Atelier

The Covid city exodus: Reality, reversal or urban myth?

A report into Britain's housing market by
Bob Pannell, Consultant Economist at Atelier

Foreword

Graham Emmett, co-founder of Atelier

The start of a new calendar year naturally leads to forecasts about what might be in store for our housing market.

After a tumultuous 2021, there is much to ponder: how high might interest rates go? Where are property prices headed after a record year? How might further Covid waves affect economic activity?

UK house prices soared by a tenth in 2021, according to the Halifax, with the average home 'earning' more than many Britons, with a £24,500 increase in value over the year.

Behind the headline figures, much has been made of the gulf between price rises in London and the regions. The capital's relative sluggishness, and the widespread shift to remote working, have led some excitable commentators to predict that an exodus of professional workers from urban to rural areas will ultimately squeeze the life out of our most vibrant cities.

Our assessment at Atelier, is that these would-be obituary writers are jumping the gun, a view supported by new analysis by our Consultant Economist, Bob Pannell.

Bob's latest report suggests that the 'race for space' in more rural locations is already losing steam, and we are now seeing the first patches of blue sky for the capital's sales and rental markets. In many ways, this reversal makes a lot of sense.

Even with the rise of people working from home, the economic benefits of agglomeration remain strong, and replicating them remotely will never be an easy task.

Of course, it's impossible to know with certainty what lies around the corner, but we anticipate the capital and other major metropolitan centres will strengthen throughout 2022 and beyond, subject to the usual caveats surrounding fresh variants of Covid.

If there is one thing we have learned from our economic history, it is that our cities are always evolving. And while our capital has suffered many setbacks in the past, it has always rebounded more strongly than before.

In that respect at least, we expect the future to be no different.

Executive summary

- With 2022 beginning, the long-term effect of the pandemic on our cities is coming into sharper focus.
- Much has been made of how the Covid-19 lockdown experience has transformed our view of home life, and triggered a sharp increase in demand for larger houses in less urban settings.
- But while housing activity, and demand for larger homes in particular, have been running at elevated levels, analysis of more long-term data suggests more modest shifts in activity to rural areas, rather than the paradigm shift supposed by many.
- The report finds that in the 12 months to last June, the uplift in sales of rural housing was noticeably higher than for urban, but that this pattern has reversed more recently. The strongest boost to rural sales was actually in the second half of 2020, when growth outpaced urban sales by about 10%.

Rural sales growth was about 4% stronger in the first half of 2021, but the current analysis suggests rural sales growth lagged urban by about 7% over the last six months.

- Evidence also supports the conclusion that growing demand for larger homes may well have been the pre-existing direction of travel anyway, and that it was the stimulus of the stamp duty holiday, rather than Covid itself, which was the chief accelerant in more recent times. As Land Registry figures show, the proportion of detached homes making up the average annual sales mix has been rising steadily for well over a decade, from 26% in 2005-09 to 33% in 2020/21.
- In any case, data indicates sales have performed less strongly during the second half of 2021, supporting the view that tax incentives were the primary driver of sales of larger, more expensive detached homes.
- Furthermore, London's housing market (for both ownership and rental) has shown a sharp rebound in the first few weeks of 2022.
- Weighing all these factors together, it may be judged that reports of our cities' demise as a result of the pandemic have been greatly exaggerated.

Introduction

Much has been written about how the Covid-19 lockdown experience has transformed our view of home, and triggered a sharp increase in demand for larger houses in less urban settings.

With millions of people seemingly freed from the constraints of a daily commute, it is easy to imagine that the UK has begun a spatial realignment of its housing market[1], as flexi-working broadens the concept of travel to work areas, to include places from where it is still possible to get to the workplace a few times a week or month.

This may well be the case for some individuals, but what matters for the housing market is the scale effect.

Not only is it too early to gauge the extent to which workers will eventually return to their workplaces, or how permanent or significant any restructuring of our labour markets will be, but we know very little about how other factors, such as where family and friends live, the location of schools and leisure facilities and the nature of partners' jobs, will inhibit any new-found mobility.

In truth, it is likely to be several years before we have a reliable understanding of what the 'new normal' looks like.

We have seen significant increases in housing market activity and prices over the past year, but much of this reflects catch-up from Covid-restricted activity in 2020 and the stamp duty holiday. This makes it difficult to judge what are permanent changes. While price developments provide an unmistakable indication that buyers value greater space, there is little evidence as yet of a paradigm shift.

