

Article

Recent trends in the housing market: January 2021

Additional economic analysis of the latest Consumer Prices Index including owner occupiers' housing costs (CPIH), Producer Price Index (PPI), and long-term trends.

Contact:
Kathryn Keane
economic.advice@ons.gov.uk
+44 (0)1633 455714

Release date:
3 February 2021

Next release:
To be announced

Table of contents

1. [Main points](#)
2. [Overview of recent trends in the housing market](#)
3. [UK house prices](#)
4. [Property transaction tax changes](#)
5. [Urban and rural trends](#)
6. [Property types](#)
7. [London trends](#)
8. [Related links](#)

1 . Main points

- Transactions of residential properties fell in April 2020 following the introduction of public health restrictions to curb the spread of the coronavirus (COVID-19).
- House price growth also fell in April 2020, driven by both reduced demand and a higher proportion of completed transactions at the lower end of the price scale.
- Both transactions and price growth rose considerably in the latter half of 2020, likely reflecting pent-up demand and a response to the temporary property transaction tax holiday introduced in July 2020.
- There may be some evidence of changing consumer preferences as average prices increased more in rural areas than elsewhere from March 2020 and houses had higher price growth than flats.

2 . Overview of recent trends in the housing market

House price growth [rose sharply in the latter half of 2020](#), after falling between March and April 2020, when lockdown measures restricted the completion of property transactions. This analysis explores the drivers of these movements and trends for different regions, property types and an urban or rural split of local authorities.

Movement restrictions introduced in the second quarter of the year followed by the gradual easing of restrictions and the subsequent introduction of a property transaction tax holiday in July 2020 (which is due to run until March 2021) have made 2020 an unusual year in the housing market.

The property transaction tax holiday was introduced on 8 July 2020 in England and Northern Ireland, 15 July in Scotland and 27 July in Wales. As our data are based on completed sales we would expect any impact of these changes to come through gradually and start showing over subsequent months.

The coronavirus (COVID-19) and its behavioural impacts (including many people working from home and spending more time at home in general) may have had some effect on people's preferences for properties, increasing the focus on space - including outdoor space - and reducing the focus on proximity to offices. Research by Rightmove found that the [priorities for both buyers and renters had similar skews towards properties with bigger gardens or access to one](#), and properties that were generally bigger by measure of square footage. Notably, studio flats were the most popular choice for renters in January 2020 but this changed to two-bedroom flats in May 2020. The survey also found that [19% of first-time buyers were more inclined to relocate to a rural area](#).

3 . UK house prices

Annual house price growth rose sharply in the latter part of 2020, to a high of 7.6% in November 2020, considerably above the rates typically seen over the last two years, and the highest the rate has been since June 2016. This follows a sharp dip of 2.0 percentage points between March and April 2020, immediately following the introduction of national lockdown measures to curb the spread of the coronavirus (COVID-19).

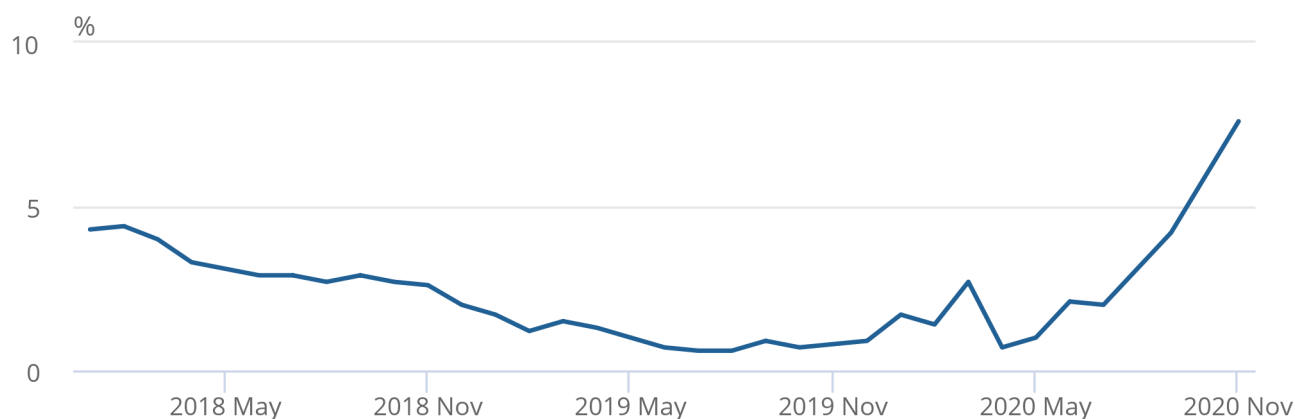
From 23 March to 13 May 2020 moving house was [only permitted when "reasonably necessary"](#) but was generally discouraged.

