The rural housing market after the Covid-19 pandemic

Iqbal Hamiduddin and Nick Gallent
Bartlett School of Planning, UCL

The early months and weeks of the Covid-19 pandemic saw an influx of urban households into rural areas. An apparent decentralisation of housing markets around the world prompted specific questions (how will rural areas cope and what will be the implications on the distribution of housing resources?) and broader musings (have we passed 'peak urbanisation' in Western countries, and what will be the function of cities – in an age of post-agglomeration?). What has happened since those early weeks and months? Taking the case of England and Wales, this short commentary reflects on housing market patterns over the last 2 years, their implications for rural places and communities, and the challenges they present to housing and planning policy.

Introduction

The period of the covid-19 pandemic, before its endemic phase, was marked by urban flight in England and Wales and the rest of the UK, as reported in our earlier article from 2021 (Gallent and Hamiduddin, 2021). This period saw a significant uptick in households moving to the countryside for space, greenery, and for an alternative work-life balance. At the time, it was not entirely clear whether the 'race for space' was in fact a knee-jerk (and probably temporary) reaction by more affluent and mobile households to the trigger of national lockdowns, or a potentially permanent locational shift, scaffolded by changing work patterns and lifestyle choices that would solidify over time.

Since the peak of the pandemic, evidence has pointed to a degree of reversal of pandemic-induced counter-urbanisation *alongside* some permanent imprint on rural housing markets. The spike in demand seen early on has subsided and the market for rural homes amongst urban out-shifters has softened. But at the same time, the appetite for staycations – heightened by the pandemic - and for second homes and the conversion of regular housing to holiday-letting has remained strong, accentuating a range of existing pressures in some rural amenity areas. In this commentary, we firstly explore patterns of changing demand for rural homes before refocusing on the potential longer-term implications for planning and housing across these areas.

Post-Pandemic Rural Housing

Recent housing market analyses present a complex picture of housing demand and supply. The immediate and disruptive effects of pandemic-induced demand for rural housing have given way to a degree of roll-back, but within the context of a struggling housing market and a cost-of-living crisis that is driving its own decentralisations away from expensive and increasingly unaffordable housing markets – especially London's. During a period of higher borrowing rates and rising rent costs, cost of living or *value-for-money* out-shifting has become an immediate sequel to the race-for-space decentralisation of two years ago, which was underpinned by a shift to remote and hybrid working. Whilst there was a certain degree of 'boomeranging' back to the city by 2022 (Gallent, 2022), the boomerang effect has itself been constrained by subsequent cost crises – rooted in other global events, notably Russia's War in Ukraine. These patterns are of course selective, with more accessible rural areas remaining popular with commuting households while less accessible ones have now lost some of their hybrid-workers but often retained recently-purchased second homes.

The complexity of the picture is illustrated in recent analysis by the British Association of Removers (2023) who note that whilst the volume of property transactions across rural areas has shrunk since the height of the pandemic, this is likely to have been caused by market saturation rather than a significant fall in demand. Not only has house price growth remained strongest outside of London (see Figure 1) but 'time to sell' has been significantly shorter in more rural areas. Rural homes that come onto the market are more likely to be purchased quickly, signalling a positive ratio of buyers to stock.

A combination of property price and time-to-sell data reveal that rural Wales is currently the most desirable place to purchase a home in the UK, followed by the South West and the North East of England. These areas contain mixes of more accessible and remoter rural markets, often with significant amenity, rendering them attractive to different sorts of buyers – seeking homes for full-time and seasonal residence. There has also been an attendant increase in demand for *affordable* homes in rural areas, with the National Housing Federation reporting a 31% increase between 2019 and 2022. This is ten times greater than the increase observed in urban areas over the same period (NHF, 2023).

