

UK Housing Market Update

What the lead indicators tell us this month

Price growth continues shift northwards, but sentiment has weakened

House prices rose 0.3% in September, according to Nationwide. This puts year to date growth at 1.2%, slightly above our forecast for 2018 of 1.0%. The strongest growth continues to be focussed in the Midlands and North of England, except for the North East. Prices in London are still lower than last year but grew 0.5% in Q3.

While the main indices continue to report price growth, surveyors' perceptions of price growth weakened in August, with almost as many seeing falls as rises, according to the RICS survey. There were also fewer surveyors reporting growth in volumes of enquiries and instructions. Surveyors had been reporting rising numbers of both over recent months, although transaction volumes have continued to slowly decline. This shift in opinion has put demand (enquiries) ahead of supply (instructions) for the first time since mid-2017, which may have supported recent price growth.

The longer-term outlook for price growth is weaker. The broad political and economic backdrop is likely to remain uncertain for at least another six months. Income growth is expected to remain modest, holding back the potential for house price increases. Analysis by Oxford Economics shows that the Bank of England forecasts for wage growth have been consistently over-optimistic and suggests that inflation will slow, meaning further rises in the base rate will come through slowly. But mortgage interest rates are clearly on the rise, having fallen fairly consistently since 2008. The average 75% loan-to-value 2-year fixed rate mortgage had an interest rate of 1.75% in August, its highest level for over two years. Further rises will limit the capacity for house price growth.

Annual house price growth is currently strongest in Burnley, the Forest of Dean and Peterborough at 13%, 11% and 10% respectively. London remains the weakest performer, with Kensington and Chelsea, Westminster and Hammersmith and Fulham showing the largest falls of 10%, 9% and 6% respectively.

Annual rental growth remained at 0.9% in August, according to the ONS. The East Midlands continued to show the strongest annual growth of 2.8%, followed by the South West at 2.0%. London has been the weakest performer, with rents 0.3% lower than this time last year.