While this may change as more reporting emerges, for the time being the evidence points to relatively modest shifts in activity to rural, coastal and other areas that are popular for holidays or second homes.

The big picture

Post-lockdown, the stamp duty holiday proved to be a major catalyst for house moves. Annual sales have exceeded 1.5 million, the strongest performance since before the global financial crisis (GFC).

Market activity this year has been heavily influenced by stamp duty changes (see Chart 1), with significant spikes in property sales in March, June and September, coinciding with the dates when concessions in the different nations of the UK were tapered or came to an end[2].

1. *The Big Spatial Reconfiguration of Housing and Labour Markets?, Alasdair Rae, October 2021*
2. *Stamp duty arrangements reverted to their previous settings at different times across the UK. Stamp duty holidays ended from the beginning of April and July in Scotland and Wales respectively. In England and Northern Ireland, the maximum stamp duty saving shrank from £15,000 to £2,500 from July and disappeared totally from the start of October.*

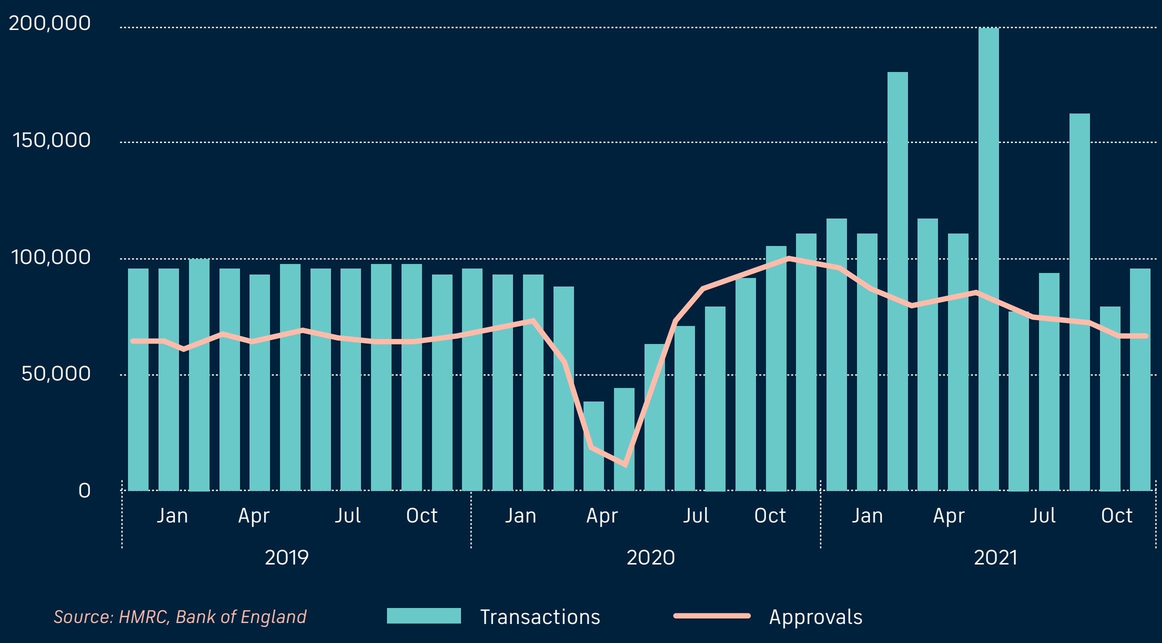
Data limitations

Much of our detailed understanding of the housing market, hinges on the transactional price paid data for England and Wales reported by HM Land Registry, and the corresponding dataset for Scotland provided by Registers of Scotland. Our analysis focuses on England and Wales, as this constitutes the bulk of UK and is freely available in the public domain.

Unfortunately, the pandemic has meant large lags in sales being registered by HM Land Registry, an issue that has been exacerbated by spikes in activity associated with the stamp duty holiday.

We currently have about 80% of the likely final tally of sales in the first half of 2021, 30% of Q3 sales and 10% of sales for Q4. While this means that we cannot be definitive about market developments, the bottom line is that we have a pretty good handle on what was happening through most of last year. Our analysis for the closing few months of the year is more impressionistic and should be interpreted with a suitable degree of caution.

