

UK Housing Market Update



2020 opens with boosts to both confidence and price growth

2020 kicked off with strong house price growth, up 1.8% in the year to January, according to Nationwide. This was the highest annual price growth since November 2018.

This positivity was trailed by surveyors, who reported significant increases in activity, according to the RICS survey for December. Reports of both new instructions and new buyer enquiries were at their highest since before the Brexit referendum in April 2016. Further evidence of a strong December comes from the mortgage market, with new mortgage approvals surging to their highest levels since April 2015. Early transaction figures from HMRC show a bump in activity for the month, with transactions up 11% on the previous year and broadly back in line with December numbers since 2013.

As certainty begins to replace uncertainty, the market looks primed for a release of pent up demand. This demand will be supported by an increasingly competitive mortgage market. Rates have continued to slide downwards, with the 3, 5 and 10 year fixed rate mortgages now at record lows. Rates seem set to stay where there are for the time being, with the MPC rejecting a cut to the base rate by 7:2 last week. Many commentators

still anticipate a cut, but Oxford Economics consider this to be unlikely, citing strong business survey indicators that predict a boost in consuming spending. All of this bodes well for house price growth.

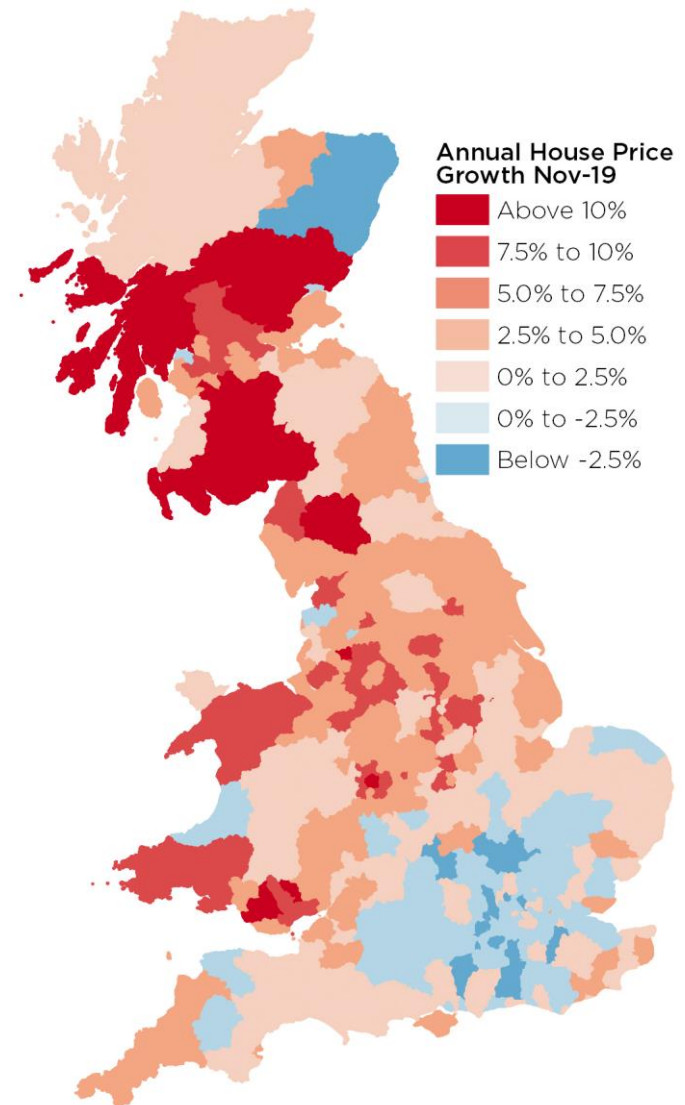
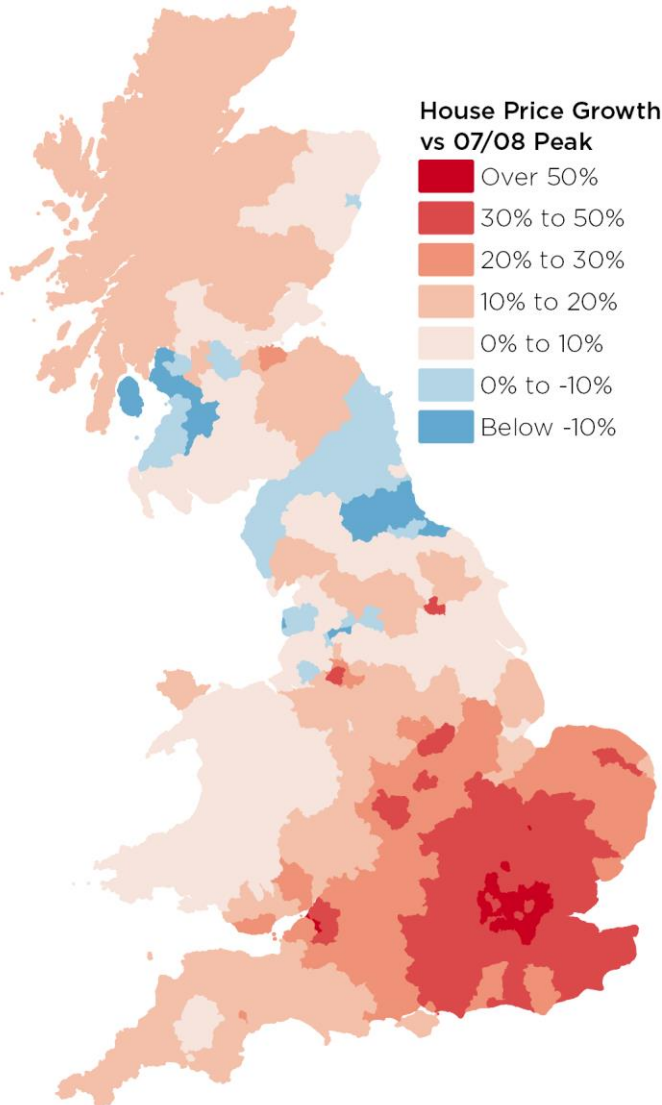
While many of the key elements are in place for a return to confidence in the housing market, much will depend on how well the Brexit negotiations proceed over the next year. Our forecasts from November last year assumed that the transition period would end with a free trade agreement in December 2020. However, throughout the year the housing market is likely to remain highly sensitive to perceptions of how trade negotiations with the EU are proceeding.

