

UK Housing Market Update

What the lead indicators tell us this month

Positive sentiment, but transaction numbers are falling

House prices fell by -0.5% in August, according to Nationwide. This is the largest monthly drop since July 2012, but values remain up an average of 2% on last August. The market looked on track to overshoot our growth forecast for 2018 of 1%, but this fall brings it closer in line with our prediction.

This price fall coincided with a tempering of the exuberance seen in the RICS Survey over the last few months. A majority of surveyors had been reporting rising instructions but this was gone in July. There was a small rise in the majority reporting increasing buyer enquiries. This relatively positive view from surveyors is at odds with falling transactions volumes. There were 16% fewer house sales in June compared to June last year. The least affordable housing markets have seen the greatest falls, with transaction numbers down 27% in London. Help to Buy has been a major stimulus for new homes sales since 2013, although it accounted for only 4% of all transactions in 2017. An announcement on its future is due towards the end of the month, but rumours have emerged that it will be extended two years beyond its current end date of 2021, probably with additional restrictions for buyers.

The GfK Consumer Confidence Survey has also risen this month, reflecting the relative positivity of the surveyors. Its Personal Economic Situation measure is now at its most positive since early 2016. Despite August's rise in the Bank of England base rate, there was no surge in remortgaging activity in the run-up to this rise, as there had been with the November 2017 hike. This is because fixed rate mortgages are currently shielding 90% of new borrowers from interest rate rises.

The areas showing the strongest house price growth in the year to June, were the Forest of Dean and Burnley, both at 11.5%, followed by Newport, at 9.5%. The greatest falls remain in London, with Kensington & Chelsea and Westminster showing annual drops of 8.5% and 6.8% respectively.

Annual rental growth slowed slightly in the year to June to 0.9%, according to the ONS. The East Midlands continued to show the strongest annual growth at 2.7%, followed by the South West at 1.9%. London rents have continued to fall, with rents 0.3% lower than this time last year.

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

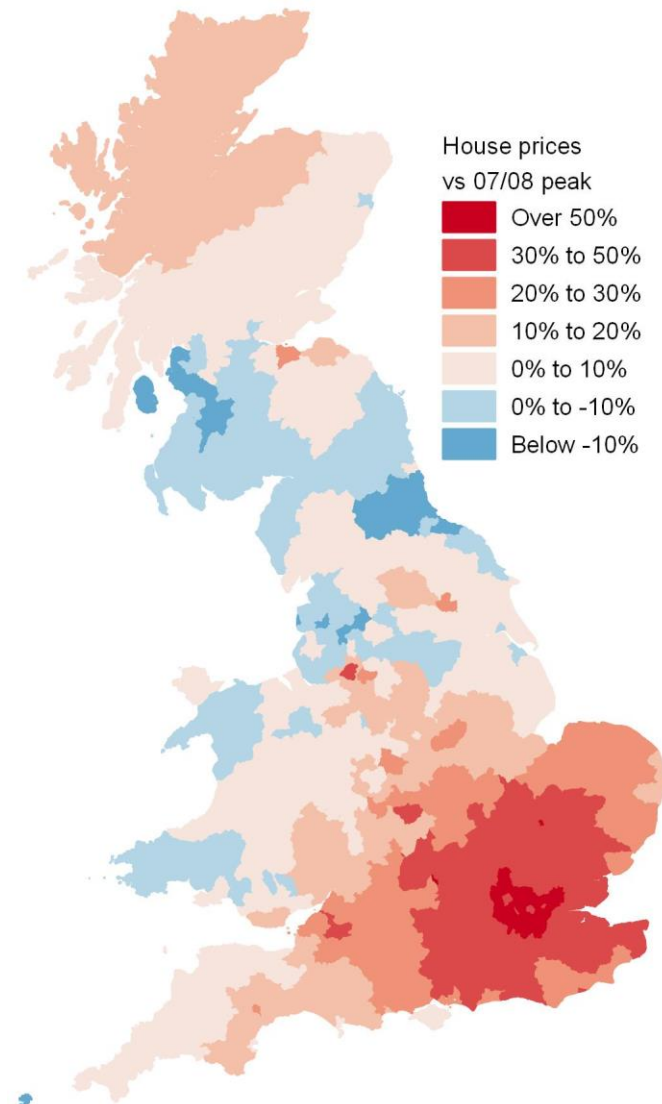
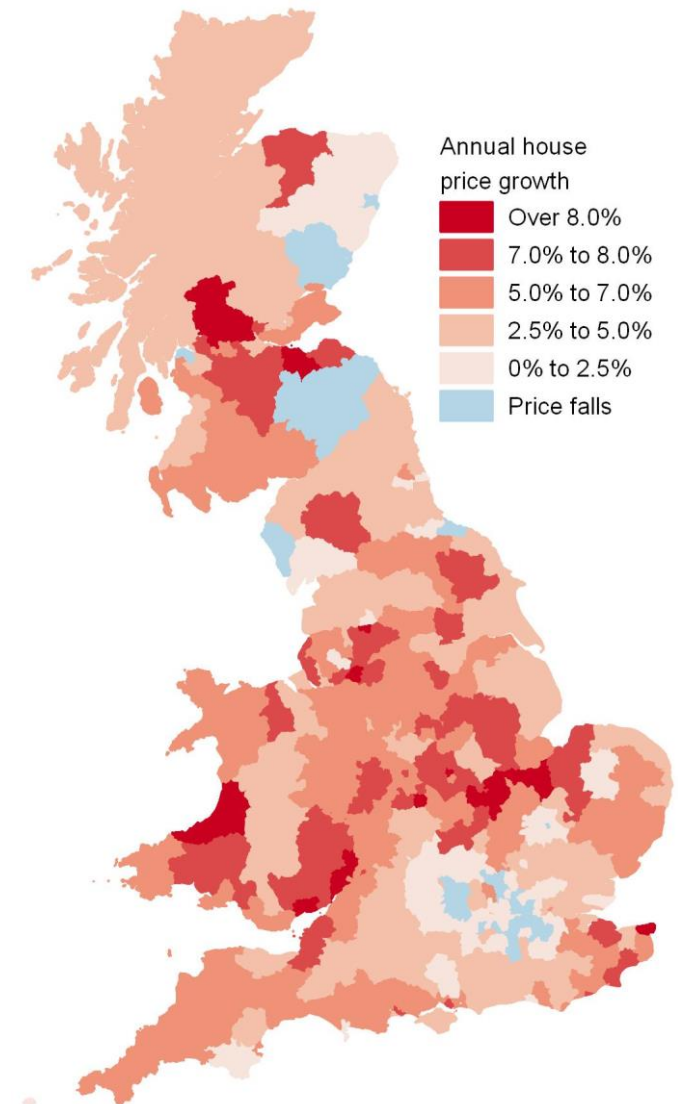


