

UK Housing Market Update



Prices held steady but the spike in mortgage rates will put further strain on affordability

House prices grew by an average 0.1% in June, bringing annual growth down to -3.5%, according to Nationwide. However, recent challenges in the mortgage markets and rising levels of supply make future falls more likely, broadly in line with our forecasts.

Market activity remained stable but rising mortgage rates are yet to have their full impact. The number of mortgage approvals in May rose to 57,106, up from 46,359 in April, according to the Bank of England. However, this still remained -23.9% below their pre-covid average as the market adjusts to changing interest rates. Rising mortgage rates in June are likely to further suppress the number of future approvals.

Completed transactions also remained stable in May but were still down -22.8% compared to their 2017-19 average, according to HMRC. These are likely to fall further as low mortgage approvals continue to feed through into completion figures.

The majority of surveyors reported increased supply for the first time since early 2022, according to the RICS May survey. The majority continued to report falling demand. This increase of supply relative to demand will put downward pressure on prices.

Mortgage rates have risen to similar levels in the wake of the mini-budget last year. This is due to inflation remaining higher for longer than lenders had priced in. Oxford Economics now expect the base rate to peak at 5.75% and remain there until the first cut in Q4 2024. Inflation has been partially driven by strong wage growth, but this growth has also served to support market activity in the face of increasingly stretched affordability.

This will constrain buying power and continue to dampen activity in the coming months. The greatest pressure is on first-time buyers and those re-mortgaging with high loan-to-value mortgages, with cash buyers largely immune to the high rate environment. The measures announced by the government on the 23rd June will allow extensions to mortgage terms, transition to interest-only mortgages for six months, and a twelve month break before any repossession proceedings start. These will limit the impact caused by any forced sales on housing supply.

Annual house price growth in March was strongest in Bromsgrove in Worcestershire, up 13.8%. Hammersmith and Fulham joined Aberdeen as the only two local authorities with annual house price falls, at -1.1% and -2.6% respectively.