CHART 1: PROPERTY TRANSACTIONS AND APPROVALS FOR HOUSE PURCHASE, MONTHLY



Source: HMRC, Bank of England

While it is normal for stamp duty holidays to distort the pattern of sales, as people bring forward their purchases of homes to take advantage of lower stamp duty, the effects this year have been exceptionally large. For example, June – the last month of the full stamp duty holiday across most of the UK – posted a record monthly high of nearly 200,000 transactions.

This makes it hard to distinguish between stamp duty effects and shifting housing demand post-Covid.

Property prices

Property price inflation has picked up sharply post-lockdown, with year-on-year increases hitting double-digit percentage figures for the first time in over a decade. We have also seen higher rates of growth for larger properties and those in less urban areas.

Recent papers[3] from the Office for National Statistics, note that larger price rises during the pandemic period have been seen in less built-up areas (BUAs) (Table 1), rural, tourist and coastal areas. The ONS has also reported[4] that the availability and pricing of rental properties in holiday areas have been under significant pressure, as owners repurpose their properties from long-term rental to holiday lets.

TABLE 1: PRICE GROWTH DURING THE PANDEMIC BY SETTLEMENT TYPE

	Percentage change, 12 months ending April 2021 compared with previous 12 months	Average annual growth 2010 to 2019(%)
Smaller BUA	9.6	3.4
Town	9.0	3.4
City	7.8	2.8
London	5.1	6.3

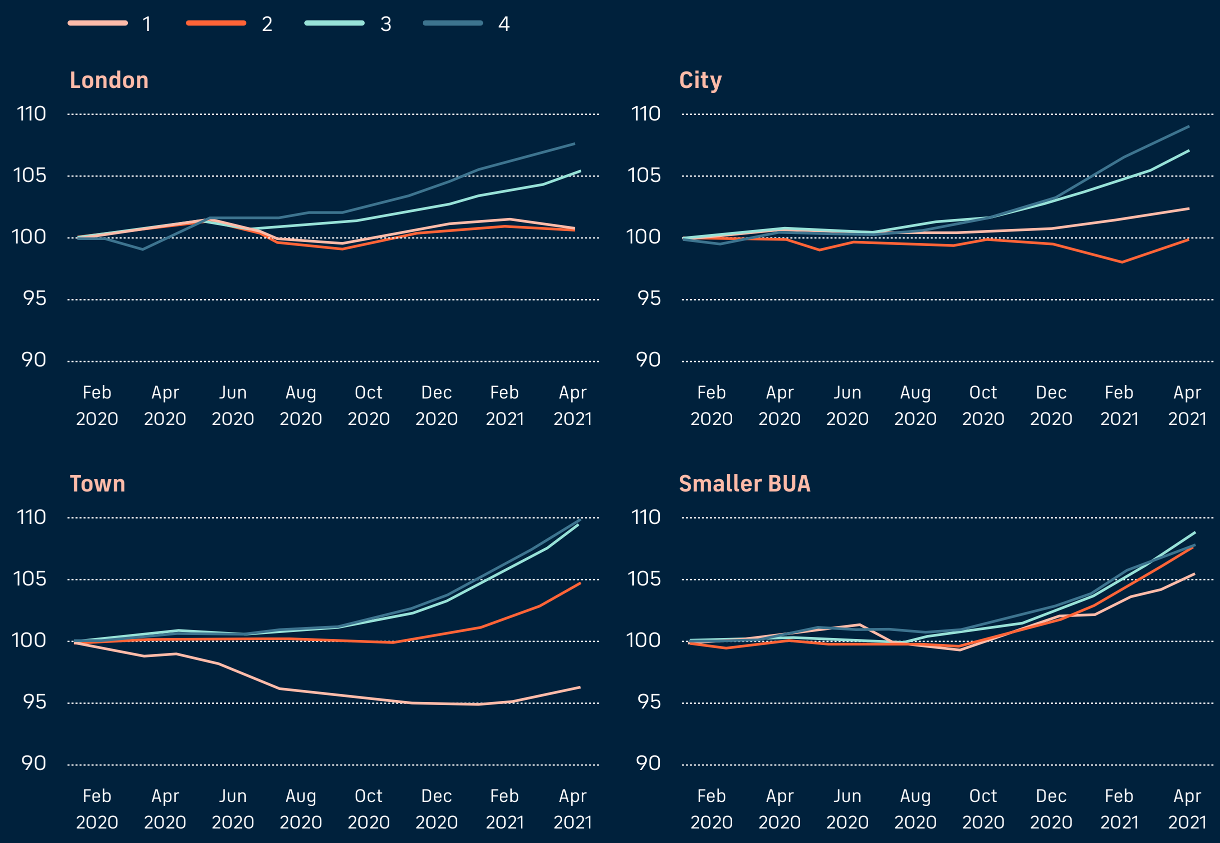
Source: Understanding towns in England and Wales: house price analysis, Office for National Statistics, October 2021

