

UK Housing Market Update

What the lead indicators tell us this month

Confidence weakens as house price indices remain volatile

Volatility has made it hard to see what has really been going on in the housing market over recent months, with the Halifax and Nationwide indices moving equal amounts in opposite directions in June. Average UK house prices increased 0.3% in July according to Nationwide, down from June's spike of 1.1% and almost back in line with the 0.4% average monthly growth reported between January 2014 and February 2017.

Surveyors' perceptions of price growth have eventually fallen back, with a much smaller majority reporting three month price rises in June, compared to the previous nine months. This reflects the lack of growth shown in the main house price indices. The majority of surveyors also reported falling numbers of both buyer enquiries and vendor instructions for the fifth month in a row. These indicators suggest that activity within the market is subdued and likely to remain so for the rest of 2017 as weak economic indicators and political uncertainty affect sentiment in the market.

Weaker than anticipated GDP growth in Q2, of 0.3%, hasn't helped, with lacklustre consumer spending acting as the main drag. The first six months of 2017 saw the lowest economic growth since 2012 and wage growth has remained low. More positively, Oxford Economics predicts that inflation has now peaked for 2017: CPI was 2.9% in May and 2.6% in June, as the one off effects of the Brexit vote started to fall out of the statistics. This combination of factors makes the short to medium term prospect of a base rate hike unlikely, keeping the negative effect that would have on house prices in the middle distance.

The top three local authorities in terms of annual house price growth were Basildon (14.4%), Medway (13.8%), and Thurrock (13.8%) in the 12 months to May 2017, continuing the trend for higher growth outside the capital. Salford and Manchester are now growing at a faster rate than higher priced Trafford. Note that in response to slowing growth across the country we have amended the bands used in the map below.

The ONS index of rents being paid continued in June to report annual rental growth of 1.8% across Great Britain. However, the Homelet, Countrywide, and LSL indices of asking rents report annual falls across the country of between -0.2% and -2.0%.

