Resolution Foundation

The Resolution Foundation Housing Outlook

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In Housing Outlook this quarter, we consider how Covid-19 has affected housing demand across the UK. In the absence of good rental data, we look below the surface of rising house prices, and consider the impact of home working and lockdowns, as well as Government policy, on housing preferences.

Studies for the US suggest that the pandemic has precipitated significant 'urban flight', with housing demand shifting from city centres to less densely populated areas. We find some evidence of this phenomenon here in the UK: local authorities with the fewest residents per square kilometre saw prices rise by 10 per cent over the past year, compared to 6 per cent in the most populous. We show that this is not just a London effect: cities across the UK have seen slower growth in house prices than rural areas suggesting a reduced preference for urban living.

However, the real question is whether we are likely to see a lasting impact on the housing market. We see some tentative evidence that those able to work from home are taking advantage of this flexibility to move to locations outside large conurbations. But policy also looks to be a crucial driver behind these trends. The Stamp Duty holiday has clearly had a stimulus effect on the market as a whole, and plausibly has driven up the value of houses relative to flats because it benefits 'second-steppers' rather than first-time buyers, who were largely Stamp Duty-free even before its introduction.

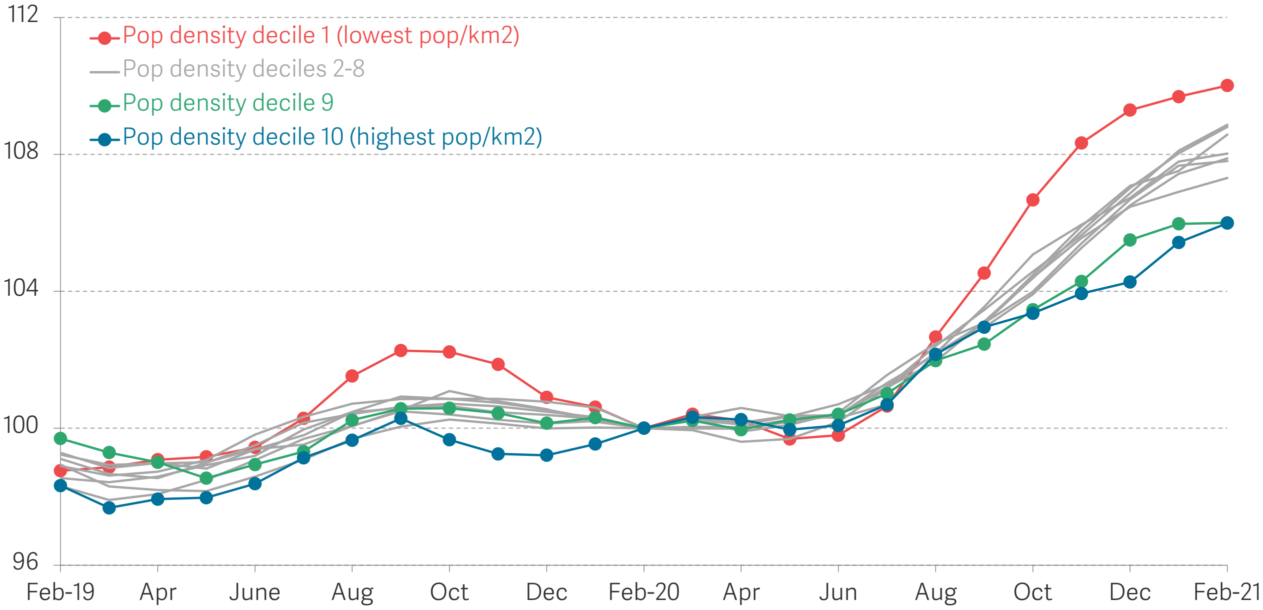
Spotlight | The impact of Covid-19 on housing demand across the UK

Despite the most significant economic contraction in a generation, house prices have boomed during the Covid-19 pandemic – making this a very odd recession. However, it is not just the scale of demand for housing that has generated debate, but whether the nature of that demand has changed too. There has been much chatter in recent months that Covid-19 has encouraged 'urban flight', with buyers looking to move from cities to less densely populated areas, and to housing types with more space. More concretely, researchers in the US have found evidence from both rental and house price data that demand had shifted away from American city centres, towards the leafier suburbs that surround them.

