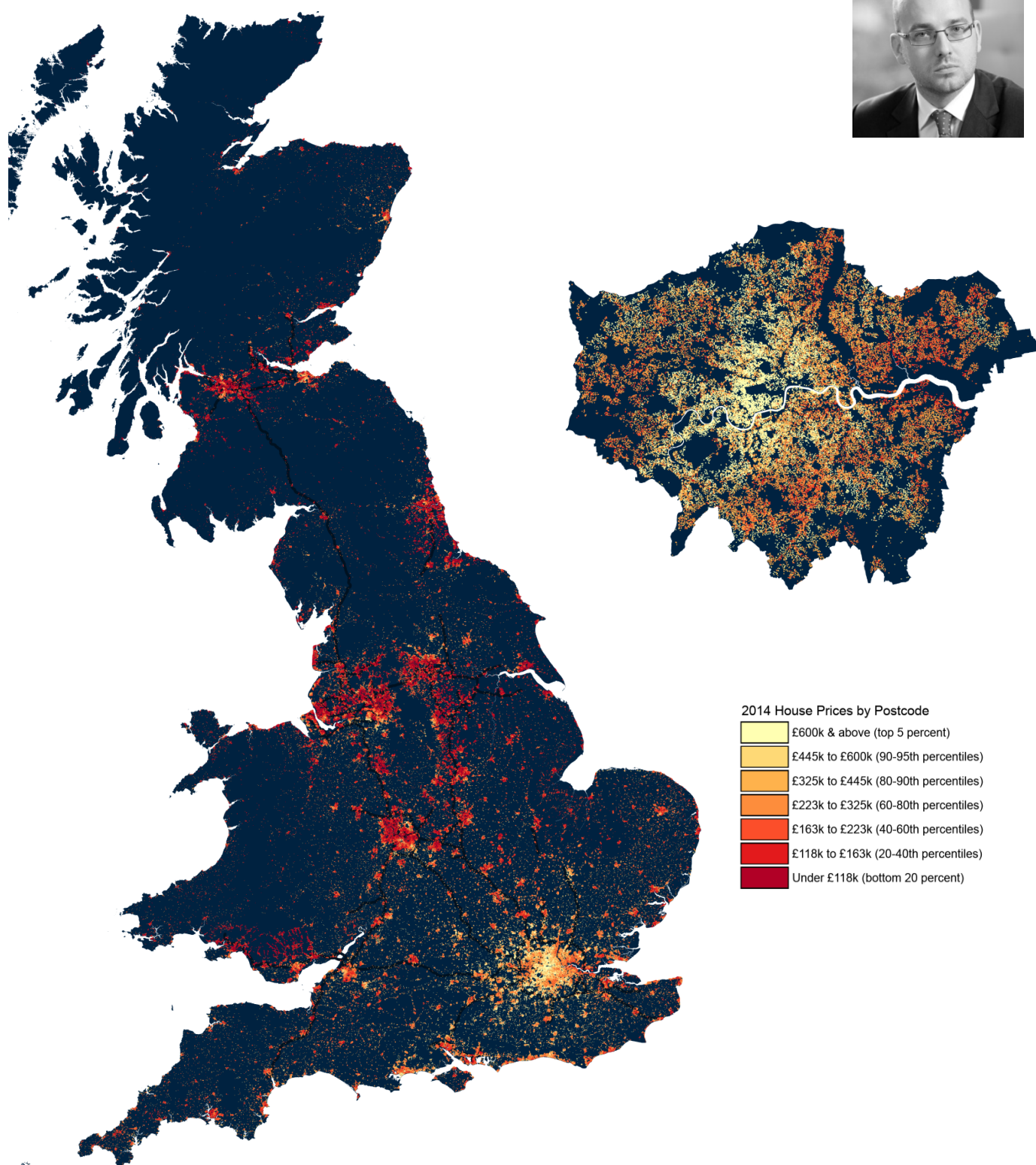


HOUSE PRICES BURNING BRIGHT

How Expensive Are Our Houses?

