

UK Housing Market Update

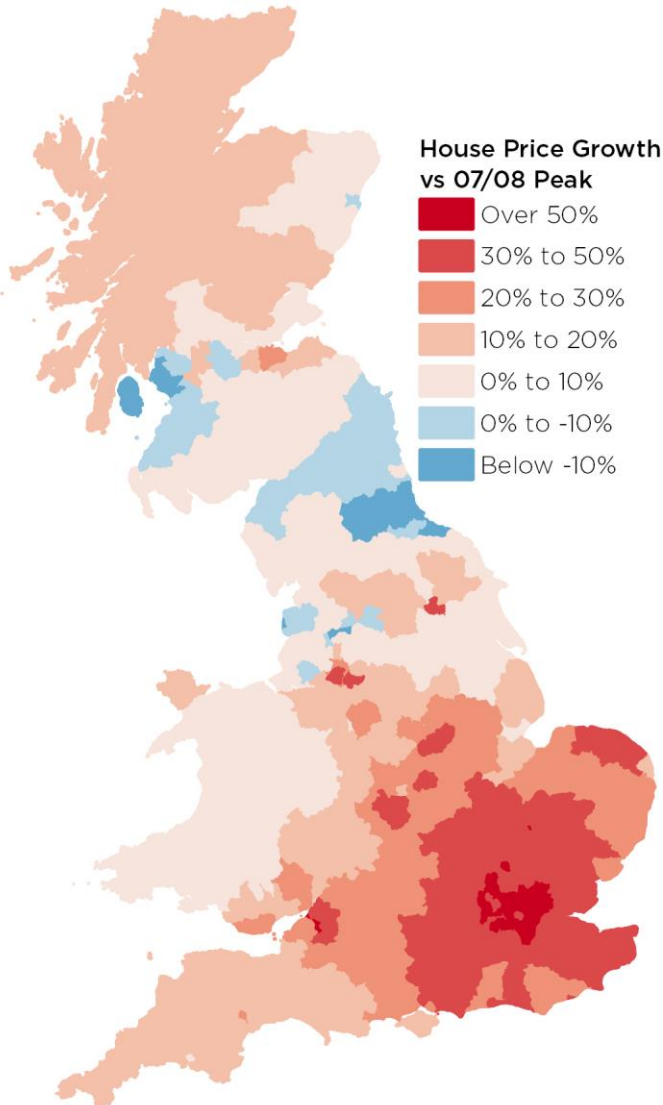


The strong start to 2020 for both house prices and rents continues, but there are risks in the wider economy

House prices rose by 0.3% in February, according to Nationwide. While smaller than the 0.5% rise seen in January, on an annual basis prices were up 2.3%, the strongest for 18 months. It was also the fifth consecutive month of house price growth, the first time this has happened since early 2016. And more surveyors reported price growth in January than at any time since June 2017, with 59% seeing price rises, according to the RICS Survey. This strong start was anticipated by our forecasts, but we expect uncertainty over Brexit trade negotiations to reduce momentum later in the year.

Confidence in price growth was matched by surveyors' reports of activity. New buyer enquiries and new instructions increased for the second month running in January, according to a large majority of surveyors. This appears to be filtering through to transaction levels. HMRC reported the strongest January for transaction levels since 2017, with the seasonally adjusted figure up 5% on the previous year. It will take time to compensate for steady falls in activity we've seen over the past three years, but the rising levels of enquiries and instructions indicate this uptick in activity is likely to continue.