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

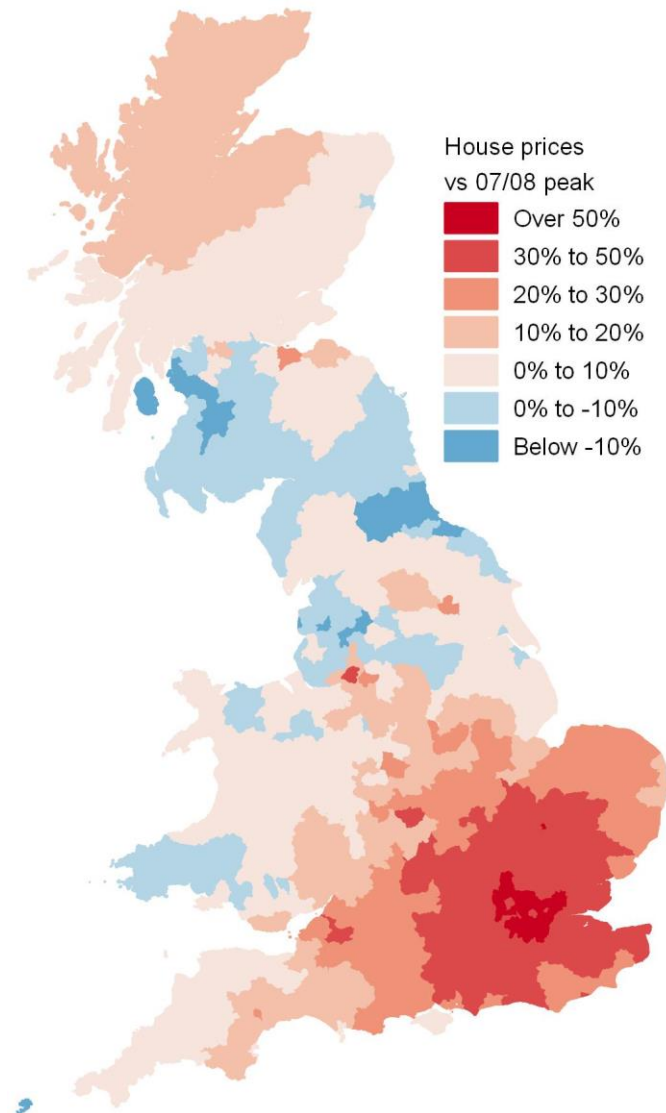
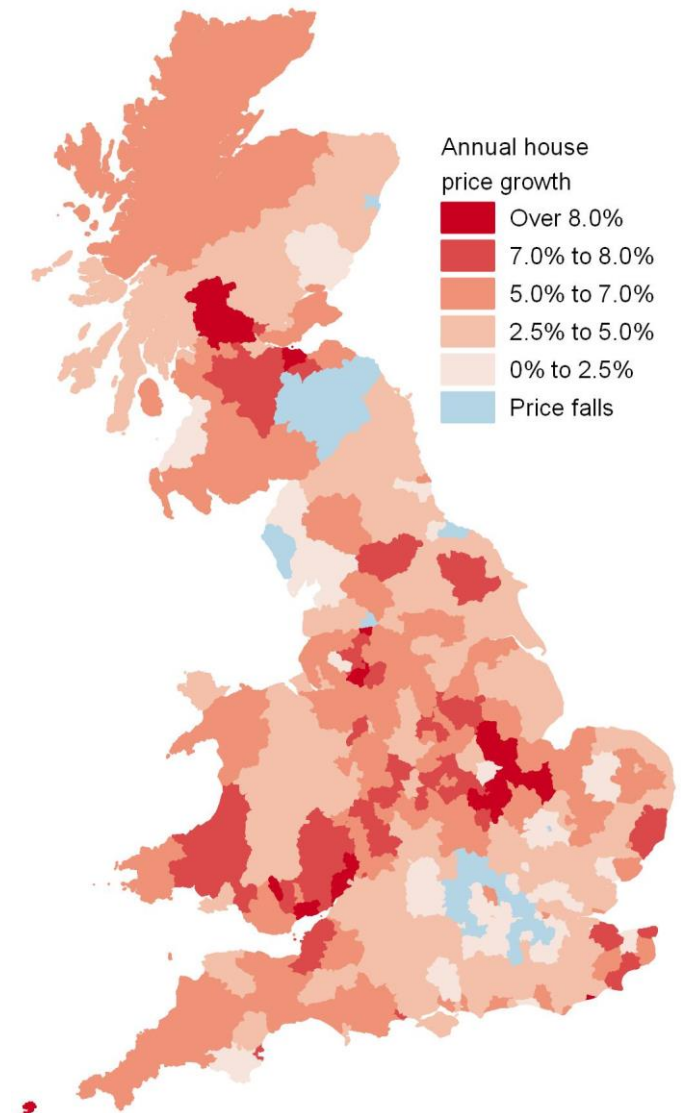


