UK | November 2020

Research

# Home is... for everything

UK Residential forecasts 2020 - 2025

# *Home* is... for everything

Our lives now revolve around our homes more than at any point in the past 250 years.

In 1800, less than 10% of the world's population lived in urban areas, compared with more than 55% today and more than 80% in the UK. The industrial revolution sparked a trend which saw a mass exodus from the countryside as people moved to towns and cities in search of work. This trend saw people begin to spend the majority of their waking hours away from their homes.

Fast forward to 2020 and COVID-19 has accelerated a trend which is making our homes the centre of our lives once again.

Technology is the great enabler allowing us to satisfy more and more of our needs and wants in our homes.

We can now summon an array of food, leisure and entertainment offerings into our homes at the simple click of a button.

Meanwhile, rapid advancements in remote working technology mean home working has become a normal way of life for increasing numbers of workers through the COVID pandemic. And numerous surveys have revealed many of these workers want home working to continue – for part of each week at least.

JLL Living Research surveyed our own staff throughout the period since the COVID pandemic took hold to assess attitudes towards home working.

Some 80% of the 3,000 respondents to our survey worked from home less than once a week pre-COVID. Going forward, just 15% want to work from home less than once a week with the majority favouring an even split between working from home and working in the office.

This significant increase in our time spent in our homes means that what we need from our homes is also changing. Our research found the biggest shift in elements of the home which we ranked as extremely important were private workspace (+36%), access to outdoor space (+30%) and broadband speed (+28%).

Findings such as ours suggest housing delivery in the UK must adapt to ensure homes are equipped for increased working as well as increased use for leisure purposes. Enabling people to reconfigure their homes with flexible and moveable fittings could allow us to optimise our homes as we require them.

COVID-19 appears to have accelerated a trend for relatively affluent young families to leave urban centres in search of more space to satisfy their new living priorities.

However, such has been the growth in UK cities since the late 1980s it seems highly unlikely that the COVID pandemic will trigger a wide-scale de-urbanisation trend.

To return to an urban-rural population split seen 35 years ago, the UK would need to build circa 1.5m homes in rural areas in the coming years – equivalent to about one third of the existing rural housing stock.

It seems more likely that city populations may re-distribute to other areas within the city as a result of the pandemic. JLL's research shows proximity to public transport remains an important housing consideration, albeit it has reduced in importance overall. This suggests that people will sacrifice some commuting convenience and choose locations that are further away from a train station in order to find homes that satisfy more important priorities.

This points to a suburban shift with locations previously dismissed due to inferior transport connections - but otherwise having desirable housing stock - potentially experiencing a demand boost over the next few years.

Of course, the accelerated changes brought about by COVID-19 are not being felt evenly across society. Some professions are unsuitable for home working. Other cohorts of society such as the rapidly growing elderly population or the one fifth of UK households living in Affordable Housing are at risk of seeing no benefit from modern housing innovations.

Technological advancements mean our homes can do more for us than ever before. We need to make sure that technology works for everyone.

### Home is... our place of work

*2.7 billion minutes*
Total Microsoft Teams usage per day

*2,900%*
Growth in daily Zoom participants in 2020

*3,800 years*
Total time spent in Google Meet sessions per day

*Source: JLL, OpenVault*

### Home is... our place to play

*54 million*
Number of Disney+ subscribers, 4 years ahead of projection

*66%*
Growth in Peloton membership

*22%*
Growth in Netflix subscribers

*Source: JLL, OpenVault*

## Forecast assumptions

- Globally, the number of new COVID-19 infections will begin to fall steadily between now and mid-2021.
- Within the UK, social distancing measures are expected to remain in place throughout the winter, at a similar level to those seen now.
- Lockdowns will be periodically employed in areas with high numbers of COVID-19 cases, but these will be less stringent than those seen from March to May – for example schools will remain open.
- The global economy is expected to rebound in 2021 as widely available medical advancements make it possible for social distancing to fully relax by the second half of 2021. The UK economy will not recover all of 2020's lost GDP until around mid-2022.
- Global equity prices over the next five years are expected to remain 7-8% below the level envisaged prior to the pandemic.
- It is assumed that the UK and EU will agree a Free Trade Agreement (FTA).
- However, the agreement will not be without some issues and some non-tariff barriers may emerge.
- Oxford Economics' research suggests the difference between an FTA and a no-trade-deal is relatively small over the longer-term, equivalent to UK GDP being 1% lower by the end of 2022.