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

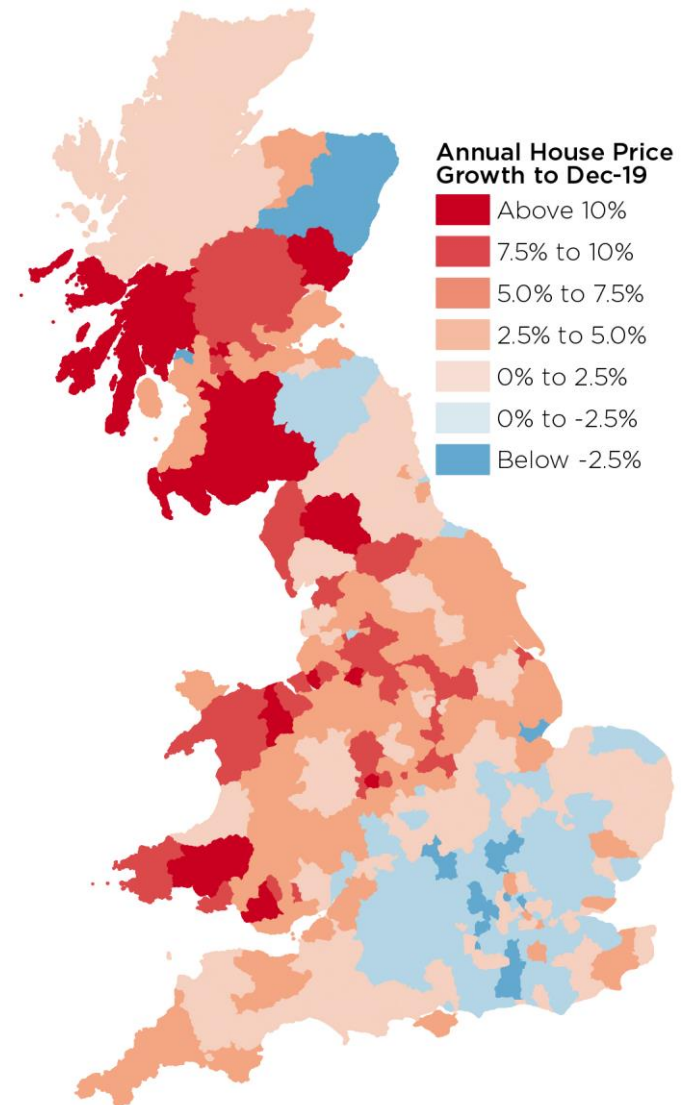


This positive outlook is tempered by increased risks to the wider economy. Alongside Brexit's return to the headlines, as trade negotiations begin, the spread of coronavirus COVID-19 may have a substantial impact on the global economy. The economic consultancy Oxford Economics has suggested it may nudge down its UK GDP forecasts in early March as a result. At the same time, Governments and Central Banks are committing to support markets through the uncertainty.

The top three performers of 2019 were all in Scotland: Angus, Argyll & Bute, and South Lanarkshire, where annual house price growth was 10.1%, 8.0% and 7.8% respectively. Scotland also contained the weakest performer of 2019, Aberdeen, where prices fell -5.0%. South Bucks and Watford were the next weakest, both with annual price falls of -3.4%.

National rental growth was the highest it's been since October 2017 at 1.5% over the year to January 2020. Growth was strongest in the South West, where it grew by 2.3%, followed by the East Midlands at 2.2%, and weakest in the North East and in Scotland, both at 0.6%. The RICS survey has continued to show a widening gap between demand from tenants and landlord instructions. This gap will continue to support rental growth.

Figure 2 Average price growth, year to Dec-19



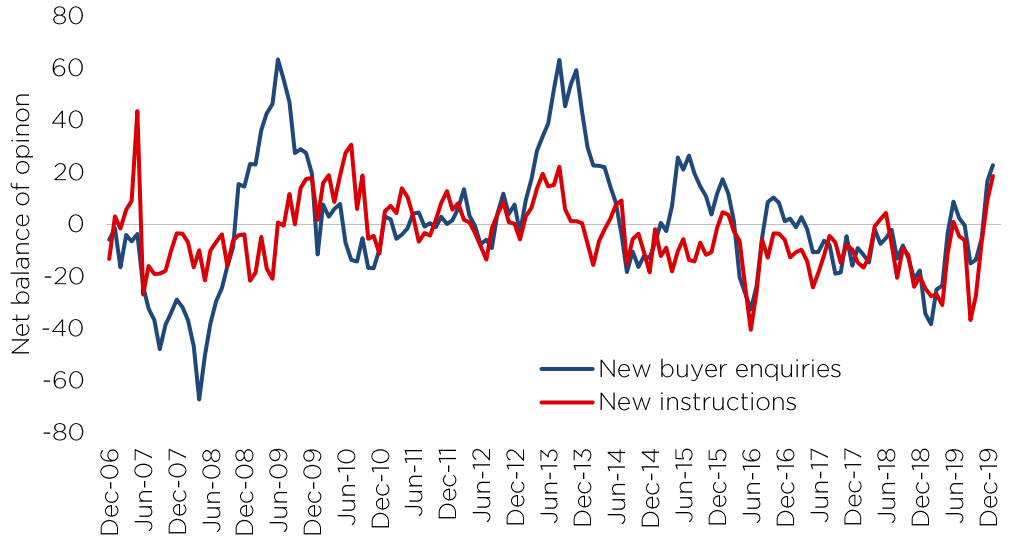
Source Savills using HM Land Registry and Registers of Scotland (6 month smoothed)*

