FJP Investment

AT THE CROSSROADS: FORGING THE UK'S POST-PANDEMIC RECOVERY

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On Wednesday 12th August, the Office for National Statistics (ONS) announced that the UK had officially entered into a recession. With GDP contracting by a record 20.4% between April and June, this is the first time a recession has been declared in the UK since the 2008 financial crash.

Reacting to the news, Chancellor Rishi Sunak acknowledged the reality of the situation – hard times do lie ahead for the economy. Nonetheless, he assured the UK that the Government will do everything in its power to protect jobs, promote investment, and stimulate economic growth.

"We will get through this, and I can assure people that nobody will be left without hope or opportunity.**"**

Rishi Sunak, Chancellor of the Exchequer

News of a recession is not unsurprising given the circumstances. The COVID-19 pandemic and subsequent implementation of lockdown measures brought the UK economy to a standstill. No sector or industry has been immune to the effects of the coronavirus outbreak, and some were more adversely affected than others.

However, we also need to put the ONS figures into context. Not only do they cover a period when the daily rate of COVID-19 infections was at its highest and the strictest social distancing rules were in place; it also does not take into account the pickup in economic activity witnessed in June and July. In fact, ONS data showed the UK economy had returned to growth in May and June 2020, following April's severe contraction.

For now, the big question on everyone's mind is how long the recession will last for. The UK Government has been actively encouraging a post-pandemic recovery by introducing reforms that support investors, businesses, and consumers. While these have all been well received, there still exists an evident degree of uncertainty about the future. Just how confident are investors that the UK will be able to quickly recover from the immediate economic downturn caused by COVID-19?

To address this question, FJP Investment has commissioned a new, independent study of more than 900 UK-based investors. The respondents – who all had investments worth in excess of £10,000 – were asked about their views on the UK Government's handling of the COVID-19 pandemic and what future actions they would like to see taken by Prime Minister Boris Johnson.

The findings from the study reveal the significant challenges currently facing the UK. Furthermore, the research also shows that investor sentiment towards assets like property remains positive and explains why the Government needs to ensure the appropriate policies are in place to stimulate investment over the coming 12 months.

THE FINDINGS AT A GLANCE...

Between 7th and 10th August 2020, FJP Investment commissioned an independent survey among 900 UK adults. Each of the respondents had personal investments worth in excess of £10,000, excluding their main residential property and workplace pensions.

What did we uncover?

73% of UK investors are worried about the economic implications of the pandemic over the coming 12 months

54% have lost confidence in Boris Johnson's government based on its handling of the COVID-19 crisis so far

57% believe more financial relief is needed to support UK businesses affected by COVID-19

54% are in favour of extending the mortgage relief scheme beyond 31st October 2020

42% feel the Government needs to offer additional support to homebuyers and property investors in addition to the Stamp Duty holiday

24% are planning on buying one or more properties to take advantage of the Stamp Duty holiday

This figure rises to 43% for those aged between 18 and 34

44% of London-based investors are planning on selling one or more properties in 2021 if house prices recover to their pre-pandemic levels

RECOVERING LOST CONFIDENCE

The COVID-19 pandemic is an unprecedented event. Within a few months, a virus that was first discovered in China had brought the entire global economy to a standstill. Governments responded by closing their respective borders and ordering people to stay at home. Here in the UK, a furlough scheme was introduced to temporarily protect employers and employees from sudden job losses.

Positively, since the introduction of lockdown measures, the rate of infection has dropped substantially. As a result, the UK Government is now encouraging a slow transition to what is being termed the "new normal". While certain social distancing measures remain in place, businesses are being encouraged to return to the workplace, and consumers are being incentivised to begin spending their money in order to boost the private sector.

COVID-19 as a health threat might be in decline, but the long-term challenge lies in recuperating the losses incurred by the pandemic and returning back to the positive levels of investment activity and economic growth witnessed at the beginning of the year.

The vast majority of investors are concerned about the future. According to FJP's research, 73% are worried about the long-term economic implications of the pandemic. This is understandable given the intense nature of the crisis.

It is common to compare the current situation to previous periods of economic downturn. The reality is, though, that we are facing a health pandemic with economic repercussions instead of a financial crisis which can be brought under control through fiscal policies.

