

UK Housing Market Update

What the lead indicators tell us this month

Savills Research
UK Residential

Market activity weakens, but strong price growth remains for many

House prices fell 0.3% in the UK in May, according to Nationwide, but this national average continues to hide wide regional variation. The fall negates the modest rise we saw last month and takes average house prices back to their level at the end of December 2017. This rate of growth is slightly lower than our forecast for a 1% average price increase this year.

This marginal price growth is likely to continue, with a majority of surveyors reporting a fall in house prices for the first time since September 2012 in the April RICS survey. Most continue to report falling numbers of new buyer enquiries and new instructions to sell, and while the number of surveyors reporting rising numbers has increased, they remain a minority. Early data from the Land Registry indicates a dip in transactions during Q1 2018 compared to the same period last year. This view is supported by a 9% fall in the number of mortgage approvals and is in line with our forecasts which anticipated 2018 to be a year of low activity.

In February the Term Funding Scheme (TFS) closed, cutting off a source of cheap financing for banks. The TFS provided £127bn to all major banks following the vote to leave the EU and £59bn remains held by the banks. It was designed to encourage banks to pass on the base rate cut to lenders and its withdrawal coincides with an expectation of base rate rises this year. These influences are reflected in mortgage interest rates, with the two year fixed rate (at 75% LTV) now at its highest level since July 2016. Increases in mortgage payments will put more pressure on many households, but recent falls in inflation have led to real wage rises for the first time in a year. The GFK survey reported a two point rise in consumer confidence, indicating that there has been an improvement for many over the past month, although the measure remains in negative territory.

Annual house price growth continues to be the strongest in the Midlands and Scotland. Wellingborough and East Ayrshire were again the best performers in March, at 10.4% and 12.5% growth respectively. The most widespread house price falls are now in London, with Kensington & Chelsea and Hammersmith & Fulham seeing the biggest annual drops of 5% each.

Annual rental growth in Great Britain slowed marginally to 1.0% in May from 1.1% in April, remaining highest in the East Midlands at 2.8%, a rate which has been sustained for the last 18 months. In London, annual growth slowed to 0.0%.

