

UK Housing Market Update

What the lead indicators tell us this month

House prices falling as uncertainty continues

Our forecasts for 2017 anticipated a high level of uncertainty as Brexit negotiations started. The announcement of a General Election on 8th June is part of this uncertainty and has not yet prompted a change in our expectations. We continue to expect slow or negative house price growth and subdued transaction levels, at least in the short term.

In line with this, Nationwide reported a second consecutive month of house price falls in April 2017. House prices fell -0.4%, according to their index. The RICS survey results were unchanged in March. It reported continued falls in the number of new instructions and the number of surveyors reporting an increase in buyer enquiries remains about equal to the number reporting falls. Transaction volumes were 10% lower over the last six months compared to the same period the previous year. This varied from 23% lower in London to only 3% lower in Scotland and Wales.

GDP growth came in at half the expected rate at the end of Q1 2017, at only 0.3%. It is anticipated the Bank of England will reduce its GDP forecast for the year following the weak first quarter. Meanwhile, inflation (CPI) has risen ahead of expectations to 2.2% in March. Household lending data from March shows a continued appetite for unsecured borrowing. This may mitigate the effect of inflation on consumer spending power in 2017, but is not a long term fix.

The strongest house price growth is focussed in East London and lower value London commuter towns. The London Borough of Newham still ranks in the top three local authorities in terms of annual house price growth, joined in February by Thurrock and Harlow.

The ONS index of rents currently being paid shows annual rental growth running at 2.0% in Great Britain in March 2017. The strongest rental growth was in the South East and East of England, at 3.4% and 2.8% respectively. LSL, Countrywide and HomeLet are all reporting slower growth over the last few months than the same period last year. The latest data for London suggests that rents have stabilised after recent falls.

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

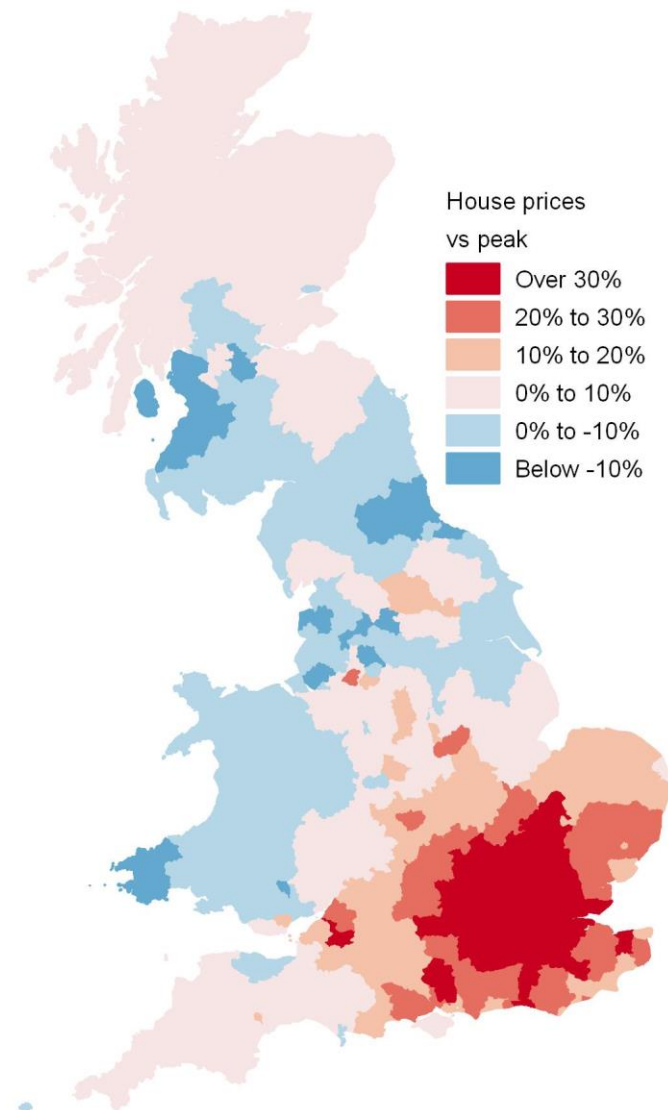
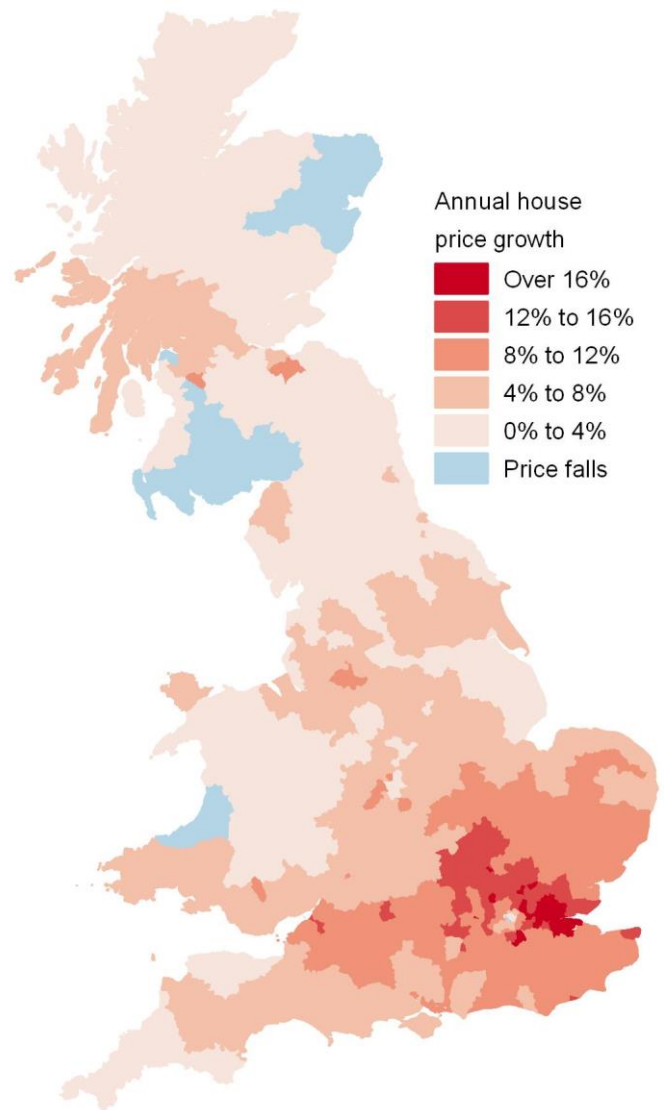


