

UK Housing Market Update

What the lead indicators tell us this month

Savills Research
UK Residential

Transaction volumes have stabilised, but house price growth has slowed

House prices dropped 0.7% in December, the largest monthly fall since 2011, according to Nationwide. That surprisingly weak performance coincided with raised political uncertainty leaving annual house price growth at 0.5% for 2018, marginally undershooting our forecast of 1.0%. Annual growth varied across the regions: it was strongest in the East Midlands at 4.0%, followed by Wales at 3.9% and Yorkshire & the Humber at 3.7%. After a long period of outperformance that has left affordability constrained, London has fared the worst, with values down 2.2% since the start of the year. Wales was the strongest performer in Q4, whilst the East and West Midlands slowed. This is in line with our forecast that house price growth in Wales and the North will overtake the Midlands over the next two years.

Although house price growth was weaker than expected at the end of 2018, transaction volumes appear to have stabilised across all regions in October. That stability continued into November at a national level, according to data from HMRC. But new instructions and enquiries both continued to fall in December, according to the RICS survey. They reached their lowest levels since the immediate aftermath of the Brexit vote.

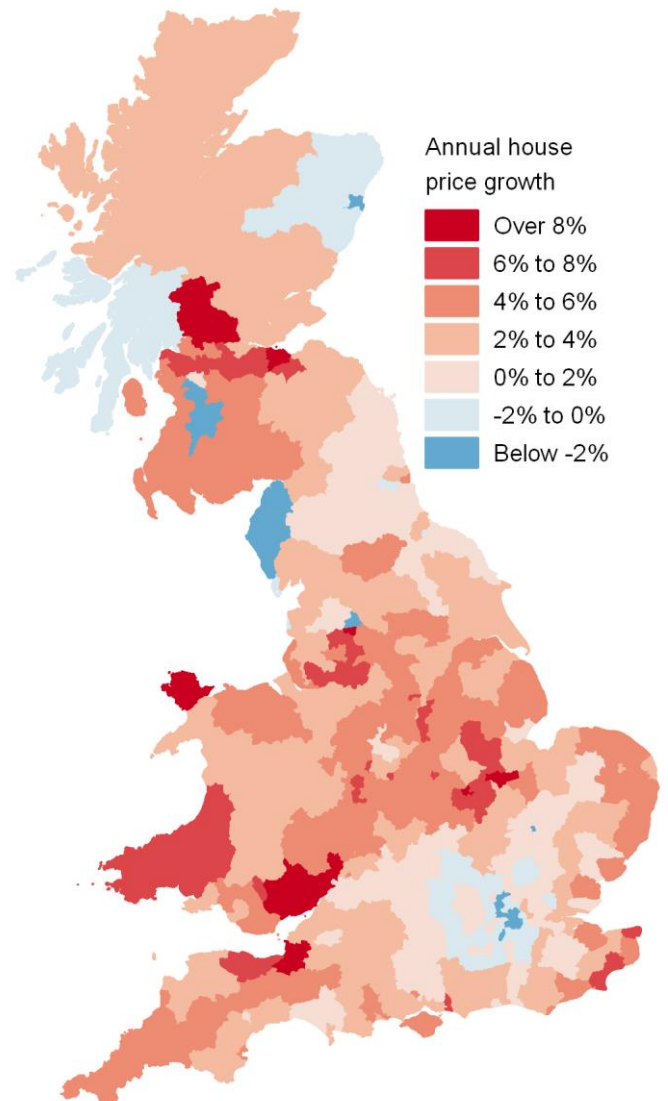
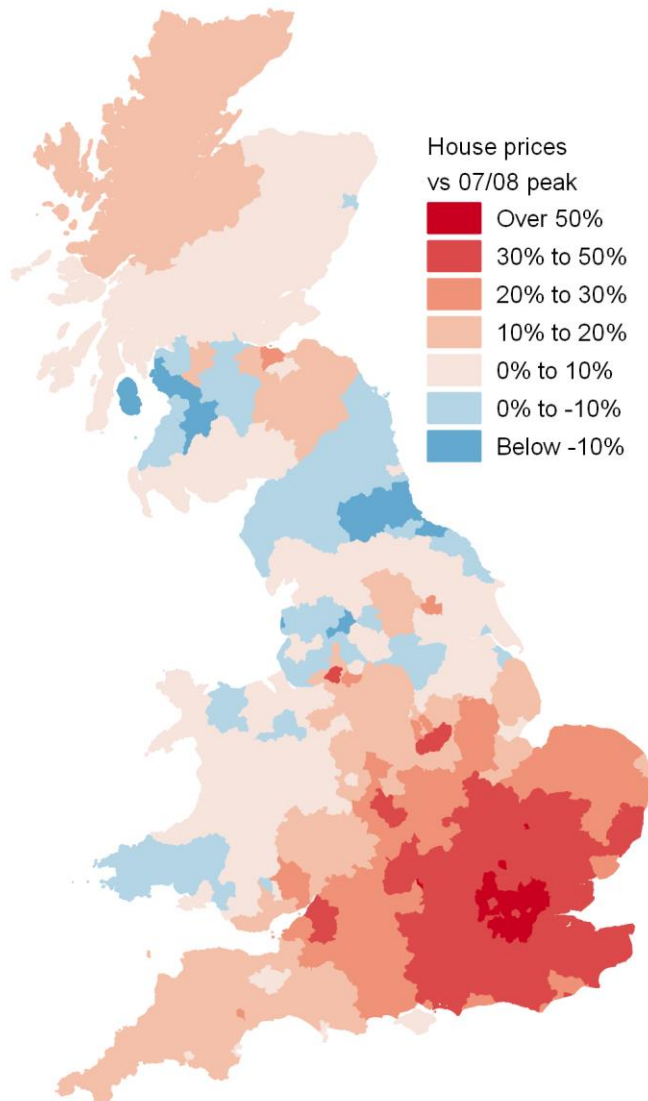
Brexit is the most cited cause (according to the RICS survey) for reduced activity, and housing market uncertainty is likely continue until some clarity emerges. This could come with the result of the parliamentary vote on Theresa May's deal on 15th January. But if Parliament votes against her deal, we will need to wait until the end of the month for Parliament to present an alternative. Any deal agreed by Parliament will also need to be ratified by the EU before 'Brexit Day' on 29th March.