Figure 2 – Average price growth, year to Jun-18

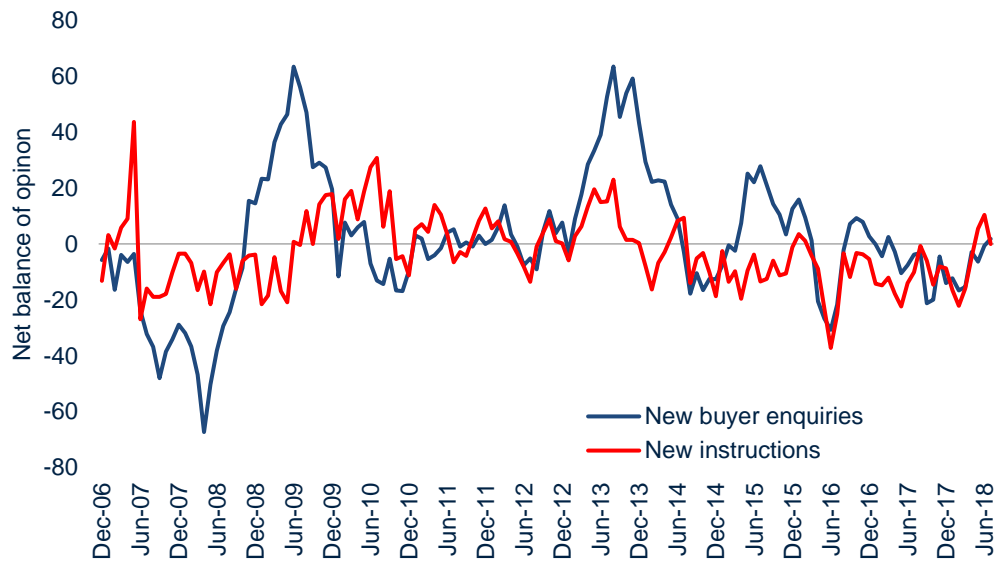




July saw a fall in the number of surveyors reporting rising numbers of new instructions. This is down from the five year high in the previous month. It has left approximately equal numbers of surveyors reporting rising numbers as falling.

The majority of surveyors reporting rising numbers of new enquires rose slightly in July, also leaving approximately equal numbers of surveyors reporting rising numbers as falling.

Figure 3 – Instructions and enquiries reported to be steady



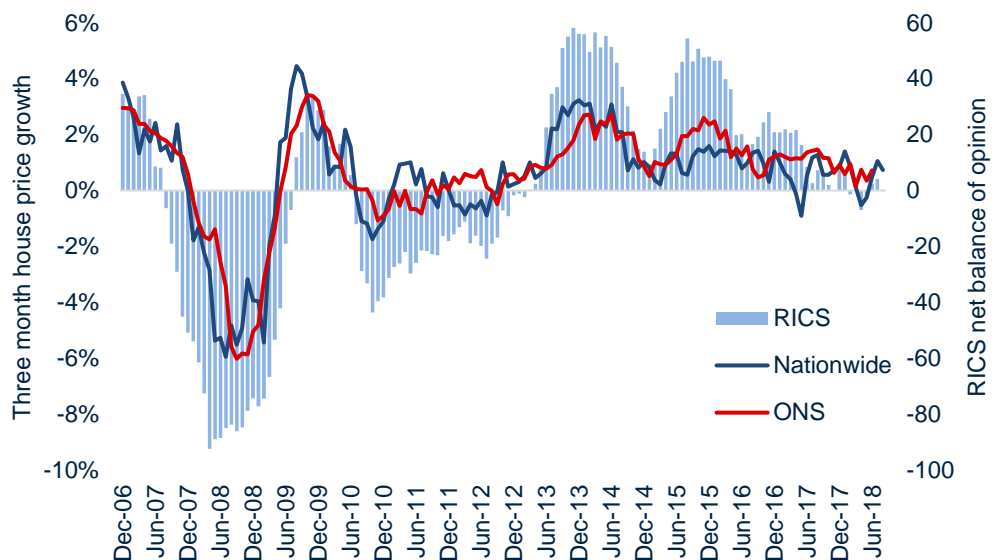
Source: RICS (seasonally adjusted)

