



# RESIDENTIAL MARKET REPORT

Portsmouth Research  
December 2020





# WHAT WILL HAPPEN TO THE PORTSMOUTH PROPERTY MARKET IN 2021?

In the last few months, the Portsmouth (and UK) property market has resisted and flouted every economist's prediction. With the economy a shadow of its former self, **unemployment set to hit 11.9%**, the Government on track to borrow nearly half a trillion pounds to pay for Coronavirus support packages etc., all of this has had no effect on Portsmouth homeowner's enthusiasm or capability to want to move home. It highlights the influence of both **the emotional impact of lockdown and the enticing appeal of saving thousands of pounds on your Stamp Duty Tax bill.**

For the last few months, the Portsmouth property market has been akin to a surfer, riding an unexpectedly large wave. The question is, will the surfer crash down (i.e. the property market) onto the rocks or will it calmly arrive at the beach unscathed? Well looking at house prices firstly...

**UK house prices are 4.7% higher than they were 12 months ago according to the Land Registry, whilst in Portsmouth they are 3% higher**

Looking at the data over the country, things overall are looking good for property prices. Yet it must be remembered the Land Registry data is on completed house sales and is always a couple of months behind, so this data is for house sales up to September that were agreed in the spring. Also, it does not take into account the prices being paid today on Portsmouth homes (as they will only show in statistics the Spring and Summer of 2021 when the sale completes).



## Portsmouth house prices will inevitably ease in 2021

Anecdotal evidence over the last few months has suggested buyers are using their Stamp Duty savings on the price they are prepared to pay for the Portsmouth home of their dreams, so when the **Stamp Duty holiday finishes in Spring 2021, we will see a reduction in the price Portsmouth properties sell for, as buyers will now have to hold back some of their cash to pay the Stamp Duty tax.**

## Mortgage approvals at a 13 year high

A better statistic to judge the property market is by the number of mortgage approvals. As the vast majority of house buyers need a mortgage, that is another good place to look at the numbers as they are much more up to date than the Land Registry figures. **The Bank of England recently stated 97,500 mortgages were approved last month, up from the long-term average of just over 65,400 per month.** This was the **highest number of mortgage approvals** since September 2007, and a whole third higher than **mortgage approvals in February 2020 when we had the Boris Bounce in the property market.**

As a country, **we are due to smash through 2019's 524,000 total number of mortgage approvals this month, despite the fact that the property market was closed for nearly three months in the spring.** It's vital to remember, that mortgage approvals do not equate to people moving home, as many of you reading this can attest to ... property sales do fall through.

I do have apprehensions that many Portsmouth people, buying and selling their Portsmouth homes and in a chain, may not be able to realise the move before the **Stamp Duty rules change at the end of March 2021,** as there is a massive backlog with mortgage lenders, local authorities' and the searches, chartered surveyors surveying the property and solicitors with the legal work, all combining to slow down the house selling and buying machine.



If you are in chain at the moment, you must constantly be talking to all the parties involved and ensuring everything is focused on getting the sale complete by the end of March. You have a responsibility to get information requested back in hours, not weeks ... because if you don't, you might not get your Portsmouth home move through before the end of the Stamp Duty holiday, and without that discount, someone in your chain may pull out of the sale altogether and the chain will break.

## **The number of people moving home in Portsmouth is anticipated to drop sharply after the Stamp Duty holiday ends at the end of March 2021**

And that is probably going to be the biggest impact on the Portsmouth property market in 2021. Yes, there will be a slight readjustment in the prices paid after March 2021 (as mentioned above) yet, a reduction in the number of people selling their Portsmouth home does not inevitably lead to a house price crash.

**Yes, there will be a number of people who have to sell in 2021 because they have lost their jobs (i.e. 'forced sales').** In the last two 'Property Market Crashes' of 1988 and 2008, there were a large number of forced sales in a short period of time (because business owners had to sell their home as their business had gone bankrupt because of the Credit Crunch, as well as people who had lost their job), increasing the supply of properties coming to the market in 1988 and 2008.