So, can we see any evidence that Covid-19 has changed housing preferences in the same way here in the UK? In Figure 1 below, we look at increases in house prices since the onset of the pandemic, splitting the UK's local authorities into deciles by their population density (the number of people per square kilometre). We find that, while prices have rocketed across the board, there has been a more significant jump in the least dense deciles of the UK, with areas that have higher population density lagging behind. Since February 2020, house prices have risen by over 10 per cent in the least populous tenth of local authorities in the UK, compared to rises of 'only' 6 per cent for the highest density decile. This is a significant departure from the pre-crisis trend, with price growth by density decile varying little in the year to February 2020 (and prices in the lowest density areas actually falling in the run up to the pandemic).

FIGURE 1: **House prices have risen faster in less populated areas of the UK than denser areas over the Covid-19 period**

Index of average house price growth, by population density deciles (Feb 2020=100): UK, February 2019 to February 2021



NOTES: Population density figures are for mid-2019.

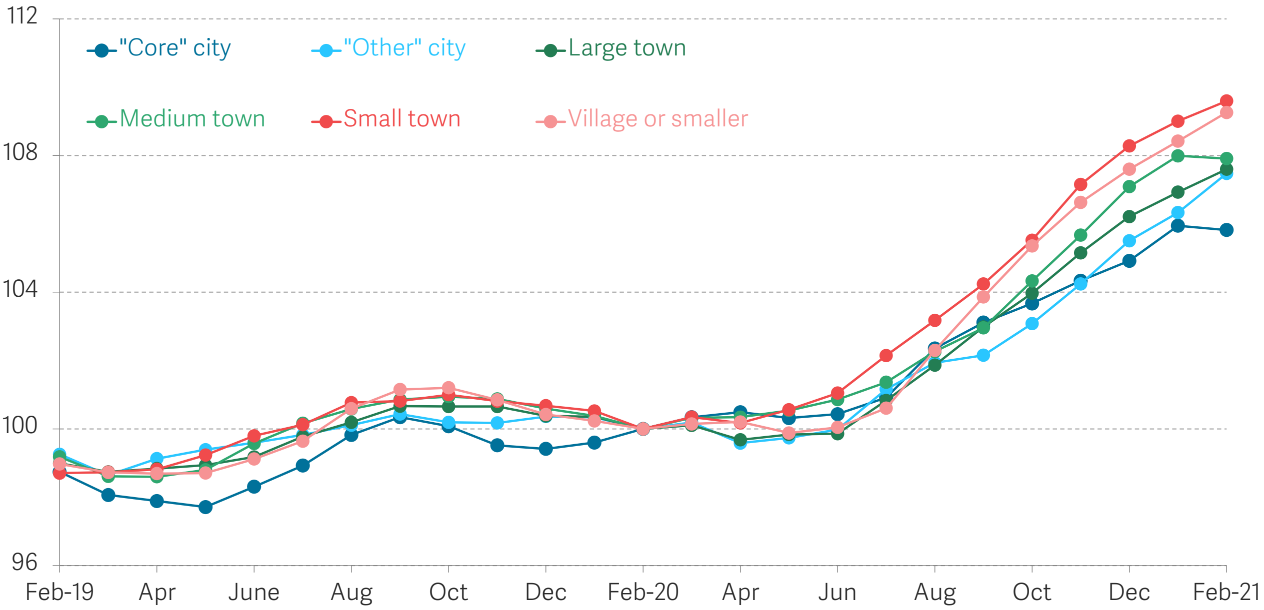
SOURCE: RF analysis of HM Land Registry, UK House Price Index; ONS, population estimates.

But is Figure 1 just another way of illustrating differing housing trends across the UK's regions? Regional variation in density is large across the UK: the London region contains every single one of the UK's top twenty local authorities ranked by density, for example, and has faced the biggest regional employment hit over the pandemic period. If we exclude London from our analysis above, the findings still stand, albeit with a slightly larger rise for the densest decile (7 per cent rather than 6 per cent). And looking just within the capital, house prices in Outer London rose by 7 per cent since February 2020, compared to only 2 per cent on average for local authorities in denser Inner London.