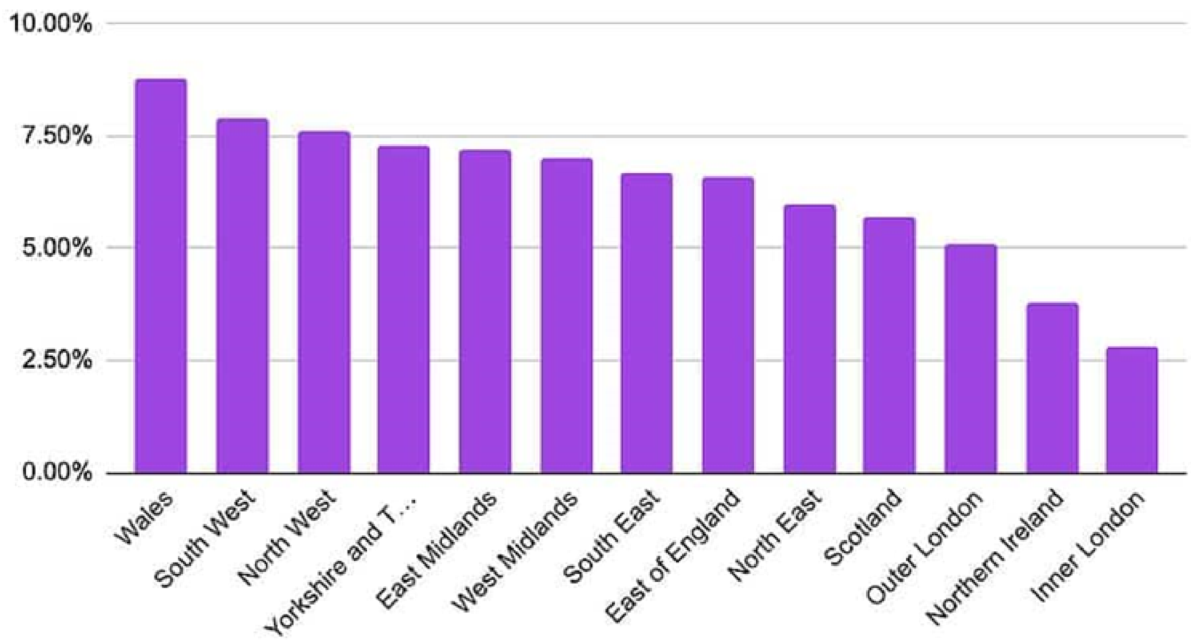

Figure 1: Compound Annual Growth in Property Prices – Year to Nov 2022 (BAR, 2023)

The broad suggestion here is one of sustained market demand for rural homes (caused by a seamless shift from a race for space to a race for value), generating a degree of stress in some rural areas that is reflected in an increased need for non-market homes.

However, confidence in these patterns (or in the cause-effect relationship) is undermined by two factors. First, the quantum of rural transactions is often small, which means that it can be difficult to generalise or fully appreciate the complexity of market processes within and across rural areas. And secondly, some rural areas have been more greatly affected by constraints on the *supply* of new housing (in already constrained markets) since the pandemic, linked to planning restrictions on development caused by watercourse nutrient loading with respect to phosphates and nitrates, leading to the wholesale suspension of housebuilding in areas such as the Wye and Usk river catchments (Gallent *et al*, 2022). This has heaped further pressure on these already supply-constrained rural housing markets. In fact, research into market change in the 'amenity area' of the Brecon Beacons National Park (now the *Bannau Brycheiniog*) by Gallent and colleagues observed a greater effect on the market from environmental constraints than from pandemic mobility.

There has undoubtedly been some shift in rural home-buyer motivations over the past three years as the threat of pandemic disruption has receded and lockdowns have been replaced by an apparently successful programme of vaccination. As noted above, this was reflected in an early 'boomerang effect' that saw first wave out-shifters heading back to the city, as reported in London's *Evening Standard*. This effect was initially evidenced by a reduction in the volume of searches for homes in Cornwall and Devon (which soared during the pandemic) and a sharp rise in the number of renters and buyers looking for London *flats*. Focussing on London's housing market, the same newspaper also reported data from the estate agency Chesterton's, which noted a steep climb in market interest in London homes in January 2022 compared with the previous January (Evening Standard, 2022). The same boomerang effect can be seen, very clearly, in the September 2021 demographic update of the 2020-based population projections for London. The chart on total net migration, Figure 2, shows the sharp exodus of population in 2020, followed by a return, or at least positive net migration, from 2022 onwards.