Figure 1 House price growth to Mar-23 since 07/08 peak

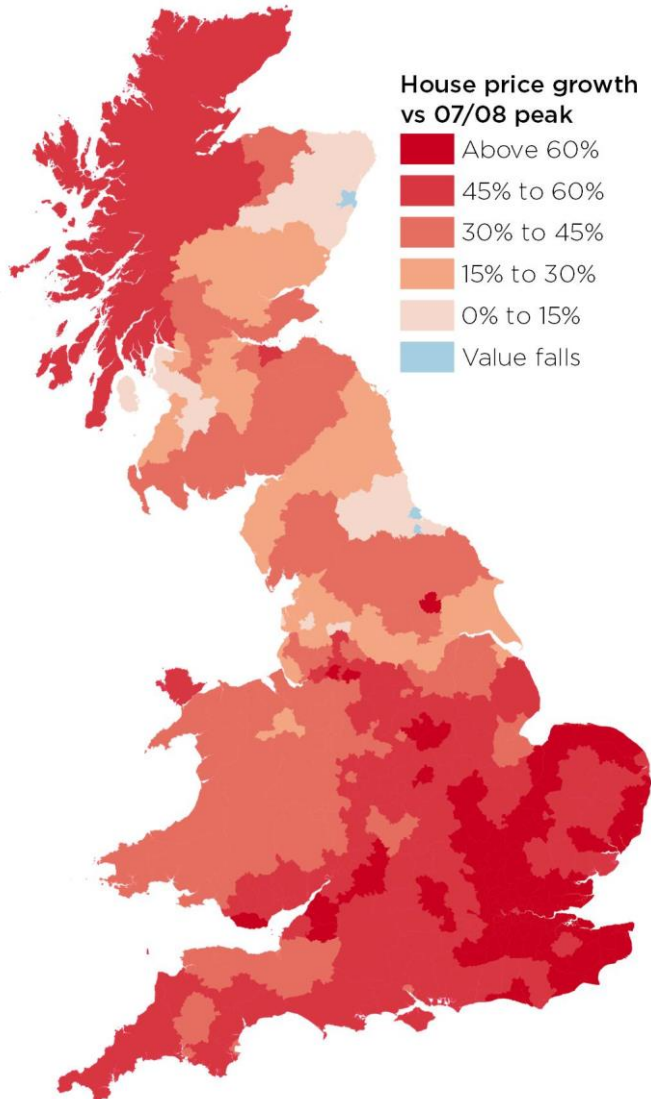
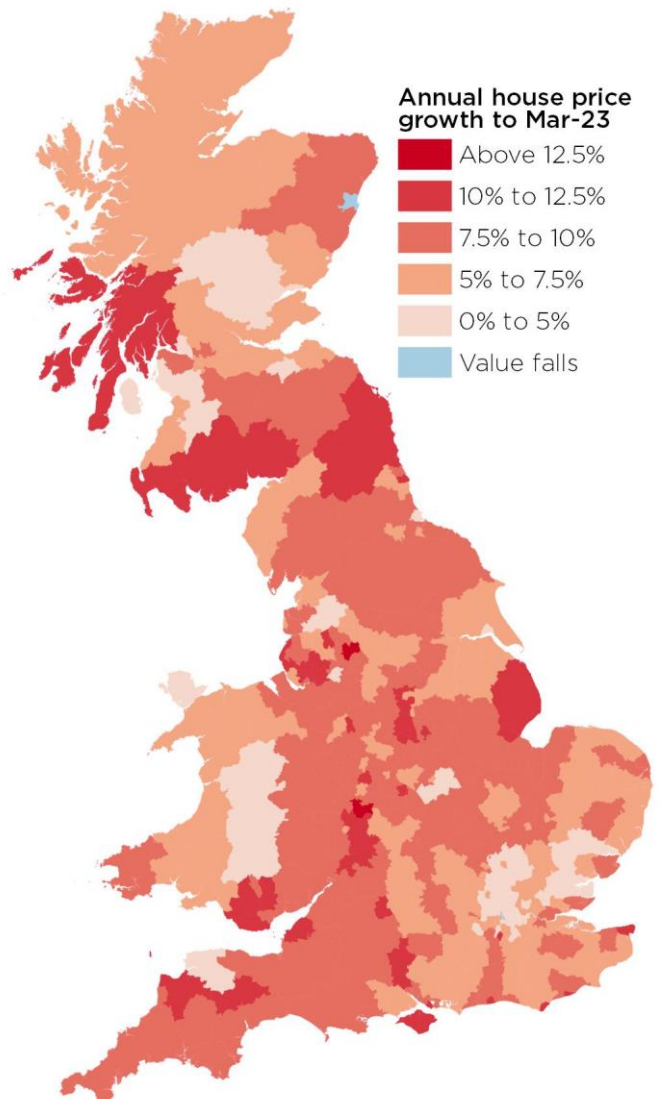