The strongest annual house price growth during the year to Nov-19 was in Angus, up 9.9% annually, followed by Wolverhampton at 9.0%, and east Ayrshire at 8.3%. The weakest performers were Aberdeen City, South Bucks and Watford, which all saw annual falls of about 4.0%.

Annual rental growth across the UK held steady at 1.4% in December. The growth was strongest in the South West and East Midlands, both at just over 2.0% annually. Growth was weakest in the North East and Scotland, only up about 0.5% annually.

Figure 1 Average price versus 2007/8 peak, Nov-19

Figure 2 Average price growth, year to Nov-19



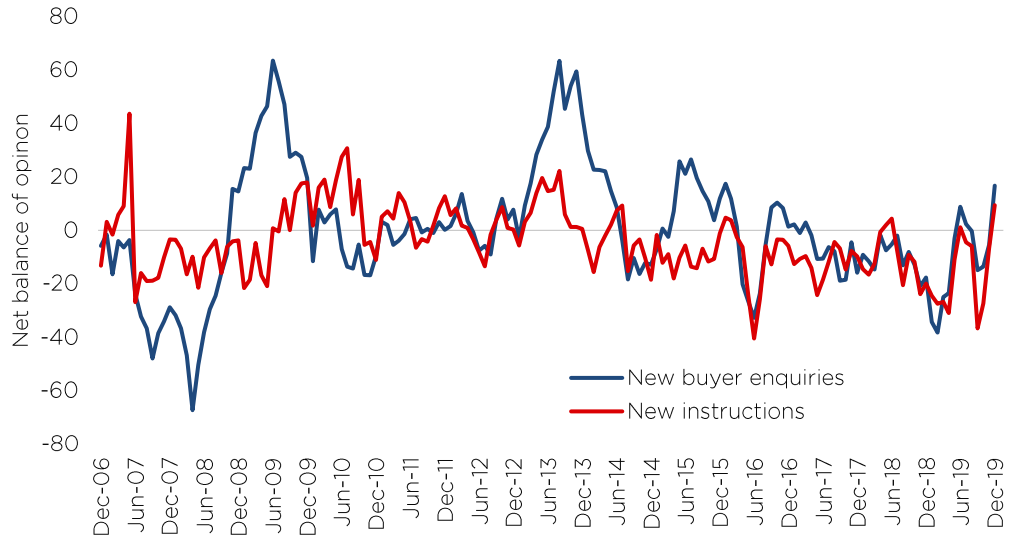
Source Savills using HM Land Registry and Registers of Scotland (6 month smoothed)*

