

UK Housing Market Update



Strong buyer demand carries into 2021, but values soften

House prices slipped a marginal -0.3% in January, according to Nationwide. This follows the strong 7.3% annual price growth seen last year and is the first monthly fall since June 2020.

This modest fall comes in the face of continued strong demand and shrinking supply, which typically drives value growth. The number of sales agreed has been higher than the number of new instructions since the end of November, according to TwentyCi. This means that homes have been selling faster than they were being listed, shrinking the level of supply relative to demand. The RICS survey for December also showed new buyer enquiries slightly above new instructions. Although the total number of surveyors seeing rising activity has continued to fall, they remained in the majority.

This all suggests that demand remains strong and January's modest price fall may prove to be a temporary blip. But it could be an early sign of demand weakening from the robust levels of activity that have persisted since the end of lockdown 1.0. Stringent lockdown measures continued in January making it more difficult for new buyers to complete a sale before the stamp duty holiday ends on March 31st.

Figure 1 House price growth to Oct-20 since 07/08 peak

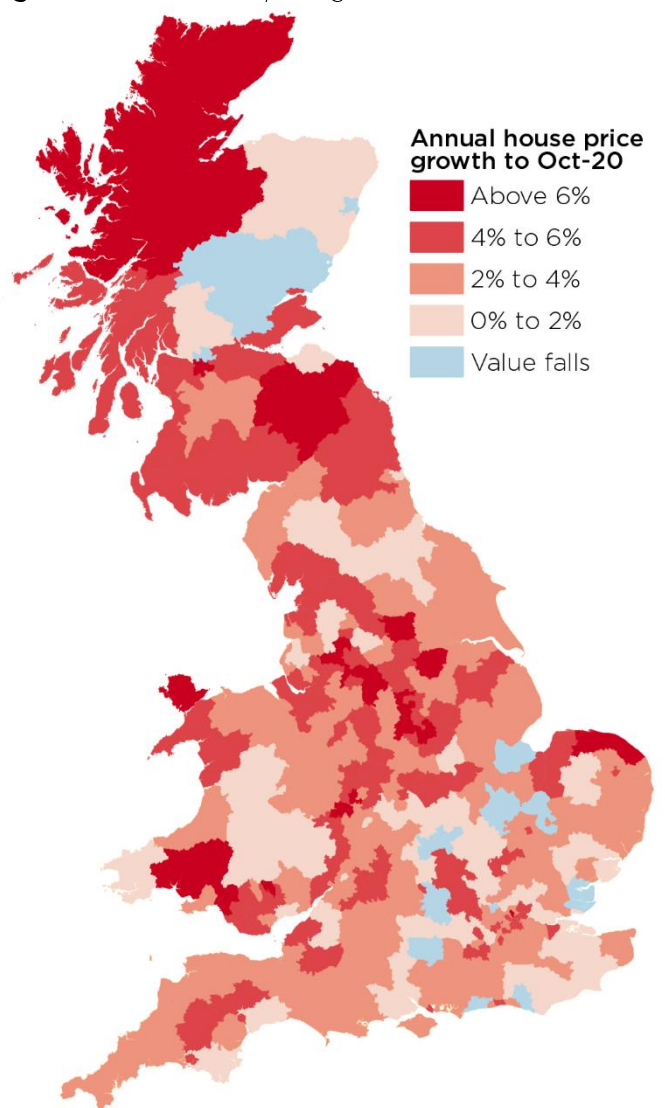
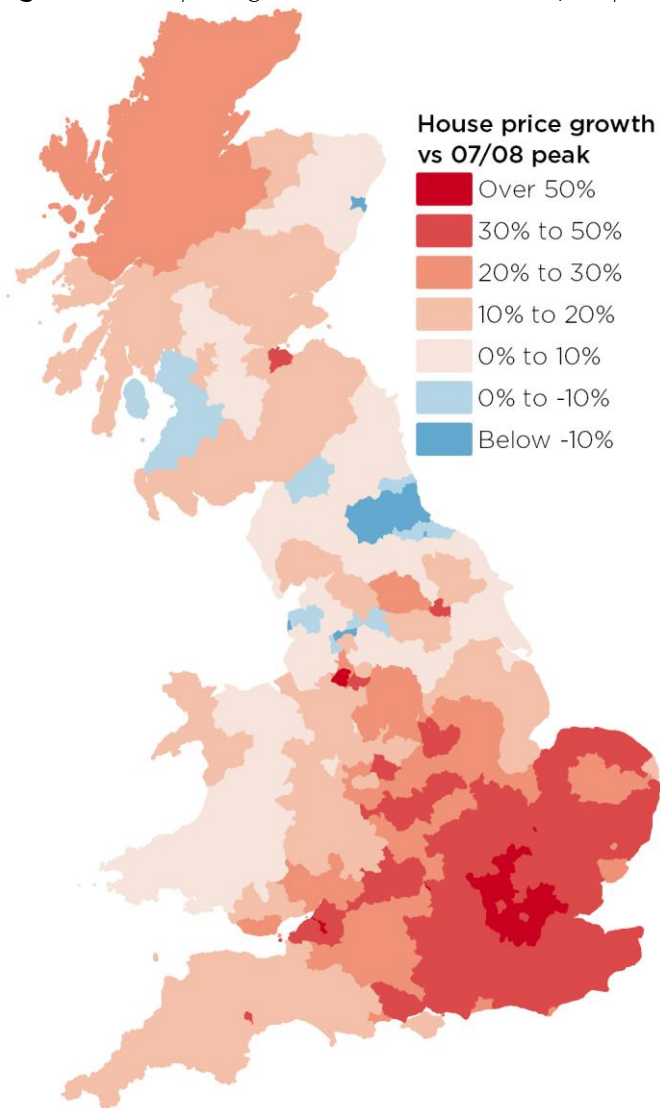
Parliament debated extending the holiday at the start of the month, with many MPs expressing their support. But the Government has shown no sign of changing the end date as yet.

