THE ENGLAND REAL ESTATE MARKET – A QUANTITATIVE ANALYSIS

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Abstract: *In the last years, the real estate market has proven its importance due to the high level of the transactions and prices, the contribution to the gross domestic product and the overall positive effects to the economy. The main objective of the article is to create a view over the English real estate market and its functionality. Given the fact that England has the biggest real estate market within Europe, this paper analyses the activity of the financial institutions specialised in funding the residential sector in the last years. In the same time, we aim to identify the key factors that led to the growth of the housing prices. The findings are optimistic, the economic environment becoming more and more appealing for the investors and consumers. Although the investor's confidence has risen thus making the capital flows increasingly higher, the English real estate market is still in a process of recovery. Nonetheless, the trends are encouraging, the prices are rising and the mortgage applications are increasing, the real estate market regaining its performance and stability.*
Keywords: *English's real estate; housing policies; mortgage loans; price index;*

INTRODUCTION

Owning a house has become one of the main objectives in people's life. Given the high prices of the houses, the majority of the families apply for a loan. This study will focus on the English's real estate market and its lenders, the structure of the banking system and the governmental implications. Due to its importance and its benefits, the real estate market has become a very important mechanism in the England economic infrastructure.

The real estate market continues to recover, boosted by the government's "Help to Buy" programme and the economic overall improvements. The analysis will focus on the residential real estate segment and its trends from the last years. Furthermore, we will create an overview over the functionality of the real estate market, the prices of dwellings, the lenders, the banking system and the mortgage section, the government initiatives and the consumers' preferences. The statistical data were collected from the national and European authority's reports – European Mortgage Federation (www.hypo.org), The National Bank of England (www.bankofengland.co.uk), The Office for National Statistics (www.ons.gov.uk) and others institutions (Knight Frank, PWC, etc.). Basically, the paper is a quantitative analysis of the national real estate residential sector and its implication on the economy.

LITERATURE REVIEW

Over the years many studies and articles have tried to analyse the functionality and efficiency of real estate markets. There are authors who have focused on the European integration level, identifying some general directions in order to improve its functionality: strengthening competition, removing cultural barriers, improving the legal framework and risk mitigation. (C & H, 2003; D & R, 2011; A, 2012)

Another important subject within this field is represented by the housing price and the process of the evaluation of the buildings. (D., 2009; R., 2010) A large number of the articles focused on the factors that can conduct to a prices increase but also on the impact to the real estate markets. There is a strong connexion between the banking system, the regulations from the field of constructions, the economic environment and the development of the country. Another important aspect in this process of setting the price is the subjective influence between the seller and the buyer. Nevertheless, the buyer will not pay a price higher than the maximum market value of the property.

When it comes to the UK real estate markets, the studies are focusing more on the commercial sector rather than the retail one. Even so, there are a few papers which analyse the prices and the national authorities' involvement in the process. Williams and Whitehead (2015) studied the impact of the government programs to the real estate market. Their research sustain that there is no real evidence on the financial impact of the authorities' social measurements. On the contrary, these non-profit organisations like housing associations provide about 10% of the total buildings from UK, helping the disadvantaged families to own a house. Lately, the house pieces began to rise and the real estate assets regained their value.

ANALYSING THE ENGLISH RESIDENTIAL REAL ESTATE SECTOR

The economic recovery from the last year has had a positive impact over the English financial markets. Even so, property prices are relatively low compared to inflation or pre-crises period. Currently, activity remains below long-term forecasts but because of relatively low prices, there has been a slight increase on the volume of the transactions. In the last two quarters of 2014 the markets have consolidated, this strong performance continuing in 2015 – the gross lending value has risen, the house prices and the volume of the transactions have slightly increase and the interest rate appears to be converging. Overall, these positive signs led to a growth of 2.3% compared to 2014.