There are a number of UK house price indices released each month. Filtering out actual trends through the noise can be a challenge. As an earlier note investigated (<http://sav.li/3r1>) these indices have various strengths and weaknesses but, as national averages, they tend not to pick up the wide range in performance between and within local markets. With individual transaction data now available, we can investigate pricing and performance trends at any geography required. For example, the map below shows house prices at a postcode level, highlighting the variation in pricing across regions but also within local markets.

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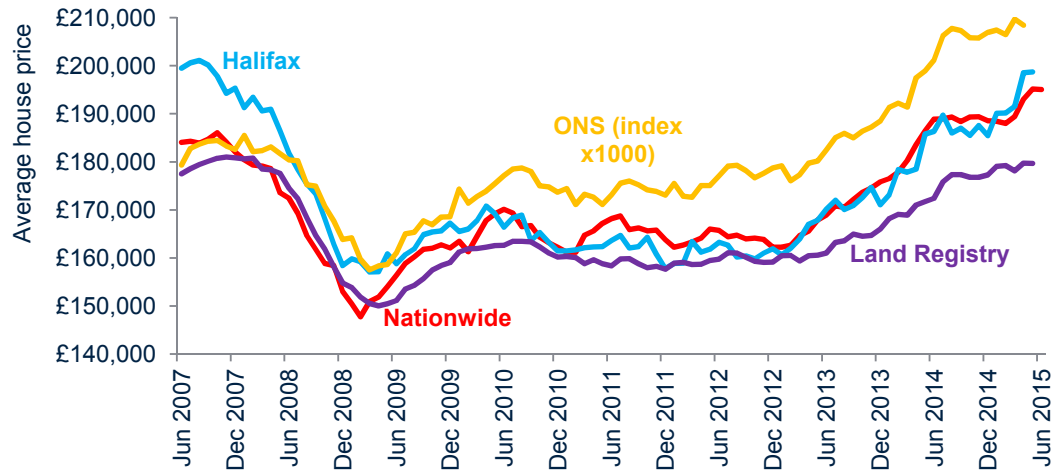
Playing With Averages

National indices are still useful for identifying broad trends in house prices but it is best to ignore monthly fluctuations. However, when buying, developing or investing, it is just as important to understand how the trend in the national average is playing out at a local level and for properties at different ends of the price distribution.

Following a period of rapid price growth during 2013 and the first half of 2014, house prices appeared to have stabilised.

However, the upwards trend appears to have returned this year according to mortgage lenders' indices. It remains to be seen whether the ONS and Land Registry indices also pick up following their usual lag (they are measured at the point of completion rather than mortgage approval)

Fig 1 – National House Price Indices, UK



Source: HM Land Registry, Nationwide, Halifax

Following the recession, house price growth has tended to be strongest in the highest value markets (predominantly London).

However, that trend has broken down over the last year as some of the markets with the highest price growth over a five year period have begun to see growth slow (relative to previous rates).

Meanwhile, the weakest performing markets (in the north of England) continue to see price falls.

