RURAL PLANNING IN THE 2020S

Technical Report 2

Analysis of Rural Housing Market Change

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Acronyms

BR	Business Rates
COVID-19	Coronavirus disease 2019
CT	Council Tax
OBR	Office for Budget Responsibility
ONS	Office of National Statistics
WHO	World Health Organization

Document purpose

This Technical Report details supplementary rural housing market analysis based on quantitative analysis carried out by researchers at the University of Hertfordshire for the Rural Planning in the 2020s project on the extent to which the COVID-19 pandemic has affected rural housing dynamics in the UK and Ireland. It can be read in conjunction with the Housing Market Thematic Review in Technical Report 1.

It is one of five Technical Reports that accompany the main Rural Planning in the 2020s Report, available on the RTPI website:

- Technical Report 1 – Thematic Reviews
- Technical Report 2 – Housing Market Analysis
- Technical Report 3 – Roundtable Analysis
- Technical Report 4 – National Policy Assessments
- Technical Report 5 – Case Studies

Analysis of Rural Housing Market Change

Background

The COVID-19 pandemic has been an important force for change affecting rural housing markets. House prices in the UK peaked in 2017 but fell back as a result of Brexit uncertainty. In rural areas, prices were stabilised by the reshoring of second homes as a result of uncertainty surrounding freedom of movement arrangements across Europe. This same uncertainty also gave impetus to the staycation market for UK holiday letting, although changing sentiment towards European property investment and vacation choices was difficult to discern in available data. The pandemic, however, brought a clearer pattern of change. The first cases of a new coronavirus were detected in the Chinese city of Wuhan late in 2019. By March 2020, the World Health Organisation (WHO) had declared a global pandemic and national governments started restricting travel, closing borders, and ordering their citizens to stay at home. Now the success of vaccine rollouts mean that many western governments are attempting to live with COVID-19 and very few countries have stuck with a policy of eradication, China being the notable exception.

Much has been written on the impacts of COVID-19 on national and international housing markets with many commentators drawing attention to 'urban flight' and the increased desirability of larger homes in non-metropolitan regions as wealthier household sought to escape the restrictions on personal freedoms being imposed by governments. They wanted more space (within and around the home) and to be away from concentrations of population where the risk of infection was thought to be greater. This urban flight was driven by a reassessment of housing utility. Housing is a 'complex commodity', consumed for reasons of utility (the services it provides to occupants) and exchange (the expectation that it will yield rent, imputed or actual, or its capital value will rise and play a role in future wealth accumulation). The pandemic changed the balance between utility and exchange in favour of the former. People were being asked to work from home. Their children were no longer attending local schools but learning on-line from home. The daily pattern of life was disrupted for many, but alongside the many restrictions, the freedom to live away from the city and away from places of employment presented some households with a new opportunity.

That opportunity was of course socially selective, only available to those with the right kinds of jobs: highly-educated middle-class households working in offices rather than service-workers tied to traditional workplaces. Those middle-class households already enjoyed significant advantage in the housing market, tending to be home-owners with releasable equity, able to take advantage of the 'rent gap' (the lower prices and potential for equity growth) found in some rural areas.

The scene appeared to be set for a pandemic-induced decentralisation of housing choices that would favour existing home-owners and that would be driven not only by COVID restrictions and work-place closures, but also by historically low interest rates and by the volatility of other investment assets during the pandemic. Rural housing became a safe haven not only for relocating urban households but also for investment capital. Whilst stock-markets plunged in March 2020 – and then exhibited considerable volatility, which has continued into the period of the War in Ukraine – housing has remained a safe investment, with prices buffered by new consumption patterns and by a continued preference for housing as an asset class.