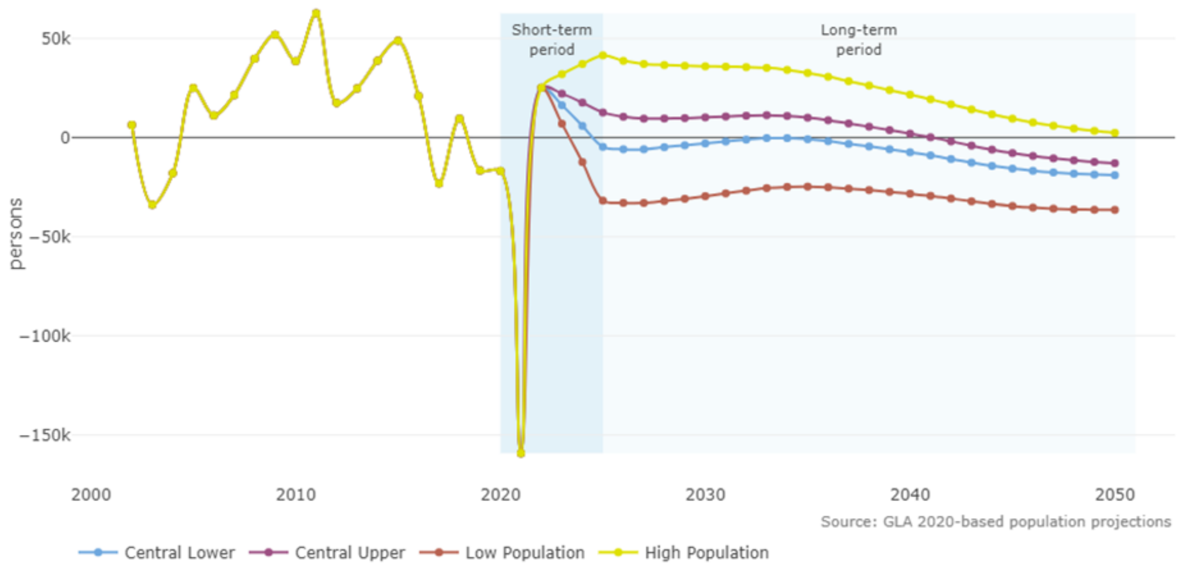

Figure 2: Total Net Migration, London (GLA, 2021)

This return was then expected to translate into a continuation of working-age population growth in London over the short and long terms, as illustrated in Figure 3. London's working age population had dropped by just over 100,000 in the first 12 months of the pandemic. It was projected to recover that loss, through a combination of return migration and replacement (i.e. new households forming or entirely new migration), and then to continue to grow until 2040 before flattening out. It was expected, at that time, that growth would comprise 'second steppers' trading up to suburban family homes and resurgent demand for more centrally-located flats.