It also notes that the median prices for all types of house (detached, semi-detached and terraced) have increased more sharply than for flats, and that larger properties (those with three or more bedrooms or above-average floor area) have seen higher price growth, more or less regardless of location.

3. *See Understanding towns in England and Wales: house price analysis, ONS, October 2021 and House prices in tourist hotspots, ONS, September 2021*
4. *House prices in tourist hotspots, ONS, September 2021*

Where does housing fit in?

CHART 2: PROPERTY PRICE GROWTH BY NUMBER OF BEDROOMS AND SETTLEMENT TYPE, ENGLAND AND WALES



Source: Understanding towns in England and Wales: house price analysis, ONS, October 2021

Note: 12-month rolling average of median price indexed with January 2020 = 100.

While these and numerous other analyses confirm that there has been intense competition for specific types of home and location, associated media reporting often lacks context, and simply adds further fuel to the idea that people no longer wish to live in cities, towns or the suburbs. Evidence of a sharp turn-round in the capital's housing market (for ownership and rental) in recent months, suggests that this is simply not the case.

Property sales

We need to look at property sales, to gain a better and more nuanced understanding of what has been happening.

When we do this, the first thing we notice is that there has been a broad-based market recovery, rather than an explosion in the sales of large homes, or those located in rural hideaways or coastal idylls.

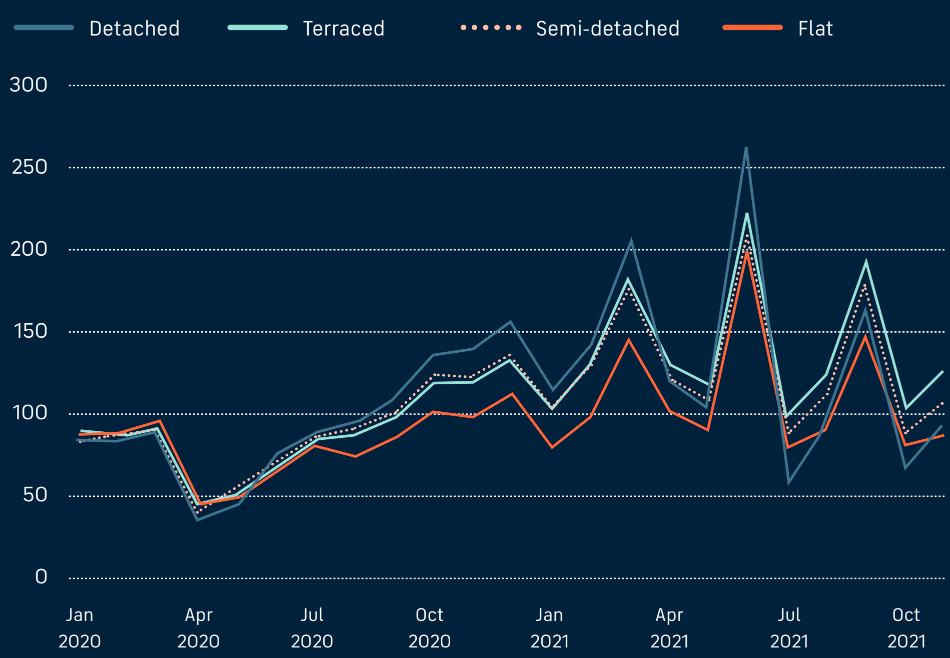
This makes sense, given that the overall number of such homes is relatively small. It is also worth bearing in mind, that the same lockdown and other factors that have spurred demand for such properties, also affect the mindset of those who already own them, making them less willing to offer them for sale. In short, we have a classic economics problem of demand exceeding supply, and prices rising more sharply to balance the two. While the precise outcome will be a function of respective elasticities, prices will typically take much of the strain, and sales end up being not very different.

This is mostly what we see here, albeit with a few qualifications.