In this document, we review the evidence of these changes in available datasets for the UK and Ireland. Reporting during the pandemic (in 2020 and 2021) is brought together with Office of National Statistics (ONS) data for mid-2021 (ONS, 2021a). Our goal is to outline how rural areas have been affected by changes in the pattern of housing consumption through the lockdowns and because of changing working practices, including any evidence of whether this is being maintained as citizens are being urged (in the UK at least) to "live with COVID". Preliminary analysis by Gallent and Madeddu (2021) claimed a 'decentralisation' of housing choice which started in London (and other major urban centres) before fanning out into adjoining and more distant rural locations. Their work on London and its hinterland identified a stagnation in the market for flats in Transport for London Travel Zone 1 that was compensated by a sharp increase in the value of family homes in more suburban boroughs. This 'dough-nutting' of the London housing market, repeated in other cities nationally and internationally, was accompanied by a broader rippling out of house prices, with adjoining rural districts seeing a significant increase in market activity and transactions. Accessible commuter towns and villages became more popular with home buyers. We now look briefly at market change in these 'near countryside' locations, before switching to less-accessible rural areas located further from larger centres.

The Near Countryside

In 2020, national estate agents began reporting increased interest in larger family homes located in London's neighbouring counties (Hamptons, 2020). Whilst house prices in the capital rose by 3.5 per cent in the year to December 2020, the South East and the East of England saw rises of 6.1 per cent and 7 per cent respectively (ONS, 2021a). Early evidence pointed to a flight from London linked to changing work expectations (ibid.). This did not necessarily mean that London homes – including Zone 1 flats, see above – were being sold, but rather that a trend towards *multiple property ownership* (Bangham, 2019) was continuing – and being accelerated by the pandemic. More affluent London households were retaining homes in the capital but also buying adaptable property in metropolitan towns and villages (Hamptons, 2020) or in accessible coastal locations (Compare the Market, 2020). This trend, combined with market fundamentals (cheap loan credit for existing owners) and increasing levels of unemployment, disproportionately affecting the young, appeared to have the potential to exacerbate housing access and wealth inequalities in the 'near countryside'. The export of wealth from London has been an important phenomenon, affecting housing markets across England. An urban-rural price growth differential has been observed in

other nations (see Figure 1), suggesting a similar pattern of movement within other urban hinterlands.

Houses located in greenbelt towns and villages appeared particularly attractive, with evidence of increasing competition for homes – or land on which to build new homes - in these constrained markets, with new buyers perhaps hoping that greenbelt restriction would protect their amenity and their investment (London Post, 2020). Indeed, Gallent and Madeddu conjectured that pandemic pressures combined with the existing shortage of 'family' homes in London might give new impetus to past calls to loosen restrictions on development in parts of the Metropolitan Green Belt, linking future development to either new transport hubs or existing ones with latent capacity (Gallent and Madeddu, 2021).

The same authors concluded, more generally, that changed working patterns and new utility choices seemed likely, in the short-term, to result in increased demand for family homes in areas of 'near countryside' across the UK, fuelled by adventitious purchasers able to draw on higher urban salaries, release equity from the sale of urban homes, or borrow against the value of retained urban property, especially property in London. This would mean a more competitive market, higher prices, new pressures on services, and increased difficulties for first-time buyers or local renters unable to draw on the equity from a home in the city. Those first-time buyers were already struggling in these 'near urban' markets.

Recent analysis has shown that a deposit of at least £130k is required to buy a home in Greater London, nearly £65k in the South East of England, and more than £51k in East Anglia. The proportion of first-time buyers in these markets fell by 6 per cent, 11 per cent and 11 per cent respectively in 2020 compared with the previous year (Halifax, 2021). It is notable that the falls outside of London were nearly twice those observed in the capital. The stamp duty holiday in England and Northern Ireland, instigated by the UK Treasury as a response to the pandemic, appeared to keep the market moving, incentivising lifestyle investments, and supporting a rate of house-price inflation that often negates the 'savings' delivered by reduced tax liability (buyers believe they're getting a better deal when tax rates are lower, but the Office for Budget Responsibility (OBR) has shown that lower stamp duty quickly leads to higher asking prices (OBR, 2016). Spiralling prices are not in the interest of first-time buyers unable to draw on stored equity in an existing home.