The southern Welsh districts of Torfaen, Newport and Caerphilly saw the strongest house price growth, all up approximately 10% during the year to October 2018. London continued to struggle, with the largest falls in Westminster, Hammersmith & Fulham and Camden, of -9.0%, -5.2% and -4.8% respectively.

Rental growth continues to be the strongest in the East Midlands with annual growth at 2.7%, followed by the West Midlands at 1.8%. London rental growth has strengthened, rising 0.1% in November, although it is still slightly down on this time last year.

Figure 1 – Average price versus 2007/8 peak, Oct-18

Figure 2 – Average price growth, year to Oct-18



Source: Savills using HM Land Registry and Registers of Scotland (6 month smoothed)*

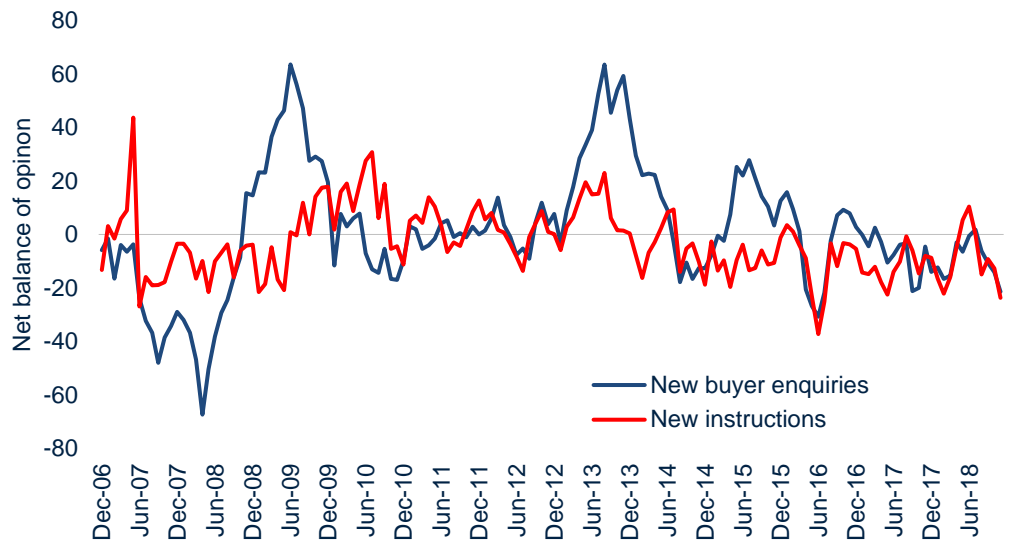
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The latest RICS Sentiment Survey reveals that the number of surveyors reporting falling numbers of both enquiries and instructions continues to grow.