By type

Flat sales have fared relatively poorly post-Covid, trailing below 2019 levels for much of the post-lockdown period, as can be seen in Chart 3.

CHART 3: MONTHLY TRANSACTIONS BY PROPERTY TYPE, RELATIVE TO 2019 AVERAGE



Source: HM Land Registry price paid data; author estimates

Note: Figures are index values. A value of 100 means that monthly sales match the 2019 average for that property type.

This is of course in line with what one would expect, given the survey evidence that households now place greater value on indoor and outdoor space. But it is also consistent with the waning popularity of flats, following the Grenfell Tower fire in 2017, and ongoing challenges in relation to remediation work and building certification, which have made the sale of many flats problematic.

This makes it difficult to attribute any recent erosion in the popularity of flats directly to Covid effects, but equally nor can this be excluded.

Chart 3 also indicates that sales of detached houses performed more strongly than semis or terraces through to mid-year. While it may be tempting to infer from this a post-Covid preference for larger over smaller homes (given that detached properties typically have larger floor areas than semi-detached properties, which likewise tend to offer more space than terraced homes[5]), this 'race for space' is also consistent with a longer-term trend, as Table 2 shows, and so not conclusive either way.

TABLE 2: CHANGING MIX OF SALES BY PROPERTY TYPE, ENGLAND AND WALES, % OF ALL HOUSES

	Five-year averages					
	1995-1999	2000-2004	2005-2009	2010-2014	2015-2019	2020-2021
Detached	29%	28%	26%	30%	31%	33%
Semi-detached	34%	34%	34%	34%	34%	35%
Terraced	36%	39%	39%	36%	34%	33%

Source: HM Land Registry price paid data
Note: Figures in last column relate to January 2020 - November 2021 period.

We also see that detached sales have performed less strongly during the second half of 2021, supporting the view that potential stamp duty savings were an important driver of sales of (larger, more expensive) detached homes.

The narrative that the Covid experience has prompted more people to buy larger homes is not absolutely compelling.

What we can take from the above, is that the narrative that the Covid experience has prompted more people to buy larger homes is not absolutely compelling. It may be true but, if so, this is reinforcing trends that have been observable for some years; stamp duty distortions have also played a part, and the effects appear to be incremental in nature, rather than breaking new ground.

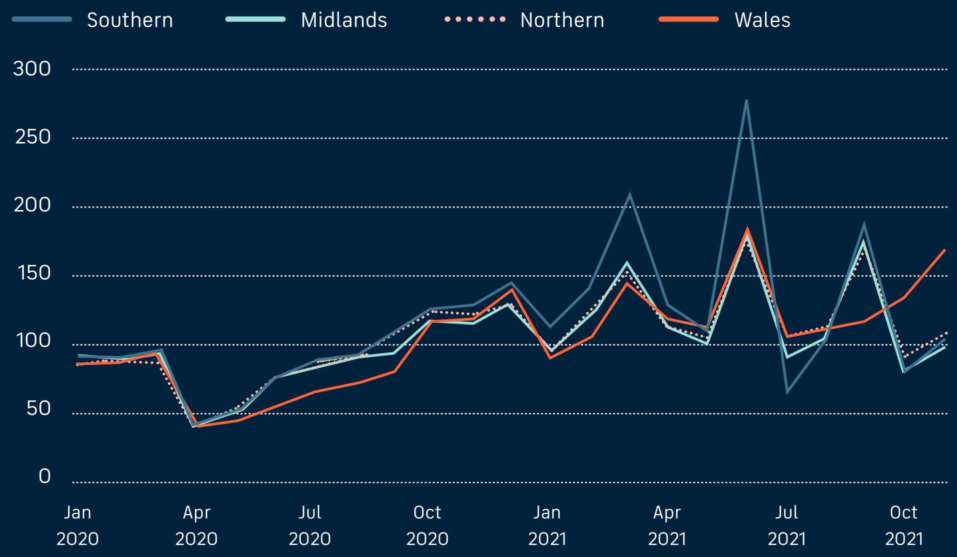
5. *English Housing Survey: Floor Space in English Homes – main report, Ministry of Housing, Communities and Local Government, July 2018*

By region

Chart 4 looks at the regional pattern of activity, although for ease of presentation the English regions have been combined into three groups.