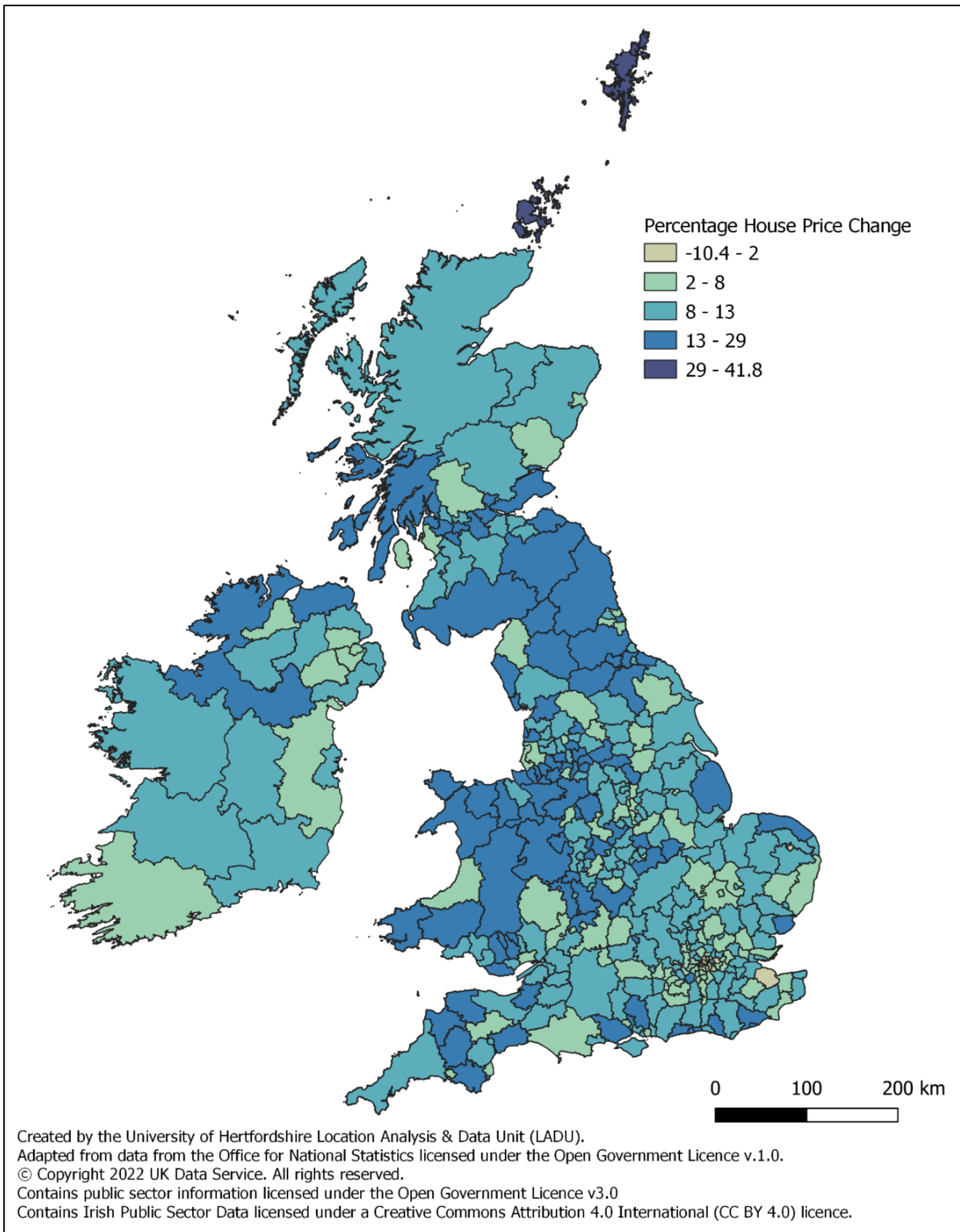

Figure 1 Annual House Price Growth, July 2021

These patterns noted above can be observed in ONS data on annual house price growth. The latest available figures for England, Wales, Scotland and Northern Ireland are for July 2021. The

same measure of house price change are provided for Ireland, but mapped on NUTS3[1] regions. The UK and Ireland data show the per cent house price change between July 2020 and July 2021 – the main period of pandemic-induced change. Data on second homes in England and Wales are also available, although these are arguably less useful. English second home figures are drawn from the council tax database (for September 2020) whilst the Welsh data are more recent (for March 2022) and derive from the Welsh Government's CT1 (Council Tax) analysis. The big problem, however, with second home data through the pandemic is that it only relates to dwellings registered for council tax and not holiday lets paying local business rates (BR). Research by Altus Group has revealed a transfer of (CT-paying) second homes to (BR-paying) holiday lets during the pandemic, giving a false impression of stability or even decline in second home numbers (see BBC, 2021). However, we can relate price change data to second home concentrations in general terms, referencing available ONS data.