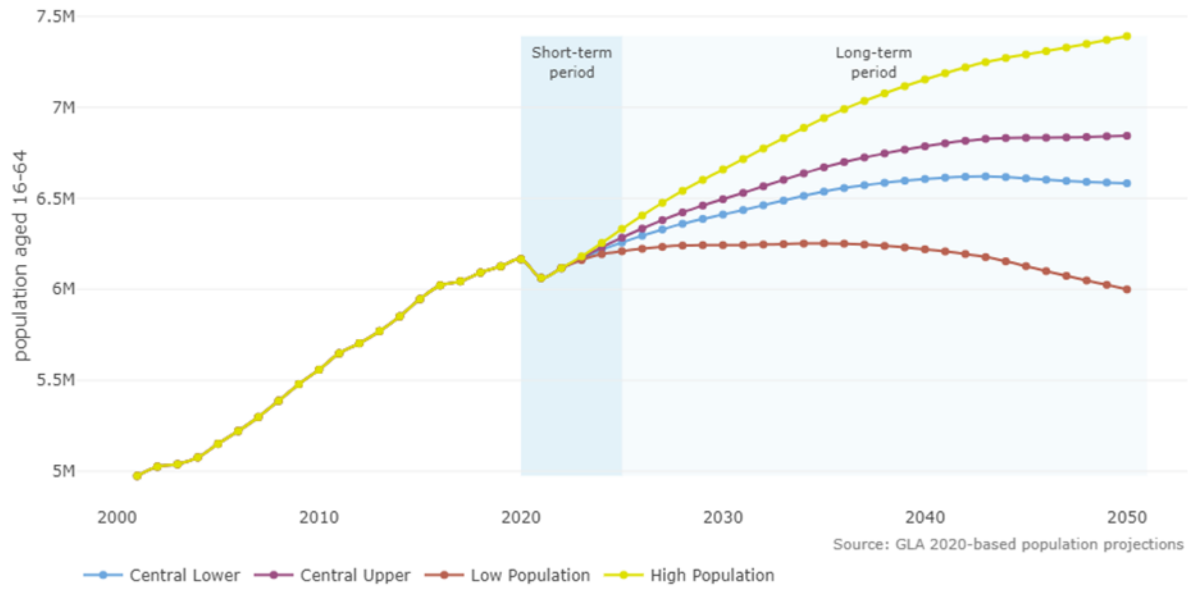

Figure 3: Working Age Population Projections, London (GLA, 2021)

ONS figures from the middle of 2021showed prices still falling in parts of central London (Westminster and the City) and in off-centre boroughs such as Lewisham, Lambeth and Newham. Prices in other boroughs close to the centre, including in Camden and Islington, were flat. But with the exception of Wandsworth (where prices had apparently plateaued), transacted house prices in areas comprising a high-proportion of suburban family houses continued to nudge upwards. These figures appeared to confirm the 'softness' of the market for flats and the recovery of suburban markets, perhaps aided by the early boomerang. But during that same period, those rural areas that had received population during the pandemic saw prices continue to rise in the second half of 2021, albeit at a lower rate than the previous 12 months.

Data suggested some ebbing of the tide: a slight fallback in prices in some rural areas, but a continuation of strong growth in coastal districts such as Devon and Cornwall in England and Pembrokeshire and Conwy in Wales (ONS, 2021). In short, reports of changed patterns of market sentiment and activity during the tail-end of the pandemic, in the first months of 2022, were difficult to discern from transaction data. Migration figures appeared to capture a back to the city trend, but its precise patterning and impact was uncertain. And yet, house prices appeared to be back on their upward track at the beginning of that year. What could possibly go wrong? Return to a problematic normality in urban markets prompted the usual warnings of forthcoming market correction from those property professionals who do not believe that the inflation of house-prices is either inevitable or sustainable.

Russia's invasion of Ukraine in February 2022 revealed that those prices are tied to a global economy and can be rapidly affected by geo-political events. As a consequence of sudden breaks in global supply chains, notably for oil and gas, much of the world experienced a surge in inflation that central banks sought to control through increases in borrowing rates. Rising inflation in the UK (centred on a spike in domestic fuel costs) led the Bank of England to raise the base rate above 5% in 2023: the highest it had been for more than 20 years. The combination of inflation and rising mortgage costs has generated a *cost of living* crisis that many younger people have never before experienced.

Writing in 2022, Gallent speculated that rising living costs would cause private renters to shop around for better deals, driving down urban rents and causing the release of buy to let properties onto the market. That release would accentuate a fall in house-prices that would mainly be due to rising borrowing rates: a cessation of cheap mortgage credit (the norm since the Global Financial Crisis) would mean far fewer buyers being able to stretch to current asking prices, forcing vendors to accept lower offers. He argued that the pandemic had triggered capital flight into housing as the value of other assets was hit by increased volatility but that if the recovery were accompanied by rising interest rates, and if the cost-of-living crisis placed downward pressure on rents *and* house prices, then housing's role as a hedge against inflation would weaken. In reality, rising interest rates have indeed substantially weakened the housing market and some buy to let investors have exited the market (due to higher costs of borrowing and reduced tax reliefs on rental income), but the unaffordability of purchasing a home in 2023 (rising mortgage costs have not been sufficiently compensated by lower asking prices) has increased demand for private renting at a time when the quantum of rental stock is falling. Therefore, the cost of living crisis has hit both mortgaged and rented households alike. The latter group are more likely to be young and possibly mobile: they may not have school-age children who constrain their ability to easily relocate. They may therefore join a cost-of-living or value for money exodus from urban to rural markets although, to date, this phenomenon has been subject to very little research. Although Gallent was wrong about in-market 'shopping around' by renters, there does appear to have been some shopping around in entirely different markets.

Whatever the underlying cause – a pandemic or steeply declining affordability linked to a crisis in the cost of living – a flow in rural housing demand may sometimes by followed by an ebb, by a boomerang effect rooted in the experience and utility of rural versus urban living. It is perhaps worth understanding the nature of that experience, as the pandemic appears to have brought that nature into sharper relief.