Figure 1 – Average price versus 2007/8 peak, May-17

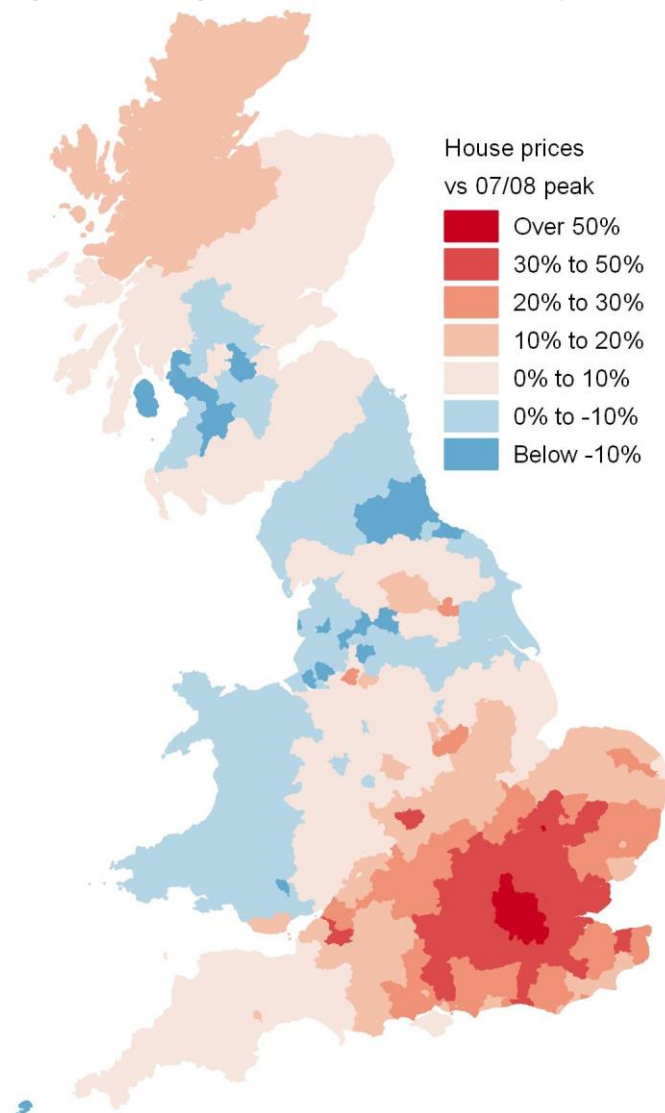
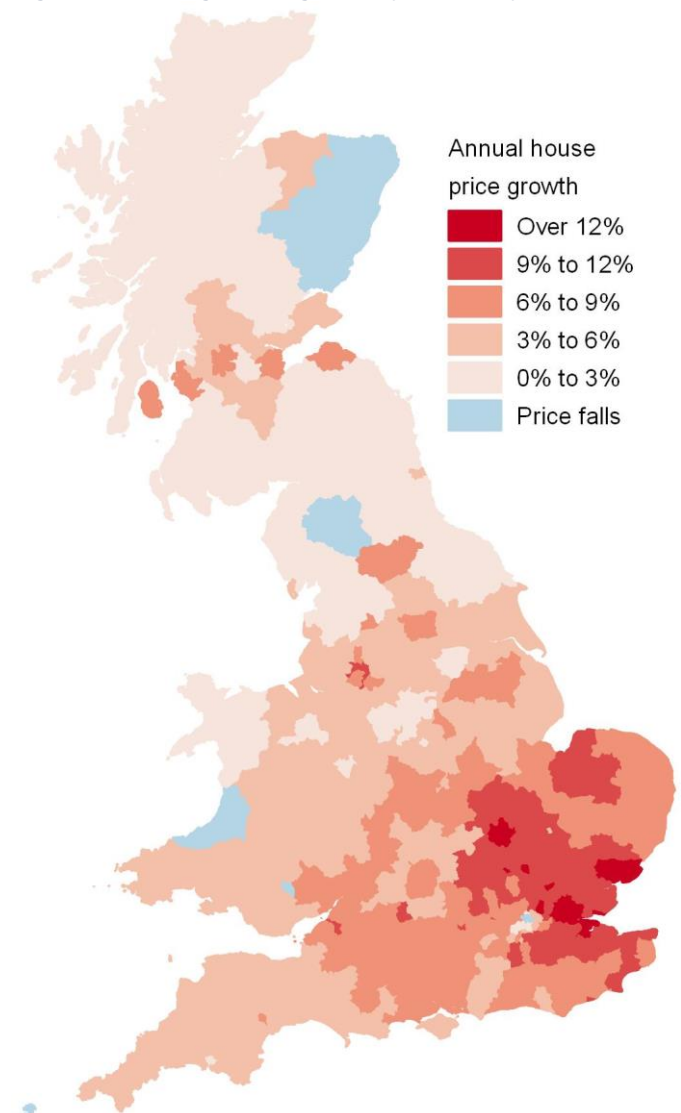


Figure 2 – Average price growth, year to May-17



Source: Savills using HM Land Registry and Registers of Scotland (12 month smoothed)*

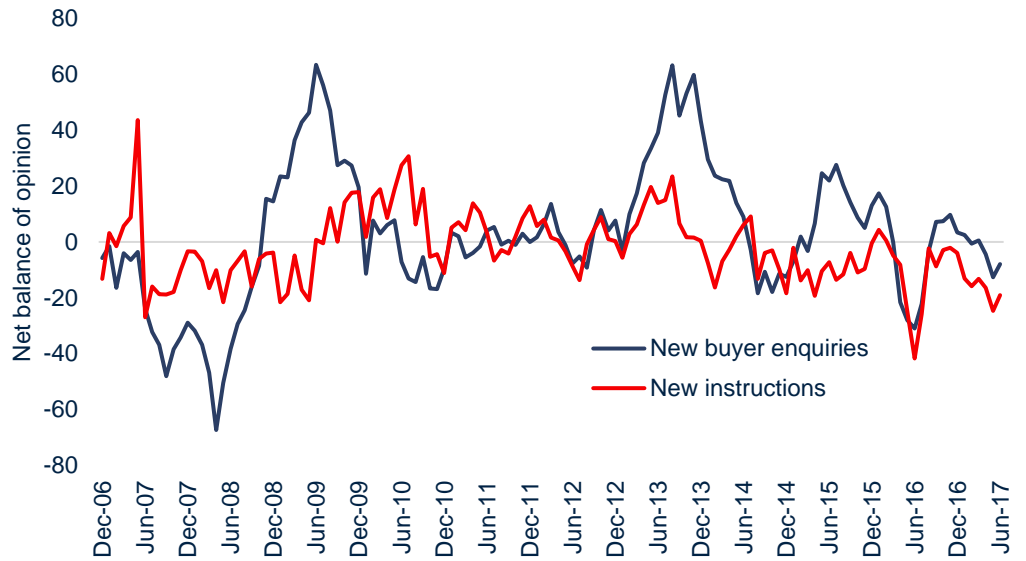
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The June RICS Survey shows that the number of surveyors reporting growth in new buyer enquiries went up slightly, although the majority of surveyors still believe the number of enquiries is falling.

