

UK Housing Market Update



Market plays waiting game as the latest Brexit deadline approaches

House prices fell by 0.2% in September, leaving them just 0.2% higher than this time last year, according to Nationwide. London and the South East both experienced price falls over the year. The slowdown has now spread to the East Midlands and South West, where house price growth has slowed. The strongest house price growth was in the West Midlands, the three northern regions, Wales and Scotland.

There has been a big increase in the number of surveyors reporting falling activity levels, according to the September RICS survey. This returns surveyor perceptions of market activity back to levels similar to those shortly before the previous Brexit deadline in March. Recovery will only come as greater certainty emerges. Transaction volumes continued their downward trend, particularly in London, driven by fewer cash purchases of main dwellings. Numbers of cash investors buying second homes, mortgaged home movers and mortgaged buy-to-let investors remained stable. First time buyer (FTB) numbers are still rising.

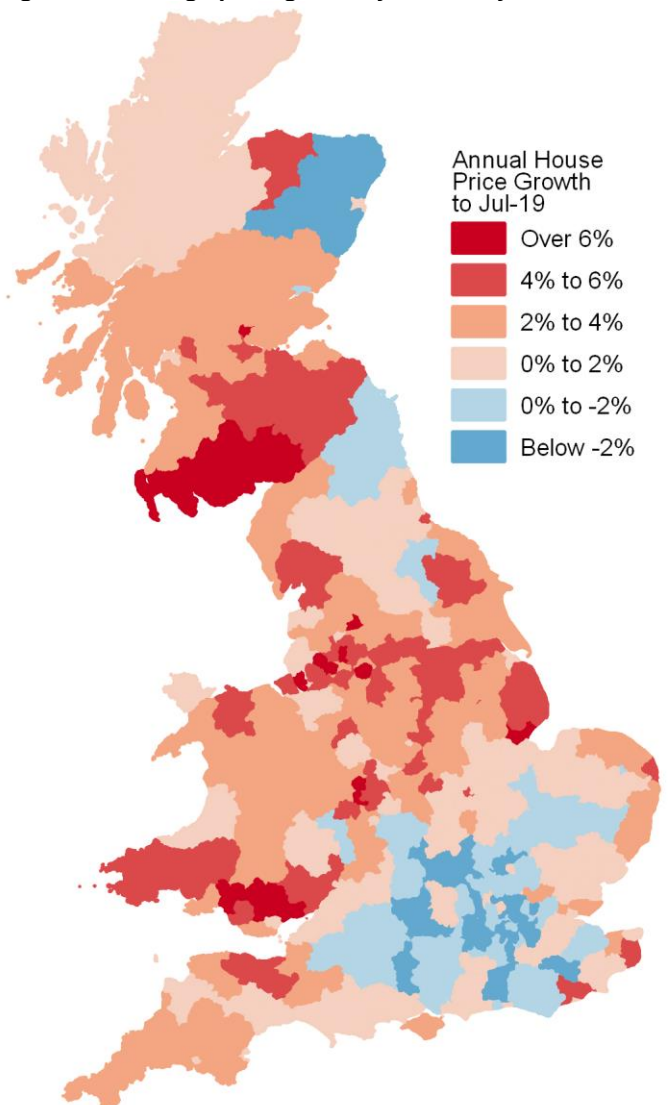
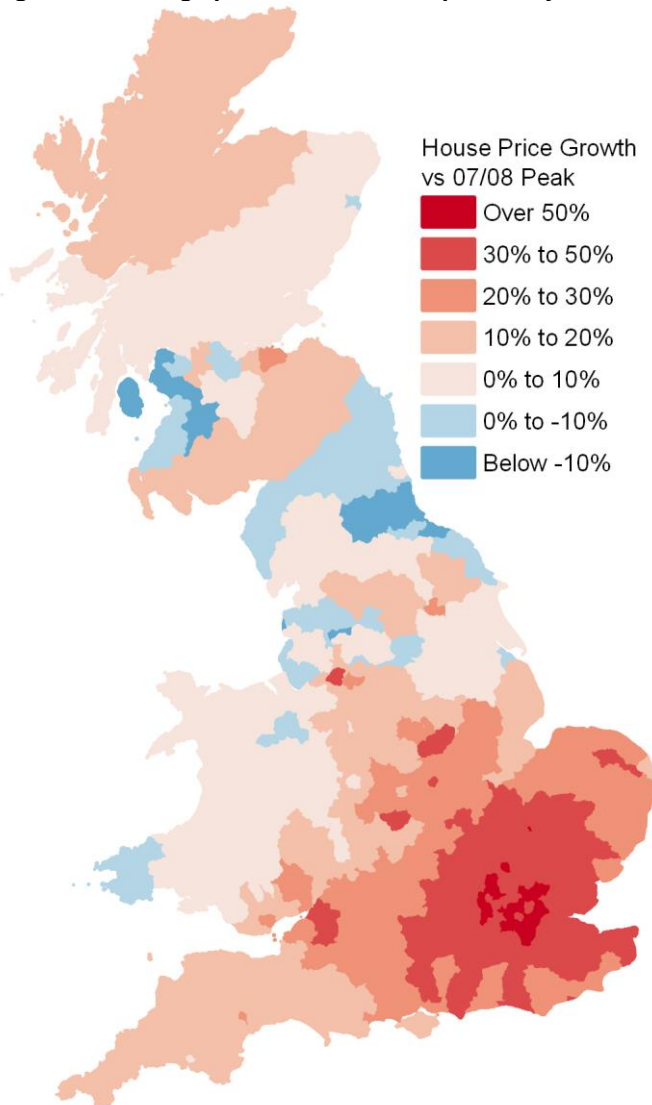
With lower market activity, there is greater competition among mortgage lenders. Rates continue to drift downwards, which suggests that the market does not anticipate an imminent base rate rise. Oxford Economics expects a rate rise to 1% in Q2 2020 under their baseline scenario (which includes an Article 50 extension to March 2020), but in the event of a no deal Brexit they consider a drop to 0.25% more likely. If there is an extension, we would expect a small boost in market activity over the winter, as happened earlier in the year following the Brexit extension from March to October.