Figure 1 shows annual house price growth at local authority level to July 2021. The broad picture is one of price stagnation across much of inner London, average price rises of between 2 per cent and 8 per cent across much of outer London, and prices topping 10 per cent annual growth across swathes of the home counties and in interstitial rural areas across England, Scotland and Northern Ireland. This data confirm the 'higher performance' of rural areas in broad terms during the pandemic. Some parts of the near countryside broke through the 13 per cent uplift ceiling, especially around Birmingham in the English Midlands, the Scottish Borders, and in the north of England. The rural split was present but not as pronounced in Ireland: Dublin prices rose by 8.1 per cent in the year to July 2021; outside of Dublin, the figure was 9.1 per cent. Ireland's Border region saw the strongest house price growth at 16.2 per cent, but the rural South West experienced the weakest growth, at 5.3 per cent. Much of rural Wales, with the exception of Ceredigion, was above the 13 per cent ceiling. Further comment on less-accessible rural areas, and key tourist destinations, is provided below.

Less-accessible Countryside

The changing shape of the market further afield, in less accessible areas of countryside beyond the immediate influence of larger centres – including important rural amenity areas such as national parks – is rooted in more definite lifestyle changes. Those amenity areas already had well-established second home markets (Gallent et al, 2005). There is a prospect now of three big changes. The first is an intensification of demand for 'traditional' second homes (Knight Frank, 2021); the second is the conversion of some existing second homes to first-home use (as their owners 'flip' to living away from London – see Zoğal et al, 2020, for an insight into this phenomenon overseas); and the third is permanent lifestyle relocation of decentralising

1 NUTS3 is the most detailed level of the NUTS classification (Nomenclature of territorial units for statistics), used to divide economic territories of the UK and EU countries.

households (including earlier-than-planned retirement).

A further phenomenon is of course the transfer of second homes to holiday letting as owners seek to cash in on the growing staycation market (the tax advantages of BR registration having now ended). Data from the ONS (2021a) show that the South West of England saw the fastest house price rises in 2020 (10.2 per cent) of any part of southern England (and an almost 13 per cent drop in participation amongst first time buyers compared with 2019 – Halifax, 2021). Slightly faster rates were recorded in parts of the north of England, albeit from a lower base. There is a broad expectation of more intensive demand for family homes in rural amenity areas (see Peachey, 2020), which will challenge existing planning orthodoxy (i.e. strict limits on housebuilding) and likely bring new market exclusions as those with the deepest pockets secure homes at the expense of those most affected by the pandemic.

ONS price growth data for July 2021 (ONS, 2021b) show very significant movement of prices in less accessible rural areas and in a number of coastal authorities across the UK. As noted in Case Study 6: Enabling Affordable Housing (Derbyshire Dales, East Midlands, England), Derbyshire Dales District saw a price rise of 10 per cent or more in each of the first seven months of 2021. Cornwall achieved an annual growth rate of 12 per cent, but this figure is likely to mask sharper increases in key second home locations (the average rate of second home ownership across Cornwall in 2020 was 5 per cent, but local peaks are hidden behind this figure). Devon's small districts recorded rates of up to 22 per cent uplift. Districts on the English south coast recorded high rates as well, with a peak of nearly 24 per cent in Hastings – a rise from a low base which nevertheless shows the shifting appeal of coastal locations. North Norfolk, an established second home destination (10 per cent of dwellings were used as second homes in September 2020), recorded annual growth of 15.5 per cent.