The recent surge in reports of new buyer enquiries and new instructions has continued climbing. 62% of surveyors reported rising levels of new buyer enquiries in January while 60% reported rising instructions volumes.

Both measures have risen in tandem however, which means supply of new homes on the market is largely in line with demand.

This means we would not expect this rise in sentiment to be a significant driver of house price growth, but it does point towards a continued strengthening of activity levels.

Figure 3 Surveyor confidence continues to climb



Source RICS (seasonally adjusted)

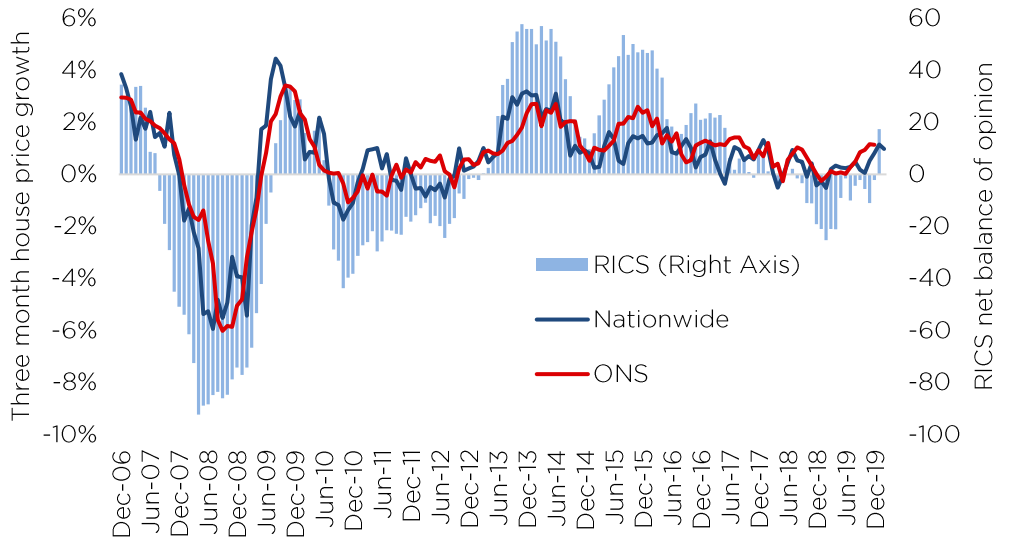
The RICS Survey has, at times, been a good forward indicator of house price movements, which are later picked up by the indices.

In January, the RICS price growth opinion survey reported the largest positive jump since the summer of 2009.

This leap is almost without precedent, but is supported by relatively strong growth from both the Nationwide and ONS indices.

While this growth is strong by recent standards, it is still some way below the 2013-2015 average.