# The economy

- UK economic growth in 2021 will not be sufficient to recover all of the lost GDP from 2020. The economy will grow strongly in 2022 before GDP growth reverts towards its trend rate of growth between 2023-2025. The UK economy will return to its pre-COVID level around mid-2022.
- The Bank of England base rate will remain at historic lows through the forecast period continuing the era of cheap borrowing.
- Unemployment will continue to rise in 2021 because of the removal of Furlough and the disproportionate impact of the COVID pandemic on some industries. Unemployment will return to its pre-COVID rate of circa 3.5% by the end of 2025.
- CPI inflation will finish 2020 below 1% - only the second year since 1960 – due to falling oil and commodity prices and the contraction in spending during the recession opening up a wide output gap. As the economy recovers in 2021, inflation is expected to return towards the Bank of England's target rate of 2%.
- High unemployment will weigh on earnings growth, which has turned negative in real terms in 2020. Low real earnings growth will weigh on housing affordability.
- Sterling will gradually begin to appreciate against the US Dollar as greater certainty returns to the UK economy.

**GDP growth (%y/y)**

| 2020 | 2021 | 2022 | 2023 | 2024 | 2025 |
|---|---|---|---|---|---|
| -9.6 | 7.4 | 4.5 | 2.0 | 1.7 | 1.6 |

**Bank rate (%)**

| 2020 | 2021 | 2022 | 2023 | 2024 | 2025 |
|---|---|---|---|---|---|
| 0.2 | 0.1 | 0.1 | 0.1 | 0.2 | 0.4 |

**Unemployment rate (%)**

| 2020 | 2021 | 2022 | 2023 | 2024 | 2025 |
|---|---|---|---|---|---|
| 6.8 | 7.8 | 5.3 | 4.4 | 3.9 | 3.6 |

**CPI inflation (%y/y)**

| 2020 | 2021 | 2022 | 2023 | 2024 | 2025 |
|---|---|---|---|---|---|
| 0.8 | 1.3 | 1.8 | 1.7 | 1.7 | 1.7 |

**Earnings growth (%y/y)**

| 2020 | 2021 | 2022 | 2023 | 2024 | 2025 |
|---|---|---|---|---|---|
| 0.0 | 2.0 | 2.8 | 3.1 | 3.2 | 3.3 |

**Exchange rate (£/US$)**

| 2020 | 2021 | 2022 | 2023 | 2024 | 2025 |
|---|---|---|---|---|---|
| 1.30 | 1.32 | 1.34 | 1.36 | 1.42 | 1.45 |

*All data is to Q4 each year*
*Source: JLL, Oxford Economics*

# UK forecasts

- UK house price growth will finish 2020 strongly at 3.5%. Prices will continue to grow through to the end of March 2021 when the Stamp Duty holiday comes to an end.
- The average price of a UK home will then begin to fall finishing 2021 at -1.5% as the market faces a number of headwinds including rising unemployment, lost GDP growth and falling housing affordability.
- House prices are then forecast to begin growing again steadily from 2022 with a COVID-19 vaccine expected to be widely in circulation by then.
- Transactions are expected to remain well below the pre-COVID anticipated level of 1.2m to 1.3m. In total transactions are forecast to be 700,000 lower between 2020 and 2022 than the pre-pandemic predictions.
- Rental values are expected to fall by 1% in 2021 with the removal of the initial Furlough scheme having a disproportionate effect on lower-to-middle income customer facing workers – many of whom are living in private rental accommodation.
- UK private housing starts are expected to be well below the pre-COVID predictions of circa 200,000 starts per annum. It will take some time for housebuilders to become confident enough to step up their activity. JLL expects circa 165,000 lost starts between 2020 and 2024 compared with pre-COVID forecasts.