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

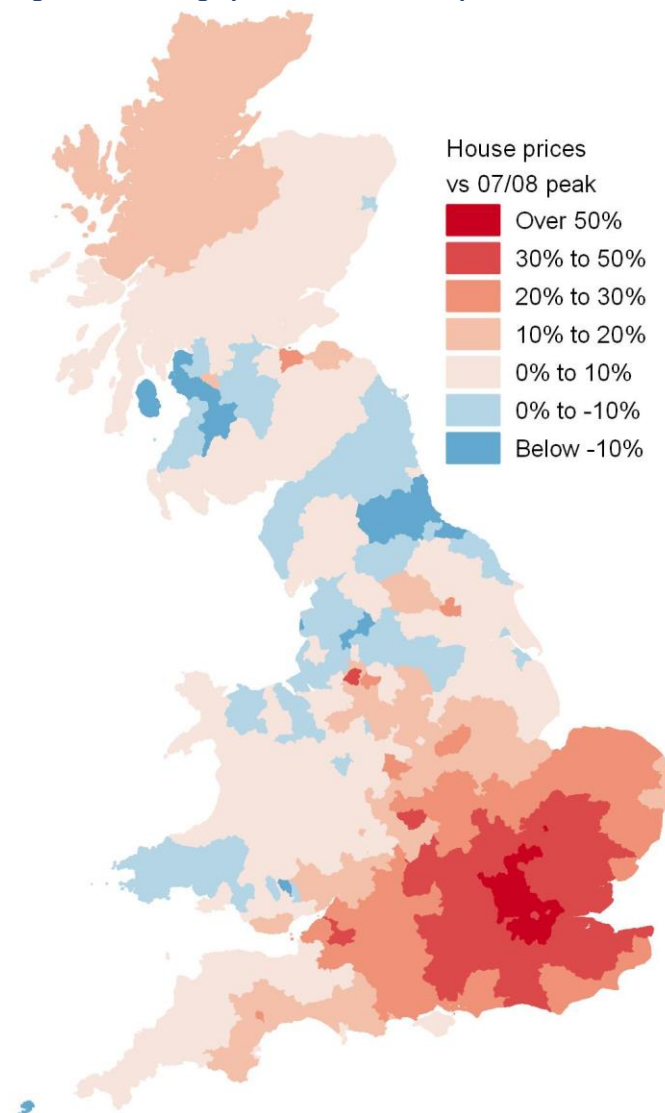
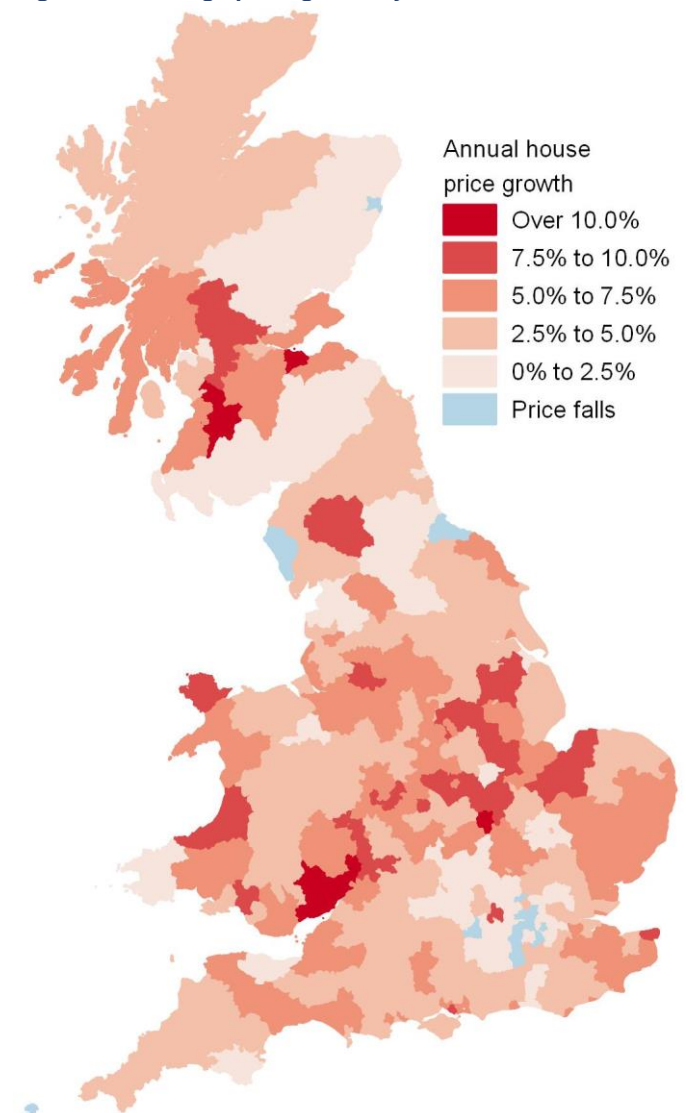