Annual house price growth to July was the highest in Blaenau Gwent, Dumfries and Galloway and Torfaen, with growth of 14.4%, 13.1% and 11.0% respectively. It was lowest in Tower Hamlets, Ealing, with falls of 9.4% and 5.7% respectively against a London average of -1.7%, and Chiltern which was down 5.5%.

National annual rental growth remained at 1.3% in August. Growth was fastest in the South West and the East Midlands, up 2.0% and 1.9% respectively. It remained the weakest in the North East and Scotland, at 0.7% and 0.9%. The RICS survey shows greater demand than supply for rented housing, a mismatch which will help maintain rental growth.

Figure 1 – Average price versus 2007/8 peak, July 2019

Figure 2 – Average price growth, year to July 2019



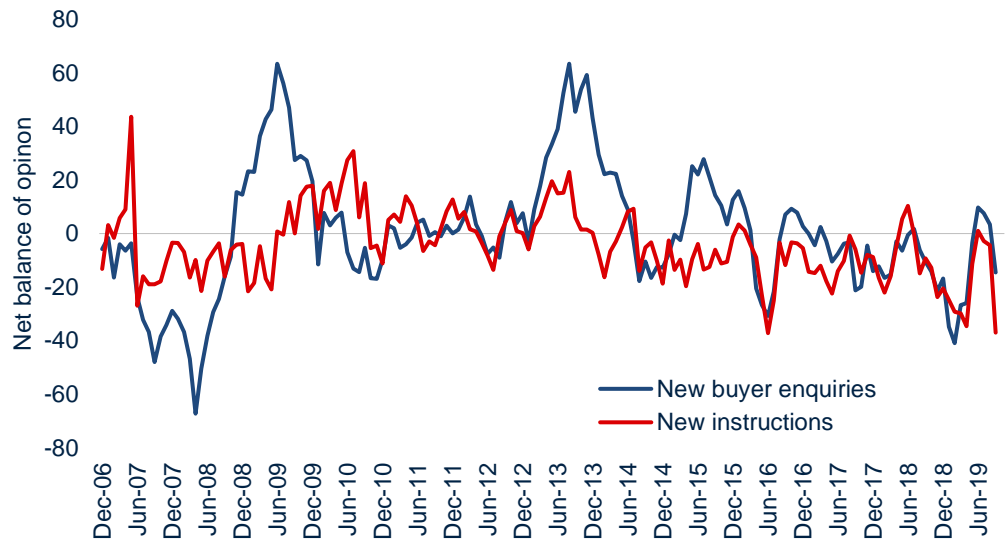
Source: Savills using HM Land Registry and Registers of Scotland (6 month smoothed)*

The most recent (September) release of the RICS survey shows a sharp fall in the number of surveyors reporting rising numbers of new enquiries and instructions.

New instructions are now at their lowest levels since the Referendum in June 2016, although enquires have been slightly more resilient.

As clarity emerges from the political process, we would expect activity levels to recover.