Figure 2 – Average price growth, year to Feb-17



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

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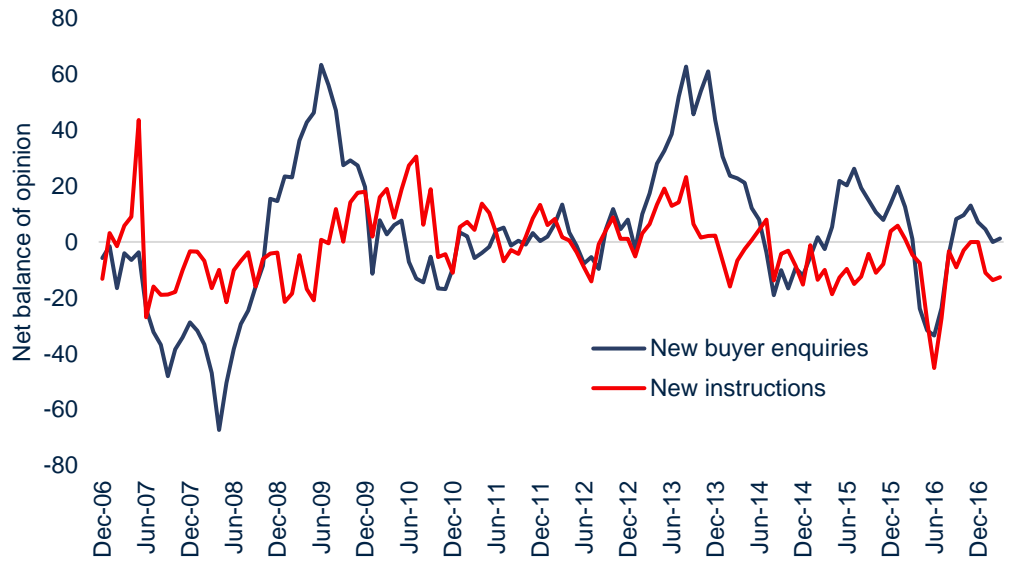
The March RICS Survey shows that the number of surveyors reporting growth in new buyer enquiries and new instructions has stabilised.

More surveyors are reporting falling numbers of new instructions than rising.

The number of surveyors reporting rising numbers of new buyer enquiries is equal to the number reporting falls.

This suggests that activity levels are likely to remain subdued, in line with our forecasts.

Figure 3 – Indicators of both supply and demand have stabilised



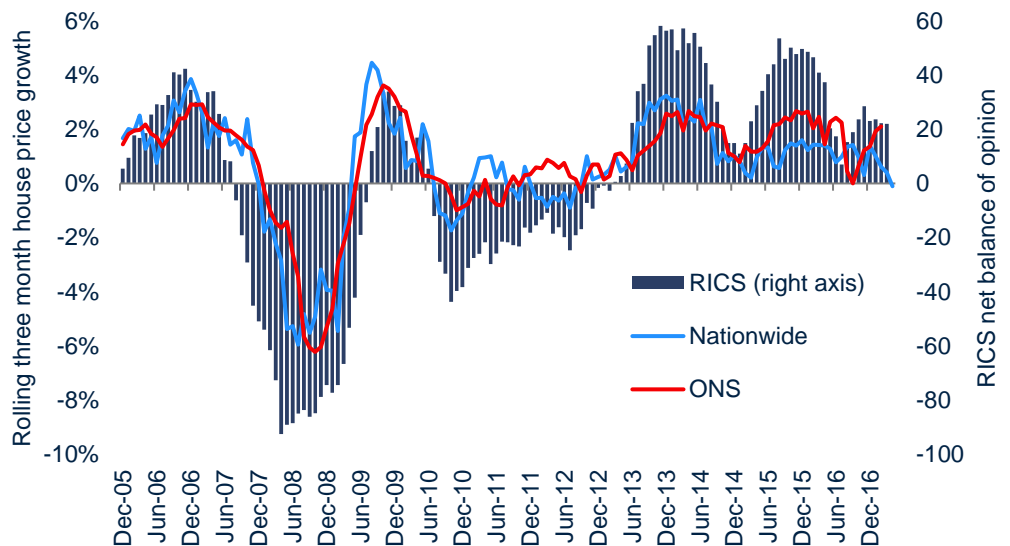
Source: RICS (seasonally adjusted)

