

MFS Q4 QUANT RESEARCH REPORT



THE HOUSING CRISIS IN 2020: OPENING THE MARKET TO NEW OPPORTUNITIES

2020 will be forever known as the year of the coronavirus pandemic.

The pandemic has presented unique challenges for the country that go beyond the initial health concerns. It has drastically affected the performance of different sectors, like hospitality and retail. In the same instance, the government has been actively attempting to encourage consumer spending and investment activity to ensure the economic impact of the pandemic is limited as much as possible.

Given the scale and complexity of the pandemic, COVID-19 has taken precedence over other pressing national issues. The UK's negotiations with the European Union have stalled as the country prepares to soon leave the bloc at the end of 2020. Domestically, the government

has also not had the resources or capacity to address important societal problems: the housing crisis being chief among them.

To understand how the housing crisis is being viewed in light of the newer, more pressing issues also surrounding it, the team here at MFS have commissioned new research to once again shed light on the housing crisis. Based on a survey of 2,000 UK adults, this report uncovers what people currently think about the state of the nation's housing market, as well as the effectiveness of government policy in ensuring more people can access the property ladder.

A review of the key findings



51% consider the housing crisis to be one of the biggest issues facing the UK



62% believe housing policy has been neglected by successive governments



49% are satisfied with Rishi Sunak's COVID-19 support and stimulus packages, compared to 16% who are dissatisfied



19% are considering buying a property before the stamp duty holiday expires on 31st March 2021 (This figure increases to 32% for those aged between 18 and 35)



44% believe the media focuses too much on worst case scenarios in its coverage of Brexit and COVID-19

WHAT IS THE HOUSING CRISIS?



Let's revisit: The housing crisis refers to the imbalance between demand and supply for property.

According to the BBC, the difference between the current housing stock and the number needed for everyone to have a decent home to live in is more than one million homes. So long as this gap between supply and demand exists, the housing crisis will remain a pressing national issue.

Even amidst the COVID-pandemic and ongoing Brexit negotiations, there are clear concerns from the general public when it comes to this imbalance. **Over half of Britons (51%) said they consider the housing crisis to be one of the biggest issues facing the UK.**

Successive governments have been criticised for the way the housing crisis has been tackled. One of the main points of contention is the high number of politicians who have held the position of Housing Minister over the past decade. Since May 2010, 10 MPs have served as Housing Minister. With such short tenures, it makes it difficult for long-term strategies to be developed, implemented and managed. Indeed, our research found that only 17% of UK adults know who the current UK Minister for Housing is.

It is perhaps unsurprising, therefore, that when asked about the current political approach to the crisis, over three-fifths (62%) of UK adults told MFS that they feel housing policy has been neglected by successive governments.

STEPS IN THE RIGHT DIRECTION, BUT MORE NEEDS TO BE DONE



300,000

**new houses to be built
on an annual basis**

In a bid to meet demand and re-build public confidence, politicians have focused on the construction of new-build properties.

This remains a core focus of the current Conservative government as reflected in recently policy announcements made by Boris Johnson. The Prime Minister has proposed a radical overhaul of existing planning reforms to cut the red tape governing property development.

By putting in place a regulatory framework that actively encourages construction, the Prime Minister is aiming for 300,000 new houses to be built on an annual basis.

This is an admirable target, though the planning overhaul proposed by the Prime Minister has received some criticism. There are concerns these new-build properties will not be situated in metropolitan hubs where demand is high, but instead in more rural locations where existing infrastructure might be lacking.

However, the government is not solely focusing on construction of new builds. In a bid to turn more of “generation rent” into “generation buy”, Boris Johnson has proposed long-term, fixed-rate mortgages of up to 95% loan to value (LTV) available exclusively for first-time buyers. Details on this scheme have yet to be clarified, including the launch date. Nonetheless, it reflects a government hoping to increase the number of people jumping on, and moving up, the property ladder.

PROPERTY INVESTMENT AND COVID-19

The property market has been deeply affected by COVID-19.

Lockdown and subsequent social distancing measures prevented people from moving homes, effectively bringing the real estate sector to a standstill. Naturally, this has created obstacles for those seeking to complete on a property transaction.

Given the significance of real estate investment as a driver of economic productivity and growth, the government has focused part of its post pandemic recovery plan on property. Namely, it wants to increase the number of transactions taking place to stimulate investment activity, open up new opportunities for prospective buyers, and provide a boost to the vast number of service providers that operate in this industry – valuers, surveyors, estate agents, conveyancers, removal firms, and so forth.

So far, the package of reforms delivered to support buyers and sellers has been well-received. Of those surveyed by MFS, just under half (49%) said they are satisfied by Chancellor Rishi Sunak's response to COVID-19. This is compared to 16% who are dissatisfied.

A key policy for the government is the Stamp Duty Land Tax (SDLT) holiday which is in place until 31st March 2021. The financial relief offered through the SDLT holiday is increasing the number of transactions taking place. According to HMRC, UK residential transactions were 21.3% higher in September than they were in August. A vibrant and active market is key to addressing the housing crisis, and the SDLT holiday is so far having the desired impact – ensuring more people are in a position to purchase or invest in property.

This increase in demand is, in turn, driving house prices higher. Halifax's house price index revealed that house prices increased by 7.5% in the 12 months leading to October 2020. This growth was largely attributed to the stamp duty holiday.

Focusing on this policy, approximately one fifth (19%) of UK adults are considering buying a property before the stamp duty holiday expires next year. Importantly, this figure increases to 32% for those aged between 18 and 35 – an age group likely mostly to be made-up of first-time homebuyers.

However, as demand for residential property increases as a result of the stamp duty holiday, the housing crisis once again becomes a more prominent issue. It is one that evidently must be addressed to ensure people across the UK are able to buy or rent suitable properties in the areas they wish to live.

DELIVERING A LONG-TERM STRATEGY FOR LONG-TERM RESULTS



The housing crisis is not something that can be resolved overnight.

As demonstrated by MFS' research, it will continue to remain an issue of pressing national importance. That being said, renewed focus on regulatory reform to aid the construction of new-build properties is a step in the right direction. The SDLT holiday has also demonstrated how creative tax reforms can make property more accessible to the entire market.

Once the COVID-19 pandemic has been addressed, the government must turn its attention to the property sector and ways of boosting the UK's housing stock. Britons evidently want to see a clear, committed plan when it comes to housing policy, with clear milestones in place and consistency in executing the strategy that will add hundreds of thousands more properties to the market each year.

"While the government is often keen to stress just how important the issue is, events like Brexit and COVID-19 have obviously pushed the housing crisis down its list of priorities. This is understandable given the complex and life-threatening challenges that the UK is facing at the moment.

Importantly however, Britons seem to be behind the support and stimulus packages that have been announced to help those affected by COVID-19. This includes the stamp duty holiday, which has been among the most effective initiatives – clearly many are still hoping to take advantage of it, too.

Over the coming months, the government must shift some of its focus to the housing crisis. However, it is also up to those involved in the property market – lenders, estate agencies and brokers – to ensure they are doing everything in their power to help prospective homebuyers.

After all, it will take a long-term, concerted effort across the public and private sectors to address a problem of this magnitude. But with a little creativity and consistent government policy, there is no reason the housing shortage cannot be rectified in the years to come."

Paresh Raja, CEO of MFS





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