Completed transactions rose again in December, a 14% increase on the previous month and 34% higher than December 2019 according to HMRC. However, the market did not fully recover from the impact of the shutdown earlier in the year meaning that 11% fewer sales completed in 2020 than in 2019, despite the surge of activity at the year end. We expect to see exceptionally high numbers of completions during February and March before a Q2 lull, assuming the holiday ends as currently planned. This would be supported by high numbers of mortgage approvals, which were up 61% in December 2020 compared to December 2019.

The average UK rent increased 1.4% over the year to December, according to the ONS. Rents grew the most in the South West, up 2.6%, and were weakest in Scotland and London, up 0.9% each.

Annual house price growth in October was strongest in Midlothian, at 9.1%, followed by Rossendale in Lancashire at 8.0%. House prices fell most in Aberdeen (-2.1%), followed by Rochford in Essex (-2.0%).

Figure 2 Annual house price growth to Oct-20



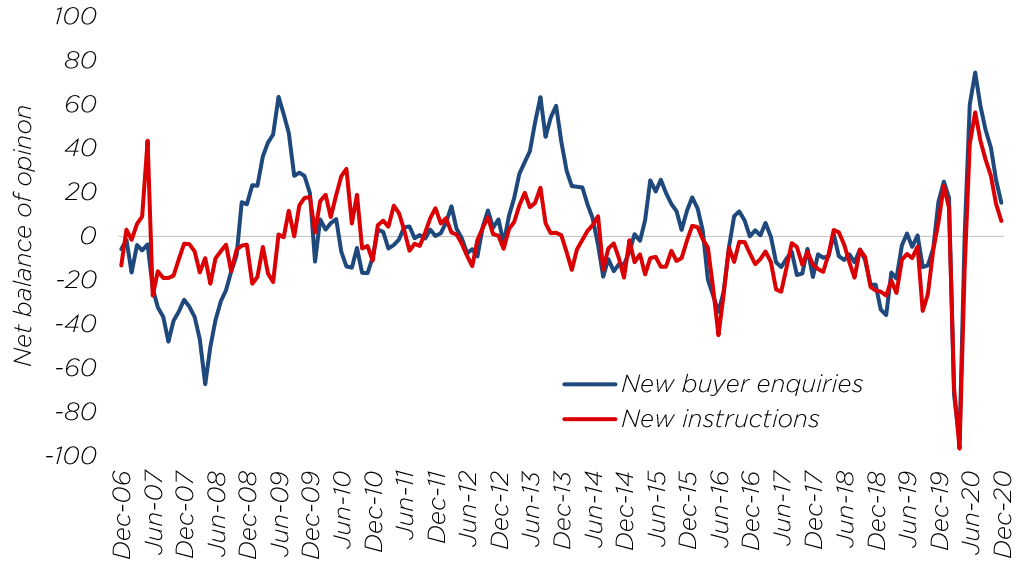
Source Savills using HM Land Registry and Registers of Scotland (6 month smoothed)*

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

Figure 3 Fewer surveyors are reporting rising activity

The RICS survey for December showed the number of surveyors reporting rising levels of activity had continued to fall from the July peak, although remains positive.