Figure 1: UK annual house price growth rose sharply to 7.6% in November 2020

Annual house price growth, UK, January 2018 to November 2020

Figure 1: UK annual house price growth rose sharply to 7.6% in November 2020

Annual house price growth, UK, January 2018 to November 2020



Source: Office for National Statistics – House Price Index

The fall in annual house price growth in April may partly reflect the type of property transactions that were completed at that time. People were advised not to move to a new house during the tightest restrictions. As such, property transactions completed during that time may have been more concentrated than usual among those without complicating factors such as a chain, including first-time buyers, who would typically be at the lower end of the price scale than former owner-occupiers.

Data from UK Finance indicate that [purchases by former owner-occupiers fell the most in April 2020, at 61% on the year](#), compared with a fall of 53% for first-time buyers and 54% for buy-to-let purchases. UK Finance data also show larger differences between first-time buyer and former owner-occupier purchases for Quarter 2 (Apr to June) 2020 in regions where the House Price Index (HPI) shows the largest price falls.

The subsequent increase in prices in June 2020, even before the introduction of the property transaction tax holiday, may reflect some degree of pent-up demand following the easing of lockdown restrictions, particularly at the higher end of the price scale.

[UK property transaction statistics](#) published by HM Revenue and Customs (which differ in coverage from HPI but are more complete for this period) show a similar trend to that seen for price growth in 2020. Transactions fell sharply from March to April 2020 and have since risen steadily. Figure 2 shows that the four nations of the UK have seen similar trends in sales volumes during 2020.

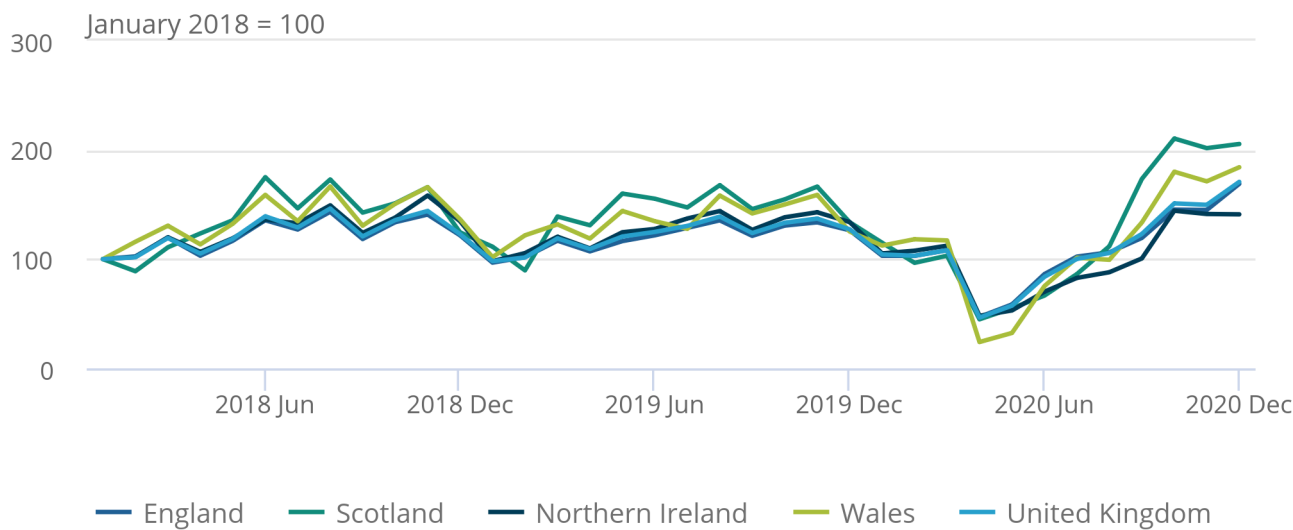
As the most populous nation of the UK, England typically drives the UK trend. Between October and November 2020, transaction volumes were relatively flat, even as price growth continued to increase. This and the rise in volumes in December 2020, may reflect the national lockdown that was introduced in England in November 2020 and subsequently lifted in December.

Figure 2: The four nations of the UK have seen similar trends in transaction volumes since January 2018

Index values for transaction volumes, UK, January 2018 to December 2020

Figure 2: The four nations of the UK have seen similar trends in transaction volumes since January 2018

Index values for transaction volumes, UK, January 2018 to December 2020



Source: HM Revenue and Customs

Figure 3 shows that the nations of the UK and the regions of England have seen broadly similar trends in house price movement during the pandemic and all have seen prices increase since April 2020.

Wales, Scotland and Northern Ireland have seen the largest increase in prices in recent months, but they make up a considerably smaller proportion of the UK housing market than England, so they are unlikely to be driving the UK trend. Sales in England consistently accounted for more than 75% of property transactions throughout the UK in the first 9 months of 2020.