In addition, switching to a different metric and breaking down local authorities by rural and urban groupings that cut across regions of the UK also makes clear this trend goes beyond the capital. Figure 2 charts house prices changes using a categorisation that allocates local authorities to a city, town or village group according to the type of settlement in which the largest proportion of their population resides. As this makes plain, there has been lower relative demand for housing in 'core' cities such as Manchester, Birmingham, Liverpool, Glasgow and Cardiff in the pandemic period. The average house price rise for local authorities containing residents of the UK's twelve most prominent cities was 6 per cent. However, price rises for more rural areas where most residents lived in small towns or villages were significantly higher, at 9 per cent. Again, this diverges from pre-pandemic trends, with the year to 2020 seeing little spread by rural and urban classification.

FIGURE 2: **Prices have risen faster in rural areas compared to major cities during the pandemic**

Index of average house price growth, by city and town classification of local authorities (Feb 2020=100): UK, February 2019 to February 2021



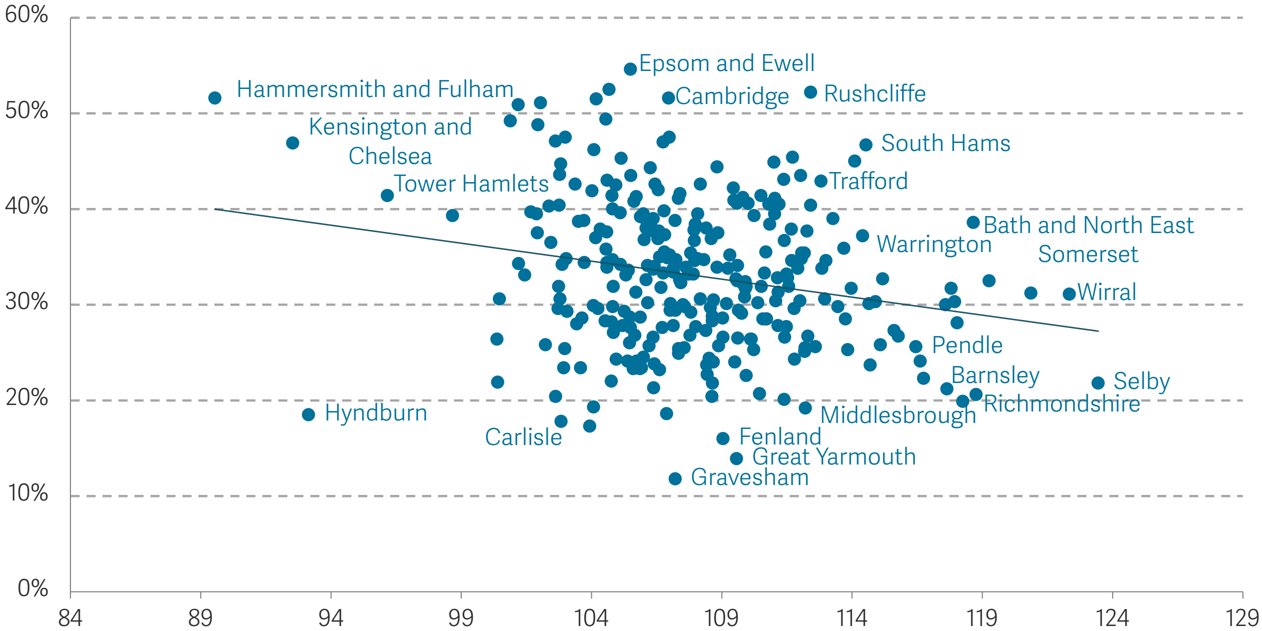
NOTES: Uses 'City & town classification of constituencies & local authorities', which labels local authorities according to the type of settlement in which the largest share of its population lives. "Core city" relates to twelve major 'population and economic centres' which are London, Birmingham, Glasgow, Liverpool, Bristol, Manchester, Sheffield, Leeds, Edinburgh, Cardiff, Nottingham and Newcastle. "Other city" refers to other settlements with more than 175,000 inhabitants. "Large town" refers to settlements with a population in excess of 60,000, and "Medium town" a population of over 7,500, with "village or similar" covering all other settlements.

SOURCE: RF analysis of HM Land Registry, UK House Price Index; C Baker, 'City & Town Classification of Constituencies & Local Authorities', House of Commons Library, June 2018.