**House price change (%pa)**

| 2020 | 2021 | 2022 | 2023 | 2024 | 2025 |
|---|---|---|---|---|---|
| 3.5 | -1.5 | 2.5 | 4.0 | 5.0 | 4.5 |

**Housing transactions**

| 2020 | 2021 | 2022 | 2023 | 2024 | 2025 |
|---|---|---|---|---|---|
| 1m | 1m | 1.1m | 1.2m | 1.3m | 1.4m |

**Rental value change (%pa)**

| 2020 | 2021 | 2022 | 2023 | 2024 | 2025 |
|---|---|---|---|---|---|
| 1.5 | -1.0 | 2.0 | 2.5 | 2.5 | 2.5 |

**Private housing starts ('000)**

| 2020 | 2021 | 2022 | 2023 | 2024 | 2025 |
|---|---|---|---|---|---|
| 100 | 160 | 180 | 195 | 200 | 210 |

*Source: JLL, Oxford Economics*

# London & the South East

- The Greater London housing market is expected to show its resilience with prices remaining flat in 2021 before growing strongly again from 2022 onwards.
- Buyers who are prepared to sacrifice some commuting convenience in search of more space, will boost activity in some previously less-fancied parts of London. Other areas may experience price falls.
- A similar, but less pronounced, demand push will drive activity in the wider South East market.
- The acute housing undersupply issue in Greater London will be exacerbated by COVID-19 with new housing starts falling to an average of 12,500 pa over the next 5 years, compared with a housing need for 52,000 homes pa. This will underpin price and rental growth in the UK Capital.
- Having already fallen in Prime Central London in 2020, prices and rents will begin to grow again in 2021. As the downturn begins to abate wealthy global investors will turn their attention to Prime Central London, one of the world's most exclusive housing markets, as they did after the Global Financial Crisis.

## House price change (%pa)

### Greater London

| 2020 | 2021 | 2022 | 2023 | 2024 | 2025 |
|---|---|---|---|---|---|
| 2.5 | 0.0 | 2.5 | 5.0 | 6.5 | 5.0 |

### South East

| 2020 | 2021 | 2022 | 2023 | 2024 | 2025 |
|---|---|---|---|---|---|
| 3.0 | -1.0 | 3.0 | 5.0 | 6.0 | 4.5 |

### Prime Central London

| 2020 | 2021 | 2022 | 2023 | 2024 | 2025 |
|---|---|---|---|---|---|
| -2.5 | 1.0 | 5.0 | 4.5 | 4.0 | 3.5 |

## Rental value forecasts (%pa)

### Greater London

| 2020 | 2021 | 2022 | 2023 | 2024 | 2025 |
|---|---|---|---|---|---|
| 0.5 | -0.5 | 2.5 | 3.0 | 3.0 | 2.5 |

### South East

| 2020 | 2021 | 2022 | 2023 | 2024 | 2025 |
|---|---|---|---|---|---|
| 1.0 | -1.0 | 2.0 | 2.5 | 2.5 | 2.0 |

### Prime Central London

| 2020 | 2021 | 2022 | 2023 | 2024 | 2025 |
|---|---|---|---|---|---|
| -3.5 | 0.5 | 3.0 | 3.0 | 3.0 | 2.5 |