Figure 4 Strong price growth across all measures

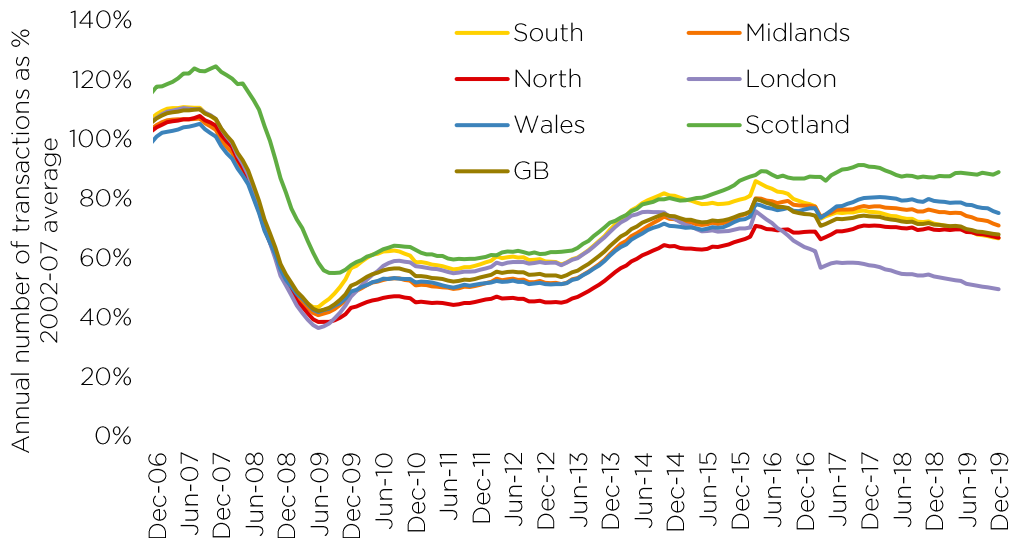


Source RICS, Nationwide, ONS

According to our analysis of Land Registry data, transaction volumes fell across all regions in 2019, except for Scotland where they rose by 2.1%. London saw the biggest fall over the year of just over 8%.

HMRC's slightly more up to date national figure for January hinted at a reasonably strong start to the year, however, up 5.2% on the same month last year. This makes it the fourth strongest January in the past decade.

Figure 5 Evidence of a solid start to the year for transactions



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

Table 1 Recent house price growth

| | Nationwide (to Feb-20 for UK, to Dec-19 for Regions) | | | ONS (to Dec-19) | | | Savills (to Dec-19) | | |
|-----------------|--|-------|-------|--------------------|-------|------|------------------------|-------|-------|
| | m/m | q/q | y/y | m/m | q/q | y/y | m/m | q/q | y/y |
| UK | 0.3% | 1.0% | 2.3% | 0.4% | 1.1% | 2.1% | 0.3% | 0.9% | 1.7% |
| London | - | -0.2% | -1.9% | 1.2% | 1.9% | 2.2% | 0.6% | 1.5% | 0.4% |
| South East | - | -0.5% | -1.0% | -0.1% | 1.1% | 1.2% | 0.1% | 0.5% | -0.3% |
| East of England | - | -1.4% | 0.1% | 1.9% | 2.3% | 2.4% | 0.0% | 0.4% | 0.0% |
| South West | - | 1.5% | 1.5% | 1.4% | 2.0% | 2.2% | 0.2% | 0.9% | 1.2% |
| East Midlands | - | 0.1% | 0.4% | 0.6% | 1.5% | 2.8% | 0.3% | 0.9% | 2.6% |
| West Midlands | - | 0.8% | 2.7% | -0.5% | 0.6% | 1.4% | 0.2% | 1.0% | 2.4% |
| North East | - | 1.3% | 2.7% | 0.1% | -0.2% | 1.8% | -0.2% | -0.1% | 1.1% |
| Yorks & Humber | - | 0.8% | 1.6% | 1.2% | 1.9% | 3.9% | 0.2% | 0.9% | 3.1% |
| North West | - | -0.7% | 1.8% | 0.0% | 0.5% | 2.0% | 0.4% | 1.0% | 3.9% |
| Wales | - | 0.5% | 1.5% | -1.7% | 1.1% | 2.2% | 0.3% | 1.4% | 4.6% |
| Scotland | - | 1.4% | 2.7% | 0.0% | 0.0% | 2.3% | 0.3% | 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

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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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