As a result, we conclude that over the past year there has been something of a shift in housing demand away from cities and towards more rural, or at least less densely populated areas of the UK. So, who is behind this trend? Research from the US suggests that recent house price growth has been weakest in areas that were populated pre-crisis largely by those who are able to work from home (in other words, professionals) and concludes that housing demand has changed as a result of new freedoms in some working lives. This would make logical sense: those able to work from home are most likely to be able to take advantage of this flexibility and move to a more spacious and attractive location. But as Figure 3 shows, we find only weak evidence of that relationship here in the UK. We plot the proportion of a local authority's workforce that are in managerial or professional roles (which previous work suggests is a reasonable proxy for the ability to work from home), against price rises by local authority. While there is a small negative relationship (i.e. areas with a high proportion of workers able to work from home had slightly lower house price rises), this clearly offers only a partial explanation of current house price trends.

FIGURE 3: **There is only a weak relationship between the concentration of those likely to be able to work from home and house price growth in a given area**

Index of average house prices and proportion of local authority workforce in managerial or professional occupations (residence based), by local authority (Feb 2020 = 100): UK, February 2021



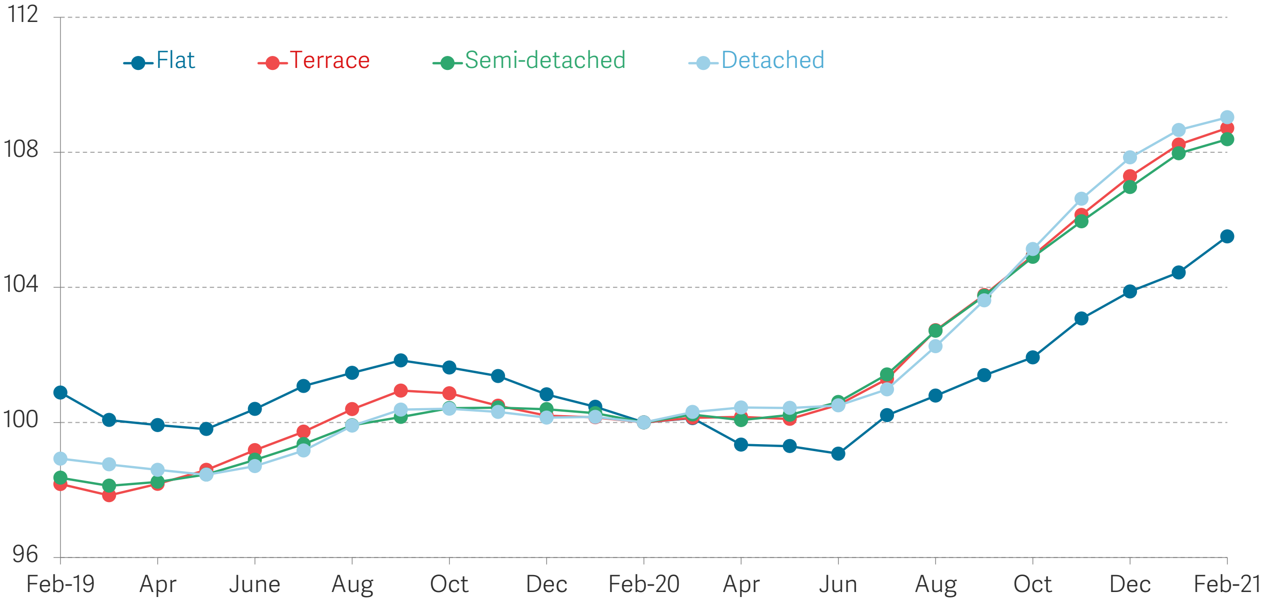
NOTES: Proportions relate to the share of the workforce in SOC2010 codes 1 or 2 (relating to 'managers, directors and senior officials' and 'professional occupations') in 2019.

SOURCE: RF analysis of HM Land Registry, UK House Price Index; ONS, Annual Population Survey.