The number of instructions is now at its lowest point since the Brexit vote in 2016, and the Global Financial Crisis (GFC) in 2007/08 before that.

New enquiries are similar, also at their lowest point aside from the Brexit vote and the GFC.

Figure 3 – Surveyors report falling numbers of enquiries and instructions



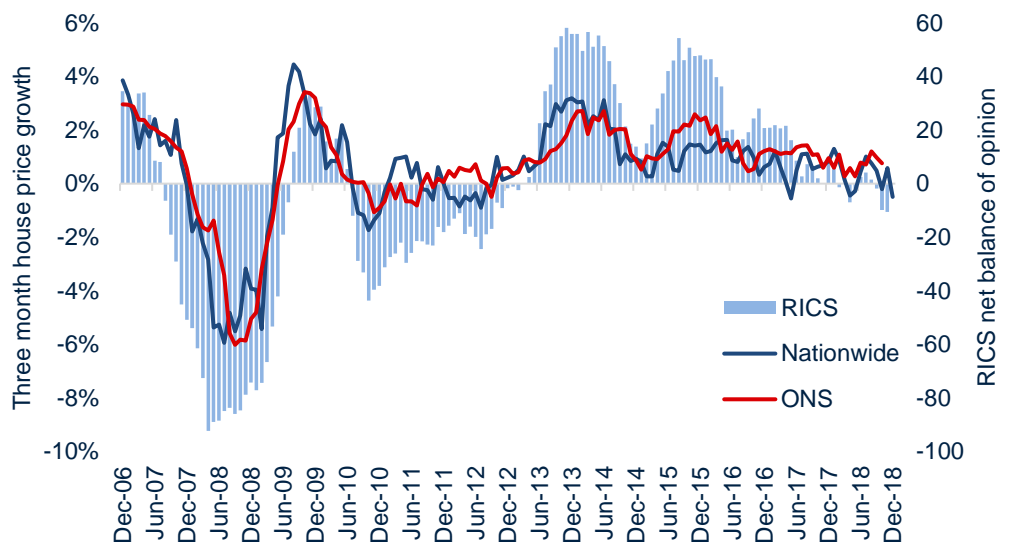
Source: RICS (seasonally adjusted)

The RICS Survey has, at times, been a good forward indicator of house price movements.

It currently sits at -10.5, the lowest it's been since 2012. Three month growth on the Nationwide house price index has moved similarly and, aside from May-17, is also the lowest it's been since 2012 at -0.5%.

The ONS index, lagging behind the other indices, has not yet picked up the weaker housing market conditions at the end of 2018.

Figure 4 – Price growth perception and performance continues to fall



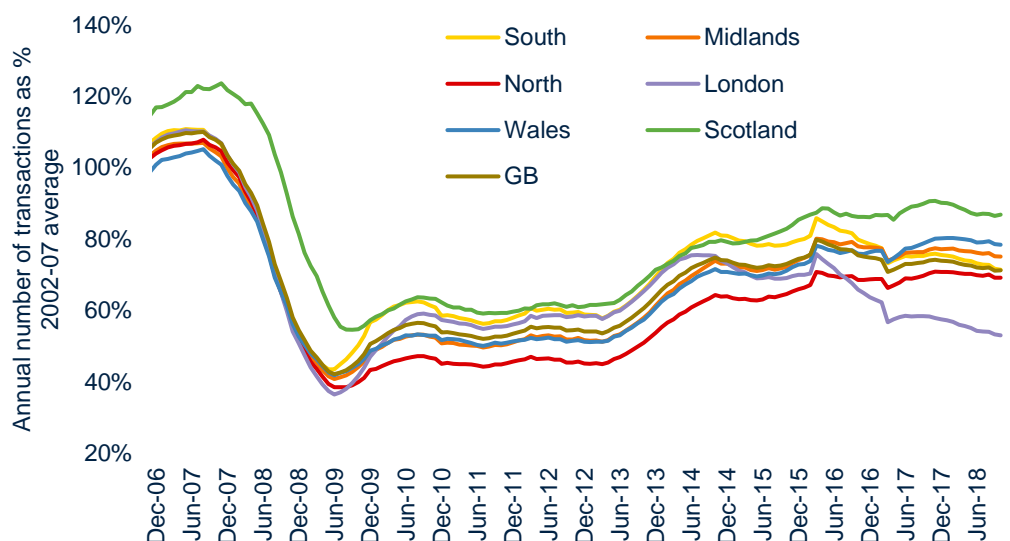
Source: RICS, Nationwide, ONS

Transactions in October remained largely flat across much of the country, with London showing the largest decline.

