

# AC/BC - How Covid Rocked the Market

## Scottish Housing Market

Spring 2020



## At Year Zero?

As any pedant will tell you, there was no Year Zero in the Western calendars. At the moment though, it does feel as if time is being reset. Pronouncements and commentaries on the property markets as recently as mid-March look hopelessly out-of-date, and we are now viewing trends and patterns in a 'BC' and 'AC' context, or Before and After Covid-19.

As we sit in isolation, scrolling through numerous articles beginning with 'unprecedented', and processing the contradictory range of speculation that have been proffered over the past 2 weeks, it can be hard to discern whether this is an epoch changing event, as some have suggested, or something more short-lived which will see 'normality' restored within a few weeks or months.

While, it may appear that the housing market is successfully socially distancing itself, with the Registers of Scotland effectively closing and mortgage lenders pulling back from lending, that does not mean the real estate sector has gone completely quiet.

But first some context...



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## Key Findings

- The Registers of Scotland has largely shut down operations, placing much of the Scottish housing market on hold.
- Experiences of other housing markets hit by public health outbreaks suggest transactions rather than values see the immediate fall. Transaction falls during major crises are typically between 40% to 70%. In Scotland the number of new properties listed for sale in the first week of April has dropped 90% year-on-year.
- Airbnb has seen a 27% fall in available listings in Edinburgh between Q4 2019 and March 2020.
- Listings in Edinburgh on Citylets for long term rentals are up almost 50% this year, and 119% at the start of March.
- It is difficult to see when circumstances will be back to normal, until there is a date for the end of the lockdown.
- The economic fundamentals of the Scottish housing market were relatively strong before the crisis (price growth of 4.2% at the start of the year), and this should support the subsequent recovery.

# Unprecedented?

Mark Twain, the go-to polemicist and humourist for all occasions, said, "History doesn't repeat itself, but it often rhymes." While the current Covid-19 pandemic may be unique, that is not to say economies and housing markets have not been impacted by health outbreaks before, and these may give some clue to our own future. Most recently, we have seen events in China and before then there are case studies in Hong Kong on the 2003 SARS outbreak ([link](#)). Going back further, there have been many academic studies looking at the impacts of pandemics from the Black Death ([link](#)) through to the Spanish Flu ([link](#)). For our purposes, concentrating on the most recent examples might be most insightful.

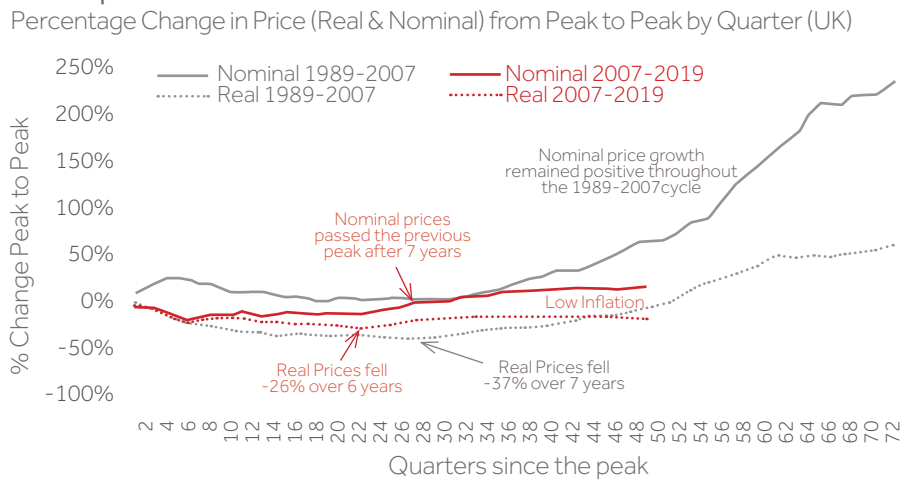
In China under the Coronavirus, data from Barclays suggests that sales transactions fell in the region of 70% in February as restrictions were implemented. There are also higher estimates, which suggest new homes sales falling by 90% and existing home sales by 91% in eight cities, according to China Merchants Securities Co. ([link](#)). In Scotland, with the Registers of Scotland effectively closed, transactions may fall to near zero. The question then becomes how does the market return? With China now lifting restrictions, Barclays have reported homes sales in March down 40% compared to last year. Price growth to February remains over 5% up year-on-year and forecasts for Tier 1 cities remain positive, at 0% to 2%, due to strong underlying market fundamentals.