Our final chart provides a further clue as to what could sit behind the differential demand we observe for housing in urban and rural areas. Figure 4 suggests 'denser' types of property have also become less attractive over the pandemic period: the average price of a flat has grown by 'just' under 6 per cent over the past year, while houses of all types have increased by around 9 per cent. Housing market commentaries suggest that 'second-steppers', intent on upsizing from flats in their search for space, are currently powering the market. As we have shown before, this group has been the key beneficiary of the stamp duty holiday announced by the Chancellor in July 2020, and extended through to September 2021 in the Budget earlier this year. In contrast, first-time buyers who by their very nature are more likely to purchase smaller properties, have for the time being lost the tax advantage they had in the market compared to existing owners.

FIGURE 4: **Prices for flats have grown more slowly than other types of property**

Index of average house price growth, by property type (Feb 2020=100): UK, February 2019 to February 2021



SOURCE: RF analysis of HM Land Registry, UK House Price Index.

Overall, it is clear that the nature of housing demand has shifted over the pandemic period. However, on current evidence this appears to be been more driven by the differentiated effect of a temporary policy (the stamp duty holiday boosting the purchasing power of those who are likely to want larger homes in less dense areas) than any fundamental change in tastes. It is plausible, then, that this effect will dissipate once the stamp duty holiday ends in September. But if tastes continue to shift towards out-of-city living, and families are able to manifest those preferences, we may see prices actually fall in city centres, benefiting those buyers who continue to value city amenities. Watch this (race for) space.

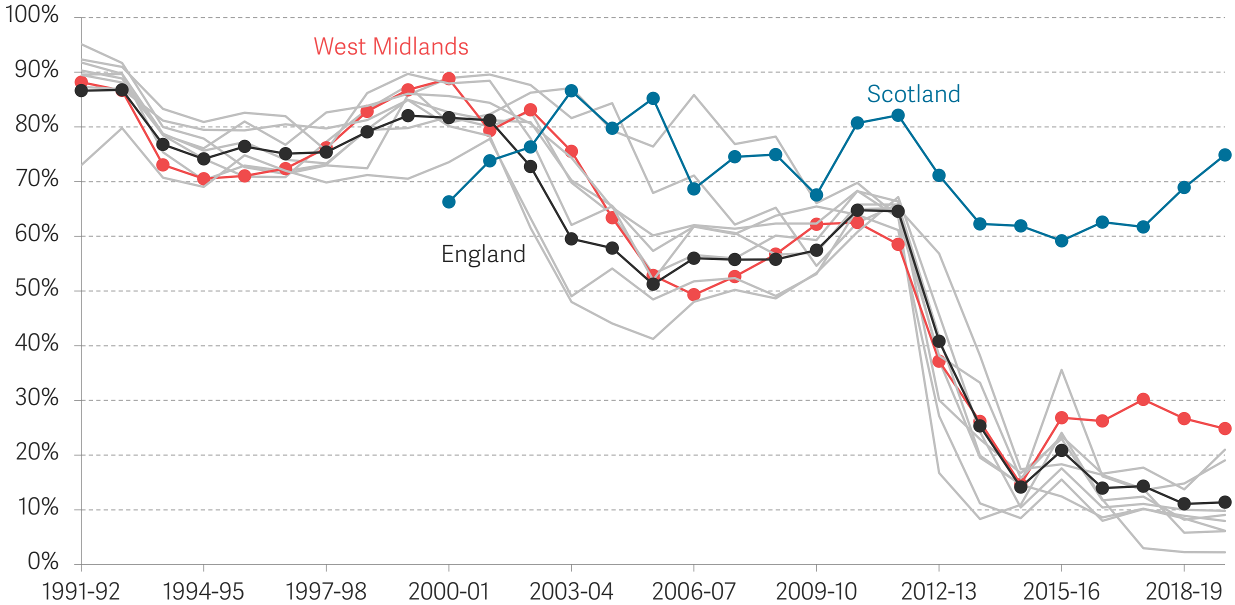
Regional focus | Affordable housing policy across the UK

As noted in previous Housing Outlooks, the Government is committed to spending £11.5 billion over the lifespan of the latest iteration of the Affordable Homes Programme, from 2021-2026. While the building of all cheaper tenure types is welcome, there are concerning trends in the composition of the affordable homes being constructed under the programme. Figure 5 illustrates the extent to which the building of new social rental properties, the most affordable and secure of tenure types, has fallen as a proportion of all affordable tenure builds in England. Back in 1992-93, new social rental properties represented 87 per cent of all affordable homes built. But by 2019-20 this had fallen to just 11 per cent. This largely reflects the proliferation and promotion of other 'affordable' tenure types including the introduction of 'Affordable Rent' and 'Shared Ownership' properties – which generally benefit a more affluent group of renters, or those aiming to own their home.

