**An Investigation on the impact of COVID-19 on the housing market of London**

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**Abstract**

**Introduction**

In 2020, a global pandemic named COVID-19 stormily spread across the world and caused one of the biggest economic downturns in the 21st century. By the June 2022, this global pandemic has recorded more than 500 million cases and 6 million death globally, and in the first year of this global pandemic, it led the global economy with a global economic contraction of -3.3%, which is the worst downturn since the Great Depression(IMF, 2021). The impact of COVID-19 led to a global financial crisis which changes our daily life with terms that were unknown to us, such as lockdowns, social distancing, the terms that led to new solutions for life, throughout this pandemic, we find ways to work and study remotely, tourism becomes luxury in many regions.

Meanwhile, with government intervention and global recession, shrinking supply and uncertain demand, the impact of COVID-19 on the housing market is likely to be significant. The need for dwelling is one of the most basic need of humanity, it is essential to have a sound, safe, and large enough space as the shelter for all mankind, no matter rich or poor. The existence of housing market satisfies this basic need, it provide opportunities for people to have a house of their own. Nowadays, house is not simply just a place to stay, it is a legal property, a estate, a commodity, an investment, access to employment and school, service around the area(Bergenstråhle, 2016). As one of the most essential sector to our daily life, the size of housing market occupies a great percentage of the GDP for many countries. At the same time, real estate is also one of the most popular investment choice, many people prefer to purchase houses to hold on to their asset rather than in financial assets(Zhu, 2014). It is safe to say that the housing market is an indispensable part of our life, as well as for the global economy.

However, depending on the level of impact COVID-19 had on the local economy and different environment and infrastructures of the area, the housing market of each area is likely to receive completely different influence from this global pandemic, and it is hard to examine the global housing market as a whole and conclude on how COVID-19 changed the global housing market. Thus, this paper selects London as the researching city, as one of the biggest city in the world, the infection level of COVID-19 in London is also one of the highest in the world, which means if COVID-19 do had influence on the trend of the housing market, it is likely to be significant. This paper aims to provide novel evidence of why it is important to review the possible consequence of global recession caused by this global pandemic on the housing market, as well as the possible consequence of COVID-19 on London housing market and the reason behind it. Moreover, we uses the related dataset of each London boroughs to prove the predictions on the housing market base on literatures and examine the impact of infection level on the housing market. To better identify the research purpose, we define them into three major research question:

*1/Is there any significant difference in the changes the price and sales level across London boroughs?*

This cases study examine the relationship between COVID-19 and the housing market at boroughs level in London, however, due to difference in position, environment, and other infrastructure such as education, pharmacy, it is likely that the housing market for each boroughs are totally different to other boroughs, and at the same time, the infection level of each boroughs are also likely to be distinct depending on factors such as population, regulation policy. In this case, how does the different

*2/Does different levels of infection rate in each boroughs lead to different level of impact on the price level of London housing market?*

The

*3/How does the price level change and other interventions during this pandemic impact on the sales level of London housing market?*

Through

**Literature Review**

Since COVID-19 spread across the globe, the impact of COVID-19 on the global economy is significant, and it does no difference for the housing market. However, why should we pay attention to the changes in the housing market? How does COVID-19 impact on the housing market? Is it able to reflect the changes in the housing market from past financial crisis? We will explore the influence of the housing market by answering those questions in the following sections.

**The importance of the housing market**

Back to when human first appeared on earth, the first human kind started to live in caves, the need for dwelling started to engrave in our genes. And in the modern society, the housing market plays an enabler of economic activity, as the housing market satisfies the need of space for both individual and companies, by providing individuals with houses and apartments and companies with workspace with facilities, these basic need created the housing marketing and led it to the size it is today.

And as an essential part of the real estate industry, the transactions in the housing market attributes a great value to the financial statistic of an economy, and by combining the markets derived from the housing market as well as the supply chain of real estate industry, it created the real estate ecosystem. In 2019, the real estate as a whole contributed more than £100 billions to the UK economy, which represents about 7 % of the total UK GVA, at the same time, the whole sector also employed more than 1.2 million people in the year of 2019(BPF). From statistical perspective, the real estate sector has always been one of the most important sector contributing to the economic growth of an economy, thus, it also mean that it is essential to remain the stability of the housing market in order to maintain sustainable economic growth.

The fundamental of housing market indeed is to supply legal property to people in need, however, as the major commodities in the housing market: houses, apartments, office buildings, they are not only just a home or workplace, the property itself is a commodity as well as an investment. From long time ago, owning properties is a sign of wealth and status, and in the current society, investing in real estate is one of the most common accepted investment method(Glickman, 2014).

