

UK Housing Market Update



First monthly house price growth for seven months as key indicators show early signs of recovery

House prices grew 0.5% in April, the first monthly rise since the mini-budget in September last year, according to Nationwide. This leaves prices -4.0% below their pre-budget peak last August, and down -2.7% on an annual basis. While we have to be cautious about monthly volatility, the rate of falls had already been slowing, and last month's growth is another sign of a gradual return of confidence to the market.

This has come alongside recovering market activity. After falling significantly in the wake of the mini-budget last year, the number of new sales agreed in April stood at just -6% below the 2017-19 average for the month, although -17% lower than the high water mark of activity last April, according to TwentyCI.

Mortgage approvals, another key forward indicator, have also been recovering from a winter lull, and rose to 85% of the 2017-19 average in March, according to the Bank of England. Completed sales volumes have remained more robust, and sat at 96% of the pre-Covid average for March, according to HMRC.

Growing numbers of surveyors are reporting rising demand and supply, according to the RICS March survey. However, the net balance of

opinion for both indicators remained in negative territory. More surveyors reported higher levels of supply than demand. This imbalance will continue to put downward pressure on prices for now, despite the most recent month's uptick in house values.

The pace of mortgage rate falls has slowed, according to the Bank of England. Lenders have been increasingly tightening margins since November, which are now typically lower than their pre-Covid levels. There now remains little room for further compression, meaning that rates are unlikely to fall much further. With an additional hike to the base rate on the cards due to stubbornly high inflation, quoted rates may even rise slightly. The size of this increase will depend on the degree to which this base rate hike is already priced in.

Annual house price growth in January was strongest in Hastings, up 16.7%. Torridge and Torbay in Devon had the second and third strongest growth at 15.1% and 14.5%. Aberdeen remained the only place seeing annual price falls of -2.2%, with Hammersmith and Fulham and East Renfrewshire in Scotland seeing the lowest growth of 0.9% and 1.1% respectively.

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

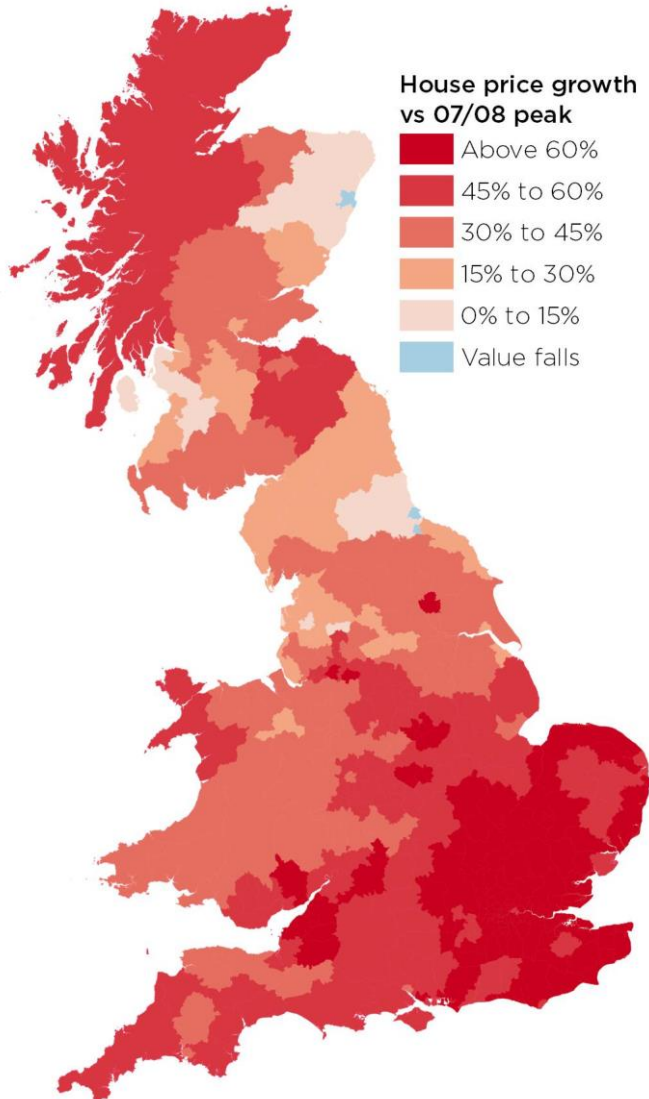
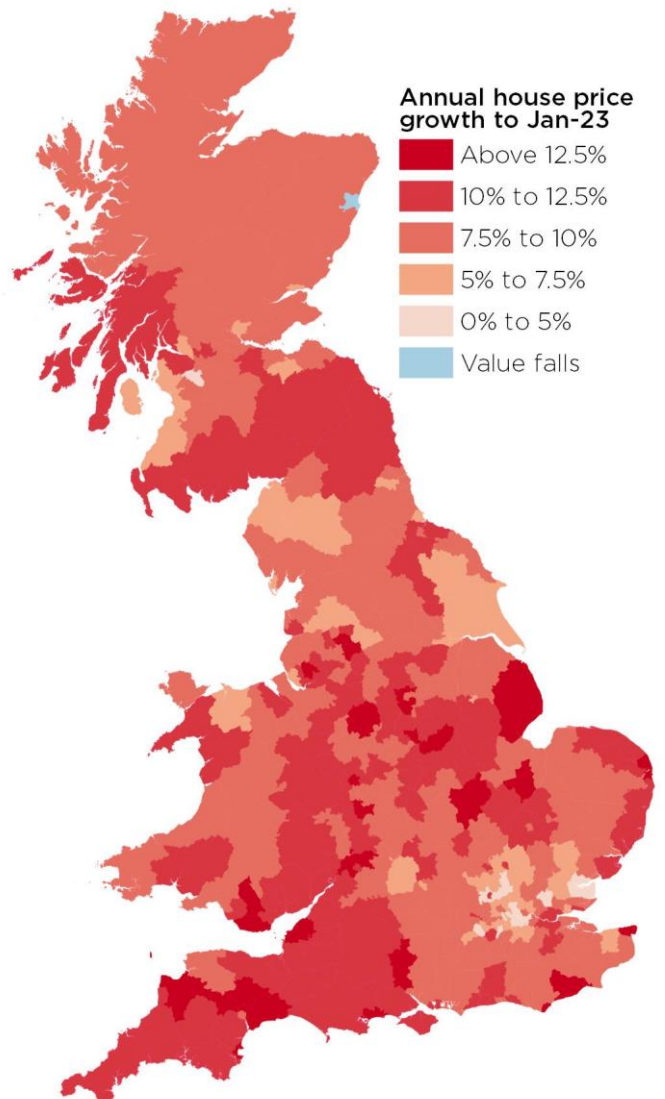