Whilst demand from new buyers remained above supply from new sellers, the gap is narrowing and we expect this to continue in the coming months, subduing house price growth.



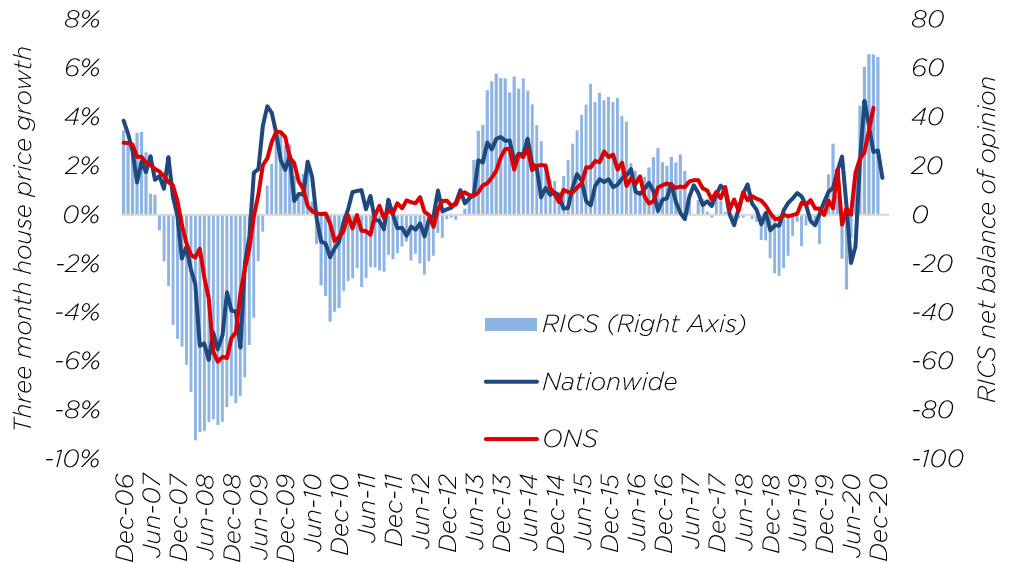
Source RICS (seasonally adjusted)

Figure 4 House price growth remains high, but is slowing

The RICS survey can be a good early indicator of house price movements, which are later picked up by other indices. Given the current pace of change, it may for the time being only reflect the state of the market as it is now.

Nationwide reported a three month growth figure of 1.5%, a fall from the previous figure of 2.6%.

The ONS index, which tends to lag the others (being reliant on sales completions), has not yet picked up the slow-down in house price growth.