*Source: JLL, Oxford Economics*

# East of England, Midlands, South West & Wales

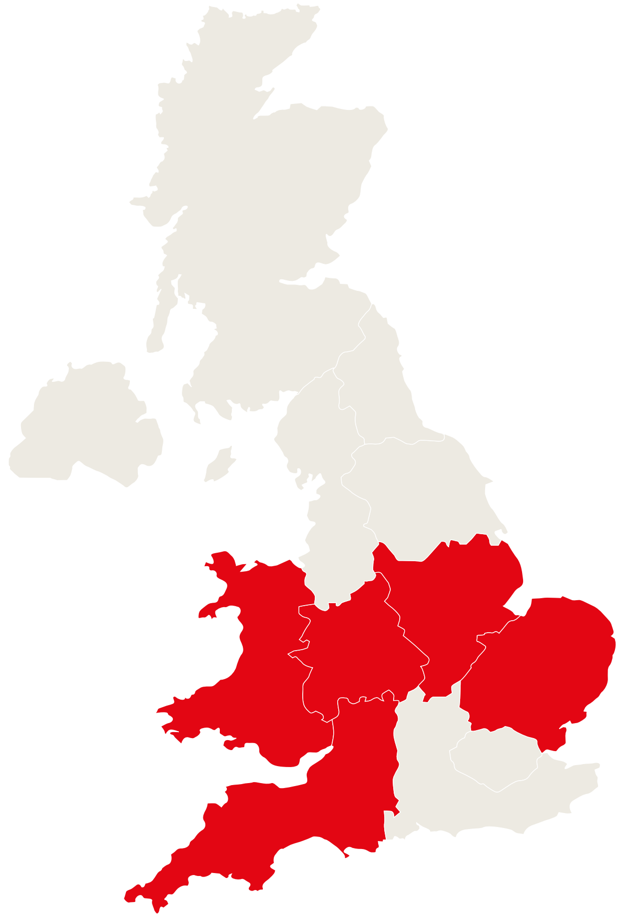
- Of all the housing markets that JLL monitors, Birmingham is forecast to see the strongest house price and rental value growth over the next 5 years.
- HS2 and the 2022 Commonwealth Games are Important catalysts for growth in Birmingham.
- The city is also seeing a growing housing shortfall. However, Birmingham City Council is seeking to accelerate the regeneration of council owned assets to deliver new mixed tenure housing solutions including private sale, build to rent, student accommodation and later living solutions.
- In Bristol, there is a significant undersupply of new private sale apartments, with most construction activity in the living sector being either build to rent or student accommodation.
- Bristol continues to be attractive to relocators from London given its diverse economy, high quality of life, and fast transport connectivity to London.
- Bristol is well placed to benefit from changing homeowner and renter priorities - should the new build housing market be able to increase the supply of new homes.

## House price change (%pa)

| | 2020 | 2021 | 2022 | 2023 | 2024 | 2025 |
|---|---|---|---|---|---|---|
| Birmingham | 4.5 | 0.0 | 4.0 | 5.5 | 5.0 | 5.0 |
| West Midlands | 4.5 | -1.0 | 3.0 | 5.0 | 5.5 | 4.5 |
| Bristol | 4.5 | -1.0 | 3.0 | 5.0 | 5.0 | 4.5 |
| East Midlands | 4.5 | -1.5 | 2.0 | 4.5 | 5.0 | 4.0 |
| East of England | 2.5 | -1.5 | 2.5 | 5.5 | 5.5 | 4.0 |
| South West | 3.0 | -2.0 | 2.0 | 4.5 | 4.5 | 4.0 |
| Wales | 3.0 | -2.5 | 1.5 | 4.0 | 4.5 | 4.0 |

## Rental value forecasts (%pa)

| | 2020 | 2021 | 2022 | 2023 | 2024 | 2025 |
|---|---|---|---|---|---|---|
| Birmingham | 1.0 | 0.0 | 3.5 | 3.0 | 3.0 | 2.5 |
| Bristol | 1.0 | -0.5 | 3.5 | 3.0 | 2.5 | 2.5 |



*Source: JLL, Oxford Economics*

# Northern England

- Some areas of Manchester will see price falls and some areas which will see price rises as demand for living in big cities recalibrates post-COVID.
- This will result in house prices being flat in 2021 before growing strongly from 2022 onwards.
- There is a limited availability of new homes to purchase in Manchester underpinning values.
- Liverpool and Leeds are expected to experience pressure on prices and rents in 2021 as unemployment begins to rise. However, price and rental falls will be shortlived and the market will begin growing again from 2022 onwards.
- The North East will be the worst effected housing market in the UK by COVID-19 with the region facing the highest unemployment rate in the country at more than 11% in 2021.