Welsh rural authorities recorded phenomenal growth rates, peaking at 25 per cent in Conwy. Larger authorities (such as Gwynedd, 16.3 per cent, and Powys 13.4 per cent) have more mixed markets which disguise localised price peaks. It has been widely reported that the average price paid for homes in Abersoch (Gwynedd) has reached almost £730,000 over the last 12 months, albeit based on only 14 transactions (see Zoopla[2]). The rate of second home ownership (as a proportion of CT-paying stock) was 9 per cent in March 2022, with second homes being responsible for local price peaks well above the authority average. Northern Ireland's Causeway Coast saw prices jump by nearly 17 per cent during the pandemic and Scotland's Argyll and Bute (encompassing many island communities) experienced a similarly sharp rise of almost 19 per cent. Key price changes, across the UK and Ireland, during the COVID-19 pandemic are summarised in Table 1.

2 https://www.zoopla.co.uk/

Table 1 Key price changes during COVID-19 (annual price growth, July 2021)

	Major urban centres	Near countryside	Less-accessible countryside
England	The standout feature of England's urban centres is the weak market growth in central London. Nine of the 10 lowest growth authorities were in London. Other urban markets saw strong growth: e.g., Liverpool 15.7 per cent; Manchester 13.7 per cent; Sheffield 10.7 per cent. Urban market growth outside London was strong, although cities were often outperformed by hinterlands: places such as Brighton, Bristol and Newcastle by their coastal neighbours.	London and other cities outperformed, in terms of annual market growth, by their coastal or rural neighbours. The English home counties saw stronger growth than London, but were pocked by weaker growth in larger towns such as Guildford (4.4 per cent). However, the south east experienced less price growth than other regions: rural parts of the West and East Midlands around Birmingham saw strong growth, hitting 18.8 per cent in Stratford-on-Avon.	Less expensive rural areas adjoining traditional hotspots saw high growth rates. For example, Copeland (13.6 per cent) and Eden (14.2 per cent) outperformed South Lakeland (10.1 per cent). But localised price spikes in national parks and other honeypots are hidden within authority-wide figures. Devon and Cornwall saw prices surge (although Cornwall's figure is lower at 12 per cent, again reflecting the varied pattern of price change). Coastal parts of southern England saw higher growth rates.
Scotland	Glasgow saw strong price growth (13.3 per cent) which was nevertheless lower than adjoining rural areas. Edinburgh's growth (8.4 per cent) was less than its hinterland. Stirling (4.9 per cent) was Scotland's weakest market performer during the pandemic.	Dumfries and Galloway and Borders (15.1 and 21.5 per cent) experience strong growth, along England's rural extremities south of the border. Rural areas to the south of the Scottish central belt saw less price growth, although accessible rural areas east and west of Glasgow saw high growth. Coastal Inverclyde was the strongest mainland performer at 29 per cent.	Orkney and Shetland experience very high growth (37.1 per cent and 41.8 per cent, although they also exhibit high volatility indicating small numbers of transactions). Scotland's northern parts see weaker growth, but Aberdeenshire (9.3 per cent) sees significantly stronger growth than Aberdeen (5.7 per cent). Highlands and Islands see growth of 18.6 per cent.
Wales	Wales's urban areas outperform some parts of rural Wales, but see	Conwy and Vale of Glamorgan are amongst top ten areas across the UK with strongest price growth.	All of rural Wales sees strong growth (>13 per cent) with the exception of

	relatively weaker growth, especially Newport.		Ceredigion (6.2 per cent) and Monmouthshire (8.6 per cent)
Northern Ireland	Urban housing markets all see weaker growth than nearby urban districts, although the difference is smaller than elsewhere in the UK owing to the rural character of districts in which cities are located.	Coastal areas east and south of Belfast see +10 per cent growth. Rural belt from Mid and East Antrim to Fermanagh and Omagh see growth of between 8 and 9 per cent.	Causeway Coast and Glens is the stand-out performer (16.9 per cent).
Ireland	Dublin experienced strong house price growth during the pandemic, up 8.1 per cent in the year to July 2021. Its growth outpaced that of urban areas in Northern Ireland.	Dublin's immediate hinterland saw weaker price growth than Dublin city. But the Border region, which is an accessible hinterland for urban centres in Northern Ireland saw the strongest growth of any part of Ireland – house prices rose by 16.2 per cent.	Ireland's rural interior saw growth rates of between 8 and 13 per cent. The more peripheral and less accessible South West region had the weakest house price growth nationally. However, the NUTS3 regions conceal pockets of higher house price growth in rural Ireland, associated with key tourist destinations and higher levels of second home ownership.