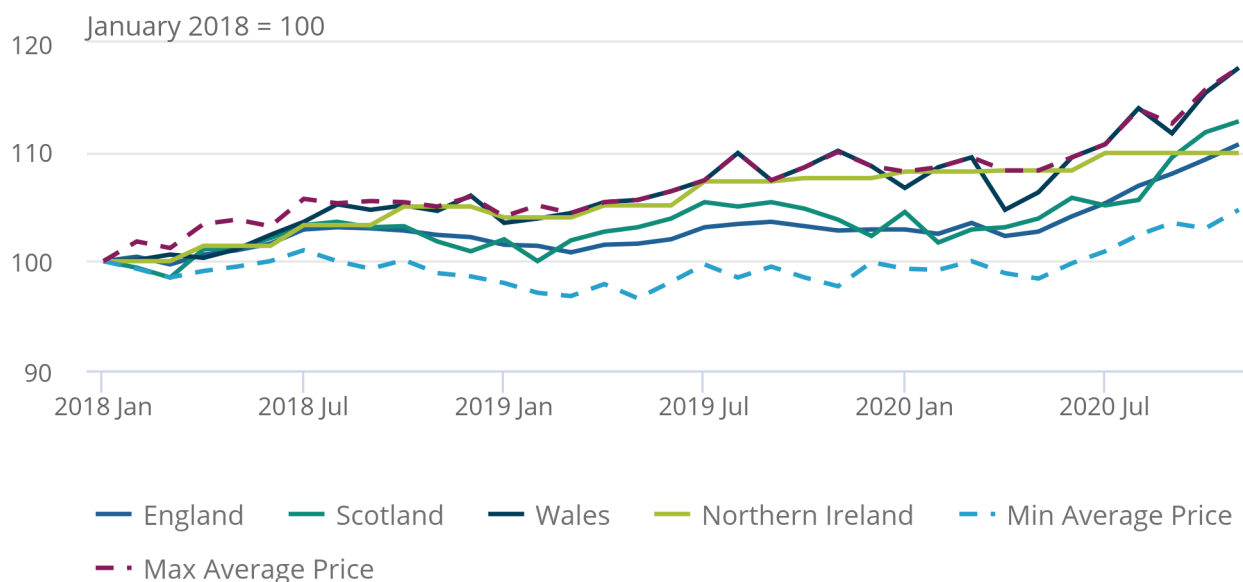
Figure 3 shows the average House Price Index for the four nations of the UK and English regions, indexed to January 2018. The regional spread is shown by the range between the maximum and minimum index value of all English regions and the four nations each month.

Figure 3: The nations of the UK and regions of England have seen similar trends in house price movements, with increases in the latter half of 2020

House Price Index for nations of the UK and regions of England, UK, January 2018 to November 2020

Figure 3: The nations of the UK and regions of England have seen similar trends in house price movements, with increases in the latter half of 2020

House Price Index for nations of the UK and regions of England, UK, January 2018 to November 2020



Source: Office for National Statistics – House Price Index

4 . Property transaction tax changes

In July 2020, the governments of the UK introduced property transaction tax holidays, for properties up to the value of £500,000 in England and Northern Ireland and £250,000 in Scotland and Wales. These holidays are due to run until March 2021 and raise the previous property transaction tax thresholds as follows:

- For both England and Northern Ireland - the Stamp Duty Land Tax threshold for residential properties increased to £500,000, an increase of £375,000 for former owner-occupiers (FOO), and £200,000 for first-time buyers (FTB); previous thresholds were £125,000 (FOO) and £300,000 (FTB)
- Scotland's Land and Buildings Transaction Tax threshold for residential properties was previously £145,000 and was raised by £105,000 to £250,000
- Wales' Land Transaction Tax threshold was previously £180,000 on residential properties and was raised by £70,000 to £250,000

All four nations of the UK have seen average prices rise since the introduction of the property transaction tax holiday in July 2020. This likely reflects a combination of pent-up demand from the previous lockdown taking time to filter through, and the property transaction tax holiday incentivising buyers to complete transactions during the window of opportunity when they will be liable for less or no tax on the purchase.

The maximum property transaction tax saving from the holiday is £15,000 in England and Northern Ireland, £2,450 in Wales and £2,100 in Scotland. Between July and November 2020 average prices increased by £12,866 in England, £10,750 in Wales and £11,389 in Scotland.

Figure 4 shows how average property prices have moved in England and Northern Ireland since 2018, alongside the property transaction tax thresholds both prior to and since the introduction of the holiday in July 2020. For both England and Northern Ireland, average prices have been above the previous property transaction tax threshold for former owner-occupiers, but below the threshold for first-time buyers.