This in turn pushed Portsmouth house prices down as the property market was flooded with lots of property to sell in a short period of time. **Yet this time, we have had the cushion/parachute of Bounce Back Loans, Furlough and Mortgage Holidays over the last 9 months.**

Also, another important factor about the last property market crashes were the levels of interest rates and the amount borrowed.



## Interest rates are the key to the future of the Portsmouth property market

In 1988, mortgage interest rates were an eye watering 11.5% and 6% in 2008, meaning mortgages were much more expensive compared to the 0.1% rate we have today. Also, with 77.2% of mortgagees with fixed rate mortgages, and only 1 in 21 mortgages owing more than 90% of the value of their home (and 1 in 303 mortgagees owing more than 95% of the value of their home), negative equity should not be so much an issue like it was in 1988.

### **This means most Portsmouth homeowners are in a much better place to weather the storm of 2021, than they were in 1988 and 2008**

I foresee many Portsmouth sellers will simply wait until activity in the Portsmouth property market picks up again before placing their property on to the market. **This means fewer properties will be placed onto the market for sale in the later part of 2021, meaning Portsmouth house prices will tend to hold up.** The people that will be affected by less properties coming onto the market will be estate agents, solicitors and home removals people.

I also believe there will be 'interesting investment opportunities' to be had for Portsmouth buy to let in the latter half of 2021 with the potential changes in Capital Gains Tax regulations, although those won't go on the open market, so do keep your ear to the ground and build relationships with all the letting agents in Portsmouth so you get to hear of the property portfolios coming up for sale (as they tend to sell 'off market'). Again, if that's something that interests you - do drop me a line.



## **So, where is the Portsmouth property market heading in 2021?**

**Well, the Portsmouth property market (aka our “surfer”) has seen house price growth of 46.8% since 2009 ... and this has been fuelled on the back of...**

Ultra-low interest rates mean money is cheap to borrow and so mortgage payments are low. With the Bank of England pumping £150bn into the economy in November with Quantitative Easing (QE) to add to the £725bn they already spent on QE since 2009 – interest rates will continue to stay low for some time.

There has been an increase in the demand for housing with annual net migration of 214,400 since 2009 (meaning 96,700 additional households per year have been required since 2009 just to house those people – a total of 1,063,700 households).


The average age of death has risen by 2.1 years since 2008 in the UK. People living longer, delays property from being released back onto the property ladder. For every extra year of life the average Brit lives, an extra 290,850 households are required in the UK.

**None of these things have changed because of Covid.**

**As a country, we have only built on average 165,100 homes a year since 2009.**

Supply and demand show that whilst we will probably have a turbulent choppy ride on the 2021 wave (because of the economy) our surfer (aka the property market), with long term demand for housing outstripping supply since the 1980's, will continue to ride the wave (probably not as large as it has been in 2020) as the ultimate long-term outlook for the property market in Portsmouth looks good.

All this means demand for decent, private rented Portsmouth property will be good as long as the property ticks all the boxes of the tenants. If you are a Portsmouth landlord, whether you are a client of mine or not, feel free to drop me a line to pick my brain on the future of the buy to let market in Portsmouth.



# AS UNEMPLOYMENT HITS 7% IN PORTSMOUTH, WHAT EFFECT WILL THIS HAVE ON THE PORTSMOUTH PROPERTY MARKET IN 2021?

**12 months ago, the unemployment rate in Portsmouth stood at 2.9% of the working population, yet with Coronavirus hitting the UK, what impact will this rise in unemployment have on the Portsmouth property market?**

As I have discussed a number of times in my articles on the Portsmouth property market, this summer saw the Portsmouth property market do exactly the opposite of what was expected when Covid hit.

The Stamp Duty holiday added fuel to pent up demand for people to move to property with extra rooms (to work from home) and gardens. This prompted a brief hiatus in the number of people selling and buying their home in Portsmouth over the last summer and autumn.