Figure 2 – Average price growth, year to Jul-18



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



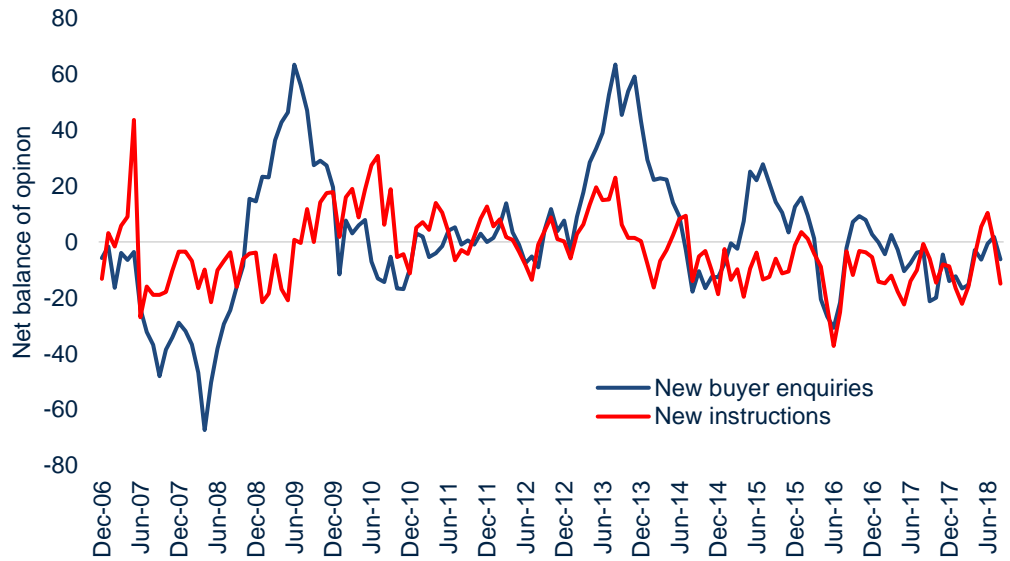
August saw a further fall in the number of surveyors reporting rising numbers of new instructions, taking this measure firmly back into negative territory.

The number of surveyors reporting rising numbers of enquiries also fell in August.

A clear move to a greater level of demand and supply has returned for the first time in over a year. It is only one month of data, but if this trend continues, price growth may strengthen.

With both enquiries and instructions back in negative territory, the outlook for market activity remains weak.

Figure 3 – Surveyors are reporting falling levels of activity

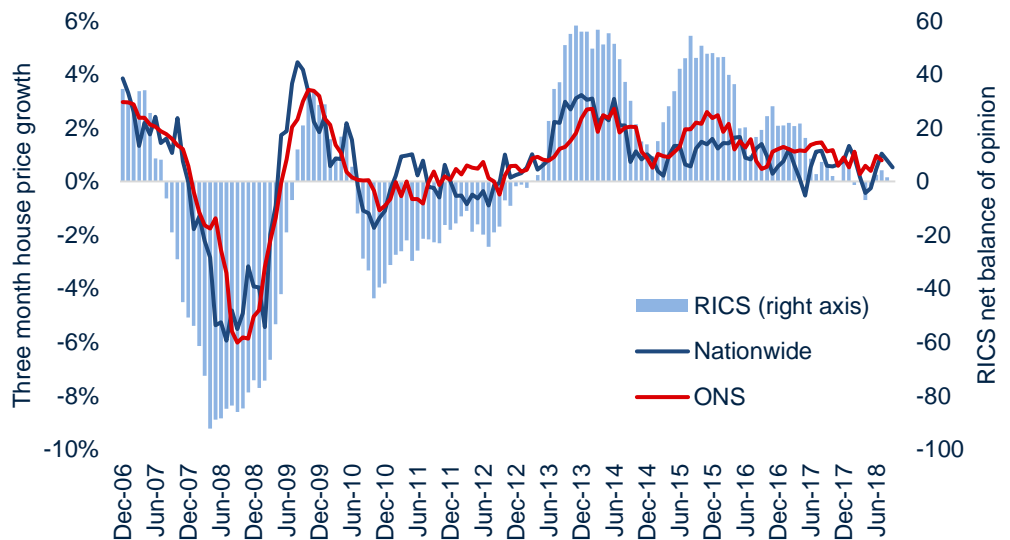


Source: RICS (seasonally adjusted)

The RICS Survey has, at times, been a good forward indicator of house price movements. Only a very slim majority of surveyors reported price growth over the last three months.

The Nationwide Index has dipped slightly, with three monthly growth at 0.5%. The ONS has remained broadly in line with Nationwide.