However, some English regions have had average prices above both of these thresholds throughout. Between July and November 2020 , all regions have had average prices below the property transaction tax holiday threshold of £500,000, with the exception of London, which rose above this threshold for the first time in November 2020.

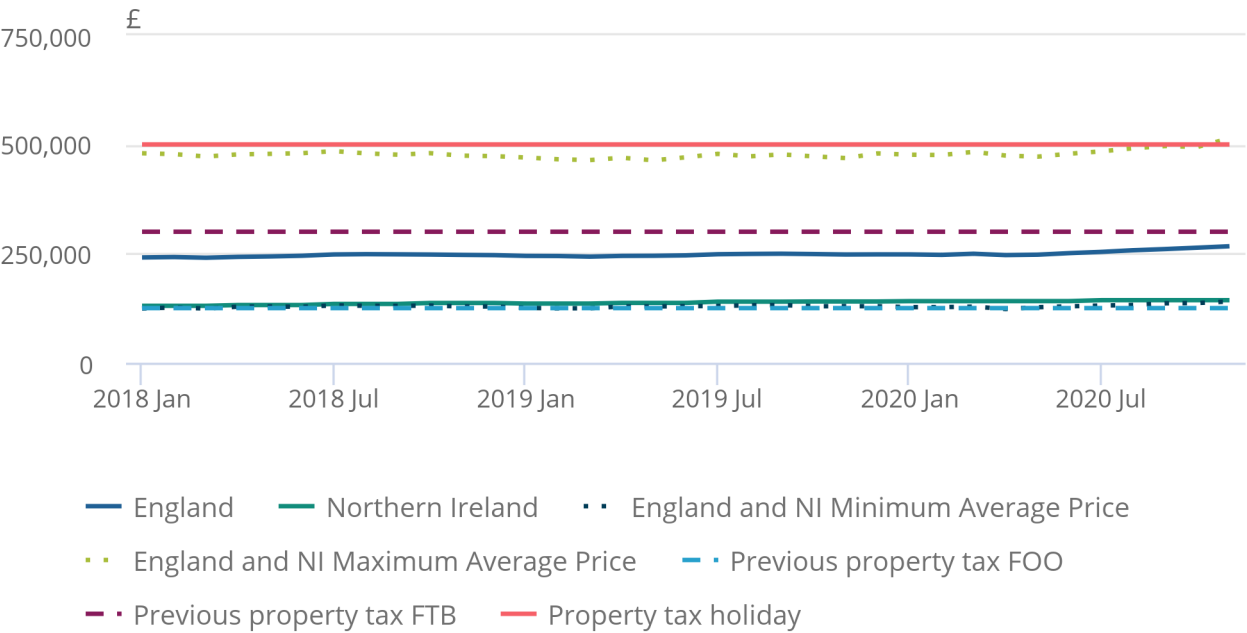
As first-time buyers were already subject to a higher property transaction tax threshold in England, former owner-occupiers are likely to have seen the biggest gain from the property transaction tax holiday.

Figure 4: Average prices in England and Northern Ireland have remained below the previous property transaction tax threshold for first time buyers

Average prices and property transaction tax thresholds, England and Northern Ireland, January 2018 to November 2020

Figure 4: Average prices in England and Northern Ireland have remained below the previous property transaction tax threshold for first time buyers

Average prices and property transaction tax thresholds, England and Northern Ireland, January 2018 to November 2020



Source: Office for National Statistics – House Price Index

Figure 5 shows average property prices and property transaction tax thresholds in Scotland and Wales, before and during the property transaction tax holiday.

In Wales, average prices have typically been below the previous property transaction tax threshold of £180,000 but rose to slightly above this level in November 2020. In Scotland, average prices have typically been above the previous property transaction tax threshold throughout the period, while average prices in both Wales and Scotland have been considerably below the property transaction tax threshold of £250,000.