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

The number of surveyors reporting rising house prices remains consistent, as it has done since October.

Three month price growth according to the Nationwide index has turned negative for the first time since September 2012.

Figure 4 – Confidence in house price growth remains consistent



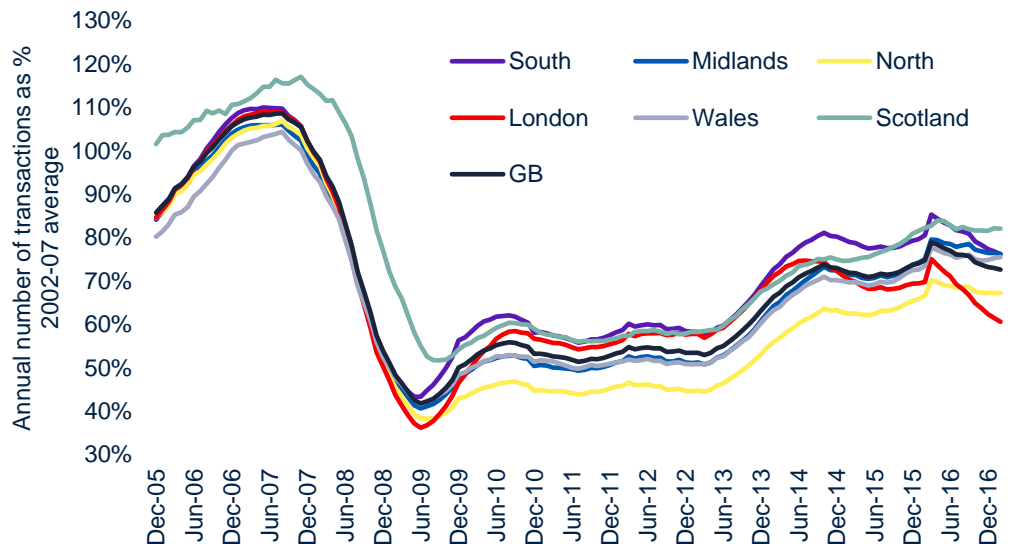
Source: RICS, Nationwide, ONS

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

Across most regions in England, transactions have been relatively stable since June. But this level is lower than comparable time periods from the previous year.

The largest falls are in London and the south. Scotland, Wales and northern England have seen smaller falls.

Figure 5 – Falls in London transaction volumes have slowed



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

Recent house price growth

	Nationwide (to Apr-17)			ONS (to Feb-17)			Savills (to Feb-17)		
	m/m	q/q	y/y	m/m	q/q	y/y	m/m	q/q	y/y
UK	-0.4%	-0.1%	2.6%	0.9%	2.1%	5.7%	0.4%	1.1%	6.2%
London	n/a	1.2%	5.0%	-0.3%	1.0%	3.7%	0.4%	1.2%	9.4%
South East	n/a	1.1%	6.4%	-0.5%	1.1%	5.3%	0.6%	1.8%	9.8%
East of England	n/a	-0.8%	5.7%	2.3%	3.0%	9.9%	0.7%	2.3%	11.3%
South West	n/a	2.2%	5.4%	0.9%	2.1%	6.1%	0.4%	1.5%	6.9%
East Midlands	n/a	0.4%	4.9%	1.9%	2.8%	7.3%	0.5%	1.4%	6.4%
West Midlands	n/a	1.4%	4.5%	1.4%	2.1%	6.6%	0.5%	1.4%	5.9%
North East	n/a	-0.7%	-0.4%	0.0%	1.3%	2.0%	0.0%	0.5%	2.4%
Yorks & Humber	n/a	-0.8%	2.5%	1.4%	1.9%	4.7%	0.3%	0.9%	4.2%
North West	n/a	0.4%	4.9%	1.2%	3.0%	6.4%	0.3%	1.1%	4.9%
Wales	n/a	-1.9%	1.2%	-0.1%	1.0%	3.5%	0.2%	1.0%	4.6%
Scotland	n/a	0.7%	2.9%	0.8%	1.0%	1.7%	0.1%	0.8%	1.9%

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

Contacts



Holly Titford
Analyst
holly.titford@savills.com
0207 299 3077



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.

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