Understanding the boomerang effect

In the aftermath of the Covid-19 pandemic four factors were potentially important in driving return migration: first, the forced or voluntary return of old *working patterns*; second, a rebalancing of *utility and exchange* considerations in housing consumption choices; thirdly, shortcomings in the *'expat' lifestyles* that down-shifters encountered in the countryside; and fourthly, a transformation of early hostility towards counter-urbanising households into new policy and planning restrictions. These are briefly reviewed in turn.

Firstly, *working patterns*. Flips back to office working have not been universal across all employment sectors, but long-term home working has proven challenging for many workers. Some companies have demanded that employees return to offices, at least for a minimum number of days each week. Home working has made it difficult to integrate new employees and is counter to the working cultures of many sectors, whose innovation models rely on the exchange and the 'buzz' of office or studio environments. This is of course not true of all 'head down' professions, whose workers can as easily fulfil core duties in a 'home office' as a 'work office', assuming they have access to reliable broadband which can cope with the higher bandwidth needs of daily Zoom meetings. But just because people can work from home does not mean that they wish to do so. For many workers, the novelty of centring their lives at home, rolling out of bed and working in their pyjamas (or 'top dressing') has worn off. They want to reinstate the separation of work and home life, see colleagues again, meet people over lunch and so on. The logistics of returning to offices from less accessible rural locations has therefore resulted in a rethink by some households. Many relocated to well-connected villages close to commuter towns with their parkway stations – and could therefore cope with even a daily train ride. But others traded location for space and price and moved to remoter villages. Those particular households may have been forced to return, selling up or retaining their homes in the countryside for weekend use.

Second, the balance between *utility and exchange*. Housing is a 'complex commodity' (Quigley, 1997) with consumption choices shaped by expectations of utility (the services that homes provide) and by exchange (their investment potential and how this will affect financial well-being through the life course). At the beginning of the pandemic in 2020, and as we noted at the start of this commentary, utility appeared to trump exchange. People headed to rural areas for the space and greenery they were denied in parts of London or other large urban centres. They swapped small flats for big houses. But through the pandemic, housing remained a safe asset relative to the volatility of other commodities. It also provided a hedge against inflation as economies reopened (in 2021). Therefore, the balance of consideration, between utility and exchange, returned to the latter with households gravitating back to the strongest markets. Of course, utility also drives exchange value. Being able to work from home reduces the utility of location, but flips back to office working reinstate that utility and the traditional exchange advantages of an urban location.

Thirdly, the *'expat' lifestyle* did not suit all movers. What is meant by an 'expat' lifestyle? When the educated middle classes decamp to high flying jobs in Singapore or

Hong Kong, they send their children to private schools and their patterns of sociability are dominated by 'expat' networks and encounters. This pattern of living is shared by many people heading to the countryside (see Newby, 1980, for an early account of how newcomers live in rural communities). Where there are many big houses, in the Surrey commuter belt for example, the expats can flock together. But in more distant destinations, they may find themselves isolated, living in the only big house in a hamlet or village. They send their children to private schools but there are no classmates nearby and must therefore ferry their children to friends' houses and socialize across significant distances. They are driving everywhere to expat connections, bypassing local schools, and developing only weak ties within their immediate neighbours. The lack of integration may prove tiring for many households, who struggle with their urban tastes, predilections, and expectations.

And finally, the transformation of local hostility towards second homers (in particular) into policy and planning barriers. In the early weeks and months of the pandemic (in 2020), newspapers were replete with reports of local conflict. Rural communities ostensibly in 'lockdown' were, in some cases, overwhelmed by the arrival of wealthier urban households decamping to second homes, renting Airbnbs, or parking up camper-vans. This phenomenon seemed most commonplace in amenity areas – national parks and accessible coasts. Immediate fears of local health services being overwhelmed were replaced, after the early waves of the pandemic, by housing market concerns. A strengthening 'staycation' trend in the UK threatened the loss of regular 'assured shorthold tenancies', as homes were converted to holiday letting, whilst permanent migration and a new wave of second home buyers appeared to be connecting some rural areas more strongly to sources of urban housing demand. The market was said to be 'decentralising' (Gallent and Madeddu, 2021), with implications for house prices and the affordability of homes for families on local incomes. At the same time, some 'second homes' (used exclusively by owners and their friends, and never rented out) were being flipped to 'holiday letting': technically 'self-contained holiday accommodation', liable to non-domestic business rates rather than domestic Council Tax. In some cases, these enabled owners to claim support grants intended to help small businesses survive the pandemic. The apparent damage being done to housing affordability, and various 'scandals' surrounding the flipping of second homes and the claiming of grant support, turned many areas and some politicians against these forms of housing consumption.