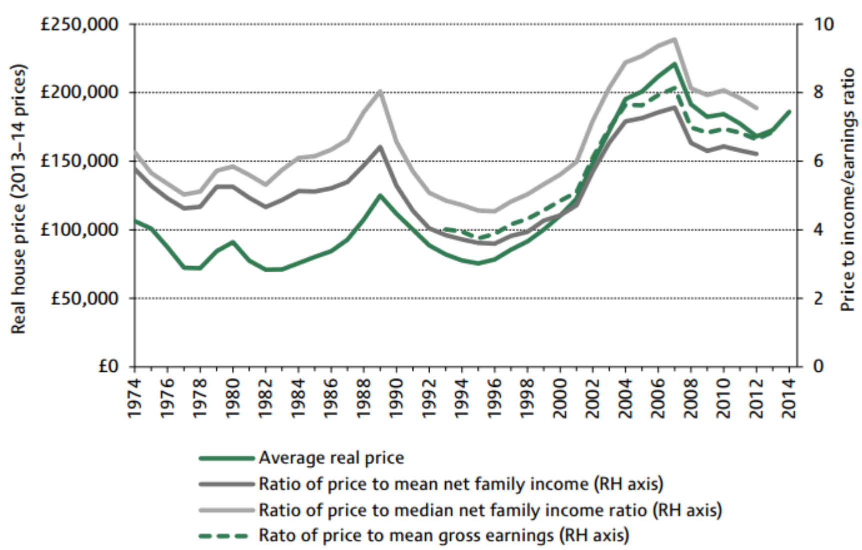
In November 2010, the English government began reforming the social policy by implementing certain measures: increasing the independence of local authorities granting them more power in the management of social housing, owners were given more flexibility regarding renting while at the same time protecting the tenants. Another measure was granting certain tax reductions when purchasing a property. At the moment the only tax levied is up to 5% of the dwelling by type of property purchased ("Stamp Duty Land Tax"). In 2008, the government announced a temporary dismantle of the tax for the purpose of housing market recovery. In this way, the buildings that were valued up to 175,000 GBP were exempt from that tax. In 2010 the limit was raised at 250,000

GBP and as of March 2012 the government has reapplied the single tax charge for absolutely all homes.

In order to support disadvantaged families, in 2011 was implemented the "Right to Buy Scheme" program which allows certain people to purchase a property at a lower price than the market. The main reasons of the initiative were to increase the volume of the real estate transactions and the market stability and efficiency. The lenders are becoming more advantaged because it enables them to establish a guarantee fund for each home that they sold, 3.5% of its value being redirected to that fund. The state contributes with another 5.5% of the sales price of each building, so if the amount is not repaid by the borrower the lenders can recover a small percentage of the lost amount.

Compared to 1990 when the rate of ownership of a property was 50% at the expense of leased homes, in 2005 the percentage rise to 70%. Real estate developers are responsible for the majority of newly built housing. Even so, compared to the EU average percentage of newly constructed buildings is low. Considering the international financial crisis effects, in 2010-2011 121,200 homes have been built parallel to the 2008-2009 period when property volume amounted to 207,370. (European Mortgage Federation, 2012) "The New Homes Bonus" was implemented in 2011 and was meant to increase housing supply. In this way, the local developers began offering substantial deductions for each newly built house or renovating an old building. 400 million GBP were made available to real estate developers in order to mobilize the residential real estate market.
House prices in England follow a perfect cyclicality. Demographic pressures and low supply on the market or the economy have caused prices to rise quite a lot. Since 1975, it has had a constant trend, the annual rate being approximately 2.9%.