Yet, **insecurity around rising unemployment, led to many mortgage companies becoming more cautious in the later months of summer, predominantly when lending to the self-employed or first-time buyers borrowing more than 85% of the value of the home** (as they wouldn't want to lend money to someone that could not afford a mortgage due to an insecure income or not having a job).

**Back in the late spring, economists were predicting that UK unemployment would rise to a peak of 6.5% in Q3 2020, returning back to the 2019 levels (3.4%) by 2022.**

As we speak (Christmas 2020), **nationally the unemployment rate stands at 6.3%. The toll Covid has had on people's livelihoods has been massive, with an additional 1,434,515 people out of work**, although it is important to note this unemployment rate is still lower than the five years following the Credit Crunch years - 2008 to 2013.



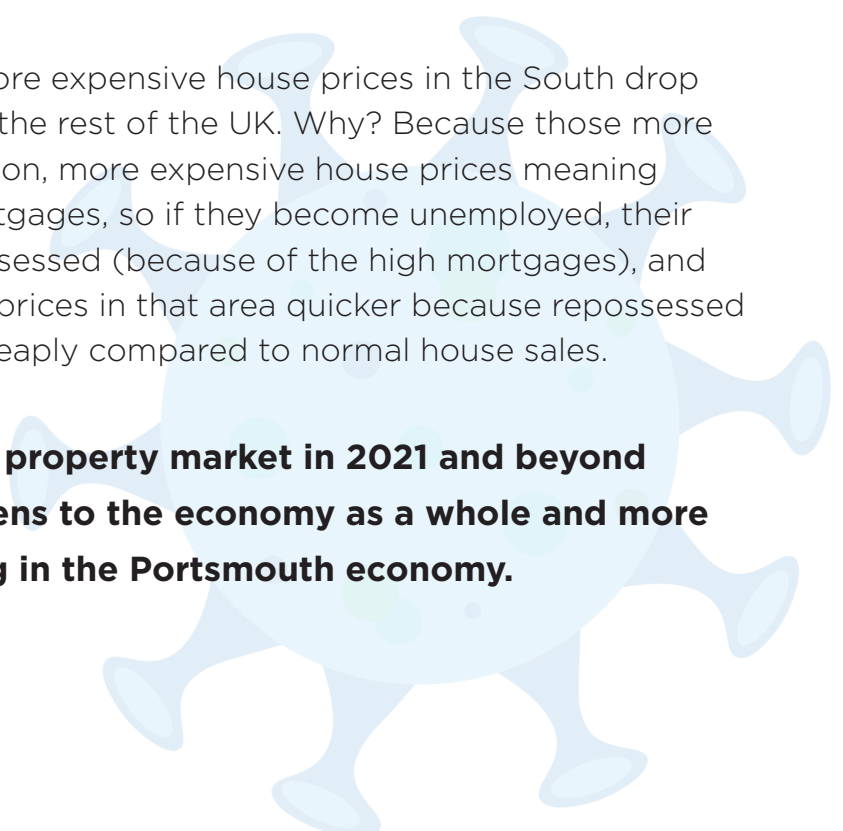
**So, with such a growth in unemployment and the spectre of a ‘No Deal Brexit’, this may hold back the enthusiasm of many companies to take on more staff, reducing any rebound in employment.** If unemployment remains high, this will influence perceptions of employment and personal/household financial security, which are the ultimate drivers for both house prices and whether people buy and sell.

## **4,090 Portsmouth people were unemployed a year ago and today that stands at 10,100.**

Looking at all the study papers on the topic, there is a link between unemployment and house prices, yet it's not as strong as you would think. The larger factors are the demand and supply of property on the market and interest rates. Interestingly, in the past two recessions, the comparatively richer regions of London and South East house prices have been more sensitive to unemployment and house price changes than the rest of the UK, yet London and the South East also bounced back quicker and higher after the two recessions.

The concept behind this is that more expensive house prices in the South drop more than lower priced houses in the rest of the UK. Why? Because those more expensive regions have, by definition, more expensive house prices meaning the homeowners have higher mortgages, so if they become unemployed, their homes are more likely to be repossessed (because of the high mortgages), and consequently that reduces house prices in that area quicker because repossessed houses tend to sell much more cheaply compared to normal house sales.