2019 ended with a surge in reported activity, with the December RICS survey showing a significant jump in both new buyer enquiries and new instructions.

Reports of new buyer enquiries are at their highest since Jan-16, and new instructions are at their highest since Jul-14.

It remains to be seen how much of this positivity from surveyors translates into actual transactions and recorded activity.

Figure 3 Surveyor sentiment returns to pre-referendum levels

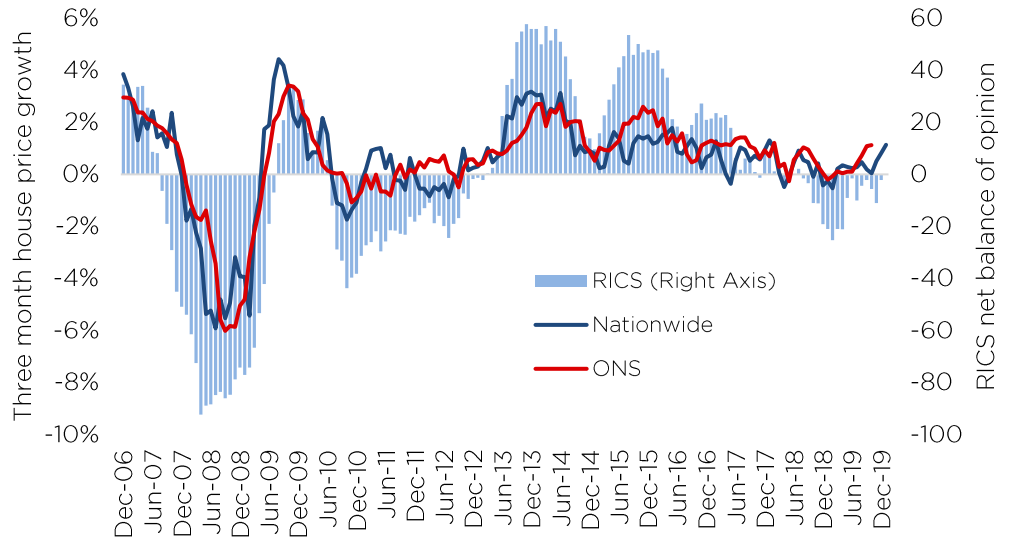


Source RICS (seasonally adjusted)

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

Both ONS and Nationwide indices showed relatively strong growth over the final few months of 2019. The RICS price growth index was a little more subdued, still recording a fall in December, but one of the smallest falls of the year.