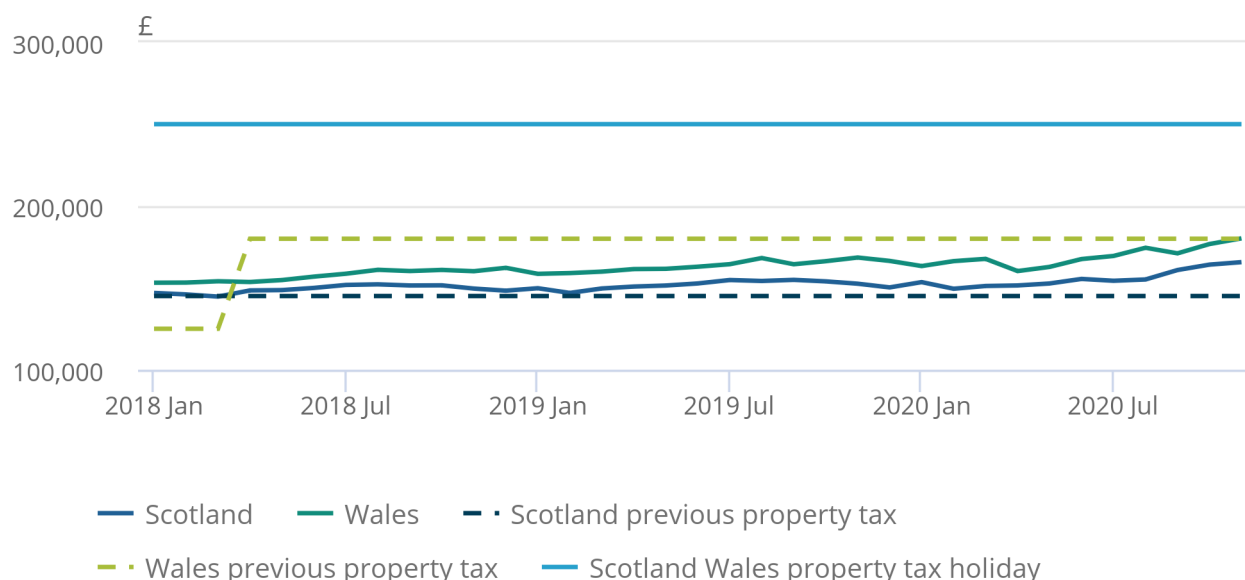
In Wales, buyers in the most expensive parts of the country would be most likely to gain from the property transaction tax holiday, as average prices in many areas were already below the minimum property tax threshold. In Scotland, however, the previous starting threshold for property transaction tax was considerably lower than in Wales, and lower than average property prices across the country.

Figure 5: Average prices in both Scotland and Wales have increased, with average prices in Wales slightly surpassing the previous property transaction tax threshold

Average prices and property transaction tax thresholds, Scotland and Wales, January 2018 to November 2020

Figure 5: Average prices in both Scotland and Wales have increased, with average prices in Wales slightly surpassing the previous property transaction tax threshold

Average prices and property transaction tax thresholds, Scotland and Wales, January 2018 to November 2020



Source: Office for National Statistics – House Price Index

Notes:

1. Land transaction tax (LTT) replaced Stamp Duty Land Tax (SDLT) in Wales from April 2018, at which point the property transaction tax threshold increased from £125,000 to £180,000.

In addition to homeowners, the property transaction tax threshold has also reduced the tax liability for some buyers of additional properties, including investors. In England, Scotland and Northern Ireland, existing homeowners buying an additional property during the property transaction tax holiday only have to pay the additional property surcharge (3% in England and Northern Ireland and 4% in Scotland). In Wales, additional properties are excluded from the property transaction tax holiday.

Data for Scotland show that transactions of additional properties in December 2020 were higher than at any other point over the previous two years. Data for England and Northern Ireland are currently only available up until Q3 2020 and remain below the pre-pandemic level.

5 . Urban and rural trends

It has been suggested that the large-scale shift towards working from home since the beginning of the pandemic, as well as the perceived lack of space, including outdoor space and parks, has reduced the previous strong incentive for people to [live close to their place of work](#) and, in particular, [to be in large urban hubs](#).

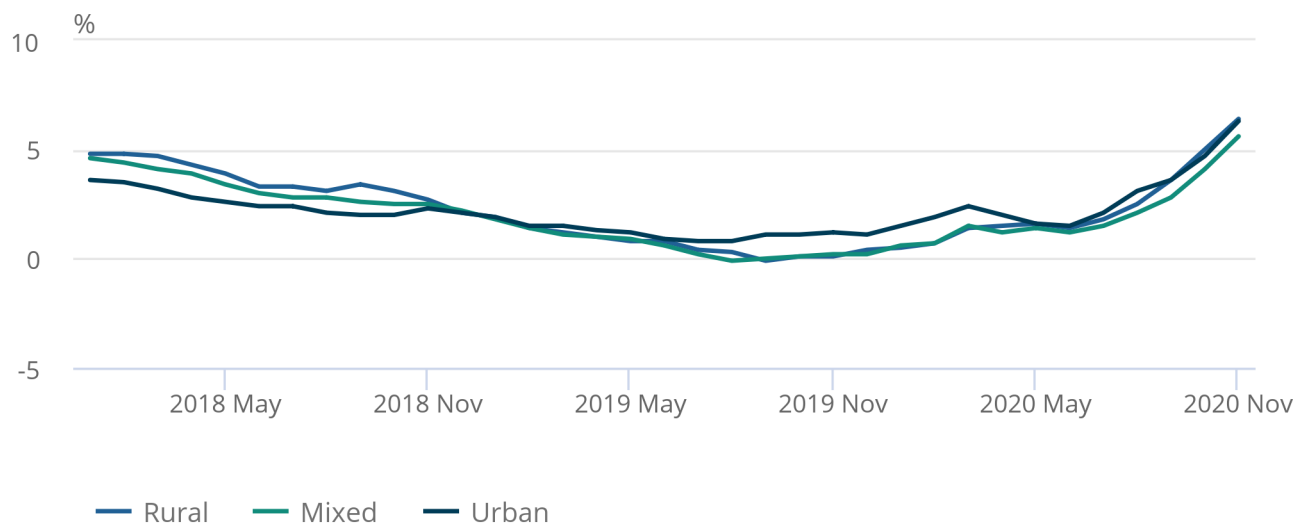
Figure 6 divides English local authorities into three categories, based on how rural or urban they are¹. Since May 2020, house price growth in rural areas has converged with growth in urban areas, having previously been lower for most of 2019. This may reflect increased demand for properties in rural areas but this is not an entirely new trend as rural areas had considerably higher price growth than urban areas in 2018, while in the latter half of 2020 they have been roughly equal.