Graphic 1. **England house prices 1974 – 2014**

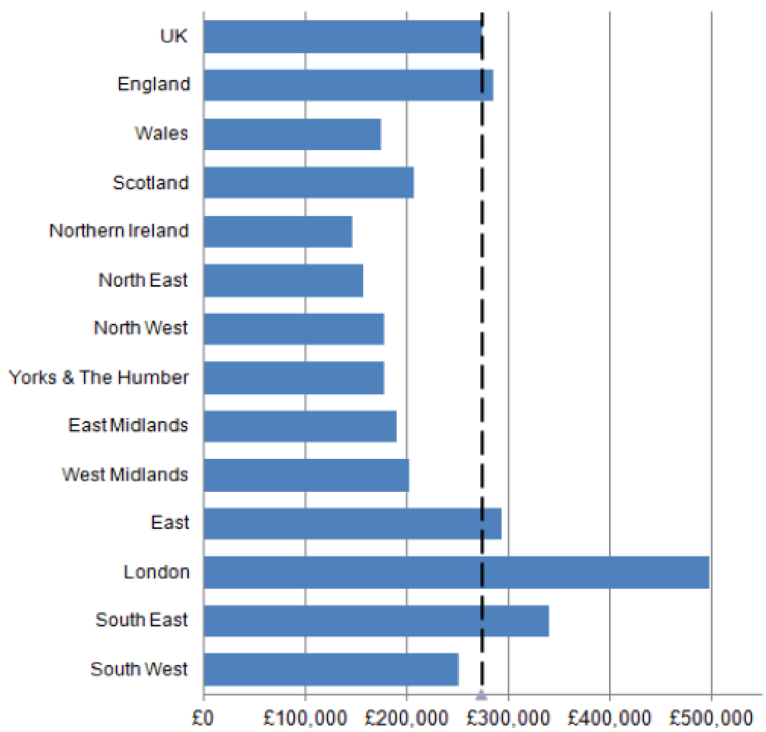


Source: Housing: Institute for Fiscal Studies, 2015, page 5

As it can be seen in the first graph, the England housing prices have increased by 8.1% in the last year. After the peak from 2007 when a house worth 221,000 GBP, the prices continued to fall until 2013 reaching 150,000 GBP. Still, the affordability remains a key concept and an issue from many points of view. It is a fact that the real house prices has grown faster than the real income from the rest of Europe.

Following the financial crisis, the real estate market's mobility was much lower, by 2009 the prices decreased considerably but after the economic downturn there has been seen a slight stabilization of the market. In 2014, the English housing prices were the second highest in the world, topped only by the small city of Monaco.

Graphic 2. Adjusted average house prices in England (by country and region)



Source: Office for National Statistics, 2015, page 10

Although the dwellings are smaller with 40% than the European average, the prices have always been greater than the rest of the European countries. When it comes to rental prices, the situation is the same, London being in top 5, among Monaco, Hong Kong, New York and France.

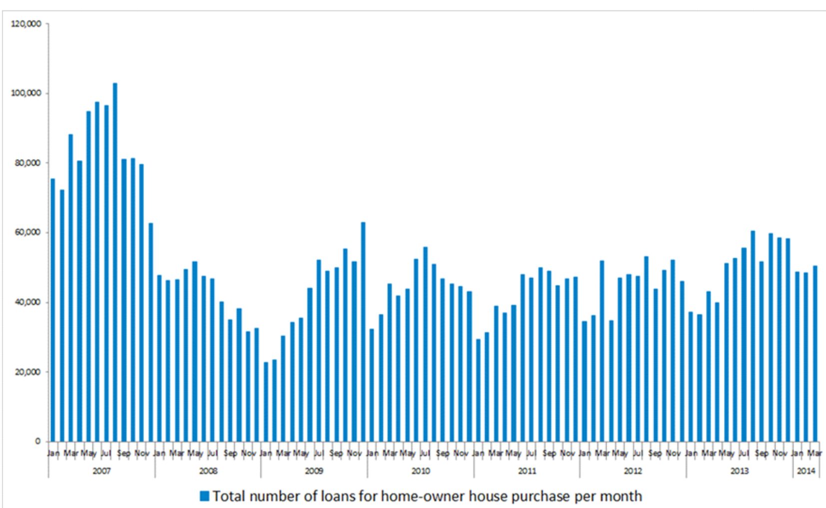
London is considerate the most active real estate market within Europe, with over 21 billion EURO in terms of transactions. This huge amount is greater than the volume of real estate transactions from the other cities – Paris 6 billion, Berlin, Moscow and Munich with 3 billion followed by Dublin, Stockholm, Hamburg, Amsterdam and Frankfurt with 2 billion.

English residential mortgage market is the largest in the European Union, with total assets of over 1.2 trillion GBP, numerous studies analysing its competitiveness and complexity. However, due to the difficult economic environment, until 2012 it can be seen a decrease in loans to households. In the early 2000s housing market has experienced massive growth due to the large amount of mortgage loans or refinancing. Automatically, the housing prices greatly increase but the 2008 real estate boom has affected negatively, the mortgage activity reaching only 40% of their 2007 peak.

However, the real estate investments are the greatest in England, reaching 47 billion for the last year, followed by Germany 30 billion, France 16 billion, Spain and Netherlands with 6 billion and Sweden and Russia with 4 billion.

As it can be seen in the third graphic, the amount of loans increased by 4% in March 2014 compared to February of the same year reaching 15.3 billion GBP, and by 14% compared to March 2013. The number of residential mortgage loans amounted to 50,500, by 24% more than in 2013. In terms of refinancing loans, these increased by 5% compared to March 2013. On a quarterly basis in the first three months of 2014, 147,800 mortgages were granted which clearly shows an increase over the previous year. Mortgage real estate market dynamics is much better, also due to economic improvement at national and European level.