## House price change (%pa)

**Manchester**

| 2020 | 2021 | 2022 | 2023 | 2024 | 2025 |
|---|---|---|---|---|---|
| 3.5 | 0.0 | 3.5 | 5.0 | 5.0 | 5.0 |

**Leeds**

| 2020 | 2021 | 2022 | 2023 | 2024 | 2025 |
|---|---|---|---|---|---|
| 4.0 | -1.5 | 2.5 | 4.0 | 4.5 | 4.0 |

**North West**

| 2020 | 2021 | 2022 | 2023 | 2024 | 2025 |
|---|---|---|---|---|---|
| 4.0 | -1.0 | 3.0 | 4.5 | 5.0 | 4.5 |

**Yorkshire & Humber**

| 2020 | 2021 | 2022 | 2023 | 2024 | 2025 |
|---|---|---|---|---|---|
| 3.5 | -2.0 | 2.0 | 4.5 | 4.5 | 3.5 |

**Liverpool**

| 2020 | 2021 | 2022 | 2023 | 2024 | 2025 |
|---|---|---|---|---|---|
| 3.5 | -1.0 | 3.0 | 4.0 | 4.5 | 4.0 |

**North East**

| 2020 | 2021 | 2022 | 2023 | 2024 | 2025 |
|---|---|---|---|---|---|
| 2.5 | -2.5 | 1.5 | 3.0 | 4.5 | 4.5 |

## Rental value forecasts (%pa)

**Manchester**

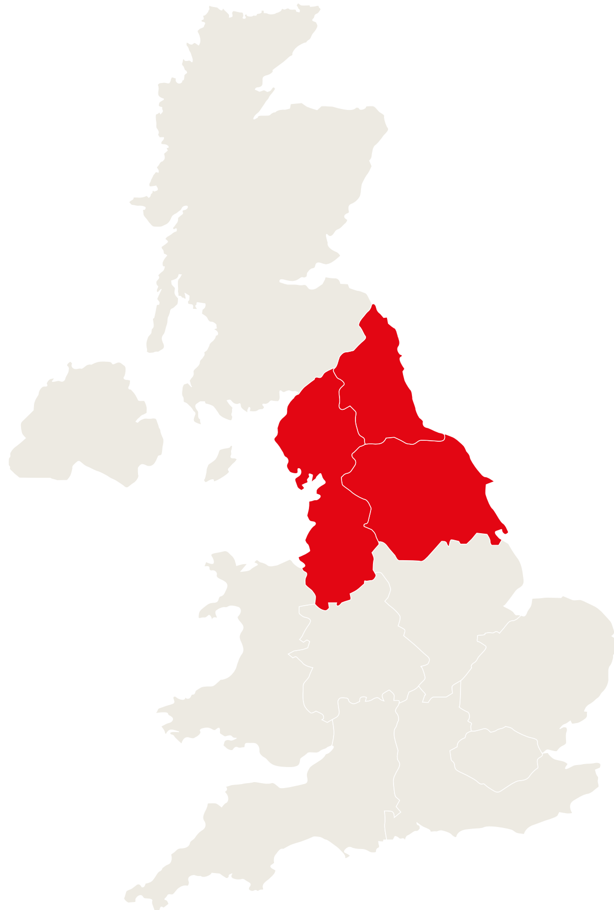
| 2020 | 2021 | 2022 | 2023 | 2024 | 2025 |
|---|---|---|---|---|---|
| 1.0 | 0.0 | 3.5 | 3.0 | 3.0 | 3.0 |

**Leeds**

| 2020 | 2021 | 2022 | 2023 | 2024 | 2025 |
|---|---|---|---|---|---|
| 0.5 | -1.0 | 2.5 | 3.0 | 3.0 | 2.5 |

