

# Residential Property Review

January 2021



*Our monthly property market review is intended to provide background to recent developments in property markets as well as to give an indication of how some key issues could impact in the future.*

*We are not responsible or authorised to provide advice on investment decisions concerning property, only for the provision of mortgage advice. We hope you will find this review to be of interest.*

## Momentum in residential market expected to slow

*The UK residential property market closed 2020 with a bang, with Nationwide reporting annual house price growth of 7.3% in December – a six-year high. In its December UK Residential Market Survey, however, the Royal Institution of Chartered Surveyors (RICS) has pointed to evidence that momentum is starting to fade.*

While current activity remains high, respondents to the RICS survey expect to see momentum drop significantly during 2021. Other experts agree, with Savills warning that, while activity is expected to remain strong during Q1 as buyers race to complete their transactions before the Stamp Duty holiday deadline of 31 March, the remainder of the year is not likely to be as robust. Meanwhile, Knight Frank has revised down its annual growth forecast for 2021 and is now expecting UK prices to remain flat this year (against its previous forecast of 1% growth).

The end of the Stamp Duty holiday and the expected drop in employment rates following the end of the furlough scheme in April, are both expected to contribute to the cooling of the property market as the year goes on.

## Buy-to-let limited companies on the rise

*An increasing proportion of rental properties are now being held in limited companies following the phased-in reduction of mortgage tax relief and other tax changes since 2016.*

Landlords set up 41,700 buy-to-let limited companies in 2020, nearly a quarter (23%) up on the previous year. By the end of 2020, there were 228,743 of these companies in existence – a record high. Together, London and the South East accounted for nearly half (47%) of all incorporations. Given the high cost of property in these regions, landlords are more likely to have mortgages, which means that in cash terms their mortgage interest bill is likely to be higher and the benefits of incorporating are likely to be greater.

## Price gap between freehold and leasehold homes revealed

*Freehold homes sell for an average of 77% more than leasehold properties, according to recent research.*

The study, by HouseScan, found that leasehold homes in England sell for £185,129 on average, while the average freehold property sells for £327,009. Regionally, the largest price gap (97%) over the last 12 months, has been in London, with leaseholds selling for £432,772 against £853,861 for freeholds.

Many leasehold properties are flats, which partially explains the price difference. However, the gap can also be attributed to the fact that leases with less than 80 years left to run will typically lead to a significant drop in the price buyers are willing to pay.

The report comes following the government's pledge to allow leaseholders to extend their lease to a new standard of 990 years at a 'peppercorn' (zero) ground rent.

## House Price Index December 2020

### Headlines

|  | Dec-20   | Nov-20   |
|--|----------|----------|
| Monthly Index*                             | 462.0    | 458.2    |
| Monthly Change*                            | 0.8%     | 0.9%     |
| Annual Change                              | 7.3%     | 6.5%     |
| Average Price<br>(not seasonally adjusted) | £230,920 | £229,721 |

\* Seasonally adjusted figure (note that monthly % changes are revised when seasonal adjustment factors are re-estimated)

- House prices up **0.8%** month-on-month
- Annual house price growth increases to **7.3%**
- Annual house price growth was the highest for six years

## Annual percentage change in UK house prices



*“Housing market conditions have remained robust in recent months, even as the wider economic recovery lost momentum and the UK economy faced the prospect of further lockdowns and continued uncertainty about the UK’s future international trading relationships”*

Robert Gardner, Nationwide’s Chief Economist

Source: Nationwide, House Price Index, December 2020

## Overhaul of leasehold system



Commenting on government reforms to the system designed to make it easier and cheaper for leaseholders to extend their leases, Robert Jenrick, Housing Secretary commented that the measures,

*“The pipeline of sales is now nearly 40% bigger than this time last year. The overall number of homes sold in 2020 is set to be 1.1m - just 6% lower than in 2019. It’s remarkable given the outlook and the complete closure of the housing market earlier this year.”*

Source: Zoopla January 2021

All details are correct at the time of writing (21 January 2021)

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