Figure 6: Since May 2020, annual price growth in rural areas has converged with that in urban areas

Annual price growth by rural or urban classification, UK, January 2018 to November 2020

Figure 6: Since May 2020, annual price growth in rural areas has converged with that in urban areas

Annual price growth by rural or urban classification, UK, January 2018 to November 2020



Source: Office for National Statistics – House Price Index

Notes for Urban and rural trends

1. The [Rural Urban Classification \(RUC\) 2011](#) assigns a value between 1, the most rural, and 6, the most urban, to each Local Authority in England. The classification is made based on the proportion of the population in each Local Authority that lives in a rural setting, as recorded in 2011. Six Local Authorities have been formed through mergers since 2011, but a RUC could be calculated for each based on the data for their previous constituent Local Authorities. These were Somerset West and Taunton, Dorset, Buckinghamshire, East Suffolk, West Suffolk and Bournemouth, Christchurch and Poole. For ease of understanding, the classifications 1 and 2 have been combined for the "rural" grouping, 3 and 4 for "mixed" and 5 and 6 for "urban". The data presented for each grouping are an average of all the local authorities within the grouping, weighted based on the total number of transactions that occurred between November 2019 and November 2020.

6 . Property types

Media reports have suggested that [consumer preferences for property types have also changed during the pandemic](#) with buyers preferring larger properties with outdoor space as they have faced periods of time confined at home.

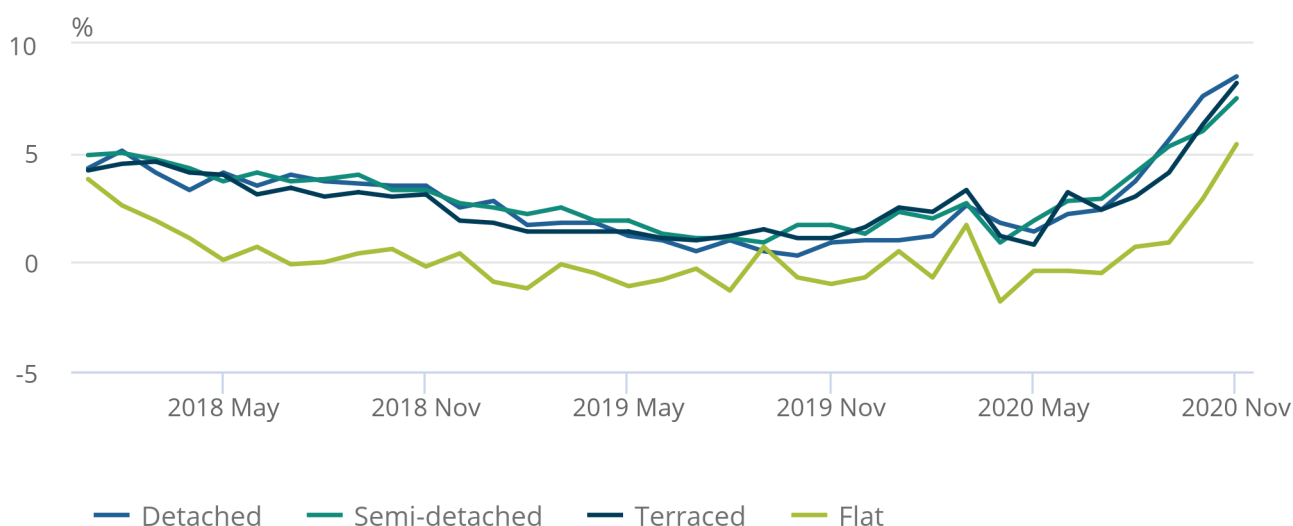
Figure 7 shows average annual house price growth in England and Wales for different property types since January 2018. In recent months detached properties have seen slightly higher house price growth than other property types but broadly in line with that for semi-detached and terraced houses. Flats, meanwhile, have seen considerably lower levels of house price growth over the period, with the trend becoming slightly more pronounced since March 2020.

