

THE FUTURE OF THE HOUSING MARKET

A REPORT BY MFS



OVERVIEW

When the pandemic hit in early 2020, leading the UK to enter its first lockdown, many were concerned about the lasting impacts this would have on the property industry.

Yet despite the constant fear that house prices would plummet, the housing market retained a 5-year high and property value rose at a steady rate. Buyers rushed to purchase once restrictions were lifted and the government announced the Stamp Duty Land Tax (SDLT) holiday on properties up to £500,000.

Twelve months on, despite starting 2021 in the third lockdown, the property industry is stronger than ever. Buyers continue to flock to the market in the hopes of stealing last minute UK property investment opportunities before the end of the stamp duty holiday.

Highlights from 2020

- Mortgage approvals reached their highest levels in 13 years for house purchases, as it increased by 97,500 transactions
- The sales pipeline by end of December 2020 was 50% larger than December 2019
- The UK saw the rise in house prices finish at an outstanding 6.6% when compared with 2019

Average house price in England



£247,355

JANUARY 2020



£262,000

DECEMBER 2020

Much like the impact of the first lockdown, the upcoming deadline for the SDLT holiday is bringing concern for the market and have got the industry wondering; Will house prices drop? How will other schemes shape post-pandemic Britain? Will the Coronavirus vaccine reignite desire for central city property?

BUT WHAT HAS ACTUALLY CHANGED IN THE PAST 12 MONTHS?



Many months ago, we questioned how the lockdown would shape 'the new normal'. It was a phrase we heard on too many occasions during the initial lockdown, but it appears the saying has dropped off the radar slightly. Without realising, we're already here, and it doesn't seem so bad after all.

But what has actually changed?

- The initial fear surrounding social distancing seems to have decreased as time has progressed, as we have become accustomed to the spatial awareness needed to slow the spread of the virus. The continuation of social distancing and lockdowns appears to have encouraged home improvements and the desire to buy, which has given the property market a positive boost. The SDLT holiday has served its purpose to inspire potential buyers to purchase now, to help support the UK economy.
- Companies have had to adapt to lockdowns, and ensure their staff are fully prepared to work from home during these periods. Whilst many companies returned to their offices once allowed, there is still a large percentage that have used the lockdown as a time to adjust, before incorporating working from home on a semi or permanent basis. By the start of October 2020, the number of people working from home on a regular basis rose to 24%; according to the Office for National Statistics. Those on furlough or not currently working, remained at 16%.
- Virtual meetings have become a vital part of the new normal, for both business and personal use. The usage of apps and sites like Zoom and WhatsApp have grown exponentially over the past year. Zoom reached a peak of UK users at the end of November 2020, when approximately 1.7 million people were logging on.

KEY MOMENTS IN 2020

February

- MFS Rate Crunch – igniting British Business

March

- 19th March – Furlough scheme announced
- 23rd March – UK lockdown comes into effect

April

- MFS deploys 13 bridging loans at the height of the first national lockdown
- Partnered with Benares to provide meals for NHS staff

June

- MFS launches a new CRM system, meaning all enquiries can be handled online while the team works remotely

July

- 8th July – Stamp duty holiday announced
- MFS launches new rates and 75% LTV loans to support buyer demand
- 15th July – Hospitality VAT cut
- MFS announces £30 million worth of bridging loans deployed during the first national lockdown
- 31st July – £1000 Job retention bonus announced

August

- 3rd August (till 31st August) – Eat out to help out begins to support hospitality industry, Every Monday, Tuesday, Wednesday
- A £60 million COVID-19 recovery fund is launched by MFS to support residential and commercial property transactions, ensuring loans can be deployed without delay

September

- 24th September – 10pm curfew for all restaurants and pubs

October

- 14th October – Tier system is initiated
- MFS welcomes Andy Reid as new Head of Sales

November

- 5th November – Lockdown 2.0 announced
- MFS announces partnership with Vanquish Business Services
- iPhone 12 giveaway announcement – Stay connected
- MFS records strongest November on record, deploying £45 million worth of bridging loans

December

- MFS announces it will be lead sponsor of FIBA's 2021 conference
- We topped up our Covid-19 recovery pot to continue to help those in need of emergency funding due to Coronavirus delays / lenders pulling out last minute
- MFS lent £22m in bridging loans in just 3 weeks

January 2021

- 1st January – Britain no longer a part of the EU and the trade deal comes into effect
- MFS announces new funding line to encourage / aid buyers to complete before the end of the stamp duty holiday

Legend

- Government related
- MFS related

NEW YEAR CHANGES

As deadlines get tighter in the traditional lending sector, many prospective buyers look to alternative finance to purchase their property before the stamp duty deadline.

There is a real sense of urgency, and the ability to access loans in a swift and effective manner has become essential for borrowers. There are 3 key moments that may hold significant change for the housing market during 2021 that both investors and lenders should prepare for:

Spring budget

The Spring Budget is set to be released on the 3rd of March 2021. This is the UK's first Budget since leaving the EU, so it will set out how Britain will be looking to move forward as an independent country, as well as addressing ongoing fallout from coronavirus.

- It's set to highlight several issues surrounding the stamp duty holiday, the plan for tackling the virus and protecting jobs.

There has been calls for an extension of the SDLT holiday which, following the latest lockdown, may be necessary to ensure transactions do continue to complete and not fall through, as many buyers will have been expecting to make their purchases before the deadline.

It will also shed light on other aspects that will hold significant impact on the housing market, such as the end of the furlough scheme and potential increases in corporation and capital gains tax.