The Welsh Government moved to increase local Council Tax on second homes, raising it to 300% of the regular rate in April 2023. The UK Government tentatively followed suit with its Levelling up and Regeneration Act (LuRA), which has handed local authorities a discretionary power to increase rate of Council Tax on second homes by 100% from April 2024. Rules on minimum advertising and letting periods for self-catering holiday accommodation have also been tightened in Wales and England, making it much more difficult to register second homes as holiday lets and thereby avoid the Council Tax increases.

But by far the most radical move has been amendments in Wales to planning rules on the 'conversion' of homes occupied full time into either second homes or holiday lets. After more than 30 years of debating the issue, changes were made to the Use Classes and

General Permitted Development Orders in Wales in August 2022. A distinction was drawn between different forms of dwelling occupancy and use, and a power handed to local planning authorities to effectively block conversions where a demonstrable harm from concentrations of second homes and holiday letting could be demonstrated. Using a dwelling as a first or second home is usually a choice and right that can be exercised by the owner: changes in use of this type constitute 'permitted development'. But a planning authority can suspend that right where it deems there to be too many second homes or whole-property holiday lets (listed, for example, on Airbnb). This is a huge change, although as-yet untested and not yet subject to any evaluation.

Between the pandemic boomerang and cost of living decentralisation - where are we now?

Amongst the four drivers, policy and planning changes signal a potential turn against the disturbance to rural housing markets brought by counter-urbanisation and the seasonal or recreational use of housing. These four experiential, utility-exchange, and regulatory factors may have played a part in precipitating a return to urban housing markets among first pandemic wave out-shifters. Commentators who doubted the post-capitalist thesis – that the pandemic was accelerating a fragmentation of cities and heralding an age of post-agglomeration – appear to have been proven right. Agglomeration effects remain important for land and housing markets, reflected in the relative stability of urban house-prices. However, the pandemic's period of fade-out has been marked by a succession of new crises – firstly Russia's War in Ukraine and now also the Israel-Hamas War - that have dampened the recovery of the wider market, largely by disrupting supply chains and driving up inflation and therefore central bank borrowing rates.

From this complex sequence of global poly-crises, two countervailing housing trends have emerged. First, the tail-end of the Covid-19 pandemic saw the strengthening of urban and near-urban markets at the apparent expense of rural markets that are less well served by transport links and high-speed broadband. Second, the race for space observed at the beginning of the pandemic has given way to an as-yet under-researched cost of living exodus. In March 2023, the CEO of Foxtons Estate Agents warned that many London renters would need to leave the city. The mortgage cost crisis, rooted in the Bank of England's measures to counteract rising inflation (and greatly amplified by the September 2022 'mini-budget') saw private landlords either leave the market or try to pass rising mortgage costs onto renters (BBC News, 2023). Unlike some pandemic-induced flight, the recent urban exodus is unlikely to involve movements to less accessible locations. House prices everywhere feel the effect of disturbances in global markets, but it is the utility of accessible locations, at least for the working age population, that will sustain interest in suburban and accessible rural housing. For many people, such housing offers the best trade-off between utility and location. What does this mean for remoter rural places, including amenity areas?

There are perhaps some reasons for optimism. First, pandemic-induced demand has subsided – there has been at least some reconcentration of demand back to urban markets. Second, government (in England) has signalled its intention to ease rules on nutrient neutrality and therefore unlock sites for new housing supply (HM Government, 2023). And third, if there is a cost of living exodus from London and other cities, this is unlikely to impact greatly on less accessible locations. That exodus seeks to rebalance housing costs with locational utility (a capacity to back-commute relatively easily or access new sources of employment). It is not driven by a switch to home working. However, these reasons for optimism need to be tempered by acknowledgement of a continuing rural crisis signalled by eleventh hour restrictions on any further growth in the second and holiday home markets, at the discretion of local authorities. An acute crisis of affordability has been deepening in less accessible rural amenity areas for at least the last 50 years, but any and all plans to take action have hitherto been resisted by private landed interests.