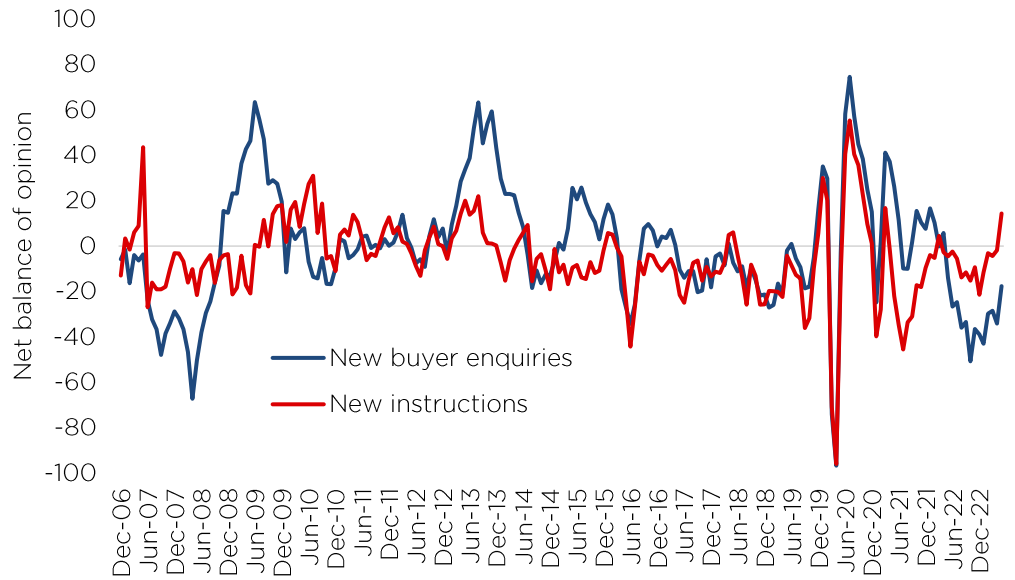
Figure 2 Annual house price growth to Mar-23



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

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Figure 3 New instructions positive for the first time since early 2022



Source RICS (seasonally adjusted)

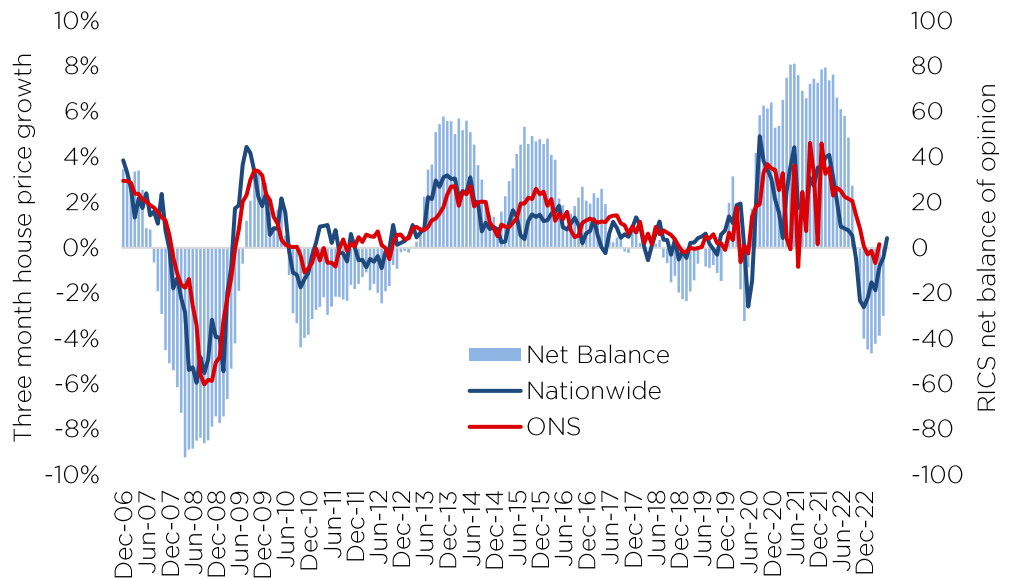
The number of surveyors reporting increasing supply reached positive territory for the first time this year, according to the May RICS survey.

Although the majority of surveyors reported falling demand, this has recovered to levels not seen since May 2022.

However, the imbalance between the two will continue to put downward pressure on prices.

Demand is likely to weaken in the coming months as the effect of higher rates filters in.