Figure 4 – Three-month price growth weakens



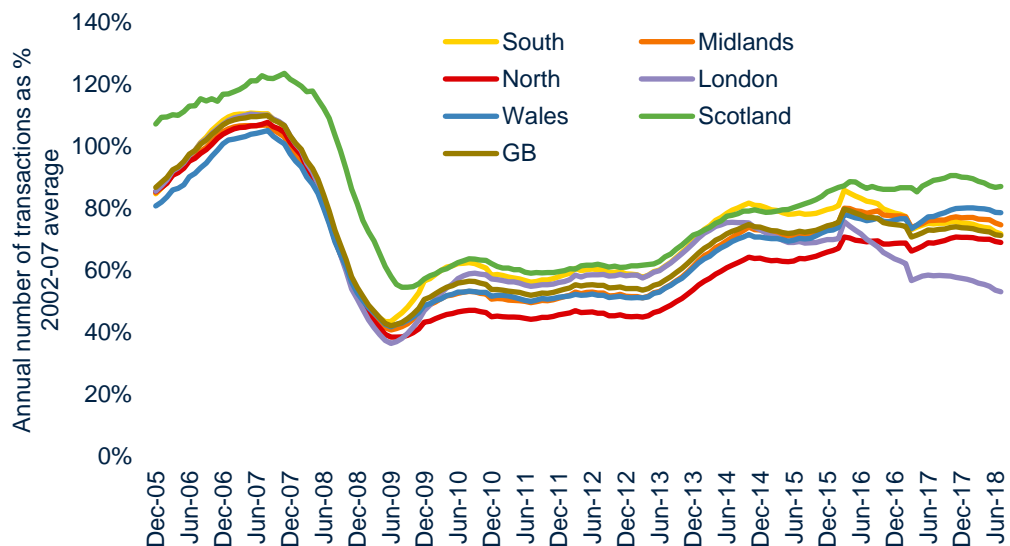
Source: RICS, Nationwide, ONS

The decline in transaction volumes has continued in England, but has slowed in London and Wales.

In Scotland, the annual number of sales increased for the first time in a year. July appears to have been an exceptionally strong month, following six months of low activity.

Activity levels have fallen most in areas of low affordability such as London and the South East, where sales numbers are 11% and 10% lower than this time last year.

Figure 5 – Annual transaction volumes continue to decline



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

Recent house price growth

	Nationwide (to Sep-18)			ONS (to Jul-18)			Savills (to Jul-18)		
	m/m	q/q	y/y	m/m	q/q	y/y	m/m	q/q	y/y
UK	0.3%	0.5%	1.9%	0.3%	0.7%	3.1%	0.2%	0.6%	3.6%
London	n/a	0.5%	-0.6%	-0.7%	-0.3%	-0.7%	-0.2%	-0.3%	-0.7%
South East	n/a	-0.1%	0.9%	-0.2%	0.1%	1.8%	0.3%	0.5%	2.7%
East of England	n/a	1.2%	3.0%	0.2%	0.4%	2.4%	0.1%	0.2%	3.4%
South West	n/a	0.6%	1.9%	1.2%	1.7%	4.3%	0.4%	0.6%	4.6%
East Midlands	n/a	2.0%	4.8%	-0.8%	-0.3%	3.0%	0.4%	1.0%	5.9%
West Midlands	n/a	1.1%	4.2%	0.3%	0.4%	4.4%	0.4%	1.1%	5.3%
North East	n/a	-1.3%	-1.7%	2.1%	0.3%	2.7%	0.0%	0.6%	2.4%
Yorks & Humber	n/a	3.4%	5.9%	-0.1%	0.4%	3.3%	0.3%	0.8%	4.5%
North West	n/a	1.3%	4.1%	2.2%	3.0%	5.6%	0.4%	1.0%	4.9%
Wales	n/a	0.6%	3.3%	-0.1%	0.9%	4.2%	0.5%	0.9%	5.6%
Scotland	n/a	0.3%	2.1%	-0.1%	-0.4%	3.2%	0.5%	1.1%	5.1%

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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