In 2003, the SARS outbreak in Hong Kong also triggered a severe economic and housing market reaction. At its peak, monthly GDP dropped by 5.1%. Studies of the housing market during this period estimate house prices during the pandemic fell around 1.6% to 1.9% ([link](#)). There was a much heavier fall in transactions, with estimates ranging from a one-third to three-quarters drop.

In both these cases, the outbreak and associated lockdown measures saw a sharp and deep retreat in transactions but relatively robust house prices as buyers and sellers chose to 'wait and see'. The psychology of deferring transactions until there is greater certainty has been one, which to a lesser extent, has been prevalent in the UK and Scottish markets in the run up to IndyRef and Brexit.

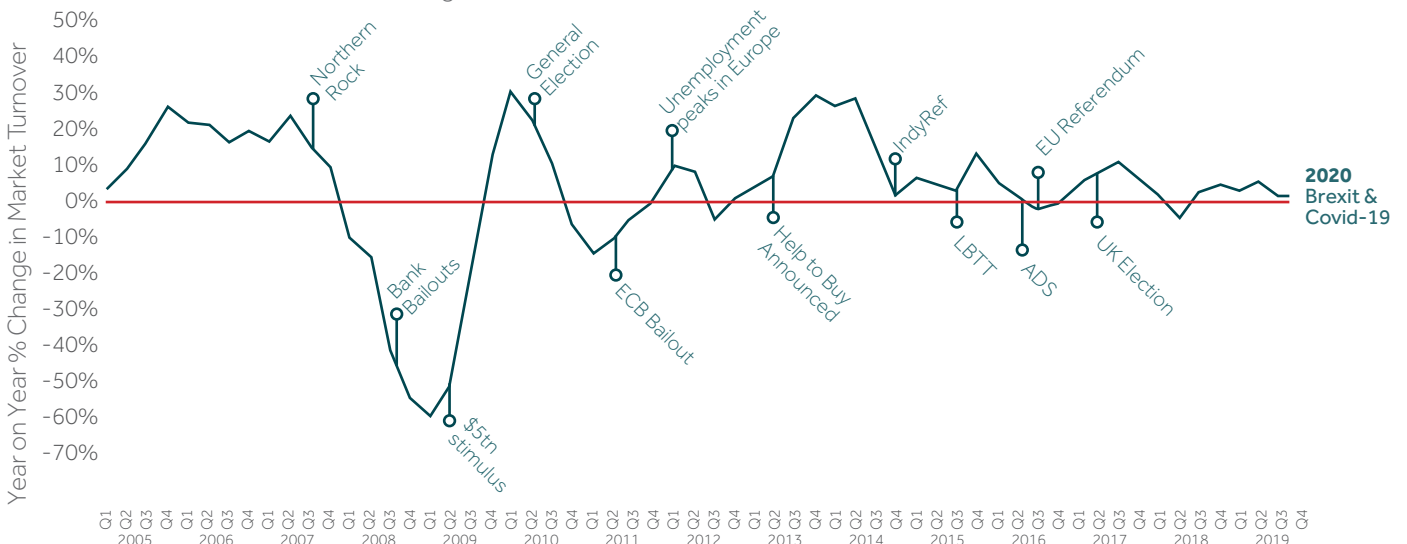
The difference in this case is the potential economic downturn caused by the Covid-19 lockdown, especially if the measures persist for an extended period. There is a range of current forecasts for UK GDP, ranging from -15% quarterly fall, through to 2% to 5% annual falls in 2020. Many commentators believe the Government's intervention and furlough scheme, combined with strong underlying fundamentals, will see a comparatively quick recovery compared to recessions caused by major economic imbalances such as the Global Financial Crisis (GFC) of 2008/09 and Dot Com Crash of 2000/02. It does appear likely though that we are witnessing a collapse in transactions rather than house prices and this has been the response in other UK housing market crises.