Figure 7: In recent months, detached properties have seen higher price growth than other property types

Annual house price growth by property type, UK, January 2018 to November 2020

Figure 7: In recent months, detached properties have seen higher price growth than other property types

Annual house price growth by property type, UK, January 2018 to November 2020



It is notable, however, that flats have seen the sharpest increase in price growth since April 2020, and also saw the sharpest fall in price growth between March and April 2020.

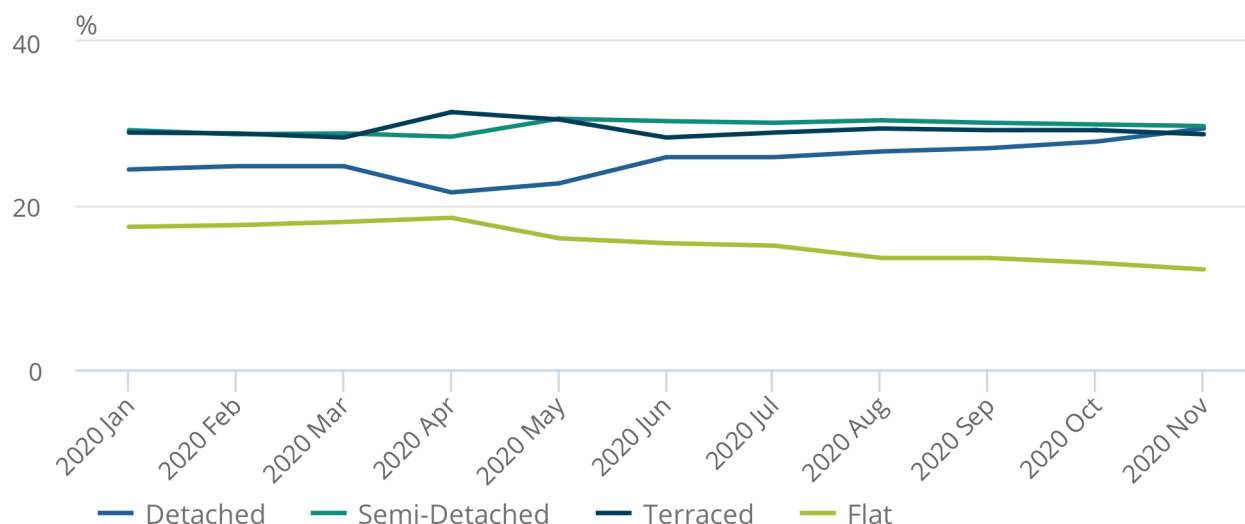
Figure 8 shows the proportion of transactions from each property type in each month of 2020. Detached properties have gradually increased as a proportion of total sales during the pandemic, rising from 24.8% of transactions in March 2020 to 29.4% of transactions in November 2020. Meanwhile, flats have gradually accounted for a smaller proportion of transactions, falling from 18.0% of transactions in March to 12.2% of transactions in November 2020.

Figure 8: Detached properties have gradually increased as a proportion of total sales during the pandemic, with the opposite holding for flats

England and Wales proportion of sales volumes by property type, UK, January 2020 to November 2020

Figure 8: Detached properties have gradually increased as a proportion of total sales during the pandemic, with the opposite holding for flats

England and Wales proportion of sales volumes by property type, UK, January 2020 to November 2020



Source: Office for National Statistics – House Price Index

7 . London trends

London and Yorkshire and The Humber were the English regions with the joint highest annual house price growth in November 2020, with average prices increasing by 9.7% in the year to November 2020. These were up from 4.6% (London) and 6.7% (Yorkshire and The Humber) in the year to October 2020. London growth partly reflects a base effect as prices fell over the same period the previous year.