Figure 4 Sentiment improved as house prices held steady



Source RICS, Nationwide, ONS (seasonally adjusted)

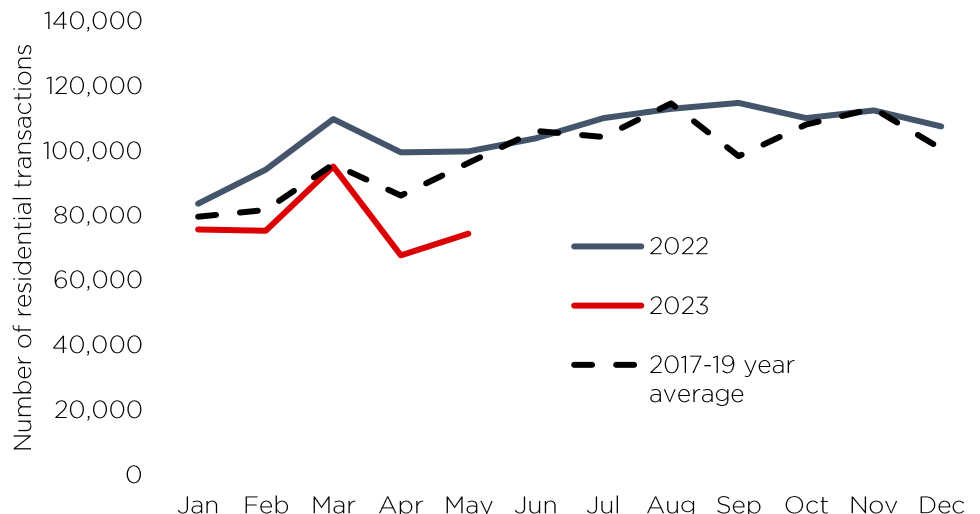
The RICS survey can be a good early indicator of house price movements, which are later picked up by other indices.

The majority of surveyors continued to report price falls, yet the number doing so was less than previous months.

On a three-month basis house prices grew by 0.4% according to Nationwide, the first growth since September 2022.

House prices remained static according to the more lagged ONS index, up 0.2% in the three months to April. This is only now picking up the recovery in Q1 2023 as previously highlighted by other indicators.

Figure 5 Number of transactions in May remained below pre-Covid levels



Source HMRC

74,360 transactions completed in May, according to HMRC. This is -23.9% below the pre-Covid average and continues to reflect the rising mortgage rates and low levels of mortgage approvals that occurred over the winter months.

This activity remained below the heightened levels seen since the housing market reopened in June 2020 with transactions in May -26.6% below the 2021-22 average.

Annual rental growth across the UK remained high at 10.4% in May, increasing by 0.2% month-on-month. All regions except London and Scotland saw rental growth accelerate on an annual basis. Wales had the highest growth this month, up 1.1%, according to Zoopla, bringing its post-pandemic growth since March 2020 to 28.4%.

