

UK Housing Market Update

What the lead indicators tell us this month

MPC warns of imminent rate hike which could limit price growth

Annual price falls in London were reported for the first time since Q3 2009, at -0.6% according to Nationwide. The East Midlands saw the highest regional house price growth in the year to Q3 2017, with growth of 5.1%. At a national level monthly growth moved back into positive territory through September at 0.2%, with annual growth now sitting at 2.0%.

Despite the indices showing a slowdown, surveyors responding to the August RICS sentiment survey were more positive about house price growth. This is the first improvement in sentiment for nine months. The numbers of surveyors reporting rising and falling numbers of new instructions was broadly in balance for the first time since before the EU Referendum. More surveyors reported rising numbers of new instructions in August than in any of the previous 18 months. Instructions have now moved slightly ahead of enquiries in the survey. If this trend continues we may see downward pressure on house price growth.

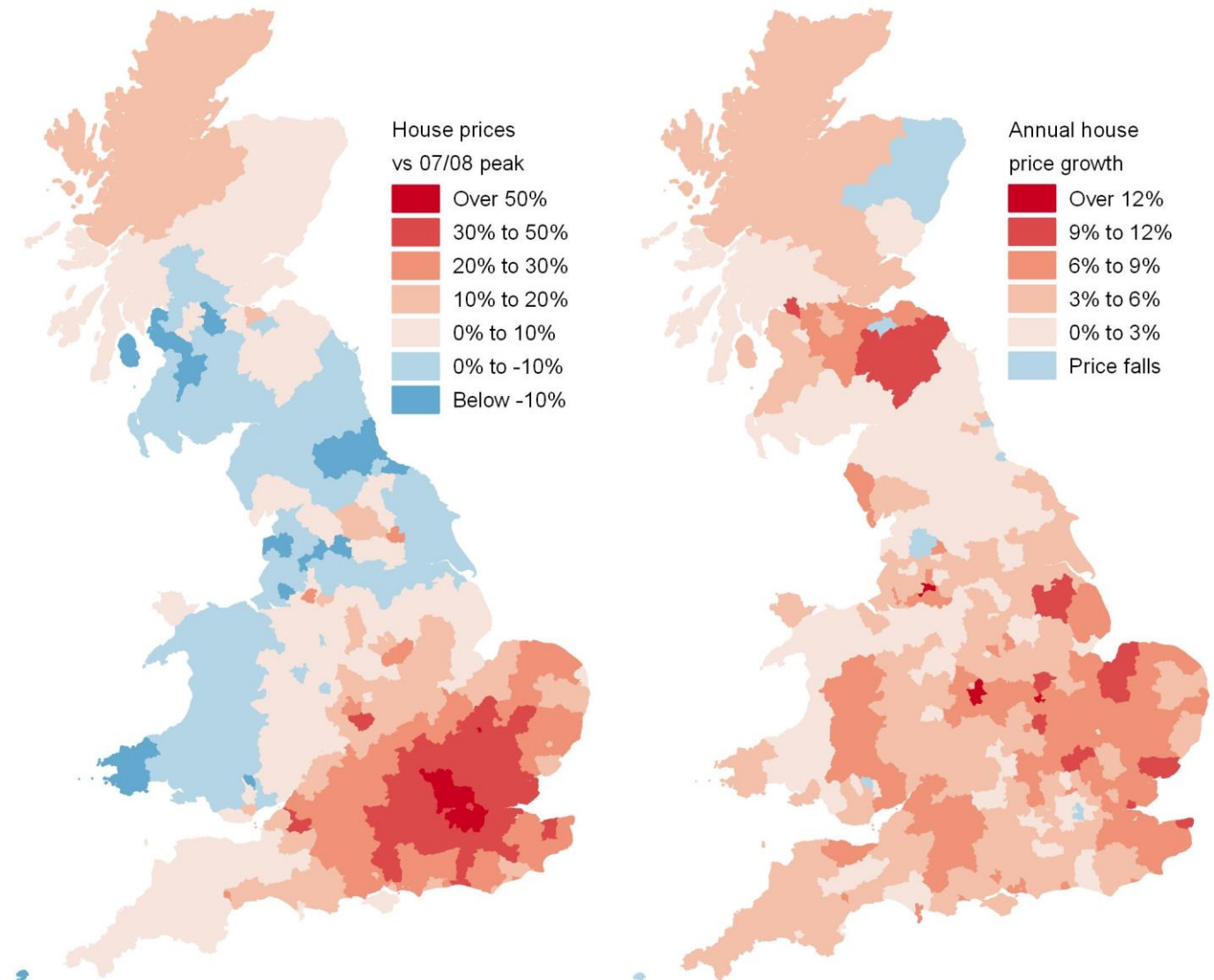
Theresa May's Florence speech restored some confidence in the progress of Brexit talks. The conciliatory tone prompted Oxford Economics to amend the likelihood of agreeing transitional arrangements from 60% to 70%, raising the overall likelihood of a transition agreement followed by an FTA to 35%. Meanwhile members of the MPC, including the Governor, Mark Carney, have signalled that a rate hike before the end of the year is likely. Although some news reports suggest mortgage rates are beginning to rise pre-emptively this has yet to filter through into the data. Any base rate increase is likely to be modest but adjustments to mortgage rates may dampen price growth in the coming months.

