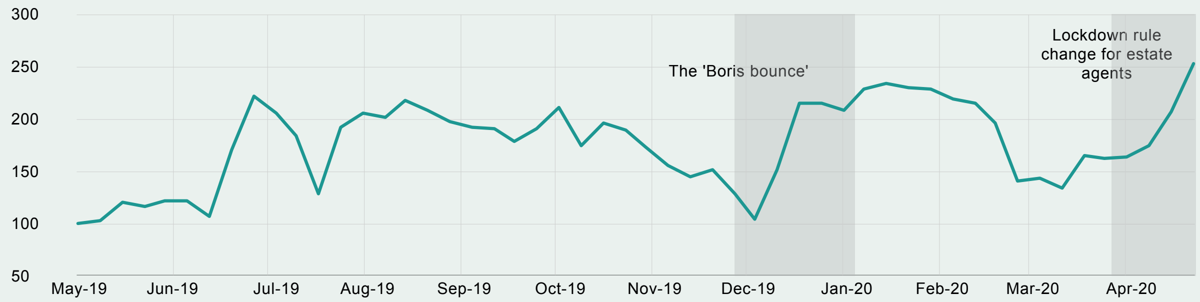
Weekly total of new prospective buyers in London, rebased to 100



Source: Knight Frank

Lockdown lift-off

Enquiries to Knight Frank via portals, social media, email and web chat (rebased to 100)
Does not include contact with individual office



Source: Knight Frank

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The market is undergoing a period of price discovery, with needs-driven buyers and sellers establishing the comparable evidence.

London and Home Counties rental market

Renters in London and the Home Counties are also firmly turning their attention to life after lockdown.

The number of new registrations for prospective tenants was 59% below the five-year average in the first week of the lockdown (week ending 28 March) but that decline had turned into a 9% increase in the week ending 27 May. The total figure more than trebled over that time.

52 billion

total potential spend of London buyers

32%

...web views are also on the rise.

Meanwhile, web views are also on the rise. In the first week of the lockdown, the figure was 2% above the five-year average but this had grown to a 32% increase by the week ending 27 May.

Rental values are subject to ad hoc renegotiation but thin trading means there is a lack of comparable evidence that points to a clear trajectory.

Knight Frank's prime central London rental index fell 0.4% between March and April, which was the largest monthly decline since October 2016. It meant annual growth slipped to 0.7%, which ended a run of progressively stronger figures that began last June.

In prime outer London, rents were broadly unchanged over the last 12 months after a decline of 0.2% between March and April, the biggest monthly fall since December 2018.

Escape to the country?

London-based prospective buyers are increasingly looking beyond the capital as the lockdown period meant some have reassessed their desire for mor outdoor space and greenery.

Before the lockdown, 62% of potential buyers based in London were searching for property in the capital but this has fallen to less than half (45%) since the lockdown began, as figure 3 on the next page shows.

While less than a tenth (8%) of potential buyers based in London were considering a move to the South West before lockdown, this has now jumped to a fifth (20%) since Covid-19 restrictions were enforced.

The South East has also seen its popularity increase, with 28% of new applicants considering a move to the region away from London compared with 23% before lockdown.

Residential development

In updating its guidance for the housing market , the government also recognised that the construction industry will need to be able to adapt its normal working practices.

Housebuilders will be allowed to keep sites open for longer in order to stagger builders' arrival times and ease pressure on public transport so they can meet social distancing protocols, for example. As part of this, firms will be able to apply to extend hours until 9pm Monday to Saturday in residential areas, and "beyond that" in non-residential areas.

Of course, this alone won't unlock the market. What happens to sales values and volumes in the coming months will have an impact on delivery. In this regard, news that sales offices and show homes, alongside estate agents, can re-open is a welcome, and logical, step forward. After all, the fact remains that housebuilders will only build what they can sell. The announcement also untangles one of the main sticking points for the market; an inability to conduct viewings and difficulties getting mortgage valuers on site has unquestionably curtailed activity.

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Finance and mortgage markets

The resumption of housing market activity has transformed the lending landscape, with banks now able to begin physical inspections that will allow them to clear a backlog of mortgage applications.

Accord were the first lender to say physical valuations would resume, followed swiftly by Nationwide, Halifx, HSBC and Santander. This comes as a broad range of banks increased their maximum loan sizes, loan-to-value ratios, and property values they are willing to lend to.

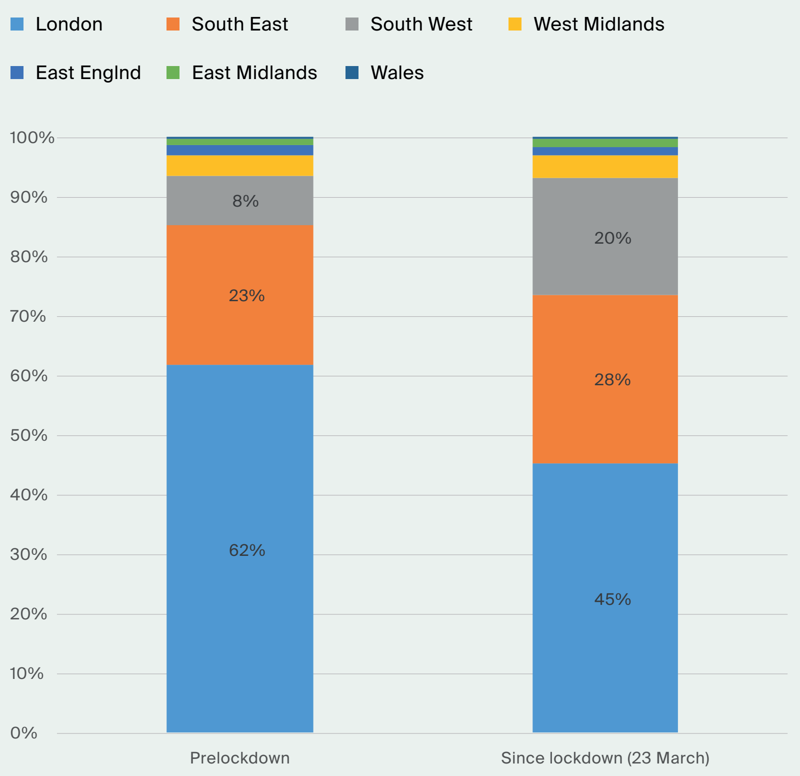
For borrowers, this widens the options available. Those hoping for quick decisions were previously limited to lenders that would accept remote and desktop valuations.

In late March, lenders significantly cut their product offering to stem the flow of business amid a clamour for mortgage holidays and tracker mortgages. As of June 3rd, lenders had been gradually reintroducing products for four consecutive weeks, with the available range up more than 16% since the lowest point in the crisis.

Meanwhile ESIS volumes, a proxy for mortgage market activity, were up almost 45% on the lowest point.

Still, there's some way to go before normality returns. Product numbers remain down 40% on the pre-crisis peak.

Where are London-based prospective buyers looking?



Source: Knight Frank

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