There was a similar uptick in the number of surveyors reporting a growing number of instructions, not enough however to counter the ongoing outlook of subdued activity.

Supply and demand measures have continued to move broadly in line with one another meaning there is limited pressure on prices in either direction.

Figure 3 – Indicators continue to show falling buyer enquiries and new instructions



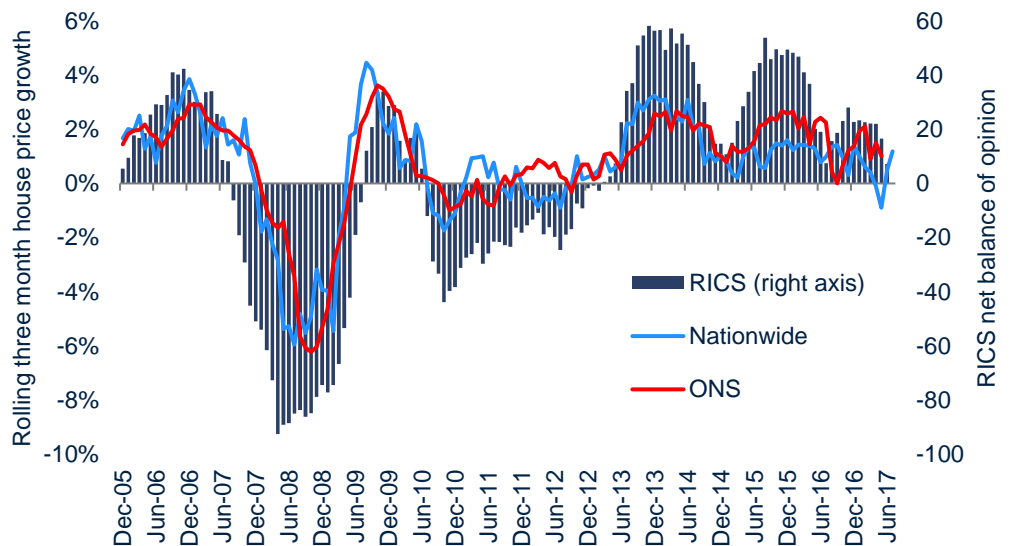
Source: RICS (seasonally adjusted)

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

The number of surveyors reporting rising house prices fell significantly in June bringing sentiment more in line with the house price indices.

Three month price growth reported by the ONS continues to follow the Nationwide index down. Nationwide three month on three month growth remains in positive territory at 1.2% as a result of the growth spike in June.