The highest house price growth in the year to July 2017 was in Salford (12.1%), Corby (12.1%) and Tendring (10.9%). Five London boroughs are now showing annual house price fall as growth continues to slow in the capital and its surrounds. The heat has also gone out of stronger regional markets like Cambridge and St Albans.

Annual rental growth has dipped to 1.6% in August, from 1.8% in July, according to the ONS index. The East Midlands shows as the strongest regional performer in rents, as well as capital values, with annual growth of 2.8%.

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

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



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

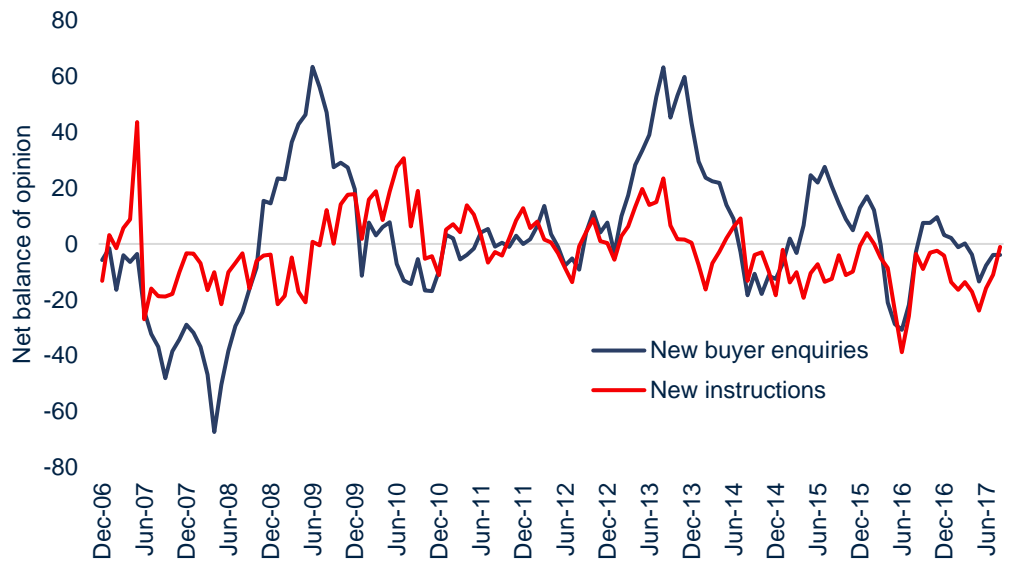


There was a substantial bounce in the number of surveyors reporting rising numbers of new instructions in the August RICS survey. Although a very small majority still think numbers are falling.

The number of surveyors reporting growth in enquiries stayed flat through August.

If these movements are repeated in the coming months there may be some downward pressure on house prices.

Figure 3 – Number of surveyors reporting more new instructions on the rise



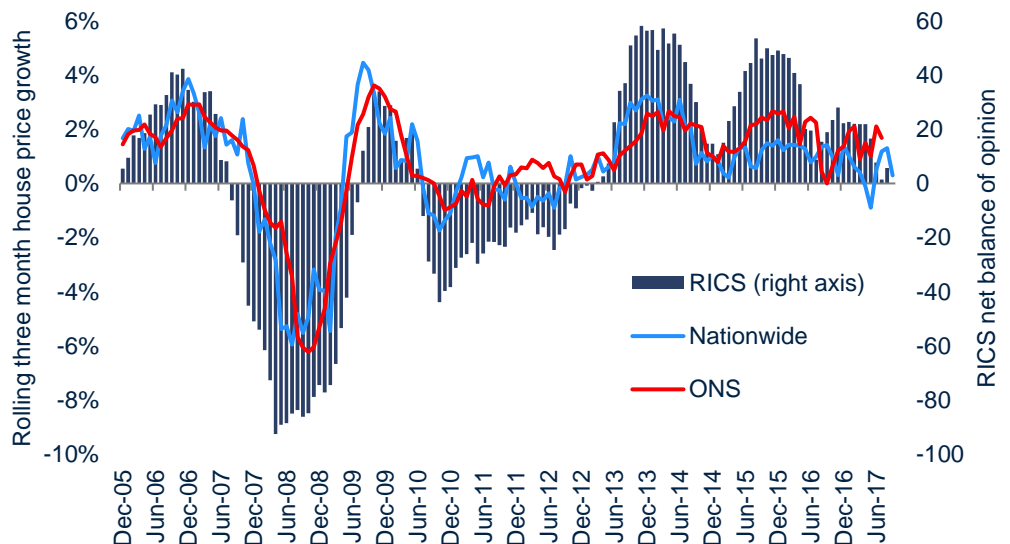
Source: RICS (seasonally adjusted)

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

The number of surveyors reporting rising house prices rose in August following nine months of decline.