**Fig.1 Nominal house prices remained robust in the wake of previous downturns, but real prices took some time to recover**



**Fig.2 The Scottish Market has been shaped by events over the past 15 years**

Timeline of Events: Year on Year % Change in Scottish Market Turnover



**Previous Volume & Value Responses**

While the UK housing market has not seen the effects of a pandemic since the 1918 Spanish Flu, which actually saw house prices rise during the period ([link](#)), there have been recent market downturns from which we can learn. Fig.1 shows the changes in UK house prices in previous recessions – actual and inflation adjusted. Each line starts at the house price peak before the downturn and then tracks the fall in average values.

In previous housing market downturns, the drop in nominal average house prices was relatively modest. During the GFC, for example, these prices fell -19% across the UK and -13% in Scotland. When adjusted for inflation, however, the UK market saw falls of between -26% in the current cycle and -37% from 1989. In each case, it took 6 to 7 years to reach their nadir, with values for the recent cycle still down on 2007 levels many years later.

However, the crash in the GFC was much more in market activity than prices. Over the period Q3 2007 to Q1 2009, transactions collapsed over 60% in the Scottish market. Recovery since has been slow, with the market being impacted by a series of economic and political events since 2009, the latest of which is Covid-19 (See Fig.2).

**Anticipating Change**

Activity is still happening in the Scottish Housing Market. Recently released Scottish Government guidance has summarised the extent to which the market can still function during the lockdown ([link](#)).

However, the effective closing of Registers of Scotland means that it is very difficult to process transactions except in special circumstances. The lenders have also heavily restricted mortgage finance (especially on new mortgages) as they battle with reduced staff numbers and dealing with customers who want to take mortgage holidays. Rather than wait for sales data, we can already

see that the number of new listings coming on to the market slumped in Week 13 (w/b 22 March). This slump in listings foreshadows the slump in sales we can expect. In the first week of April new listings across Scotland are down 90% compared to last year. At the moment, this looks likely to be worse than the 60% collapse experienced after the 2008 crash and at a much greater speed.

**Change Also Brings Opportunity**

In contrast to a sales market in stasis, the rental sector is experiencing rapid movement, most notably with an exit of landlords from the short-term rental sector as demand has evaporated.

According to figures from AirDNA, the number of listings in Edinburgh on Airbnb has dropped from over 11,700 in Q4 2019 to just over 8,500; a fall in stock of 27%. At the same time, the number of new listings for long-term 1- and 2-bed rental properties in Edinburgh on the portal Citylets in the first week of March is up 119% on the same week last year.

These statistics back-up our own market experience, with an influx of rental enquiries from landlords looking to move their Airbnb properties into the long-term rental sector. With the regulation of the short-term rental sector already on the horizon before Covid-19, this was a growing consideration for many landlords that has been expediated by current events.

