The Rt Hon Rishi Sunak MP

Chancellor of the Exchequer

HM Treasury

1 Horse Guards Rd

London

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22nd May 2020

Dear Chancellor

We are writing to you with regards to the Government’s Furlough Scheme.

As a group we represent estate agents, lawyers, search agents, valuers, surveyors, energy assessors and removal companies.

The Government announcement lifting restrictions on the operation of the housing market has been welcome both for consumers and all parties involved in the home buying and selling process. The whole property sector has come together in a co-operative effort to ensure that transactions which are now able to proceed do so in the safest possible way in accordance with Government guidance.

The sector has considered the impact of ‘re-starting’ the market and there is a very real and practical issue that needs to be urgently addressed to optimise the smooth operation of the market.

Whilst the extension of the Furlough Scheme and the flexibility that will become available from 1st August is very welcome, current furlough arrangements require that individuals can only be moved into and out of the scheme at three weekly intervals. This requirement will present difficulties for businesses in the property sector as the home buying and selling market begins to reactivate.

There is a universalview across the sector that there will be a spike in activity in **the immediate future** as pent up demand to complete transactions is released following the lifting of restrictions – indeed there are already signs of this after only a few business days. This spike will **be concentrated** at the **start** of the process with listing of **new** properties for sale and property **viewings by those who have had their plans put on hold over the last two months,** and at the end of the process **where all those transactions**which had progressed through the process to the point of exchange of contracts during **the period of restriction will complete and allow home moves to occur**. There are approximately 450,000 transactions (as MHCLG Secretary of State Robert Jenrick referred to last week) that underpin this spike in activity. Once the spike at each end of the process has passed there will be a lull in activity whilst the pipeline of transactions rebuilds.

Please see the PowerPoint attachment which demonstrates the projected spike in activity based on real data which represents a statistically valid analysis.

It is of course the case that the spike in activity will not happen uniformly across the country, or indeed with a consistent demand on resource from one week to the next (or even one day to the next). There will be inconsistent demand for the whole range of services across the homebuying and selling process, whether it be for EPCs, lenders valuations, buyers surveys, property viewings, removals, conveyancing and Land Registry registrations, the production of searches or the provision of mortgage advice.

In order to manage this short spike in activity property practitioners will need to move furloughed staff back onto the payroll. However, the property market is dominated by small practices, who cumulatively cover a significant proportion of the market (for example, 90% of law firms offering conveyancing services employ fewer than 15 specialist conveyancers, and these firms account for at least 45% of the market share of completions). If the market is to get going again, as is intended, these small firms will need to be able to reactivate their workforces to deal with the spike in demand. Individually, however, it is unlikely that the amount of work that this spike brings to each individual firm will be enough to make it economical for those firms to return staff to the payroll for the minimum three weeks required.

In these circumstances taking staff off furlough will present too much of a financial risk, and early evidence suggests many firms are instead opting not to do so. The end result of this will be a logjam in the market. The current furlough arrangements present companies that are involved in the home buying and selling process with very difficult short and long term choices which must be set against their ability to survive over the coming weeks and months. Government will be aware that businesses involved in the home moving process, particularly estate agents and property lawyers, are in the majority only paid once transactions have completed. This means that cash flows must be extremely carefully managed, and for so many organisations that serve the property market, employee costs are the largest expense.

This has to be set against a reality that income levels for all market participants have been devastated over the last 8 weeks and cash reserves affected accordingly. Realising income from the spike in completing transactions will not restore these cash reserves particularly as the majority of businesses will have to bear the cost of the up-front spike in activity as well as the spike in completions. It is the loss of overall transaction volumes occasioned by the pandemic which has the greatest financial impact on the property market. Government schemes, whilst greatly appreciated will not absorb this impact.

Against this backdrop, if companies cannot bring employees in and out of furlough on a shorter term basis do they:

* Delay bringing employees out of furlough now with the consequence that they struggle to deal with the short term spike in transactions. Firms acting rationally can conserve cash in the short term by simply allowing cases to drag out until they have a stronger incentive to un-furlough staff to work them through to completion. Customers and the overall market will suffer but the labour cost of waiting is largely covered by the furlough scheme. As transactions only progress and complete at the pace of the slowest party this would result in disruption in the market place, particularly with so many transactions being subject to chains. The knock on effect would be a further negative impact on company cash flows creating something of a ‘vicious circle’. **Disruption in the market place will of course dilute the economic impact which home moving has on the economy and** could also potentially increase the risk of Covid-19 infection if consumers or other parties become frustrated by delays.
* Bring employees out of furlough, but find that they cannot carry the expense of employment as entailed by a three week commitment to pay wages which could ultimately result in redundancies or company failure. This has the potential to seriously inhibit the longer term recovery of the market.

It would be possible to overcome this dilemma for firms by providing greater flexibility in the job retention scheme. Allowing employers to move people into and out of furlough on aweekly basis would allow them to deal with the expected spikes in activity without risking unmanageable staffing costs once the spike has passed. It would help to smooth the re-activation of the property market, save jobs, promote the long term future of viable businesses, and ultimately save the Treasury money in unemployment costs.

This increased flexibility would also likely result in short term savings for the Treasury, as risk averse employers will feel more comfortable taking staff off the job retention scheme with the benefit of this increased flexibility.

According to early figures from the estate agency, removals, and conveyancing sectors, less than 50% of employees have been brought out of furlough following the lifting of restrictions on the operation of the housing market. Increased flexibility in the job retention scheme could, we believe, lead to an additional 10% to 15% of furloughed employees being returned to work. At such figures, the cost savings to the Treasury of one week’s less furlough payments at the lower estimate of 10% is in excess of £18.5 million

We would be delighted to meet with your officials to discuss this proposal in greater depth.

With regards

Signed by:

British Association of Removers Bold Legal Group The Conveyancing Association



Council of Property Search Organisations NAEA Property Mark



Property Energy Professionals Association Residential Property Surveyors Association



Royal Institution of Chartered Surveyors Society of Licensed Conveyancers





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c.c. Rt Hon Robert Jenrick MP, Secretary of State MHCLG

Rt Hon Alok Sharma MP, Secretary of State BEIS

Rt Hon Christopher Pincher MP, Minister of State for Housing