Figure 2 – Average price growth, year to Mar-18

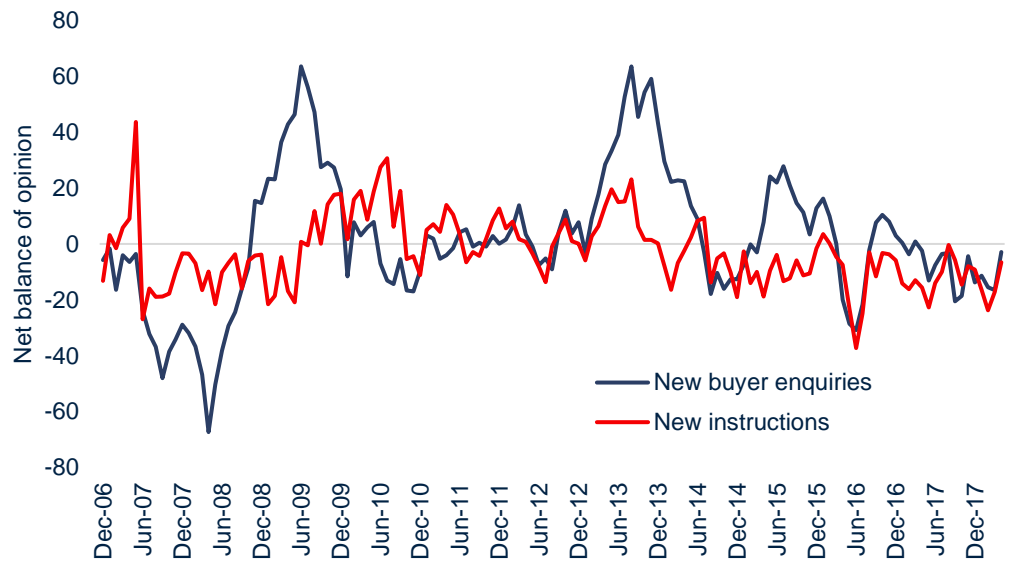


Much of the negativity among surveyors that has been growing over the last year was reversed in April. The number of surveyors reporting rising buyer enquiries and new instructions now nearly matches the number reporting falls.

This improvement is at odds with the fall in mortgage approvals and signs of falling transaction volumes.

In London, surveyors reported rising buyer enquiries for the first time in 12 months.

Figure 3 – Number of surveyors reporting increased activity continues to rise



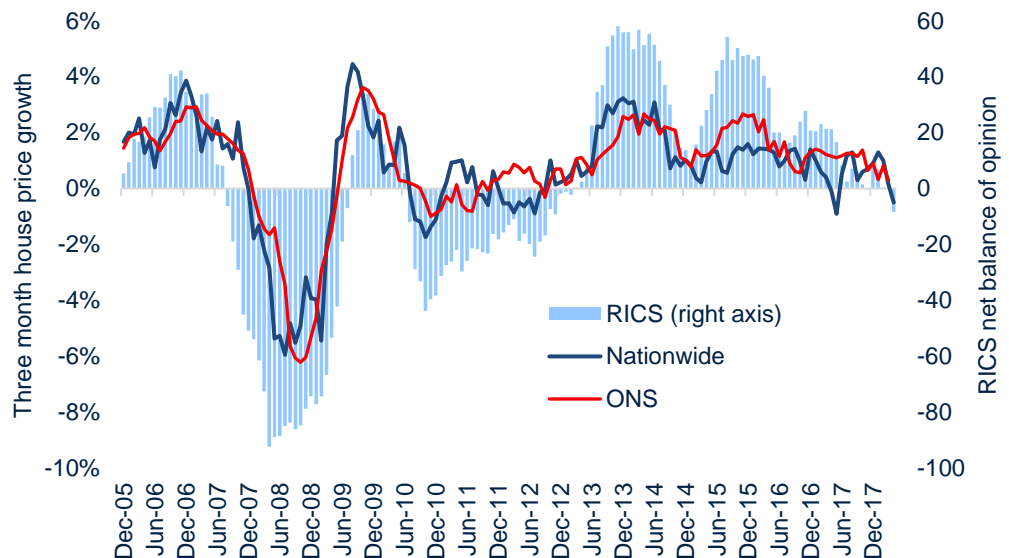
Source: RICS (seasonally adjusted)

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

More surveyors reported expectations of price falls than price rises in April, taking this indicator to its lowest level since 2012.

This sentiment is supported by a continued drop in the three month price growth reported by Nationwide, which now sits in negative territory at -0.5%.