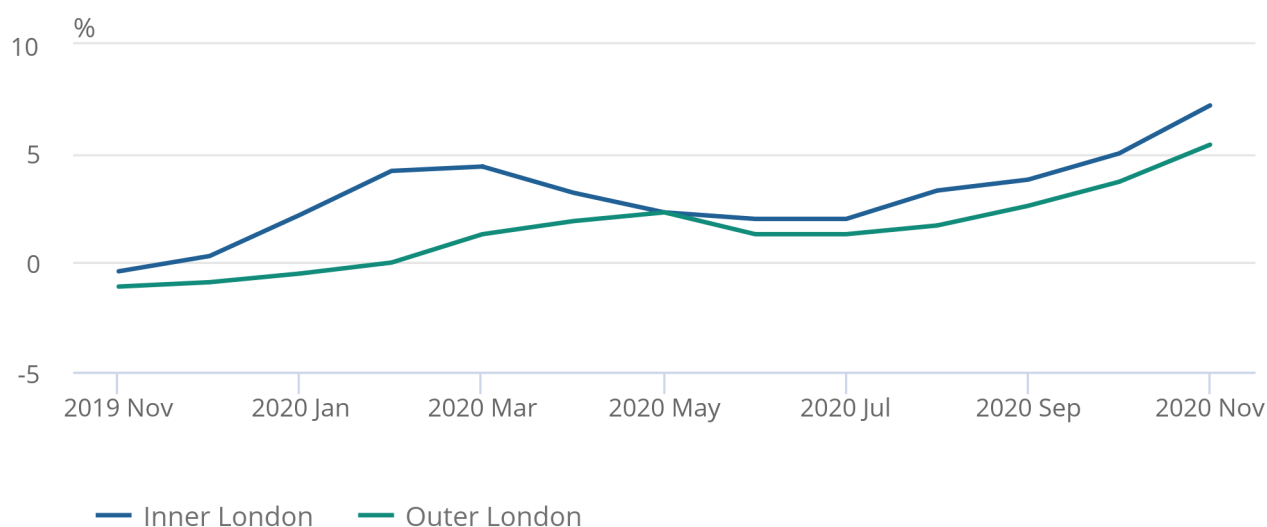
Looking at the picture within London, house prices have grown more quickly in [inner London than outer London](#) for some time. In November 2020, two London boroughs had annual house price growth above 20%; one is in inner London (Kensington and Chelsea, at 28.6%), while the outer London borough of Brent had annual price growth of 23.9%. The annual growth rate in Brent is partly caused by a base effect as the average house price decreased by 11.9% between October and November 2019 and increased by 2.8% between October and November 2020.

Figure 9: House price growth has been higher in inner London than outer London since June 2020

Annual house price growth, inner and outer London, November 2019 to November 2020

Figure 9: House price growth has been higher in inner London than outer London since June 2020

Annual house price growth, inner and outer London, November 2019 to November 2020



Source: Office for National Statistics – House Price Index

Demand for property in inner London may be particularly responsive to temporary property transaction tax changes as property prices are high and therefore so is the corresponding tax to be paid. With average prices above £500,000, many buyers in London would stand to save the full £15,000 of property transaction tax during the holiday.

In addition, compared with other regions of the UK, London has a relatively high proportion of properties bought for investment, including from cash buyers and overseas investors. As such, demand for property in inner London is likely influenced by a broader range of factors than the rest of the UK, including the forthcoming introduction of [additional property transaction tax for non-UK residents](#) and geopolitical circumstances such as [the new route to UK citizenship for British Nationals Overseas in Hong Kong](#), being introduced in January 2021, both of which [may push up demand for properties in inner London](#).

The housing market saw some unusual movements in 2020 in light of unprecedented market conditions. A range of factors are likely contributing to the high house price growth seen in recent months, including changing consumer preferences during the ongoing pandemic.

8 . Related links

[UK House Price Index: report](#)

Report | Released 20 January 2021

Complete report for the UK House Price Index (HPI) for England, Scotland, Wales and Northern Ireland, including in CSV format. Includes commentary, historical data tables and analytical tools.

[UK House Price Index: November 2020](#)

Bulletin | Released 20 January 2021

Monthly house price inflation in the UK, calculated using data from HM Land Registry, Registers of Scotland, and Land and Property Services Northern Ireland.

[Land Transaction Tax statistics: October to December 2020](#)

Report | Released 28 January 2021

Data includes the number of land and property transactions, tax due and value of property taxed.

[Rural Urban Classification \(2011\) of Local Authority Districts in England](#)

Dataset | Released 06 March 2019

This is 2011 rural-urban classification (RUC) of Local Authority Districts. This part of the Rural Urban Classification is available only for England and complements another part of the classification concerned to classify small areas in both England and Wales.

[Land and Buildings Transaction Tax Statistics](#)

Dataset | Released 18 December 2020

This release is part of a monthly series of Land and Building Transaction Tax (LBTT) statistics, started in April 2015, which provides data on the number and value of notifiable transactions reported to Revenue Scotland.

[Quarterly Stamp Duty Statistics](#)

Dataset | Released 20 November 2020

Quarterly statistics on residential and non-residential Stamp Duty Land Tax (SDLT) transactions.