Sales picked up at a faster pace in southern England than elsewhere, and in fact most strongly in Greater London and the South East (GLSE). These trends persisted through to mid-year, lifting GLSE's share of overall sales in England and Wales by several percentage points, and temporarily reversing several years of declining market share largely associated with affordability pressures and, in the case of London (where flats comprise about half of its housing stock) fewer flat sales post-Grenfell.

CHART 4: MONTHLY TRANSACTIONS BY REGION, RELATIVE TO 2019 AVERAGE



Source: HM Land Registry price paid data; author estimates
Note: Figures are index values. A value of 100 means that monthly sales match the 2019 average for that geography.

It seems very likely that stamp duty arrangements were the primary drivers of these high-level regional effects.

These trends appear to have evaporated after the stamp duty concessions ended in September 2021.

This is not really a surprise, as higher property prices mean that the biggest savings from the stamp duty holiday were to be made in London and the South East.

In Wales, where the stamp duty holiday was less valuable and ended sooner, there appears to have been a fresh revival in housing demand and sales activity before year-end.

While there are interesting questions about the future resilience of regional markets, now that the stamp duty holidays have ended, such a high-level picture probably tells us little about any shift in household preferences following Covid.

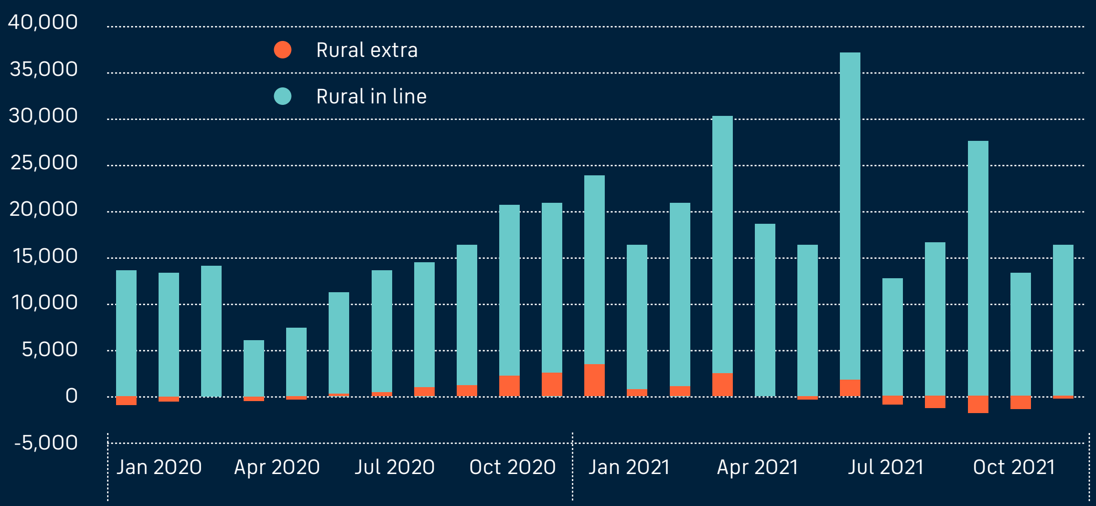
By location

This demonstrates just how hard it is to ascribe market developments to specific factors, and suggests that we should be wary of presuming too much too soon about how the pandemic has shifted preferences.

That said, price signals do help us to identify some instances where Covid may have been at play.

The mix of sales between urban and rural areas seems a good place to start, given that a major part of the narrative about shifting household preferences concerns a desire to move from urban to more rural areas.

CHART 5: EXTENT TO WHICH RURAL SALES GROWTH HAS OUTPACED URBAN SALES DURING THE PANDEMIC



Source: Author's analysis of HM Land Registry price paid data

With more than four fifths of the UK population living in urban areas, it should come as no surprise that roughly four fifths of sales have been urban for the past 30 years or more[6]. While recognising that the proportion of rural sales has been nudging higher over the past decade (from a low of 19% in 2011 to more than 21% pre-Covid), there does seem to have been a preference for rural properties, when we look at monthly data covering the post-lockdown period.

We can gauge the importance of this effect, by looking at what rural sales would have been, if they had simply grown in line with urban sales over the period (Chart 5). Our analysis is that in the 12 months to last June, the uplift in sales of rural housing was noticeably higher than for urban, but that this pattern has reversed more recently. The strongest boost to rural sales was actually in the second half of 2020, when growth outpaced urban sales by about 10%.