**Liverpool**

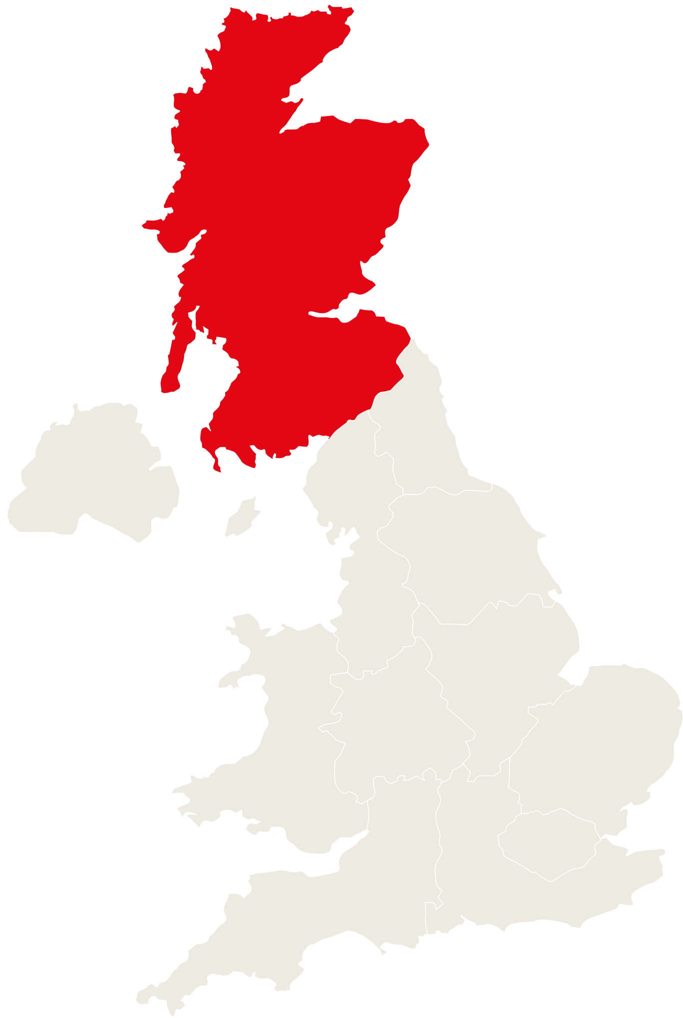
| 2020 | 2021 | 2022 | 2023 | 2024 | 2025 |
|---|---|---|---|---|---|
| 0.5 | -1.0 | 2.5 | 3.0 | 3.0 | 2.5 |