Measures taken in Wales in 2022 and planned in England from 2024 now suggest a newly-acknowledged emergency in rural housing affordability in key locations. Through the pandemic, restrictions on overseas travel altered holiday choices and the staycation market is likely to remain strong into the foreseeable future. Many homes previously rented on assured shorthold tenancies (to local families), but converted to holiday letting during the pandemic, will remain as holiday lets (unless prevented from doing so by new lettings rules). Also, the return to the city of some pandemic out-shifters will not necessarily mean the release of recently-purchased rural houses back to the market for full-time occupancy. The buyers of second (or first) homes tend not to sell-up *en masse* in response to changing market sentiment, swallowing the cost implications of doing so. Many will retain rural properties for weekend or seasonal use, even if they face the ire of some rural populations – or event increasing tax liabilities.

The housing cost crisis that has been quietly deepening in rural areas for several decades is now colliding with a cost of living crisis, further limiting the housing choices of the most vulnerable rural families. The Office for National Statistics has warned 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, 2021). A number of critical questions arise from this context: how will ongoing movements and market changes impact on rural areas; how might new planning and local tax interventions alter the trajectory of house prices and the distribution of housing resources; and what opportunities exist to increase general and non-market housing supply in the countryside in light of relaxed environmental constraints (and at what cost)? The challenges are familiar ones, but they have at least been given more air-time through the pandemic, arguably bringing heightened awareness of the critical stresses facing rural housing markets across the UK.

Acknowledgement

This article has been evolved from a shorter analysis appearing in Town and Country Planning: Gallent, N. (2022) Back to the City? What are the implications for rural areas? Town & Country Planning, 91 (3), pp163-166.

References

BBC News (2023) Foxtons boss: struggling renters have to move further out of London, BBC News, 7th March 2023, accessed 23 November 2023 at: https://www.bbc.co.uk/news/business-64873369

British Association of Removers [BAR] (2023)Are homeowners still eyeing-up the countryside? Accessed 23 November at: https://bar.co.uk/are-homeowners-still-eyeing-up-the-countryside/

Evening Standard (2022) The boomerang effect: the hunt for homes hots up in London while countryside searches plummet, 18 February 2022, accessed 23 November 2023 at https://www.standard.co.uk/homesandproperty/property-news/london-property-hunt-countryside-searches-b982710.html

Gallent, N., Stirling, P., & Hamiduddin, I. (2023). Pandemic mobility, second homes and housing market change in a rural amenity area during COVID-19–The Brecon Beacons National Park, Wales. *Progress in Planning*, *172*, 100731.

Gallent, N. (2022) Back to the City? What are the implications for rural areas? Town & Country Planning, 91 (3), pp163-166.

Gallent, N., & Hamiduddin, I. (2021). COVID-19, second homes and the challenge for rural amenity areas. *Town Planning Review*.

HM Government (2023) Nutrient Neutrality Update, 13 September 2023, accessed 23 November 2023 at: https://www.gov.uk/guidance/nutrient-neutrality-update

Greater London Authority (2021) 2020-based Population Projection Results, Demographic Update September 2021, GLA City Intelligence Unit: London

National Housing Federation [NHF] (2023) Demand for social homes in rural areas is growing at over 10 times the rate of that in towns and cities. Accessed 23 November at: https://www.housing.org.uk/news-and-blogs/news/demand-for-social-homes-in-rural-areas-is-growing-at-over-10-times-the-rate-of-that-in-towns-and-cities/

Newby, H. (1980) Green and pleasant land? Social change in rural England. Harmondsworth: Penguin Books Ltd

ONS (2021) House prices in tourist hotspots increasingly out of reach for young and low paid, 28 September 2021, accessed 23 November at: https://www.ons.gov.uk/economy/inflationandpriceindices/articles/housepricesintouristhotspotsincreasinglyoutofreachforyoungandlowpaid/2021-09-28

Quigley, J. M. (Ed) (1997) The Economics of Housing, Cheltenham: Edward Elgar