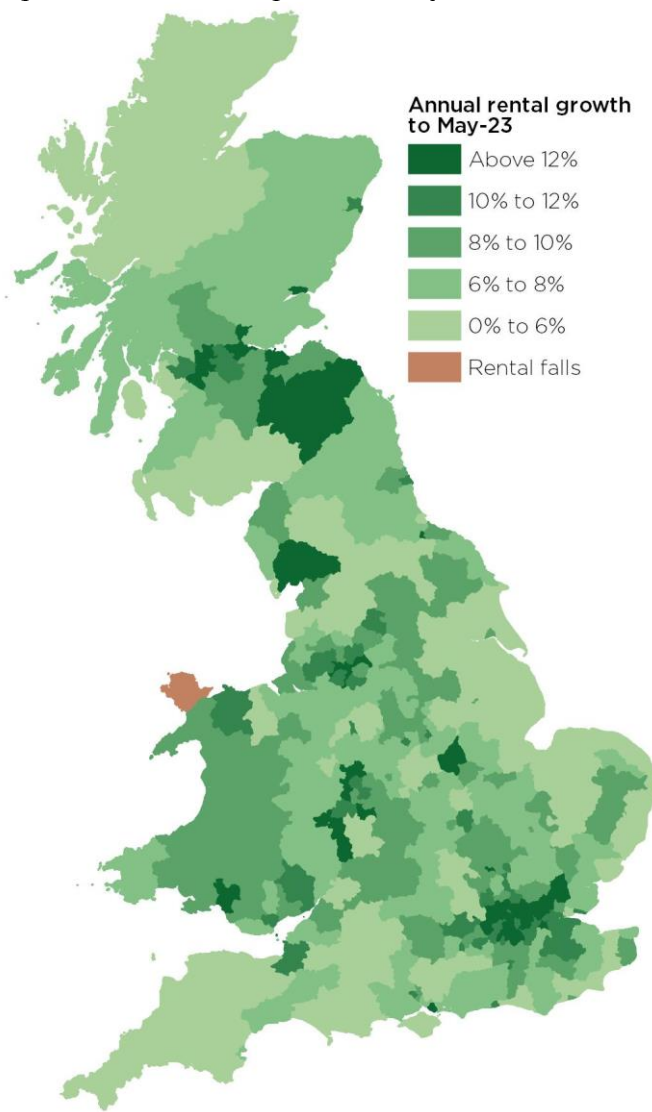
Scotland overtook London with the greatest annual rental growth for the first time at 13.1% in May, as well as the highest quarterly growth of 3.1%. Wales, the North West, and East of England have also seen quarterly growth of over 2%. Rents in London are up by just 1.3% in the same time period, suggesting that affordability is beginning to act as a constraint on rental growth.

Table 1 Regional rental growth to May-23

	m/m	q/q	y/y
UK	0.8%	1.8%	10.4%
London	0.7%	1.3%	13.0%
South East	0.9%	2.0%	9.1%
East of England	0.8%	2.2%	9.1%
South West	0.8%	1.8%	7.2%
East Midlands	1.0%	2.2%	9.2%
West Midlands	0.9%	1.8%	9.5%
North East	0.6%	1.0%	8.4%
Yorks & Humber	0.9%	1.5%	8.4%
North West	0.9%	2.3%	10.6%
Wales	1.1%	2.4%	10.0%
Scotland	1.0%	3.1%	13.1%

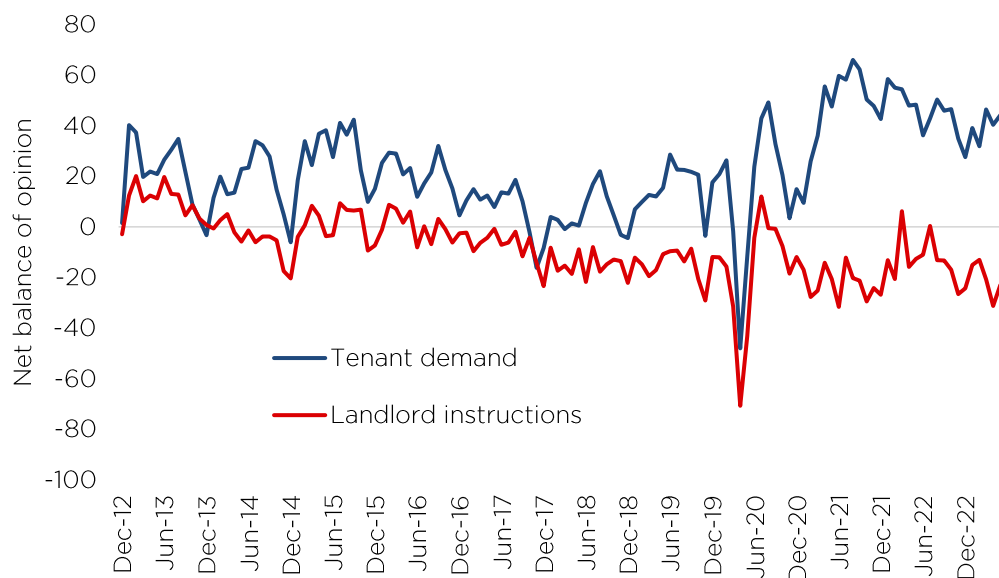
Source Zoopla Rental Index powered by Hometrack

Figure 6 Annual rental growth to May-23



Source Zoopla Rental Index powered by Hometrack

Figure 7 Gap between tenant demand and landlord instructions remained substantial



The RICS survey for the lettings market showed the continued mismatch between rental supply and demand that has underpinned rental growth across the UK over the last two years.