Figure 3 – Sentiment drops back to lower levels

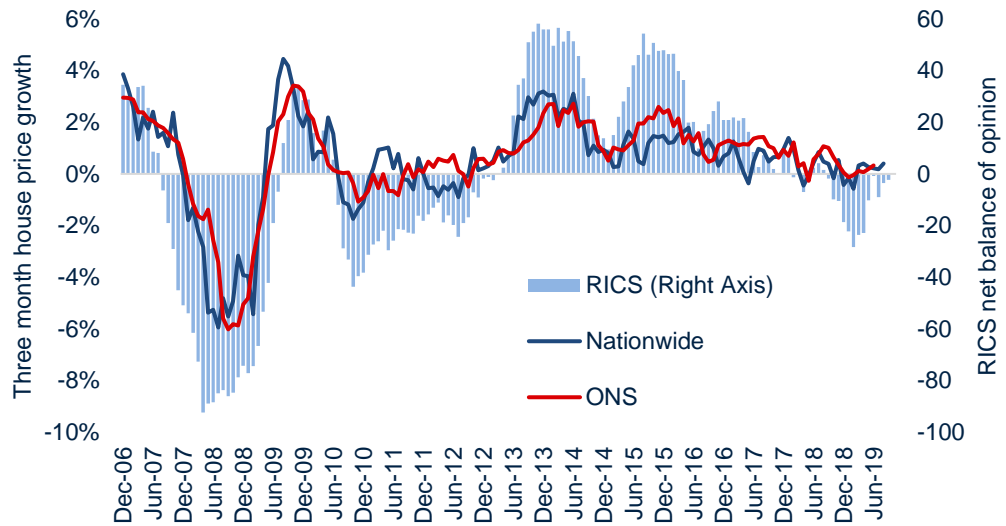


Source: RICS (seasonally adjusted)

The RICS Survey has, at times, been a good forward indicator of house price movements, which are later picked up by the indices.

The RICS, Nationwide and ONS indices all broadly agree that there is no house price growth on average, nor immediate potential for growth, but neither is the RICS survey pointing towards further correction.

Figure 4 – All metrics agree there is no house price growth on average



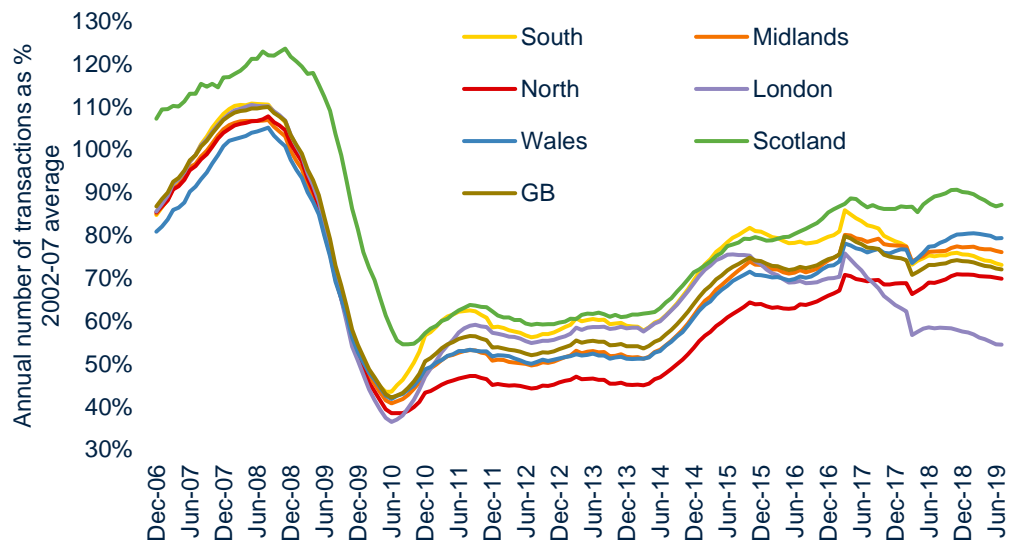
Source: RICS, Nationwide, ONS

Transactions continue their downward trend, with August the 15th consecutive month of falls. Transaction numbers fell 3.1% over the year to August, according to HMRC.

The bulk of the falls are in London and the South East, with annual falls of 7.9% and 7.0% respectively over the year to July.

Activity remains the most robust in Scotland, with an annual growth of 0.6% over the same period.

Figure 5 – Transactions continue to drift downward in most regions



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

Recent house price growth

	Nationwide (To Sep-19)			ONS (To Jul-19)			Savills (To Jul-19)		
	m/m	q/q	y/y	m/m	q/q	y/y	m/m	q/q	y/y
UK	-0.2%	0.1%	0.2%	-0.3%	0.1%	0.7%	0.3%	0.3%	1.2%
London	-	-0.5%	-1.7%	-0.2%	-0.2%	-1.4%	0.3%	-0.2%	-2.5%
South East	-	0.6%	-0.6%	-1.2%	-1.3%	-2.1%	0.1%	-0.1%	-0.9%
East of England	-	1.0%	1.7%	-0.9%	-0.3%	-0.5%	0.0%	0.0%	0.3%
South West	-	0.0%	0.5%	0.1%	0.2%	0.6%	0.2%	0.1%	1.2%
East Midlands	-	0.1%	0.4%	-0.2%	0.5%	1.9%	0.3%	0.4%	3.1%
West Midlands	-	0.5%	2.1%	0.5%	0.4%	1.8%	0.3%	0.3%	3.3%
North East	-	-0.6%	2.1%	-2.2%	-2.7%	-2.9%	0.7%	1.1%	1.2%
Yorks & Humber	-	0.3%	0.1%	1.3%	1.9%	3.2%	0.7%	1.0%	3.4%
North West	-	2.2%	2.4%	0.4%	0.6%	2.4%	0.5%	1.2%	3.8%
Wales	-	-0.4%	3.0%	0.7%	1.1%	4.2%	0.5%	0.9%	4.8%
Scotland	-	0.5%	0.8%	-0.4%	-0.2%	1.5%	0.4%	0.8%	3.5%

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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