

UK Housing Market Update

What the lead indicators tell us this month

Savills Research
UK Residential

Price growth continues for many, but transaction numbers are slowly falling

UK house prices rose 0.6% in June, according to Nationwide. Over the last two years, these occasional strong months have been followed by weaker ones, leading to little overall price change. June's price rise leaves the year to date (YTD) growth at 0.6%, consistent with our forecast of 1.0% annual price growth in 2018. The regional variation is similar to Q1, with the strongest growth in Scotland and the Midlands, while there have been substantial price falls in London of 2.6%. Although the pattern remains the same, the level of price growth has slowed in almost all regions.

Alongside price falls in London, transactions have fallen by 4.0% in the last three months. In the Midlands, although prices are growing, this is not reflected in transaction volumes, which fell 1.4% in three months to April. In contrast, the number of new instructions increased for the first time since summer 2016, according to the RICS Survey. New buyer enquiries, despite a fall in May, have also been on an upward trend for most of 2018.

But this positivity is at odds with other indicators and the UK housing market faces increasing headwinds over coming months. The Bank of England base rate is now widely expected to go up in August. Although the June MPC meeting voted to keep the base rate at 0.5%, there is growing support for a rise. This will put further upward pressure on mortgage interest rates, which have slowly started to rise over recent months. It follows a broadly positive Q2 for the UK economy. The construction sector had its weakest quarter since 2012, but there was surprising growth in retail sales and employment.

Price growth continued in the Midlands and Scotland as Coventry, Edinburgh and Midlothian saw the strongest annual price growth at over 10% in the year to April 2018. The largest house price falls remain concentrated in London with prices in Kensington & Chelsea, City of London and Islington falling by more than 5%.

Annual rental growth remained at 1.0% in May, according to the ONS. The East Midlands continued to show the strongest annual growth of 2.9%, followed by the South West at 2.0%. London has been the weakest performer, with rents 0.2% lower than this time last year.