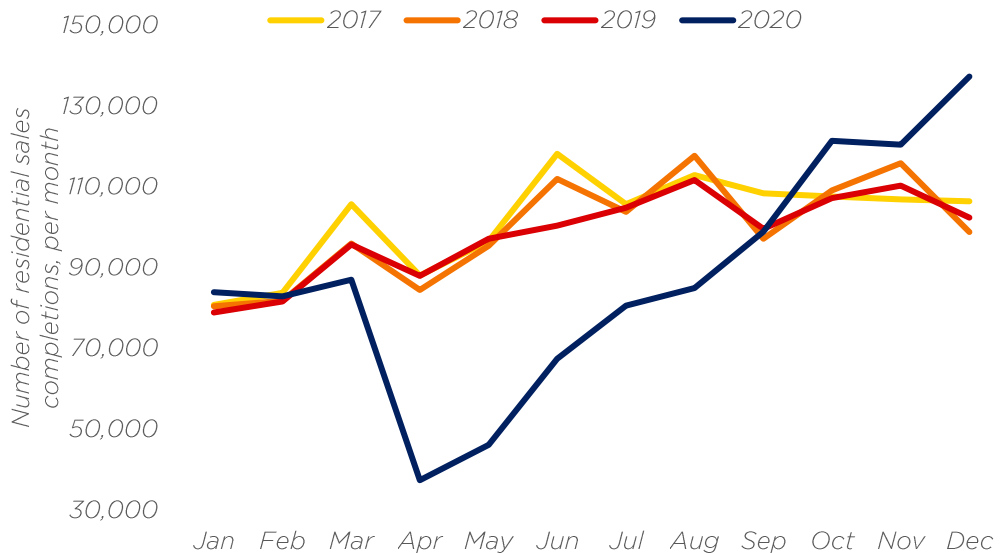
Source RICS, Nationwide, ONS

Figure 5 Total 2020 transactions were at 88% of the three year average

The number of completed transactions continued to climb in December, according to HMRC, reaching 34% above the same month last year.

However, despite the strong bounce back in the second half of 2020, overall transactions for the year were at 88% of the three year average.

Large numbers of sales agreed and mortgages approved are still working their way through the system, partially motivated by the stamp duty holiday deadline. This will continue to support transaction figures over the next few months.



Source HMRC

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Table 1 Recent house price growth

	Nationwide (Regions to Q4 2020, UK to Jan)			ONS (to Oct-20)			Savills (to Oct-20)		
	m/m	q/q	y/y	m/m	q/q	y/y	m/m	q/q	y/y
UK	-0.3%	1.5%	6.4%	1.4%	4.2%	7.5%	0.4%	1.7%	3.1%
London	-	1.6%	6.2%	4.7%	5.9%	9.6%	0.3%	1.7%	3.5%
South East	-	2.4%	8.0%	1.4%	3.9%	6.2%	0.4%	1.3%	2.1%
East of England	-	2.0%	6.4%	0.4%	2.0%	4.7%	0.3%	1.6%	2.2%
South West	-	2.1%	6.4%	1.4%	4.9%	8.5%	0.4%	1.9%	2.8%
East Midlands	-	3.9%	8.5%	0.6%	3.6%	7.1%	0.3%	1.6%	3.8%
West Midlands	-	4.3%	7.4%	1.2%	4.4%	6.9%	0.5%	2.0%	3.7%
North East	-	2.7%	6.4%	2.9%	7.8%	8.2%	0.6%	2.3%	2.7%
Yorks & Humber	-	3.4%	7.6%	2.1%	6.1%	9.7%	0.4%	2.3%	3.9%
North West	-	3.5%	8.0%	0.5%	4.2%	8.6%	0.4%	2.0%	3.9%
Wales	-	2.7%	6.6%	2.4%	4.6%	6.9%	0.4%	1.3%	3.9%
Scotland	-	2.0%	3.1%	1.4%	8.1%	8.7%	0.4%	0.1%	3.6%

Source Savills using HM Land Registry and Registers of Scotland (6 month smoothed)*, Nationwide (seasonally adjusted), ONS (seasonally adjusted)

Table 2 House price forecasts (first published September 2020)

Region	2021	2022	2023	2024	4yrs to 2024
UK	0.0%	4.0%	6.5%	4.5%	15.7%
London	0.0%	1.0%	4.0%	2.0%	7.1%
South East	0.0%	2.5%	5.0%	3.0%	10.9%
East of England	0.0%	2.5%	5.0%	3.0%	10.9%
South West	0.0%	3.0%	5.5%	3.5%	12.5%
East Midlands	0.0%	5.0%	7.5%	5.5%	19.1%
West Midlands	0.0%	5.0%	7.5%	5.5%	19.1%
North East	0.0%	5.5%	8.0%	6.0%	20.8%
Yorks & Humber	0.0%	5.5%	8.0%	6.0%	20.8%
North West	0.0%	6.0%	8.0%	6.5%	21.9%
Wales	0.0%	5.0%	7.5%	5.5%	19.1%
Scotland	0.0%	5.5%	8.0%	6.0%	20.8%

Savills team

Please contact us for further information

Sophie Tonge

Analyst
sophie.tonge@savills.com
0203 618 3528

Ed Hampson

Analyst
Ed.hampson@savills.com
0203 107 5460

Chris Buckle

Director
cbuckle@savills.com
0207 016 3881

*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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