Uncertainty in Spring

The 1st of April sees a drastic change in the market as it marks the end of the SDLT holiday and the furlough scheme but brings about a 2% surcharge for overseas buyers on their stamp duty. It seems a natural build-up of uncertainty surrounding the beginning of Spring is becoming a keen topic for the property market. Despite talk of price drops across the UK, there has been plenty of positive forecasts for the upcoming year(s):

- Savills: UK house prices to grow on average by 15% between 2020 and 2024.
- Rightmove: They forecast a 4% national average house price growth in 2021.
- Knight Frank: Prime Central London property prices forecast to grow 4% in 2021.

Much of this uncertainty will be addressed at the Spring Budget, but until that moment, lenders should prepare for an initial drop in the housing market. However, our CEO Paresh Raja is confident that the property industry will remain strong and busy during Q2 and into the 2nd half of the year.

Vaccination process underway

For the first time in almost 12 months, there's a glimpse of pre-pandemic Britain. This alone could be enough to encourage the market to open back up and bring back a strong appetite for property, particularly in our cities.

- To date, over 6 million people have received the first of their two injections.
- The 'most vulnerable' are on track to receive their first dose before the end of February.
- Government aims to have all UK adults receive their first injection by September 2020.

"In my mind, the positive performance of bricks and mortar will continue in 2021. As such, now is an ideal time to take a step back and consider just how investors and prospective buyers can take advantage of property investments over the coming 12 months."

Paresh Raja, CEO

INDUSTRY TRENDS – CURRENT AND UPCOMING

Rise in £5m country homes

Savills have stated that country houses around the £2m price point have typically increased by £111,000 in 2020, and the trend is looking to continue as demand for larger homes with gardens has grown. The country housing sector had been one of the lower performing areas of the property market up until the pandemic. It became the strongest price performing sector of the housing market throughout 2020, as it rose on average by 5.5%.

Even with the vaccination being rolled out, the desire for country homes – particularly for those purchasing second residential properties, is still growing.

Conversion and refurbishment

Lockdowns have brought about a surge of DIY projects, so it's no wonder that the property market has seen so many people purchasing properties in need of renovation.

Properties still under offer after the end of January are unlikely to receive the discount offered by the SDLT holiday. With this in mind, those looking to purchase a large house without the expensive price tag will likely be looking at their options. This could be moving towards purchasing a rundown property and then using alternative finance to renovate or convert to their requirements.

Biggest issues we'll face:

- Completing property investment transactions before the stamp duty deadline. Mainstream lenders are already overwhelmed and have caused delays for buyers, putting their transaction at risk.
- The end of the furlough scheme and SDLT holiday. This is likely to have a big impact on first-time buyers. With 90% mortgages already difficult to come by and with the threat of unemployment high for the first-time buyer bracket, this could result in a dip in the first-time buyer sector of the market.
- With the current lockdown in place, and continuing for some weeks yet, commercial products are still limited on lenders shelves. Those looking to invest in commercial assets may struggle to find the right loan for their requirements.

“There are lots of opportunities for property investors, with vaccinations being rolled out all across the UK, Brexit out of the way and the shortage of property. There will be lots of opportunities for developers and overseas investors – with investors from Asia – Hong Kong, India – and Europe, all pouring money into the UK, buying property in London and across the UK.”

Paresh Raja, CEO

MOVING FORWARD

Bridging is a form of alternative finance that is crucial for the property market at this time.

Mainstream lenders are still taking an uncertain and risk adverse stance, restricting certain products as well as being unable to keep up with the level of applications they are receiving. Whilst some alternative lenders also removed products during the first lockdown, they have started to return as confidence and demand rise.

- The rush of the market is likely to see an increase of products available, alongside a rise of LTV levels.

Here at MFS, we have remained lending throughout the pandemic and have kept all of our products available to our clients and brokers. We have also received a new funding line to help process property investment deals that may be currently delayed due to the rise of enquiries of the market.

- £150m funding line to help support property investment in the UK

It is key to note that whilst the bridging industry has always been a competitive market, alternative finance providers need to lend sensibly. In times of economic importance, alternative finance becomes a supportive backbone to traditional finance, as it helps to minimise the number of transactions collapsing.

Summary

Whilst we should expect 2021 to hold localised lockdowns or tiered restrictions, one thing is abundantly clear: **Bespoke bridging loans** that are transparent, fast and flexible, are greatly needed in the current climate.

With property still in high demand, it is unlikely that all interest in the housing market will be lost after the beginning of April. Mainstream lenders and banks are still taking a risk averse approach, so demand for swift and secure finance will be well sought after by **property investors**.

The bridging industry will need to remain strong and united in the upcoming months. With many new buyers approaching the property market at the last minute, banks are finding themselves overwhelmed and the expectation for delays are ever growing. Whilst we are a competitive market and supporting property transactions at risk of collapsing is of utmost importance, it is imperative that alternative lenders remain sensible and focus their content on educating brokers and borrowers, alongside their business.

For more information, you can find some our education content by clicking the link below:

<https://www.mfsuk.com/reports/>

“Looking to the coming 12 months, it is clear that property investment will play a defining role in supporting the post-pandemic recovery of the UK economy. The SDLT holiday has been a success, and there is clear appetite for bricks and mortar. For this reason, it makes sense for buyers and brokers to also familiarise themselves with alternative loan options. Doing so will ensure they can confidently complete on transactions without delay.”

Paresh Raja, CEO



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