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

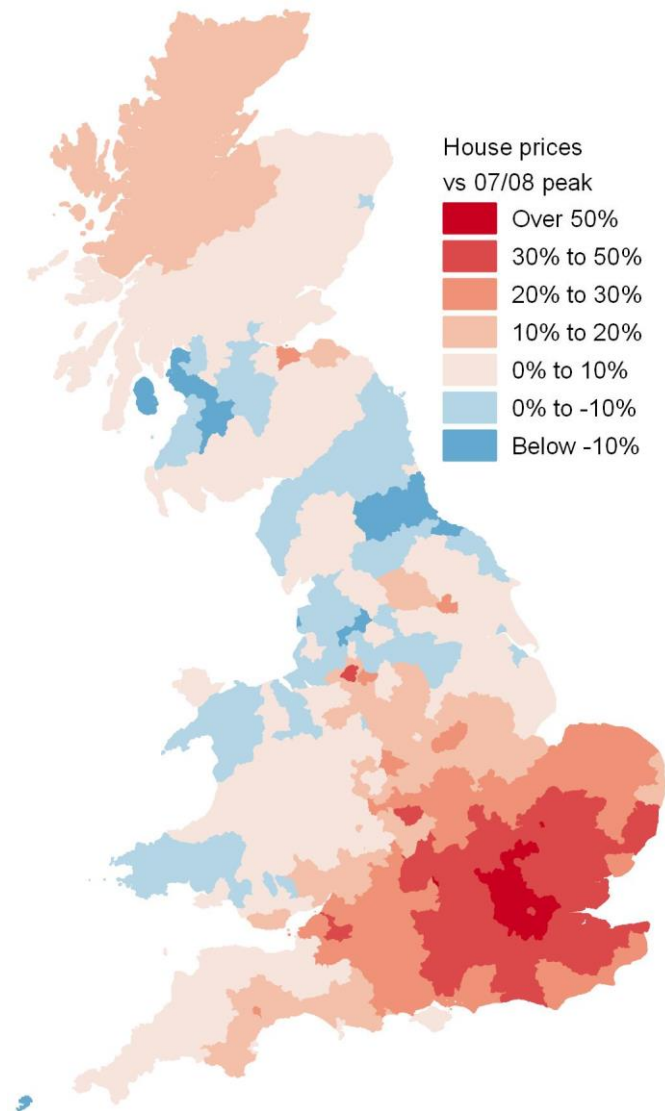
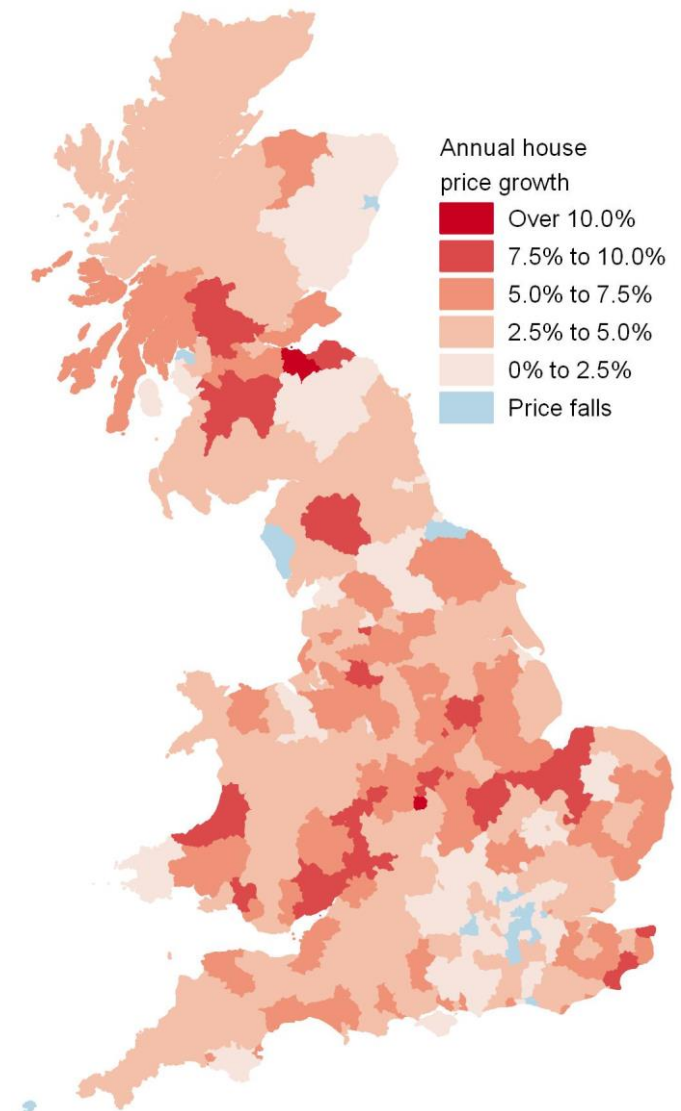


Figure 2 – Average price growth, year to Apr-18



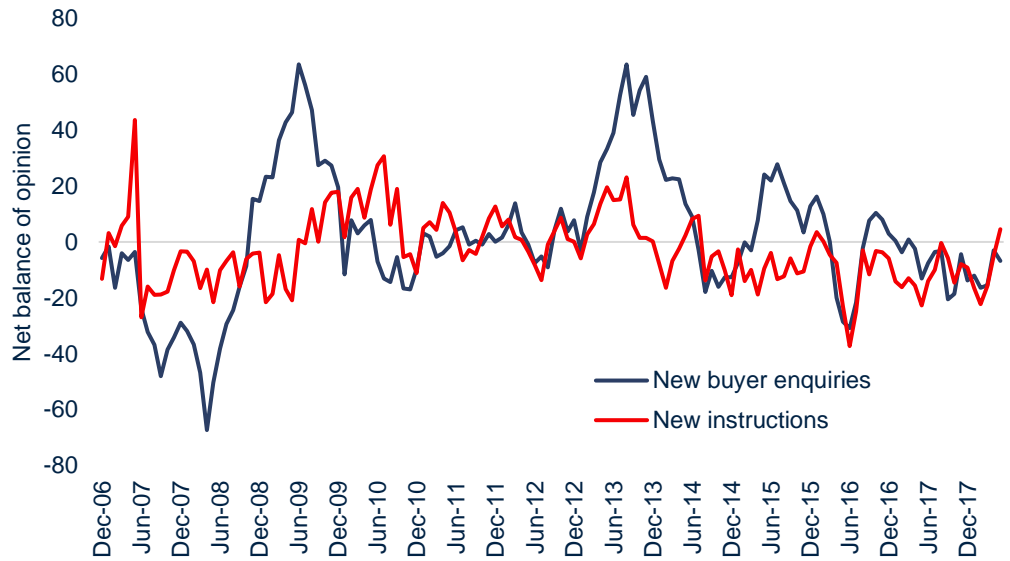
Source: Savills using HM Land Registry and Registers of Scotland (6 month smoothed)*