These housing market pressures will have significant repercussions for life in less accessible rural places, starting with the social reconfiguration of communities and the potential overloading of services in some places. In the longer term, rural authorities (many of which believe they have reached environmental capacity for new housing – see Gallent et al, 2022) will need to rethink patterns of housing supply, whether they continue with plans to expand key service centres (including market towns) – and abandon villages to the gentrification caused by this new wave of counter-urbanisation – or look to 'smear growth' more evenly across settlement hierarchies, ensuring that more villages are able to expand. The challenge, here and elsewhere, is that private market choices are being reshaped by the experience and prospect of living with COVID-19. Lifestyles have been changed and lives disrupted. People have been rethinking the future, how they might live and the options available to them. And all this has been happening in a housing market shaped by the unequal capacities of different housing classes and driven, in part, by government support for house prices (through its periodic stamp duty holidays amongst other means). Such support may help drive an expansion of housebuilding. But the challenge, going forward, is to ensure increasing housing supply serves not only new lifestyle demands, expressed by existing homeowners, but also delivers affordability and expands access to good quality housing.

Overview of housing market change

We have drawn attention to three major shifts: first, the transformation of housing choices in cities as utility, adaptability and that private space trumps central locations; second, the greater dispersion of 'urban demand', underpinned by new patterns of lifestyle and consumption by more affluent urban households; and finally, intensified and new demands on housing in some amenity-rich rural and coastal areas. These three shifts have the potential to intensify housing inequalities. Each one is underpinned by additional adventitious purchasing by existing homeowners, consolidating the expansion of multiple home ownership and the concentration of housing wealth in fewer hands – affluent households consuming more space in suburban locations, buying weekend retreats in the accessible countryside, or seeking new lifestyles and / or second homes further afield. For rural areas the implications could be very significant, but may be subject to some modification in the years ahead.

The sorts of market pressures seen during the pandemic may persist, consolidating past patterns of counter-urbanisation. That will mean extra pressures on housing resources, which may amplify existing patterns of gentrification unless means are found to support existing residents into market and non-market housing. Alternatively, the pressures reflected in July 2021 annual price growth figures may abate, with urban households finding rural living less attractive than they did at the height of the pandemic (especially if working patterns revert to

their former norm). If that happens, 'pandemic buyers' may return to urban or suburban lives but retain newly-acquired properties for second home use or for holiday letting. There is already some early evidence of a 'boomerang' effect in the housing market, with less interest in rural property and more activity in the urban market being reported by the estate agent Chestertons in early 2022 (Evening Standard, 2022).

What might this mean for rural areas? There has to be some hope that the extreme price pressures of the last two years – reflected in ONS figures - will dissipate, that housing will be freed up again for local families. But there are an additional set of factors at work. Restrictions on overseas travel have altered holiday choices and the staycation market may remain strong into the foreseeable future. Many homes previously rented on assured shorthold agreements, but converted to holiday letting during the pandemic, may remain as holiday lets. Also, a 'boomerang effect' does not necessarily mean the release of recently-purchased rural houses back to the market. Buyers tend not to sell-up *en masse* in response to changing market sentiment, swallowing the cost implications of doing so. Many are likely to retain rural properties for weekend or seasonal use. This could leave rural households in the worst of all worlds: a magnified housing cost crisis that collides with a new cost of living crisis, further limiting the housing choices of the most vulnerable rural families. The ONS continues to warn that "rising house prices and private rents mean that some workers are at risk of being priced out of living in rural and coastal areas, contributing to skill shortages in the tourism and hospitality industries that their local economies rely on" (ONS, 2021b).

Pressures on the available stock of rural homes, especially in amenity and coastal areas, are likely to remain strong. Rural housing affordability will continue to be a key challenge for the planning system, with local authorities seeking ways to protect housing for local occupation and/or expanding the stock of non-market homes. We encourage you to read the Thinkpiece 'Changing the Intractable to Achievable – Improving the supply of rural affordable housing as part of planning's response to the climate emergency' by Jo Lavis (available in Technical Report 5), which discusses this issue in more detail.

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