However, given how central local policy decisions are to affordable housing supply, there is significant regional variation. As shown in Figure 5, this is clear in the case of the West Midlands, and to a far larger extent in Scotland, where housing policy is devolved. Just over a quarter of affordable homes built in the West Midlands in 2019-20 were social rental properties, with the region also introducing its own local definition of 'affordable housing' linked to local salaries. In Scotland, affordable housing policy is even more strongly divergent from English trends, with social rental properties representing just under three-quarters of affordable housing built in 2019-20. While there are some measurement differences between the two schemes, this divergence largely reflects an explicit commitment from the Scottish Government to deliver at least 70 per cent of their Affordable Housing Supply Programme through social rental properties. An important reminder that, as illustrated in the Spotlight above, policy choices are key to housing outcomes. And in the case of social housing, these are fundamentally political choices, rather than the result of market forces.

FIGURE 5: **The proportion of social rental properties, compared to other forms of affordable housing built in the past year fell to just 11 per cent in England**

Social rental property completions as a proportion of all affordable housing completions: England, West Midlands and Scotland, 1992-93 to 2019-20



NOTES: There are differences in measures of affordable home completions used in England and Scotland, for more information, see: ONS, 'Comparing affordable housing in the UK: April 2008 to March 2018'.

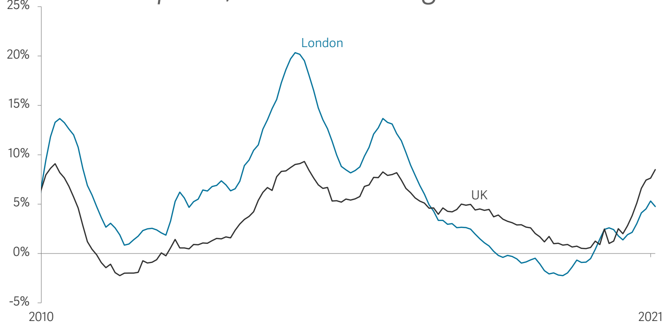
SOURCE: RF analysis of MHCLG, Live Tables 1006-1009, Scottish Government, Affordable Housing Supply Programme Summary Tables.

Housing indicators | Exploring key trends in the UK housing market, and what this means for households and policy makers

The charts below look at key trends in the UK housing market as a whole, as well as among regions, tenures and age groups where these trends have differed or been more pronounced. View notes, sources and the interactive data behind our indicators at resolutionfoundation.org/housingoutlook

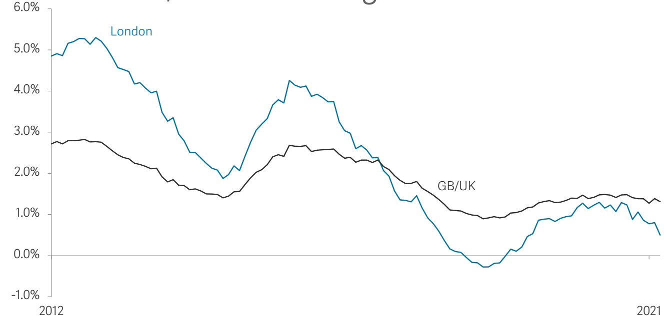
Housing market trends:

House price, annual change



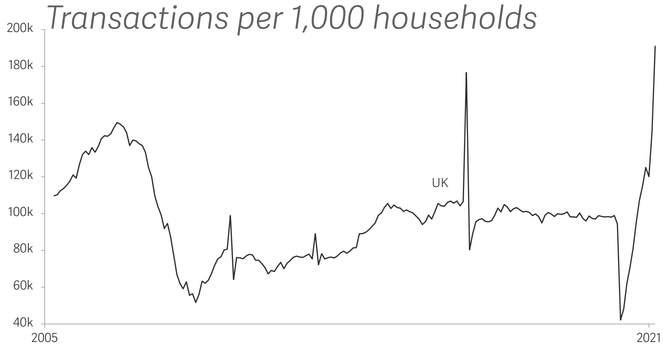
UK house price growth has boomed over the pandemic, despite a weak economy - supported by changes to Stamp Duty.