Graphic 3. Evolution of UK mortgage loans 2007-2014



Source: 2014, http://www.cml.org.uk/news/press-releases/3898/

The interest rate was relatively low due to the favourable economic environment, with a decrease level of inflation and a stable real estate market. After 2008, LIBOR's level dramatically increased which led to a spike of bad loans. The number of those who have contracted for the first time a mortgage amounted to 24,400, representing approximately 50% of the total loans in March 2014.

Table 1. The analysis of the mortgage loans

	Number of mortgage loans	Value of mortgage loans (millions GBP)	Number of refinancing loans	Value of mortgage refinancing (millions GBP)
March 2014	50.500	8	25.000	3,6
Percentage change *(February 2014)*	4%	2,6%	1,6%	1,2%
Percentage change *(March 2013)*	17,4%	27%	4,6%	16,1%

Source: 2014, http://www.cml.org.uk/news/press-releases/3898/

The loans totalled 3.4 billion GBP, showing an increase of 36% compared to March 2013. Overall there is an improvement in the residential real estate market over the same period as last year and this is due mostly to financial stability and growth per capita income. If in 2013 the borrowers have used 19% of the income to cover the outstanding instalments, in 2014 they used only 17.4% of their winnings. Mortgage loans ranging from Buy-to-let have also increased by over 50% compared to 2013 reaching an impressive number of 16.200, totalling over 2 billion GBP.

In the England residential property market there are many businesses responsible for its financing: financial institutions, mortgage banks, non-financial institutions or developers. At the end of 2011, 69% of the total loans were contracted through commercial banks and savings, 16% by institutions mortgages and 15% by other specialized lenders which indicate a decline compared to 2008 when they held more than 35% of the market share.

Currently, the situation is as follows:

- 20.2% - Lloyds Banking group (£35.5 billion mortgage loans)
- 15.3% - Nationwide (£26.9 billion mortgage loans)
- 10.4% - Santander (£18.3 billion mortgage loans)
- 9.6% - Barclays (£16.9 billion mortgage loans)
- 8.2% - HSBC (£14.5 billion mortgage loans)

Since 2004, most mortgages are regulated by the Financial Services Authority (FSA). Nowadays, the institution conducts a review of its real estate market in order to provide a sustainable and effective environment for all the participants.

Before the global economic crisis hit, the most of the loans were contracted through intermediaries (two thirds). After 2008 this method has lost popularity, consumers appealing directly to financial institutions. In terms of supply, financial and non - financial institutions make available a wide range of products and services. In recent years an increase in “buy to let” type mortgage has been observed, the customer incurs a mortgage loan, renting the property after. In this way, the resulting rent is used to pay the bank. Fixed rate loans were the most popular lately, especially for periods between 25 and 30 years. Mortgage insurance is not included in the lending contract as they are being sold as a separate product.

Borrowers who receive other income in addition to salary can opt for SMI - Support for mortgage interest whereby 3.63% of the loan is redirected to a guarantee fund that operates on the same principle as the security insurance guaranteed by the state.

CONCLUSION

Owning a house is a key factor in the social wellbeing of the English people. Even if for the majority of the families a house is not affordable, the banking system and the government are trying to reduce the burden. This paper has analysed the structure and the functionality of the residential real estate sectors, the consumers’ preferences, the most soled dwellings and the mortgage products. In this way, it has been done an overview of the English real estate market. The limitation of this study is represented by the lack of more recent statistical data.

Even if the real estate market has its back and forth, in the last year the situation is getting better, the prices are risen, the mortgage loans are increasing and the economic stability is much stronger. The residential sector remains the most productive from Europe, with earnings greater than the last 20 years, low inflation, constant growth and strong performance. 2014 has been a good year, the economy and the real estate market, both commercial and retail expect to be on a constant upward trend. Nevertheless, the government plan to reduce the deficit is only half way, the real estate sector continuing to be a key factor to achieve this object.

The England banking system is a specialised one, the commercial banks owning over 65% of the market. Along with the building societies, these are responsible for the majority of the contracted mortgage loans. Due to the big prices, the consumers are orientated after small apartments and buildings. They prefer short-term fixed rates on medium periods of time, 15-20 years. Over the years, the mortgage applications have slightly increased, the consumers faith in the national financial stability becoming stronger. The intense activity from the last two quarter of 2014 will continue in 2015 as well but in a moderate way. The analysts see the next few years as more of a period of stabilisation rather than a spectacular growth. The main objectives are keeping the inflation and the unemployment rate low and the economic growth constant.

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