On a 12 month rolling basis, transactions across the country were down 3.8% on the same time the previous year.

London experienced the largest drop of 9.1%, while the North East has shown the most resilience, only falling 1.0%.

Figure 5 – Transactions numbers have stabilised



Source: Savills using HM Land Registry (adjusted for count lag) and Registers of Scotland

Recent house price growth

| | Nationwide (to Dec-18) | | | ONS (to Oct-18) | | | Savills (to Oct-18) | | |
|-----------------|---------------------------|-------|-------|--------------------|-------|-------|------------------------|------|-------|
| | m/m | q/q | y/y | m/m | q/q | y/y | m/m | q/q | y/y |
| UK | -0.8% | -1.2% | 0.5% | 0.2% | 0.8% | 2.7% | 0.2% | 1.1% | 2.8% |
| London | n/a | 0.1% | -0.9% | 0.3% | -1.0% | -1.7% | -0.1% | 0.0% | -1.7% |
| South East | n/a | -0.2% | 0.1% | 0.1% | 0.6% | 1.5% | 0.1% | 0.7% | 1.8% |
| East of England | n/a | 0.0% | 1.9% | 0.9% | 0.9% | 2.1% | 0.3% | 0.9% | 2.3% |
| South West | n/a | 0.8% | 2.0% | -0.2% | 0.7% | 2.0% | 0.3% | 1.0% | 3.4% |
| East Midlands | n/a | 0.0% | 4.0% | -0.1% | 1.0% | 4.3% | 0.3% | 1.4% | 4.8% |
| West Midlands | n/a | 0.1% | 2.9% | -0.2% | 0.4% | 3.8% | 0.5% | 1.8% | 5.0% |
| North East | n/a | 0.6% | 1.0% | -1.1% | -0.5% | -0.1% | 0.2% | 0.9% | 1.6% |
| Yorks & Humber | n/a | -0.3% | 3.7% | 1.5% | 1.9% | 4.4% | 0.4% | 1.5% | 3.9% |
| North West | n/a | -0.2% | 2.2% | 2.0% | 2.5% | 4.9% | 0.2% | 1.2% | 4.2% |
| Wales | n/a | 1.8% | 3.9% | -0.3% | 1.2% | 3.7% | 0.7% | 1.6% | 5.6% |
| Scotland | n/a | -0.2% | 0.9% | 0.4% | 1.5% | 4.5% | 0.6% | 1.8% | 4.4% |

Source: Savills using HM Land Registry and Registers of Scotland*, Nationwide (seasonally adjusted), ONS (seasonally adjusted)

Five year forecasts (first published November 2018)

| | 2019 | 2020 | 2021 | 2022 | 2023 | 5-year |
|-----------------|-------|------|------|------|------|--------|
| UK | 1.5% | 4.0% | 3.0% | 2.5% | 3.0% | 14.8% |
| London | -2.0% | 0.0% | 2.5% | 1.5% | 2.5% | 4.5% |
| South East | 0.0% | 2.0% | 2.5% | 2.0% | 2.5% | 9.3% |
| East of England | 0.0% | 2.0% | 2.5% | 2.0% | 2.5% | 9.3% |
| South West | 0.5% | 3.5% | 2.5% | 2.5% | 3.0% | 12.6% |
| East Midlands | 3.0% | 5.0% | 3.5% | 3.0% | 3.5% | 19.3% |
| West Midlands | 3.0% | 5.0% | 3.5% | 3.0% | 3.5% | 19.3% |
| North East | 2.0% | 5.0% | 3.5% | 2.5% | 3.5% | 17.6% |
| Yorks & Humber | 2.5% | 5.5% | 4.0% | 3.0% | 4.0% | 20.5% |
| North West | 3.0% | 6.0% | 4.0% | 3.0% | 4.0% | 21.6% |
| Wales | 2.0% | 5.5% | 4.0% | 3.0% | 3.5% | 19.3% |
| Scotland | 2.5% | 5.0% | 3.5% | 2.5% | 3.5% | 18.2% |

Source: Savills

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*Savills index is an unadjusted repeat sales index based on HM Land Registry and Registers of Scotland price paid data. Note that Savills national index (labelled UK) is for Great Britain, not including Northern Ireland.

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