The UK Government has been introducing reforms to support those affected by the virus. At the moment, however, it seems as though investors are not wholly confident in the way the current situation is being handled. Over half (54%) of investors said they have lost confidence in Boris Johnson's government based on its handling of the COVID-19 pandemic so far. The majority (57%) also believe more financial support is needed to support businesses that have been affected by the coronavirus outbreak.

These are interesting observations given the range of support measures the Government has introduced. Most recently, Chancellor Rishi Sunak's mini budget, delivered in early July, offered significant tax cuts for the hospitality industry, as well as new job retention schemes. FJP's survey shows that these proposals do not go far enough in the minds of investors.

However, investors are still supportive of measures that will help boost productivity around the country. When asked about the Government's £1.3 billion funding pledge to build new homes and fund new infrastructure projects, 54% said they supported this announcement.

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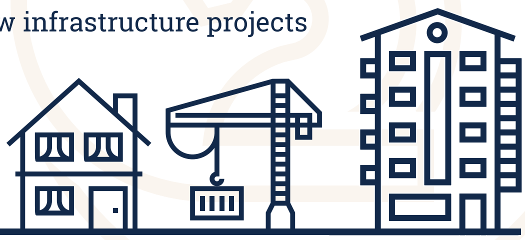

PROMOTING ACCESS TO PROPERTY INVESTMENT OPPORTUNITIES

Given the size of the property sector, both in terms of the businesses it accommodates and its importance to UK GDP, significant attention has been placed on house prices, investment levels and transaction numbers.

At the beginning of the lockdown, the Government announced a mortgage payment relief scheme, which effectively meant that homeowners could defer paying off their debt for a certain period of time. At the moment, this relief scheme is due to expire on 31st October 2020. However, there are calls for it to be extended.

Over two fifths (42%) of investors are in favour of extending the mortgage payment relief scheme beyond the current deadline. This percentage rises to 57% for those aged between 18 and 34. The Government has not yet indicated whether such an extension is likely to happen.

Another important reform has been the introduction of a Stamp Duty Land Tax (SDLT) holiday. This reform means that buyers of property in England and Northern Ireland will be exempt from paying tax for the first £500,000 of any property price. This could save homebuyers and property investors anywhere between £4,500 and £15,000.

So far, this policy has had noticeable effect on the property market. Halifax's House Price Index for July 2020 revealed that house prices grew month-on-month by 1.6%, and year-on-year by 3.8%. This significant spike in growth has been attributed to the SDLT holiday, which has encouraged buyers to return to the market.

Notably, 24% of the investors FJP surveyed said they are planning on buying one or more properties to take advantage of the SDLT holiday. Again, this number rises to 44% for those aged between 18 and 34.

Like the mortgage rate relief scheme, the SDLT holiday is a temporary measure. However, 42% of investors want the Government to offer additional support to homebuyers and property investors that go beyond the current measures in place.

The 2020 Autumn Budget could offer an ideal platform for the Chancellor to build on the reforms already announced. This could include a further extension of the SDLT holiday beyond 31st March 2021, or the temporary removal of the surcharges in place for buy-to-let investors and overseas buyers of UK property.

THE THOUGHTS OF FJP

“We cannot deny the significant ramifications COVID-19 has had and continues to have on the UK economy. Investors are clearly worried about the long-term financial consequences stemming from the pandemic, which has no doubt been heightened following the announcement that the country has now entered a recession. As a result, the ability of the Boris Johnson government to effectively bring about the post-pandemic economic recovery is being brought into question.

“Investors clearly believe greater support is needed, which is why they want to see the Government build on the policies it has already introduced. This is particularly true when it comes to the property sector. As shown from the research, investors are in favour of policies that allow them better access to new real estate investment opportunities, be it extending the Stamp Duty holiday, or introducing additional financial relief.

“Today’s findings reveal the extent of the challenges facing Boris Johnson’s government. At this critical time, it must ensure adequate support is being provided to aid all sectors of the economy. Doing so will also help to bring the country out of the recession.

“Here at FJP Investment, we are working closely with our clients to ensure they have access to the information and insight needed to effectively manage their investments. We are confident that the UK, and the wider global economy, will be able to overcome the immediate economic obstacles posed by COVID-19. At the same time, we are regularly sourcing new investment opportunities by identifying assets and projects ideally positioned to deliver capital growth and returns.**”**

Jamie Johnson
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