Figure 4 – Surveyors' confidence in price growth dips into line with the indices

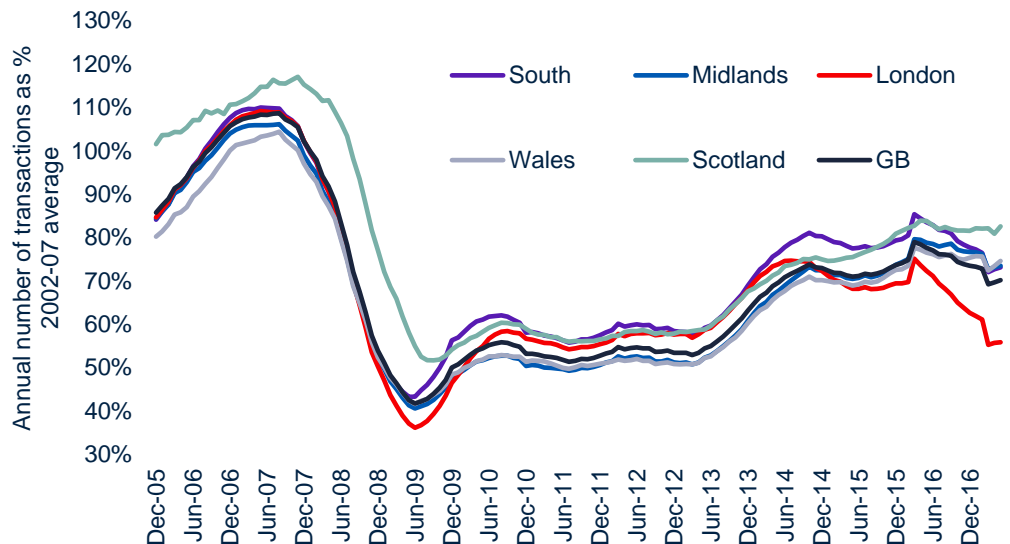


Source: RICS, Nationwide, ONS

Annual transaction volumes in England & Wales continue to be distorted by the spike in purchases of 'additional homes' in Q1 2016 before the additional SDLT came into effect in April.

Transaction volumes in Wales and the north are now recovering to the same level as before these stamp duty changes. London still remains substantially below this level.

Figure 5 – Transaction volumes remain subdued in the south and particularly London



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

Recent house price growth

	Nationwide (to Jul-17; regions to Jun-17)			ONS (to May-17)			Savills (to May-17)		
	m/m	q/q	y/y	m/m	q/q	y/y	m/m	q/q	y/y
UK	0.3%	1.2%	2.9%	0.2%	0.9%	4.7%	0.3%	0.9%	5.2%
London	n/a	-2.0%	1.3%	-0.3%	0.3%	3.0%	0.2%	0.6%	6.5%
South East	n/a	-0.7%	3.4%	-0.4%	0.9%	4.8%	0.4%	1.2%	8.1%
East of England	n/a	0.2%	5.1%	0.4%	1.2%	7.5%	0.5%	1.8%	10.1%
South West	n/a	0.2%	4.5%	0.5%	0.6%	5.4%	0.3%	1.2%	6.2%
East Midlands	n/a	1.0%	4.1%	1.0%	2.1%	7.2%	0.4%	1.3%	6.0%
West Midlands	n/a	0.6%	3.6%	0.4%	1.0%	5.2%	0.5%	1.5%	5.9%
North East	n/a	0.7%	1.2%	1.2%	-0.1%	1.5%	0.2%	0.2%	1.7%
Yorks & Humber	n/a	0.6%	2.2%	0.5%	1.4%	4.4%	0.4%	0.9%	3.9%
North West	n/a	0.6%	4.1%	0.2%	0.6%	3.7%	0.3%	1.1%	4.7%
Wales	n/a	0.5%	1.5%	0.3%	1.7%	3.9%	0.2%	0.8%	4.1%
Scotland	n/a	-0.7%	1.8%	-0.4%	1.8%	3.6%	0.3%	1.7%	3.8%

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

Five year forecasts (first published November 2016)

	2017	2018	2019	2020	2021	5-year
UK	0.0%	2.0%	5.5%	3.0%	2.0%	13%
London	0.0%	3.0%	4.5%	2.0%	1.0%	11%
South East	2.0%	2.0%	6.5%	4.0%	1.5%	17%
East of England	2.5%	2.5%	6.5%	4.0%	2.0%	19%
South West	1.0%	2.0%	6.0%	3.0%	1.5%	14%
East Midlands	0.0%	2.0%	5.5%	3.5%	2.0%	14%
West Midlands	-0.5%	2.0%	5.0%	3.5%	2.0%	13%
North East	-2.5%	1.5%	5.0%	2.0%	3.0%	9%
Yorks & Humber	-2.0%	1.5%	5.0%	2.5%	2.5%	10%
North West	-2.0%	2.0%	5.5%	3.0%	3.0%	12%
Wales	-2.0%	1.5%	5.0%	2.5%	2.5%	10%
Scotland	-2.5%	1.5%	5.0%	2.0%	3.0%	9%

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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