Rents, annual change



Rents were edging upwards pre-crisis, but rental price growth appears to be slowing in the most recent data, particularly in the capital.

Transactions per 1,000 households



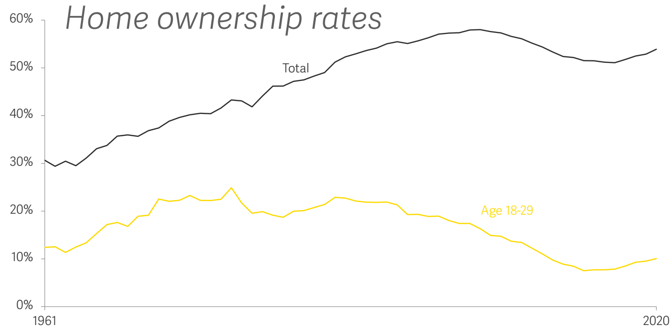
Transactions fell sharply over the lockdown period in April and May, but have now reached record highs in early 2021.

Monthly number of mortgage approvals

Mortgage approvals fell sharply during lockdown, before a significant recovery in recent months, that appears to be slowing in the latest data.

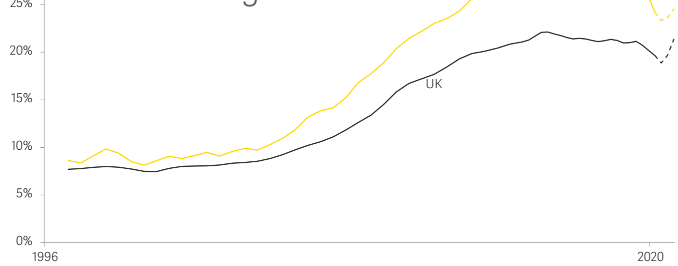
Housing and living standards:

Home ownership rates

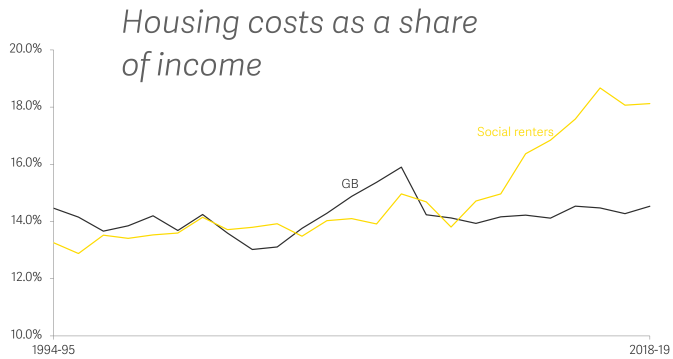


Home ownership rates have ticked up since 2016, a trend continued in the latest data.

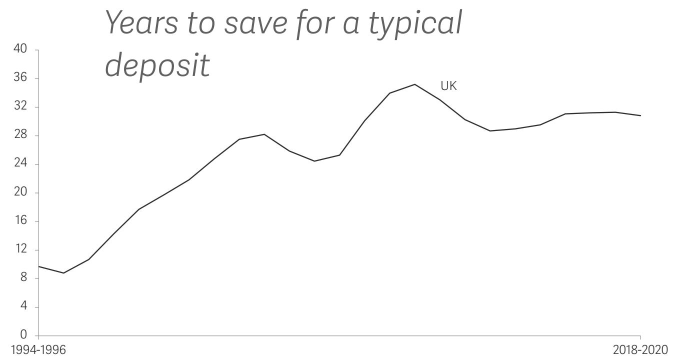
Share of families with children living in the PRS



The share of families with children that live in the PRS has increased almost three-fold since the 1990s, although the latest data likely has crisis-related measurement issues.