The number of surveyors reporting higher demand and higher supply both increased in May while the gap between them remained significant. This maintains further upward pressure on rents.

Source RICS

Table 2 Rental forecasts (published November 2022)

Region	2023	2024	2025	2026	2027	5 years to 2027
UK	6.5%	4.0%	2.0%	2.4%	2.3%	18.3%
London	5.5%	5.0%	2.0%	2.4%	2.3%	18.4%

UK Housing Market Update

Table 3 Recent house price growth

	Nationwide (Regions to Q2 2023, UK to June 2023)			ONS (to April 2023)			Savills (to March 2023)		
	m/m	q/q	y/y	m/m	q/q	y/y	m/m	q/q	y/y
UK	0.1%	0.4%	-3.5%	0.4%	0.0%	3.6%	-0.5%	-0.6%	7.4%
London	-	-1.1%	-4.4%	1.2%	0.1%	2.5%	-0.8%	-1.3%	4.0%
South East	-	-0.4%	-3.6%	-0.4%	-0.7%	3.5%	-0.4%	-0.4%	7.3%
East of England	-	-0.5%	-4.8%	-0.5%	-0.8%	3.1%	-0.5%	-0.7%	6.5%
South West	-	-1.2%	-4.0%	0.1%	0.3%	4.0%	-0.7%	-0.7%	8.9%
East Midlands	-	0.2%	-1.2%	0.5%	-0.2%	4.6%	-0.5%	-0.5%	8.6%
West Midlands	-	-0.5%	-2.0%	0.8%	-1.8%	3.1%	-0.3%	0.1%	8.6%
North East	-	-0.3%	-3.4%	1.4%	-1.2%	5.5%	-0.3%	0.0%	8.0%
Yorks & Humber	-	0.0%	-3.2%	0.3%	-0.7%	4.1%	-0.4%	-0.5%	7.4%
North West	-	-0.6%	-4.1%	1.2%	0.2%	4.7%	-0.2%	0.0%	8.4%
Wales	-	0.7%	-1.7%	-0.8%	-1.2%	2.0%	-0.1%	-0.3%	8.0%
Scotland	-	1.8%	-1.5%	0.5%	1.8%	2.0%	-0.4%	-1.0%	6.8%

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

Table 4 House price forecasts (published November 2022)

Region	2023	2024	2025	2026	2027	5 years to 2027
UK	-10.0%	1.0%	3.5%	7.0%	5.5%	6.2%
London	-12.5%	-1.0%	2.0%	6.0%	5.0%	-1.7%
South East	-11.0%	0.0%	3.0%	6.5%	5.5%	3.0%
East of England	-11.0%	0.0%	3.0%	6.5%	5.5%	3.0%
South West	-10.0%	1.0%	3.5%	7.0%	5.5%	6.2%
East Midlands	-9.0%	1.5%	4.0%	7.5%	5.5%	8.9%
West Midlands	-9.0%	1.5%	4.0%	7.5%	5.5%	8.9%
North East	-8.5%	2.5%	4.5%	7.5%	6.0%	11.7%
Yorks & Humber	-8.5%	2.5%	4.5%	7.5%	6.0%	11.7%
North West	-8.5%	2.5%	4.5%	7.5%	6.0%	11.7%
Wales	-8.5%	2.0%	4.5%	7.5%	6.0%	11.1%
Scotland	-9.0%	2.0%	4.0%	7.5%	5.5%	9.5%

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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