The number of surveyors reporting new instructions has continued its rise, and now sits in positivity territory for the first time since February 2016, and is at its highest level since July 2014.

The number of surveyors reporting rising numbers of new buyer enquires has fallen back slightly in May, despite rising rapidly between March and April.

Figure 3 – Reports of New Instructions at four year high



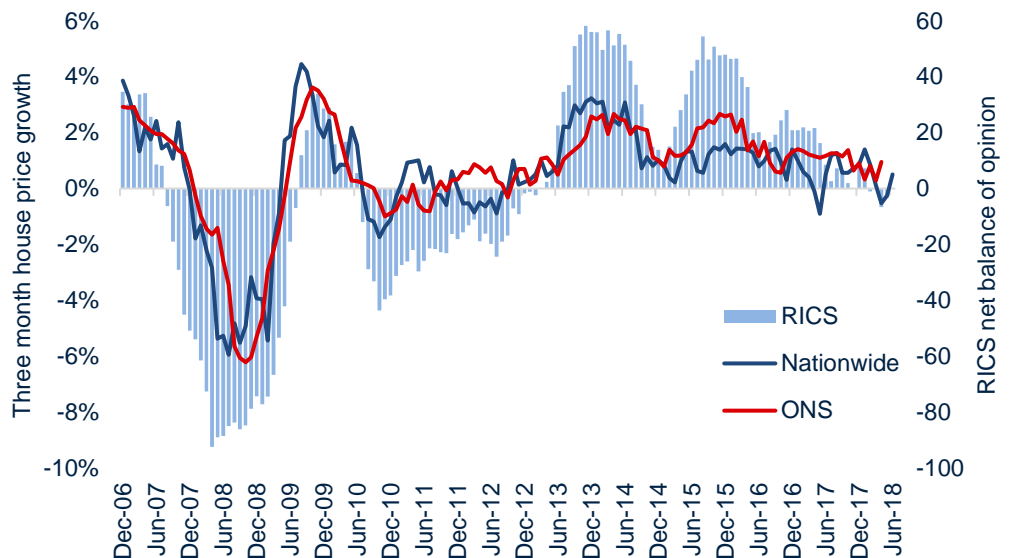
Source: RICS (seasonally adjusted)

The RICS Survey has, at times, been a good forward indicator of house price movements. It now points to subdued price growth.

The number of surveyors reporting rising house prices rose slightly in May, but they remain a minority.

This suggests that the strong price growth reported in June by Nationwide will be short-lived, in line with the Savills forecast of 1.0% growth in 2018.