**The Influence of Housing Market on Stabilising Economy**

Through out history, changes in housing market have often been detrimental to the financial stability and the real economy(Zhu, 2014), the size of housing market and the unique characteristics of real estate property determine the distinctiveness of housing market for an economy. The assets of real estate are buildings, and the large size of the built environment makes the housing marketing asset intensive, at the same time, investing property often requires a large amount of capital, and the process of aggregating the required capital become a critical part of our financial system(Glickman, 2014).

In the process of aggregating capital for property investment, the use of loans is one of the most frequently used method, according to the Office of National Statistics of UK(ONS, 2019), from April 2016 to March 2018, the total household debt in the UK was £1.28 trillion, and this number is only going to increase. However, the reason behind the statistics of household debt can be complex, there could be two major reasons for using debt to purchase a property, the first one is obversely when a family need a house, in this case, it is a compulsory need, which means these needs are likely to be price inelastic or rate inelastic, the rate stand for the rate of debt; another reason of purchasing property using debt is when the investor believes that the value added to the property they purchase will outruns the rate of debt, in this case, it is not a compulsory need, and the housing market fluctuates, this type of debt is likely to change significantly. Thus when the housing market faces crisis, the decrease in the size of household debt could cause serious problem for the banking sectors, and for the investors, they may not be able to pay for their debt due to the recession in the housing market and the decrease of rental income.

For all the transactions in the housing market, tax is an essential part of the process. In some areas, the tax for property transaction can be very high, and the requirement of taxation could be a major driver for decisions in the housing market(Glickman, 2014). The types of taxation included in property transactions could be complex,but the principle behind taxation is simple, the aims of property taxation is to regulate the housing market and control the amount of transactions in the housing market, the logic behind it is to avoid the manipulation of housing price with frequent transactions. At the same time, the taxation for property transactions also contributes a great proportion to the tax income of government, which means that low level of transactions in the housing market could lead to financial issues for the local government.

According to the economist Arthur Pigou, there is a phase named “the Wealth Effect” between consumption and the value of housing and financial assets, he stated that when the asset values are high, the consumption level goes up, when the assets value are low, consumers reduces spending, this is simply because the changes in asset values could strongly influence consumer’s confidence on spending(Glickman, 2014). This is an interesting theory introducing the influence of asset value on the level of consumption, based on that, considering that the value of housing accounts more than half of the total asset values for many families, it is likely that price fluctuations in the housing market is likely to impact significantly on the consumption level of that economy. Thus, it is essential for an economy to maintain the stability of its housing market in order to boost the consumption level and achieve sustainable economic growth.

**COVID-19 and the Housing Market**

In 2020, the first COVID-19 case appeared in Wuhan China, due to the high level of infectiousness of COVID-19, it soon spreads across the world and became a global pandemic. COVID-19 as one of the most influential virus in human history, it has changed our daily life in many aspects. Throughout this global pandemic, term such as lockdowns, social distancing, quarantines, these are used to be unknown to our life now became a big part of life. The regulation took by the governments indeed helped reducing the infection level of COVID-19, however, it also leads to a global recession as it reduces consumption significantly(Chetty et al., 2020; Horvath et al., 2020), increases in unemployment (Beland et al., 2020; Borjas & Cassidy, 2020; Dingel & Neiman, 2020; Koren & Pető, 2020). From consumer’s perspective, the regulation policy and government interventions due to COVID-19 altered consumer behaviour(Alexander & Karger, 2020; Coibion et al., 2020), including the housing market.

Social distancing is one of the most common regulation throughout this global pandemic, it may introduce frictions and transaction costs to the buyer-seller matching process that may in turn affect prices and liquidity(D’Lima and Lopez, 2021). Meanwhile, lockdowns as one of the most effective way to reduce the infection rate of COVID-19 in one area, it is implemented by governments across the globe in national level and local level. For the housing market, the implementation of lockdowns simply avoided face to face interactions among buyer, agency and seller, and the communication cost is likely to increase dramatically, and due to lack of information buyers are able to receive without visiting the property, it indeed impacts on the incentive of purchasing for buyers. Overall, the impact of COVID-19 on the consumer behaviour of the housing market is likely to be significant, the lack of information exchange opportunity and trust issue could temporarily reduce the demand of housing. However, the impact of regulations on demand is only temporarily, demand still exists, but on the supply side, the impact of COVID-19 on the construction sector and related supply chain is significant, this reduces the supply of new properties dramatically in this pandemic(Duca and Murphy, 2021). In an ecosystem, when demand is constant, supply falls, price goes up, this is no difference for the housing marketing. The fall in supply pushed up the prices of housing, and since the fall in demand due to restrictions is temporarily, it is likely to recover quickly once restrictions are eased, there there is likely to be rise in the housing price in different stages of this pandemic.

In the housing market, there is one other factor that influences price level regardless of time, which is inflation.High levels of inflation could lead to increases in the