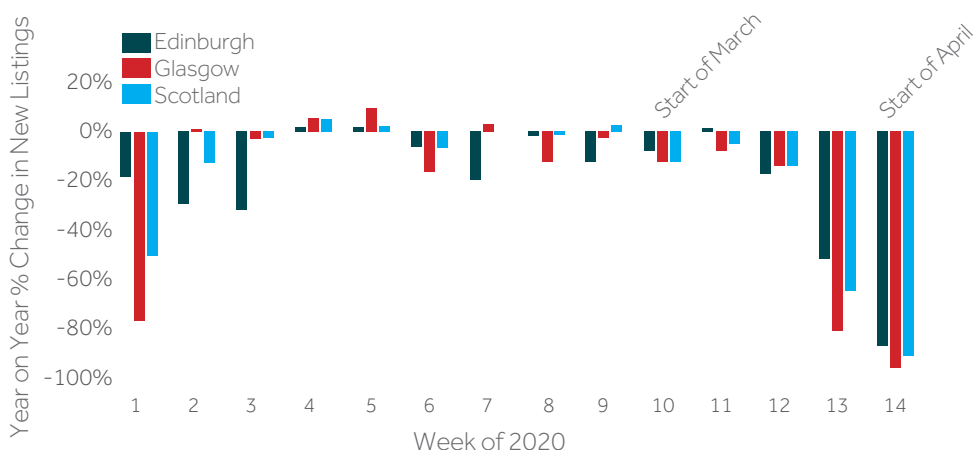
**Looking Ahead**

Where this is heading is anyone's guess and forums like Twitter have everyone guessing, often generating more heat than light. For now, we are prisoners of fortune to nature. As we learn more over the next few weeks regarding the duration of the lockdown and the depth of its economic impact, there will be greater potential to model likely outcomes. What does remain true are the strong underlying fundamentals of the Scottish market, which supported 4.2% year-on-year price growth in the Scottish market in January 2020.

We are in a better position than we were in 2008/09, when the entire international capitalist system was under real threat. The banking sector is much more robust and the economic fundamentals give some encouragement to a 'V' rather than a 'U' or 'L' shaped recovery once we get to the other side of the pandemic. The sooner Registers can re-open and the lenders can get back to lending again, the quicker we will bounce back. In saying this, there will undoubtedly be hits to people's wages and savings, and businesses' accounts and supply chains. It will take time for people, businesses and the entire economy to regather after this.

We will continue to monitor the key economic, sales and rental market indicators to keep our clients up-to-date with the emerging situation and risks and opportunities emerging. In the meantime, Keep Safe.

**Fig.3 There was a sharp drop in new listings towards the end of March**  
Year on Year % Change in New Listings by City and Week (excludes New Build)



## Covid-19 Market FAQs

### Can I still put my property on the market?

Yes. As long as you have a Home Report already prepared and photography is ready, there's nothing to stop you going to market. However, it's worth considering that the marketing effort is likely to be restricted since interested buyers are not able to view at the present time. Home Reports are only valid for three months for mortgage lending purposes so will need to be refreshed after this point. If you do not yet have a Home Report completed for your property, you'll be unable to go to market at this stage. (See Registers of Scotland latest information [here](#)).

### Can I still make an offer?

Yes. It's still possible to make an offer on a property. Sales are still able to progress through to the conclusion of missives, however, the timing for settlement is under constant review and is governed by the Registers of Scotland and UK Finance fully reopening for business.

### Can I still get a mortgage?

Yes. Despite the news of some lenders suspending mortgage applications, others are still active in the market. Many banks have paused lending above 75% LTV, however, we've already seen some lenders increase this to 80% and expect this to continue increasing in the near future.

### Can I still arrange to view a property?

In the spirit of embracing the new normal, virtual viewings are available for a number of properties. Those keen to arrange a physical viewing should register with the agent so that appointments can be made as soon as government restrictions are lifted.

### My property is already on the market, what should I do?

Each property and every vendor's individual circumstances are unique. Advice should be taken from your agent and solicitor to agree the right approach for the sale of your property.

### If the lockdown was lifted tomorrow, how long will it take for property transactions to get back to normal?

The volume of incomplete property transactions and the time it will take to clear this backlog is unknown. This is dependent on Registers of Scotland and UK Finance fully reopening as well as the time it takes for The Law Society to instruct its members to resume normal business. Removal firms are unable to operate until the British Association of Movers advises its members otherwise. This will all be key to getting property sales and completions back on track.

**Confused by all the mixed messages? We have access to the latest information from Registers of Scotland and can help you untangle the complexities of this changing market. Contact us via [mail@rettie.co.uk](mailto:mail@rettie.co.uk) and one of our dedicated sales team will be on standby to help.**

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