The RICS Survey has, at times, been a good forward indicator of house price movements. It now implies modest price growth to come at a national level, with a small majority of surveyors reporting rising prices.

The Nationwide index saw a sizable drop in August, which has brought down three-month house price growth to 0.7%.

The ONS index has undergone some revisions, which have brought it back more in line with Nationwide.

Figure 4 – Small increase in the number of surveyors reporting house price rises

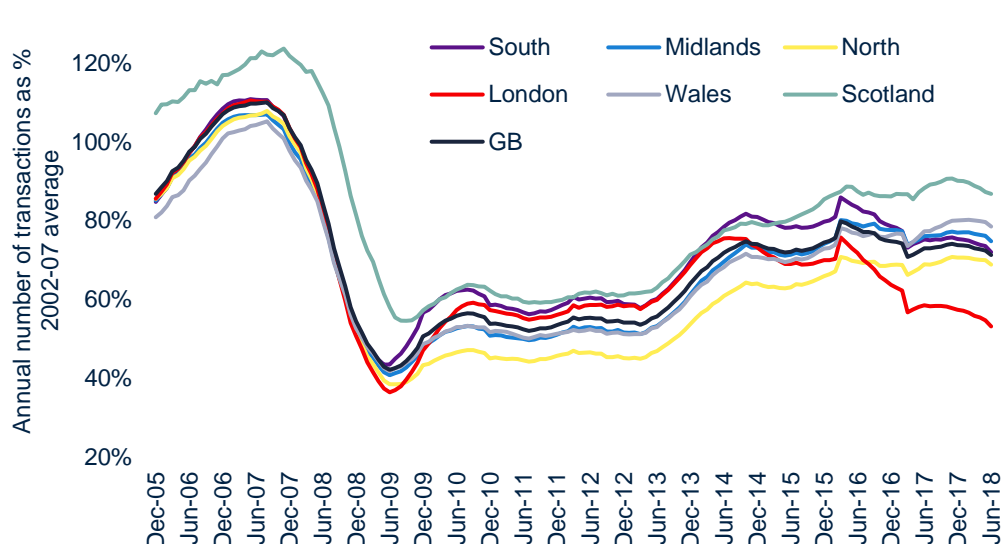


Source: RICS, Nationwide, ONS

Transaction volumes have continued to decline across the country, but the falls are particularly pronounced in areas of low affordability, such as London and the South.

All regions have seen a fall in activity, with London at 27% fewer transactions in June than the same month last year. Scotland has performed the best, with only 6% fewer transactions in June compared to the previous year.

Figure 5 – Transactions continue their downward trend



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

Recent house price growth

	Nationwide (to Aug-18 for UK, Jun-18 for regions)			ONS (to Jun-18)			Savills (to Jun-18)		
	m/m	q/q	y/y	m/m	q/q	y/y	m/m	q/q	y/y
UK	-0.5%	0.7%	2.0%	0.0%	0.7%	3.0%	0.2%	0.6%	3.6%
London	n/a	-2.6%	-1.7%	-0.4%	-0.3%	-0.7%	-0.2%	-0.3%	-0.8%
South East	n/a	-0.2%	2.6%	0.0%	0.3%	2.1%	0.3%	0.6%	2.7%
East of England	n/a	0.4%	2.6%	0.9%	0.8%	3.3%	0.1%	0.3%	3.4%
South West	n/a	-0.1%	2.5%	-0.6%	-0.3%	3.1%	0.4%	0.6%	4.6%
East Midlands	n/a	1.0%	4.5%	-0.6%	0.4%	4.1%	0.4%	0.9%	5.8%
West Midlands	n/a	0.3%	4.4%	1.1%	1.0%	5.8%	0.4%	1.2%	5.4%
North East	n/a	-1.4%	2.0%	-2.7%	-1.6%	-0.6%	0.0%	0.6%	2.5%
Yorks & Humber	n/a	-1.3%	2.2%	0.4%	0.4%	3.1%	0.3%	0.9%	4.6%
North West	n/a	0.6%	3.0%	0.1%	0.2%	3.0%	0.4%	1.0%	4.9%
Wales	n/a	-0.9%	4.3%	0.8%	0.2%	4.3%	0.5%	0.9%	5.6%
Scotland	n/a	2.1%	3.1%	0.0%	0.7%	4.9%	0.5%	1.0%	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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