Fig 2 – Recent House Price Growth by County/Unitary Authority



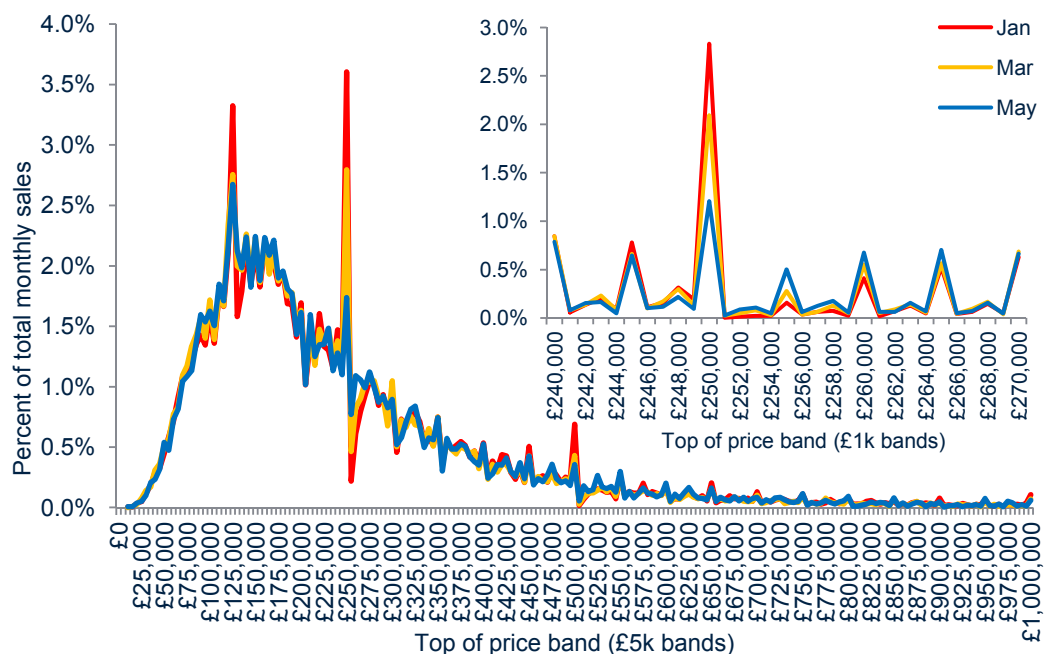
Source: HM Land Registry

The distribution of property prices still highlights the distortions caused by the previous stamp duty thresholds but they are decreasing with each new month's data.

These distortions will take time to smooth out as sales completed now may have been priced and listed by agents prior to the change.

Another consideration is our love of £5k multiples when pricing homes. The inlay chart shows how the decrease in properties priced £250k has been met by an increase in properties priced £255k and £260k but not in the price bands in between.

Fig 3 – Distribution of House Prices, 2015



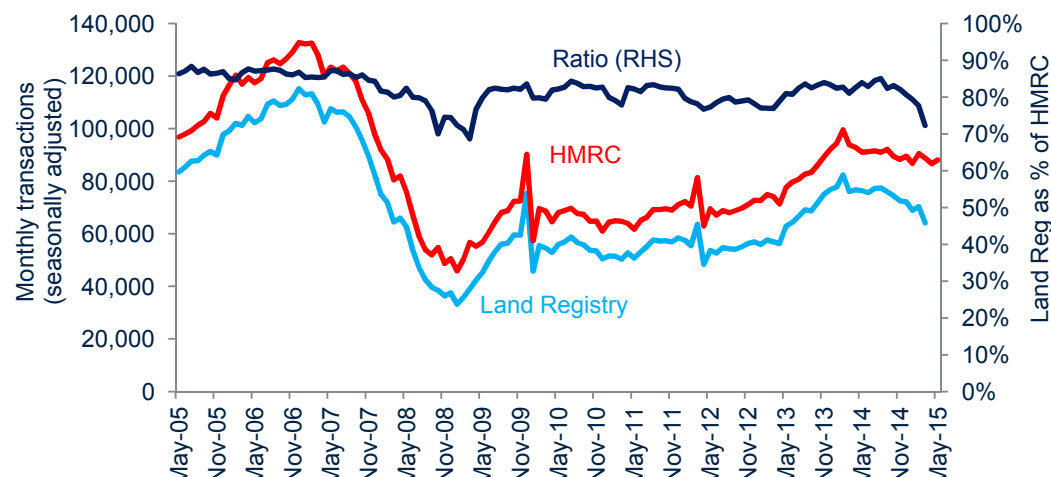
Source: HM Land Registry

Transactions

Housing market transactions peaked in Feb 2014 and have gradually declined since. So far there are minimal signs of a post election bounce back. However, the housing market is highly seasonal which is obviously not shown by the seasonally adjusted data below. Therefore, the question of whether this reflects a normal level of activity in the current market or if there is capacity for further increases in turnover will probably be clearer when we get data for the autumn sales period.

Land Registry residential data excludes some sales for a variety of reasons including repossession, portfolio sales, right to buy and sales to corporate bodies. Therefore, there is always an undercount relative to HMRC data but it has increased in recent months (even allowing for the usual lag in sales being registered with Land Registry). Whether that is due to greater numbers of excluded sales, a longer lag than normal or some other reason remains to be seen.