Figure 4 – Increasing number of surveyors reporting house price rises

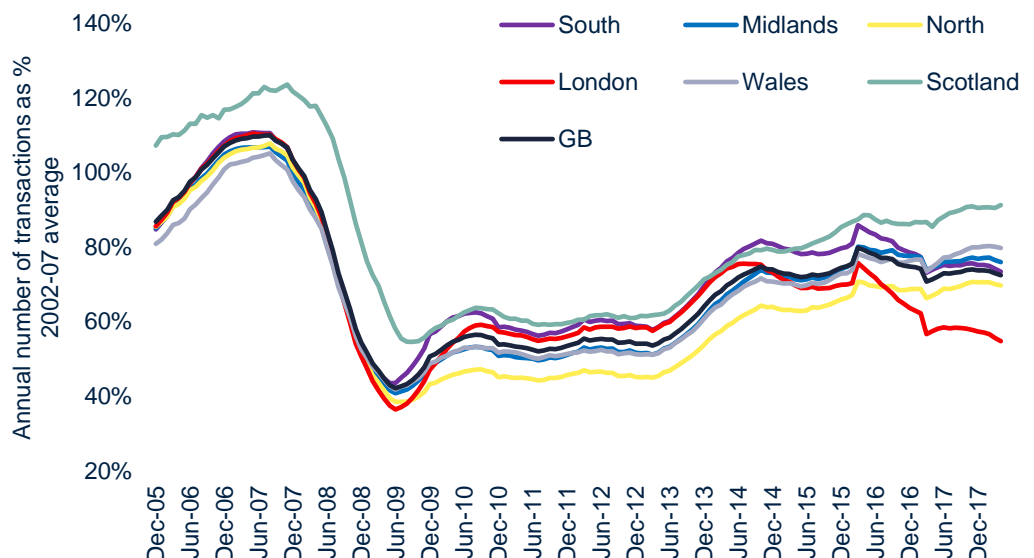


Source: RICS, Nationwide, ONS

Market activity continued to slow in April as transaction numbers fell in all regions apart from Scotland.

The gap between London and the rest of the country widened further, with the capital seeing the largest fall in transaction numbers of any region at 4.0% over the last three months.

Figure 5 – Transaction numbers slowly fall across England & Wales



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

Recent house price growth

	Nationwide (to June-18)			ONS (to Apr-18)			Savills (to Apr-18)		
	m/m	q/q	y/y	m/m	q/q	y/y	m/m	q/q	y/y
UK	0.5%	0.5%	2.0%	0.7%	1.0%	4.1%	0.1%	0.2%	3.9%
London	n/a	-2.6%	-1.7%	1.3%	1.1%	1.0%	-0.2%	-1.2%	0.0%
South East	n/a	-0.2%	2.6%	0.5%	1.3%	3.7%	0.1%	0.0%	3.1%
East of England	n/a	0.4%	2.6%	-0.4%	-0.1%	3.1%	0.0%	0.1%	4.1%
South West	n/a	-0.1%	2.5%	0.9%	1.1%	6.1%	0.2%	0.3%	4.9%
East Midlands	n/a	1.0%	4.5%	0.3%	0.2%	4.8%	0.2%	0.8%	6.2%
West Midlands	n/a	0.3%	4.4%	0.0%	1.7%	6.0%	0.3%	0.6%	5.7%
North East	n/a	-1.4%	2.0%	2.0%	2.5%	4.5%	0.2%	0.2%	2.8%
Yorks & Humber	n/a	-1.3%	2.2%	0.7%	0.9%	4.2%	0.3%	0.4%	4.6%
North West	n/a	0.6%	3.0%	-1.3%	-0.3%	2.4%	0.3%	0.7%	5.1%
Wales	n/a	-0.9%	4.3%	0.8%	2.0%	4.4%	0.1%	1.0%	5.1%
Scotland	n/a	2.1%	3.1%	0.9%	1.4%	5.5%	-0.1%	0.0%	5.3%

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

Five year forecasts (first published November 2017)

	2018	2019	2020	2021	2022	5-year
UK	1.0%	2.5%	5.0%	2.5%	2.5%	14.2%
London	-2.0%	0.0%	5.0%	2.0%	2.0%	7.1%
South East	0.5%	2.5%	4.0%	2.0%	2.0%	11.5%
East of England	0.5%	2.5%	4.0%	2.0%	2.0%	11.5%
South West	1.0%	3.0%	4.5%	2.5%	2.5%	14.2%
East Midlands	1.0%	3.0%	5.0%	2.5%	2.5%	14.8%
West Midlands	1.0%	3.0%	5.0%	2.5%	2.5%	14.8%
North East	1.5%	3.5%	5.5%	3.0%	3.0%	17.6%
Yorks & Humber	1.5%	3.5%	5.5%	3.0%	3.0%	17.6%
North West	1.5%	3.5%	6.0%	3.0%	3.0%	18.1%
Wales	1.0%	3.0%	5.0%	3.0%	3.0%	15.9%
Scotland	1.5%	3.5%	5.0%	3.0%	3.0%	17.0%

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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