Figure 4 Solid house price growth to round off 2019

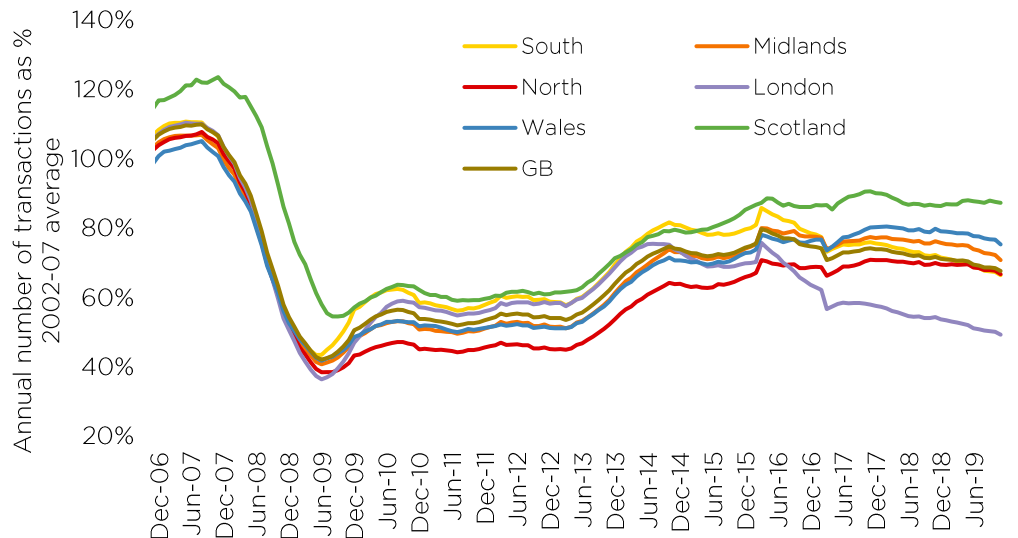


Source RICS, Nationwide, ONS

Transaction levels were essentially flat in December, according to HMRC. They were up 11% on an annual basis, but this is mostly due to a weak December 2018.

Anecdotal reports indicate a boost to activity following the election, but we will need to wait for January's data to really see the effects of the election outcome on transaction activity.

Figure 5 Transactions weak in the election run up



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

Table 1 Recent house price growth

	Nationwide (to Dec-19 for Regions, to Jan-20 for UK)			ONS (to Nov-19)			Savills (to Nov-19)		
	m/m	q/q	y/y	m/m	q/q	y/y	m/m	q/q	y/y
UK	0.5%	1.1%	1.8%	0.6%	1.4%	2.2%	0.3%	1.2%	1.6%
London	-	-0.2%	-1.9%	0.2%	1.1%	0.2%	0.4%	1.5%	-0.4%
South East	-	-0.5%	-1.0%	0.7%	1.8%	1.0%	0.2%	0.8%	-0.5%
East of England	-	-1.4%	0.1%	-0.1%	0.4%	-0.7%	0.1%	0.6%	0.0%
South West	-	1.5%	1.5%	-0.1%	1.1%	1.1%	0.2%	1.0%	1.1%
East Midlands	-	0.1%	0.4%	0.8%	1.7%	2.5%	0.3%	0.9%	2.6%
West Midlands	-	0.8%	2.7%	1.9%	2.3%	4.0%	0.4%	1.3%	2.6%
North East	-	1.3%	2.7%	1.2%	0.6%	1.4%	0.3%	0.9%	1.8%
Yorks & Humber	-	0.8%	1.6%	-0.8%	1.1%	2.6%	0.4%	1.1%	3.2%
North West	-	-0.7%	1.8%	0.8%	1.9%	3.7%	0.2%	1.2%	3.7%
Wales	-	0.5%	1.5%	4.1%	3.2%	7.7%	0.7%	1.6%	4.7%
Scotland	-	1.4%	2.7%	0.4%	1.5%	3.6%	0.4%	0.9%	3.3%

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

Table 2 Savills five year house price forecasts (first published November 2019)

	2020	2021	2022	2023	2024	5-year
UK	1.0%	4.5%	3.0%	3.0%	3.0%	15.3%
London	-2.0%	1.5%	1.0%	1.0%	2.5%	4.0%
South East	0.0%	3.0%	2.5%	2.5%	2.5%	10.9%
East of England	0.0%	3.0%	2.5%	2.5%	2.5%	10.9%
South West	0.5%	4.0%	3.0%	2.5%	2.5%	13.1%
East Midlands	3.0%	5.0%	3.0%	3.0%	3.0%	18.2%
West Midlands	3.0%	5.0%	3.0%	3.0%	3.0%	18.2%
North East	1.5%	5.0%	4.0%	4.0%	4.0%	19.9%
Yorks & Humber	2.0%	6.0%	4.0%	4.0%	4.0%	21.6%
North West	2.5%	6.5%	4.5%	4.5%	4.0%	24.0%
Scotland	2.0%	6.0%	3.5%	3.5%	3.5%	19.9%
Wales	2.0%	6.0%	3.0%	3.0%	3.0%	18.1%

Source Savills

Savills team

Please contact us for further information

Ed Hampson

Analyst
ed.hampson@savills.com
020 3107 5460

Chris Buckle

Director
cbuckle@savills.com
0207 016 3881

*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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