

PROPERTY MARKET REVIEW

APRIL 2020



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.

Flexible office providers fight for survival

Demand for new offices will drop significantly this year due to the COVID-19 pandemic, according to new research.

The report from UBS states that, although the office sector has not been as severely affected as the retail and leisure sectors, serviced office providers are feeling the pinch and facing very immediate impacts to their cash flows.

UBS expects that larger corporate tenants will start pulling out as they make redundancies in response to the crisis, noting that *"the easiest workspace for them to vacate is, by definition, the flexible space."*

It also predicted that freelancers and SMEs would be looking to cut costs in the wake of the crisis, and so *"could resist going back into expensive serviced office space in the short term."*

Social distancing measures are compounding the issue, as they have rendered most flexible offices and co-working spaces unusable. As a result, several operators in this space, including IWG and WeWork, have approached their landlords for some relief from their current cash flow shortfalls.

Retail: the fallout from lockdown

The government's lockdown measures led to the unprecedented closure of all 'non-essential retail units' for 3 weeks. On 16 April, this was extended for at least 3 more weeks.

According to Knight Frank, around 83% of retail stock is currently closed. Many retailer occupiers are struggling to cope, with already stretched balance sheets almost at breaking point under the intense pressure.

Knight Frank's research estimates that only a third of retail occupiers made their quarterly rental payment on time and in full.

Landlords have generally granted concessions to help retail operators survive the storm. These have taken the form of rent holidays, a switch from quarterly to monthly payments, or even a transition to turnover rents.

Predictions of a v-shaped recovery – best-case scenario

According to Savills' latest 'Market in Minutes' report on UK commercial property, the average prime yield month-on-month to the end of March was stable. In Q1, investment volume was up 10% year-on-year. However, as deals that completed in March had already been underway for some time, it is expected that UK commercial property investment volumes 'will now fall to the kind of levels not seen since 2008 in Q2 and Q3.'

To this end, there is little evidence as yet of post-lockdown pricing in the UK market, although Savills currently believes that any anticipated yield hardening is unlikely in the short term.

Currently, economic forecasters predict a V-shaped recovery, i.e. a sharp downturn followed by an equally sharp upswing. Savills notes that this should be seen as a best-case scenario, however; it doesn't account for a second peak of COVID-19 cases or the massive scale of the government's fiscal response. At worst, it is expected that the economy and property market will return to normal by mid-2021.

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HOUSE PRICES HEADLINE STATISTICS

HOUSE PRICE INDEX (FEB 2020)*	120.8*
AVERAGE HOUSE PRICE	£230,332
MONTHLY CHANGE	-0.6%
ANNUAL CHANGE	1.1%

*(Jan 2015 = 100)

- UK house prices increased by **1.1%** in the year to February 2020, down from **1.5%** in January 2020
- House price growth was strongest in Wales where prices increased by **3.4%** over the year to February 2020
- The highest annual growth within the English regions was in London, where average house prices grew by **2.3%**

Source: The Land Registry
Release date: 22/04/2020
Next data release: 20/05/2020

AVERAGE MONTHLY PRICE BY PROPERTY TYPE – FEB 2020

PROPERTY TYPE	ANNUAL INCREASE
DETACHED £350,021	0.70%
SEMI-DETACHED £219,042	1.50%
TERRACED £186,737	1.80%
FLAT / MAISONETTE £202,545	0.20%

Source: The Land Registry
Release date: 22/04/2020

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HOUSE PRICES PRICE CHANGE BY REGION

REGION	MONTHLY CHANGE (%)	ANNUAL CHANGE (%)	AVERAGE PRICE (£)
ENGLAND	-0.6	0.8	£246,341
NORTHERN IRELAND (QUARTER 4 - 2019)	0.2	2.5	£140,190
SCOTLAND	-1.6	2.5	£150,524
WALES	1.2	3.4	£164,435
EAST MIDLANDS	-1.5	0.7	£192,244
EAST OF ENGLAND	-0.7	-1.0	£286,869
LONDON	0.2	2.3	£476,972
NORTH EAST	-1.3	0.4	£125,053
NORTH WEST	-0.5	0.9	£163,602
SOUTH EAST	-0.4	0.4	£321,329
SOUTH WEST	0.5	1.1	£258,044
WEST MIDLANDS REGION	-1.3	0.7	£198,658
YORKSHIRE AND THE HUMBER	-1.0	1.9	£162,334

MORTGAGE PAYMENT HOLIDAY DATA

- Over **1.2 million** mortgage payment holidays have been offered by lenders to customers impacted by COVID-19
- **One in nine** mortgages in the UK are now subject to a payment holiday
- The number of mortgage payment holidays in place more than tripled in the two weeks to 8 April, growing from **392,130** to **1,240,680**, an increase of nearly **850,000** or an average of around **61,000** payment holidays being granted each day.

Stephen Jones, UK Finance CEO, commented: "Mortgage lenders have been working tirelessly to help homeowners get through this challenging period. The industry has pulled out all the stops in recent weeks to give an unprecedented number of customers a payment holiday, and we stand ready to help more over the coming months. We understand that the current crisis is having a significant impact on household finances for people across the country."

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