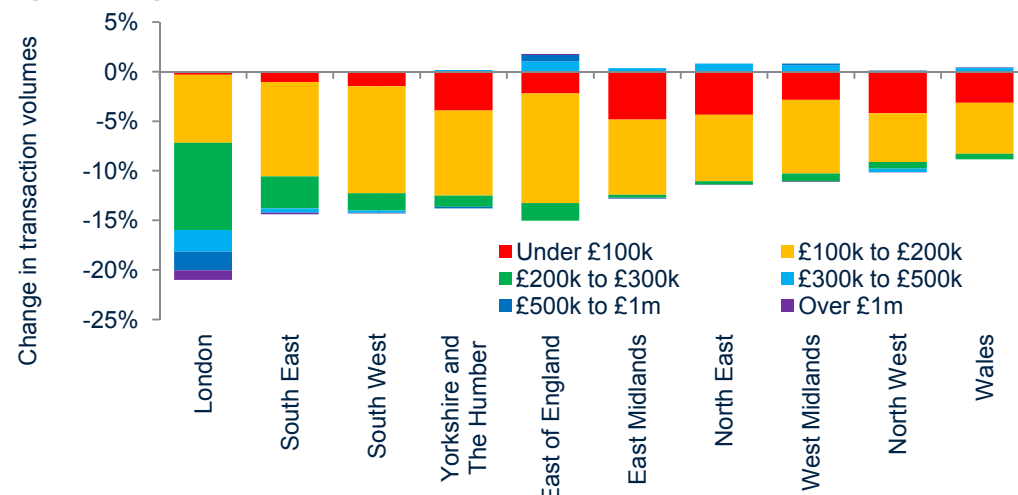
Fig 4 – Housing Market Transactions, England & Wales



Source: HM Land Registry, HMRC

Some clues can be found in looking at where transactions have fallen most since Q1 2014. Land Registry transactions are down 21% in London but only 8% in Wales. Although there are some falls in higher value price bands, the majority of falls in London are found between £100k and £300k suggesting that affordability and Mortgage Market Review may be to blame. We will have to wait and see whether the two data sets converge again in coming months.

Fig 5 – Change in Transactions, Q1 2014 to Q1 2015



Source: HM Land Registry

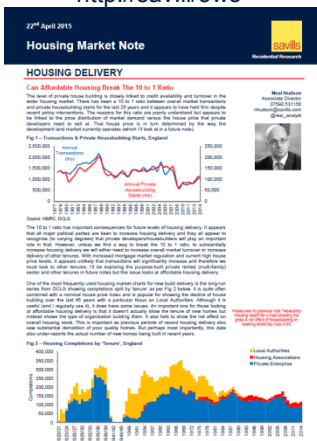
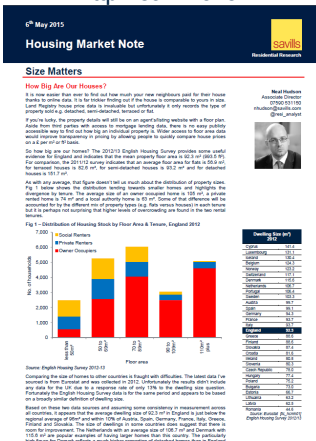
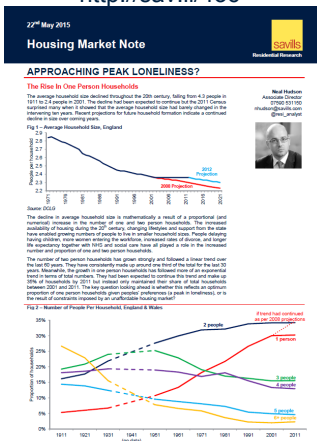
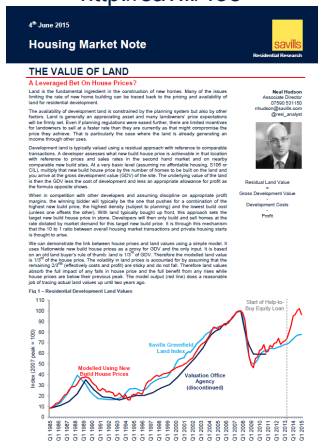
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