**The health of the Portsmouth property market in 2021 and beyond really depends on what happens to the economy as a whole and more specifically what is happening in the Portsmouth economy.**







When we drill down though, unemployment has hit different sectors of the economy to a lesser or greater extent. For example, for office workers, people who work in tech & sciences and the professional services, the impact on jobs has been comparatively mild, with many personnel able to work from home. Yet for others, such as those who work in the hospitality, leisure, retail, entertainment and catering industry, remote working is simply not an option, and these have been hit the hardest.

Unfortunately, the industries mentioned above are the ones that tend to employ the younger generation, who invariably live in private rented accommodation, rather than own their own home. Being made redundant puts their dream of buying their first home back even further as they try and get themselves back on their feet by initially finding a job (let alone save for a deposit).

**Housing markets will recover quickest in towns and cities, where jobs are in more resilient employment sectors.**

For example, in London, unemployment jumped really quickly (and high) in 2009 with the Credit Crunch, yet came down just as quick in 2011, just as the property market in London started to take off, whilst in Portsmouth, it took a lot longer for unemployment to drop and the Portsmouth property market didn't really start to get going until 2012.

If we have a determined economic contraction, with a lengthier and leisurely economic recovery, impeded by financial stress, that will lead to much higher unemployment in the 10% to 12% range in the summer of 2021. However, before I get to the initial question, I need to highlight another interesting fact, because...

**What is particularly interesting is the increase in unemployment in Portsmouth amongst men has been higher than women, with a growth of 5.1 percentage points for men compared to 3.1 percentage points with women.**



## **So, what is the prediction for the Portsmouth property market under the cloud of this growth in unemployment?**

One massive redeeming factor that could just save the Portsmouth property market is low interest rates. **This will keep mortgage payments low, meaning repossessions should be kept to a minimum (therefore, there shouldn't be a flood of cheaply priced Portsmouth properties coming onto the market all at the same time and dragging Portsmouth house prices down with it, as it did in the previous two recessions of 2009 and 1989).**

**Yet, irrespective of the ultra-low interest rates, I still consider property prices in Portsmouth at Christmas 2021 won't be much different from today, and in fact could be slightly lower.**

This is because **people have been paying top dollar in the last six months to secure their dream Portsmouth home**, quite often spending the money they saved on Stamp Duty on the purchase price. **When Stamp Duty Tax returns in April 2021, there will be less money to pay for the property ...** thus Portsmouth property values will be, by implication, lower in a year's time.



## What about Portsmouth landlords and the rents?

Nationally, **rents fell just over 2.3% between 2008 and 2010**, following the Credit Crunch, while **national house prices fell 15.9%**. I anticipate Portsmouth rents will also remain comparatively robust in the coming months and years.

Rents are very much tied to the rise and fall of wage growth and I can't see why this relationship shouldn't continue. **Rents will rise in Portsmouth by between 13% and 15% in the next five years, yet if property prices do rise in 2023/24, that means future rental yields will be marginally lower in 2023/4 comparative to today**, especially as ultra-low interest rate expectations (according to the money markets) seem to be here to stay for a long time.

Therefore, something tells me there could be some interesting Portsmouth buy-to-let investment opportunities for Portsmouth investors willing to play the Portsmouth buy-to-Let market for the long term.

To conclude, these are just my personal opinions. If you are a Portsmouth landlord looking for advice and an opinion on what to buy to maximise your returns, please don't hesitate to contact me. If you are a Portsmouth homeowner, looking to buy or sell and need any advice or an opinion on where the market is and where your Portsmouth home sits in the bigger Portsmouth property market picture.



## **NEXA PROPERTIES**

15 Hampshire Terrace  
Portsmouth, Southsea  
Hampshire, PO1 2QF  
United Kingdom

**T:** 02392 295046

**W:** [nexaproperties.com](https://www.nexaproperties.com)

**E:** [hello@nexaproperties.com](mailto:hello@nexaproperties.com)