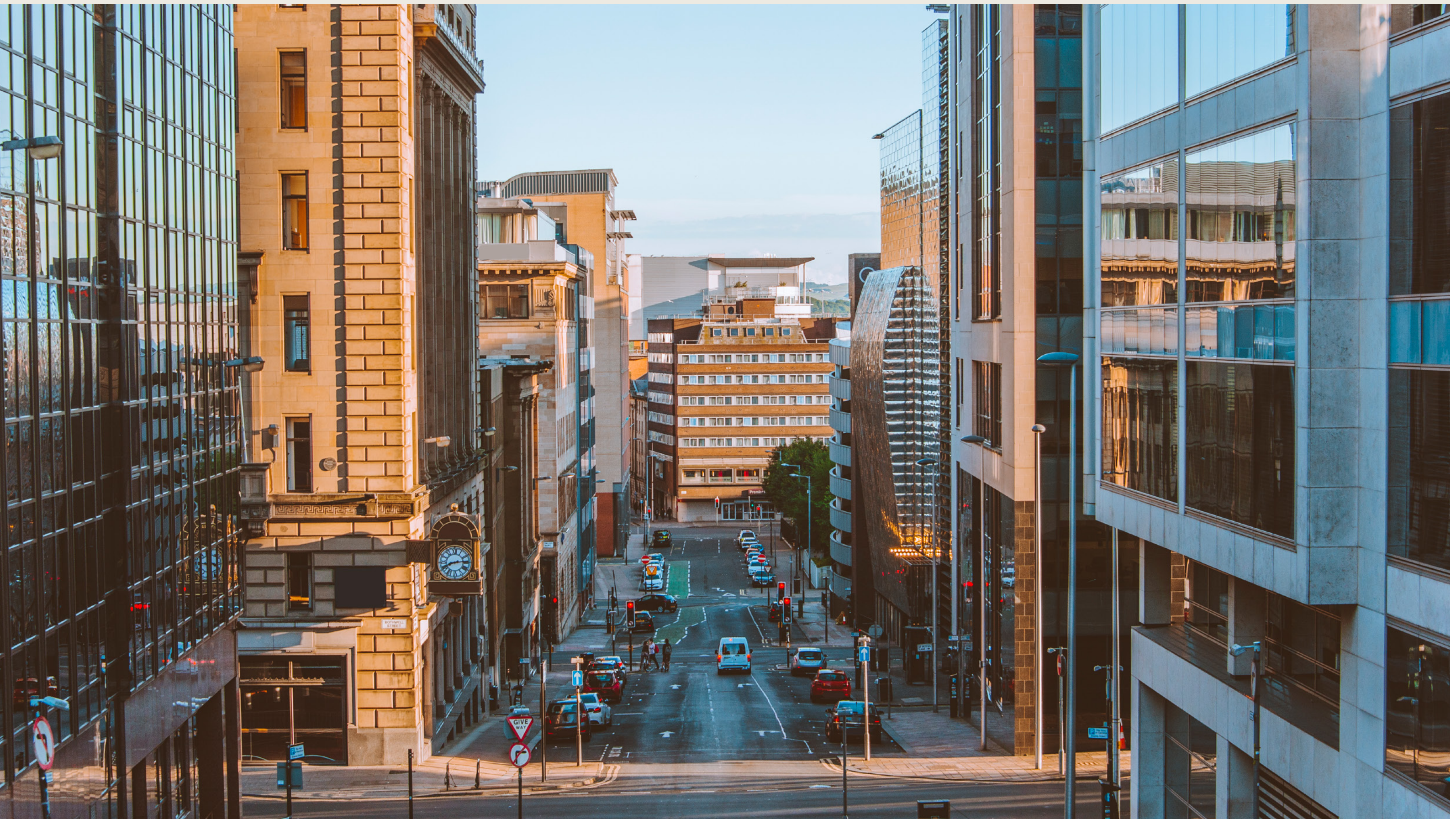


*Source: JLL, Oxford Economics*

# Scotland

- While Scotland as a whole is expected to perform in line with the UK average, house prices in the two largest cities of Edinburgh and Glasgow are expected to fare better.
- In Edinburgh the suburban Lothian markets have seen a significant uptick in market activity, particularly East Lothian.
- The city centre in the Scottish capital is also expected to perform strongly, relative to the rest of the UK with demand for city centre apartments expected to continue to outstrip a limited supply pipeline.
- In Glasgow the Scottish Government has pledged £35 million to the Clyde Mission Project, a bid to make the area around the River Clyde an engine of sustainable growth to kick start its economic recovery.
- Scotland's largest city will continue to see housing demand pressures which will underpin the recovery in house prices from 2022 onwards.





## House price change (%pa)

### Edinburgh

| 2020 | 2021 | 2022 | 2023 | 2024 | 2025 |
|---|---|---|---|---|---|
| 4.5 | 0.0 | 3.5 | 5.0 | 5.0 | 4.5 |

### Glasgow

| 2020 | 2021 | 2022 | 2023 | 2024 | 2025 |
|---|---|---|---|---|---|
| 3.5 | -0.5 | 3.0 | 4.5 | 5.0 | 4.0 |

### Scotland

| 2020 | 2021 | 2022 | 2023 | 2024 | 2025 |
|---|---|---|---|---|---|
| 3.5 | -1.5 | 2.5 | 4.0 | 5.0 | 4.5 |

## Rental value forecasts (%pa)

### Edinburgh

| 2020 | 2021 | 2022 | 2023 | 2024 | 2025 |
|---|---|---|---|---|---|
| 1.0 | 0.0 | 3.0 | 3.0 | 2.5 | 2.5 |

### Glasgow

| 2020 | 2021 | 2022 | 2023 | 2024 | 2025 |
|---|---|---|---|---|---|
| 0.5 | -0.5 | 3.0 | 2.5 | 2.5 | 2.5 |

*Source: JLL, Oxford Economics*

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