However, according to the Nationwide index three month house price growth is slowing again, it was 0.3% in September.

Figure 4 – Surveyors slightly more confident in price growth



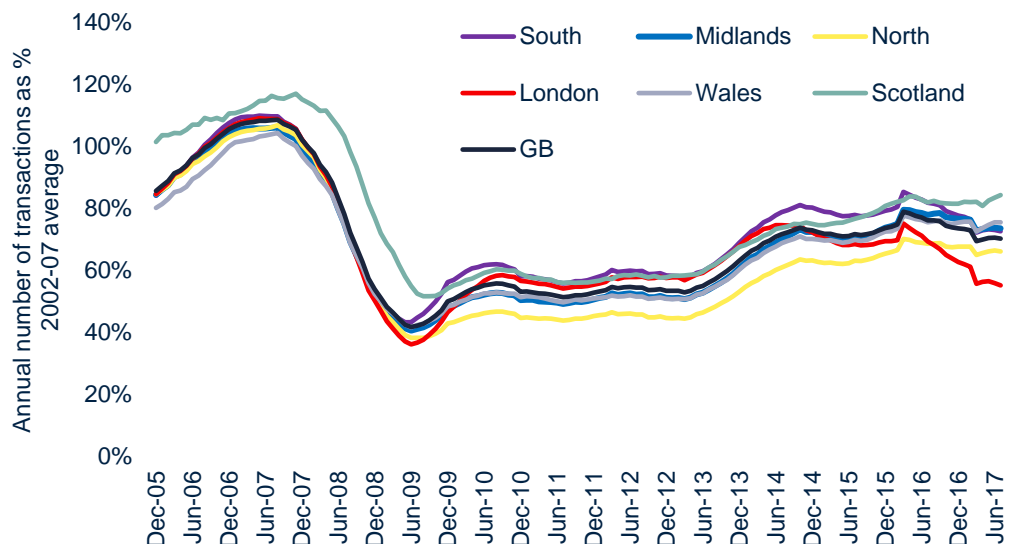
Source: RICS, Nationwide, ONS

The spike in purchases of 'additional homes' in Q1 2016 before the additional SDLT came into effect in April 2016 is gradually working its way out of the annualised data.

Transactions continues to climb in Scotland well above other regions. Across the rest of the UK transactions have remained stable at similar levels seen before the SDLT change.

Volumes in London appear to have stopped falling, but are still well below previous levels.

Figure 5 – Scotland pulls ahead of other regions in transaction volumes



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

Recent house price growth

	Nationwide (UK to Sep-17; regions to Sep-17)			ONS (to July-17)			Savills (to July-17)		
	m/m	q/q	y/y	m/m	q/q	y/y	m/m	q/q	y/y
UK	0.2%	0.3%	2.0%	0.3%	1.8%	5.1%	0.5%	1.3%	3.9%
London	n/a	-0.7%	-0.6%	-1.0%	0.6%	2.8%	0.2%	0.9%	2.3%
South East	n/a	1.6%	3.9%	-0.9%	0.7%	3.9%	0.4%	1.4%	5.0%
East of England	n/a	0.8%	3.9%	0.2%	1.9%	7.2%	0.5%	1.5%	7.1%
South West	n/a	1.2%	4.7%	1.0%	3.2%	7.0%	0.5%	1.3%	5.0%
East Midlands	n/a	2.1%	5.1%	0.5%	2.5%	7.5%	0.9%	2.0%	5.6%
West Midlands	n/a	1.4%	4.6%	1.7%	2.9%	6.9%	0.7%	1.8%	5.6%
North East	n/a	1.8%	2.5%	2.3%	4.2%	4.0%	0.3%	1.0%	1.4%
Yorks & Humber	n/a	-0.5%	0.5%	0.3%	1.7%	4.5%	0.6%	1.3%	3.2%
North West	n/a	0.3%	2.8%	0.4%	2.0%	4.6%	0.6%	1.6%	4.5%
Wales	n/a	1.2%	2.6%	-0.2%	0.3%	3.0%	0.6%	1.0%	3.7%
Scotland	n/a	1.3%	1.9%	1.3%	2.0%	4.9%	0.5%	1.6%	5.1%

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

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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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