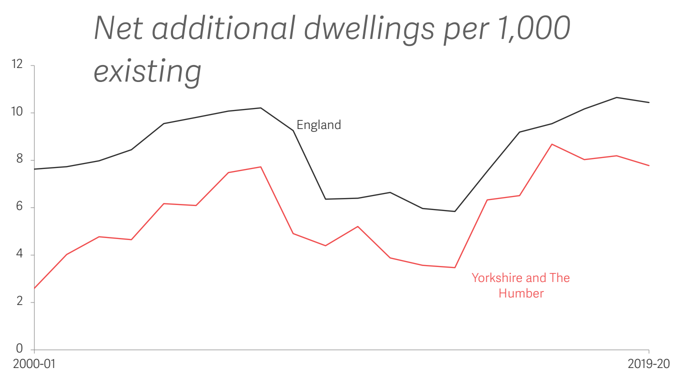


Housing costs as a share of income fell for mortgagors after the financial crisis, but have increased fast for social renters - and we have yet to see the impact of the crisis in this data.

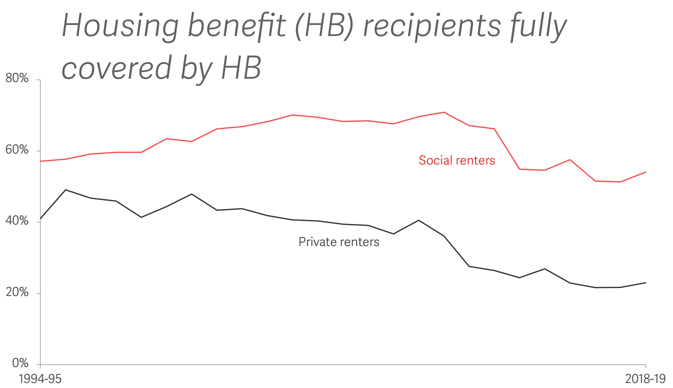


It would take 31 years for a typical young family to save for a deposit. This chart is not comparable with previous versions published given methodology changes due to data availability.

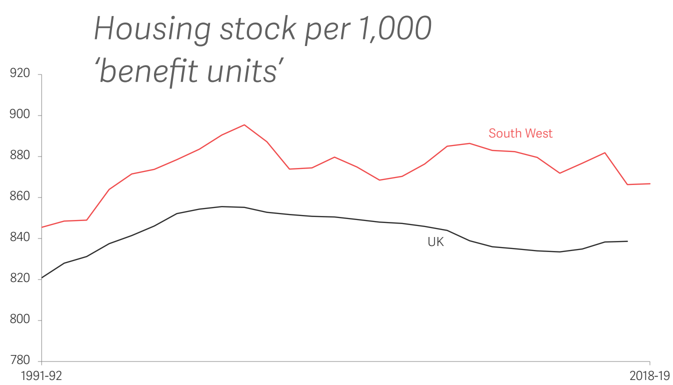
Housing and policy



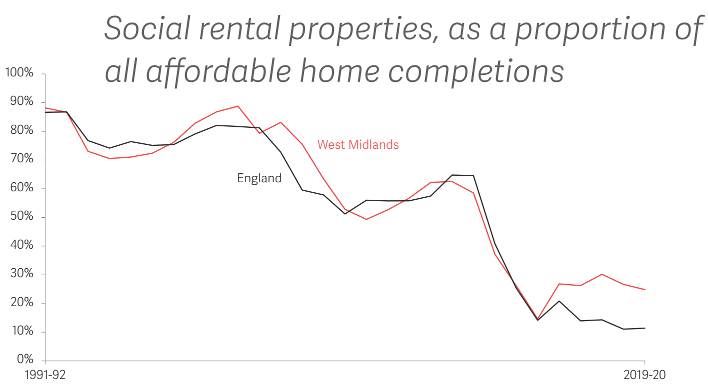
Overall net additions had recovered since the financial crisis, but not in all parts of the country - and we have yet to see the impact of the pandemic on house building.



The share of families in receipt of housing benefit whose housing costs are fully covered fell throughout the 2010s - we do not yet have data reflecting the changes made to housing benefit in March 2020.



Relative to the number of families, the UK's housing stock has declined since the turn of the century.



Social rental properties have fallen significantly as a proportion of the affordable housing built in England through the 2010s.

For more of our housing work and notes, sources and interactive data for this report, visit [resolutionfoundation.org/housingoutlook.](resolutionfoundation.org/housingoutlook)
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We do this by undertaking research and analysis to understand the challenges facing people on a low to middle income, developing practical and effective policy proposals; and engaging with policy makers and stakeholders to influence decision-making and bring about change.

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