6. Based on methodology revised after the 2011 Census – see The 2011 Rural-Urban Classification For Small Area Geographies: A User Guide and Frequently Asked Questions (v1.0)

Rural sales growth was about 4% stronger in the first half of 2021, but the current analysis suggests rural sales growth lagged urban by about 7% over the last six months.

While the Covid period is still associated with stronger rural sales, the overall impact is in fact modest. The lead in rural sales growth over urban sales growth in the 18-month period to the end of 2021 was about 4%. So by no means can we be said to be experiencing an exodus from town to country.

Looking at the major tourist areas (as defined by the ONS, based on the number of travel and tourism businesses relative to the resident population), we can see that sales in tourist hotspots have run ahead of areas that are less popular for tourists. The scaling of these effects is somewhat arbitrary, but our analysis of local authorities comprising the top 30% of tourist areas, suggests that sales in these areas in the year to June 2021 were about 6%, or 19,000, more than we might have expected. Provisional figures suggest that, as with rural locations, the pull of tourist areas may also be waning. Our latest estimate is that post-pandemic sales in these top tourist areas are running at about 17,000, or only about 4% more than what might be expected.

An important point, is that there is likely to be a substantial overlap between the rural and tourism effects, as there would also be if we looked at coastal areas.

Conclusions

At first blush, it seems obvious that there has been a clear shift in house-buying preferences, with abundant reports and surveys testifying to the sharp increases in house prices seen for larger properties, or those located in rural and holiday areas. But this is rather a loose narrative.

While household preferences have almost certainly changed because of Covid, we need to calibrate these carefully, alongside some of the long-standing trends in the housing market that are at play, and the wider state of the housing market.

The recent buoyancy of sales, owes much to a catch-up and general recovery, following the end of lockdown, and the catalyst of the stamp duty holiday.

The impact of changing preferences on market sales appears to have been relatively small by comparison. The end of the stamp duty holidays may provide some useful insights into how long-lasting they will be.

Both Scotland and Wales appear to have shrugged off the end of their stamp duty holidays, but this may reflect the fact that the potential stamp duty savings were relatively low and their housing markets remain relatively affordable.

For now, underlying demand remains strong, and continues to be supported by reasonably high levels of consumer confidence and low mortgage borrowing costs, and limited stock being offered for sale is underpinning house price levels.

While this paper focuses on the extent to which the Covid pandemic may have shifted housing preferences, a key question is who has been fuelling the extra market activity post-lockdown?

Existing home-owners (taking out a mortgage to move house) have featured more prominently in the first half of the year, according to UK Finance[7]. Rekindled activity would mark a potential sea-change for this group, where activity has been lacklustre for most of the post-GFC years. It may also signal a stronger appetite to buy main homes or holiday/second properties, including for cash, by home-owners. Cash purchases have exhibited much the same pattern as we have seen for purchases in rural or holiday areas. While some of this renaissance will have been tied to stamp duty holidays and now appears to be on the wane, it seems probable that any shift in housing preferences because of Covid centres on this group.

Older home-owners are likely to be a key part of this, given their relatively high incomes, financial savings and wealth (much of it housing equity). Many also have the advantage of being cash buyers, and so are not directly impacted by the cost or availability of mortgages. This cohort is best placed to win any battle of the deepest pockets in holiday areas or other areas of high demand, and more likely to be able to sustain activities over the economic cycle. Information on older home-owners is disappointingly thin on the ground, however, and this is a subject that merits further research.

Looking ahead, housing market developments will remain closely anchored to the wider economic situation, including any changes in the taxation treatment of housing.

To the extent that our Covid experiences have shifted housing preferences towards wanting more space, this may add to the affordability challenges facing first-time buyers, reducing their foothold in high-demand areas, steering them to flats and other smaller properties, and increasing their reliance on low-cost home ownership schemes.

About the author

Bob Pannell is a leading housing and mortgage economist, and the former Chief Economist of the Council of Mortgage Lenders. Bob has been at the forefront in analysing and forecasting the UK housing and mortgage markets for over 30 years, and is a trusted adviser and contributor to the property and mortgage markets, regulatory bodies and Government.

In his capacity as Consultant Economist to Atelier, he is briefed with advising the Board of Atelier on trends and forecasts on the UK residential property markets.

7. *Household Finance Review – Q2 2021, UK Finance, September 2021*

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