Figure 4 – Three month price growth in negative territory

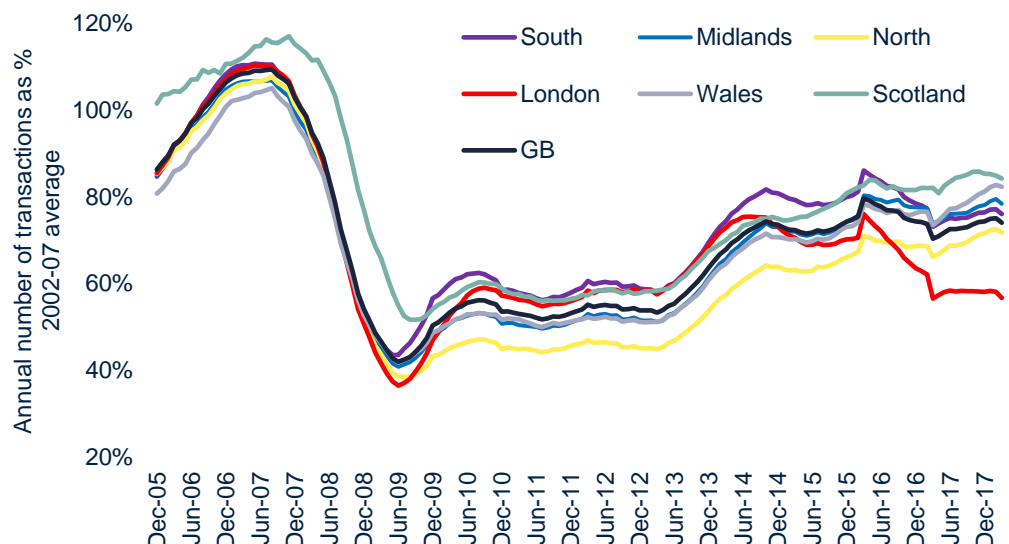


Source: RICS, Nationwide, ONS

Early data suggests a fall in transaction volumes in March. This is based on our analysis of the first release for March from HM Land Registry, which we attempt to adjust for its lag. The annual fall is also enhanced by a slight spike in transactional activity in March 2017.

The scale of the fall will become clearer next month, but other data does support a slow-down in activity. Mortgage approvals are down 9% in Q1 2018 compared to Q1 2017.

Figure 5 – Annual transaction volumes fall



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

Recent house price growth

	Nationwide (to Mar-18 for regions, to Apr-18 for UK)			ONS (to March-18)			Savills (to Mar-18)		
	m/m	q/q	y/y	m/m	q/q	y/y	m/m	q/q	y/y
UK	-0.3%	-0.4%	2.6%	-0.1%	0.4%	3.9%	0.1%	0.2%	4.1%
London	n/a	1.3%	-1.1%	-0.3%	-0.4%	-0.8%	-0.5%	-1.4%	0.4%
South East	n/a	0.7%	2.0%	0.0%	0.6%	3.1%	0.0%	-0.1%	3.3%
East of England	n/a	0.4%	2.4%	0.8%	1.5%	5.2%	0.0%	0.3%	4.6%
South West	n/a	0.5%	2.8%	-0.3%	0.4%	4.9%	0.2%	0.5%	5.0%
East Midlands	n/a	0.8%	4.5%	-0.1%	1.2%	5.6%	0.2%	0.7%	6.5%
West Midlands	n/a	1.4%	4.8%	-0.4%	0.7%	5.1%	0.2%	0.6%	6.1%
North East	n/a	2.8%	4.2%	-1.3%	-2.4%	2.1%	-0.1%	-0.3%	2.3%
Yorks & Humber	n/a	2.0%	4.1%	0.0%	0.1%	3.0%	0.1%	0.4%	4.5%
North West	n/a	0.5%	3.1%	0.7%	0.7%	5.2%	0.3%	0.6%	5.2%
Wales	n/a	2.0%	6.0%	-0.1%	0.7%	3.5%	0.4%	1.1%	5.3%
Scotland	n/a	-0.9%	0.2%	0.3%	1.7%	6.5%	0.1%	0.2%	5.6%

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

Contacts



Ed Hampson
Analyst
ed.hampson@savills.com
020 3107 5460



Chris Buckle
Director
cbuckle@savills.com
0207 016 3881

Website

www.savills.co.uk/housing-market-updates

*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.

This report is for general informative purposes only. It may not be published, reproduced or quoted in part or in whole, nor may it be used as a basis for any contract, prospectus, agreement or other document without prior consent. Whilst every effort has been made to ensure its accuracy, Savills accepts no liability whatsoever for any direct or consequential loss arising from its use. The content is strictly copyright and reproduction of the whole or part of it in any form is prohibited without written permission from Savills Research.