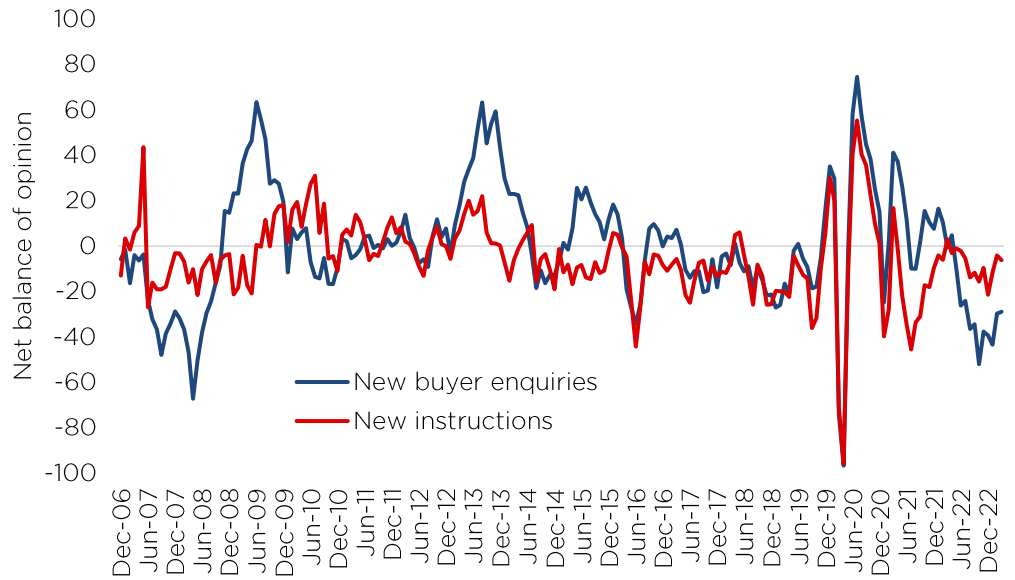
Figure 2 Annual house price growth to Jan-23



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

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Figure 3 New buyer demand negative for eleventh consecutive month

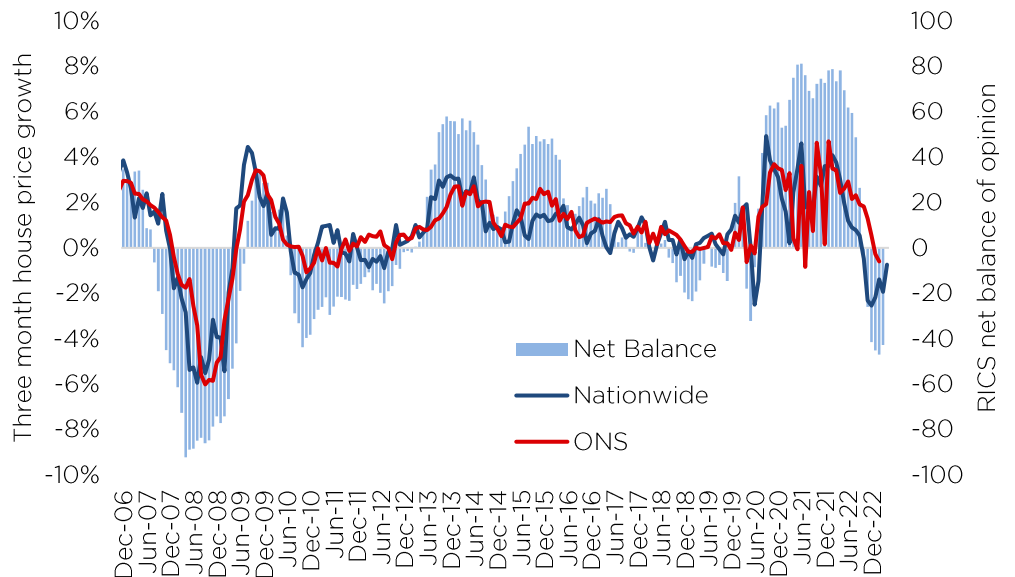


Source RICS (seasonally adjusted)

The number of surveyors reporting rising activity levels was largely static in March, but has been trending upwards since the end of last year. Both measures remain in negative territory.

A greater number of surveyors reported rising supply than rising demand. This will likely continue to put downward pressure on house prices in the short term.

Figure 4 Rate of house price falls slowing but sentiment remains negative



Source RICS, Nationwide, ONS (seasonally adjusted)

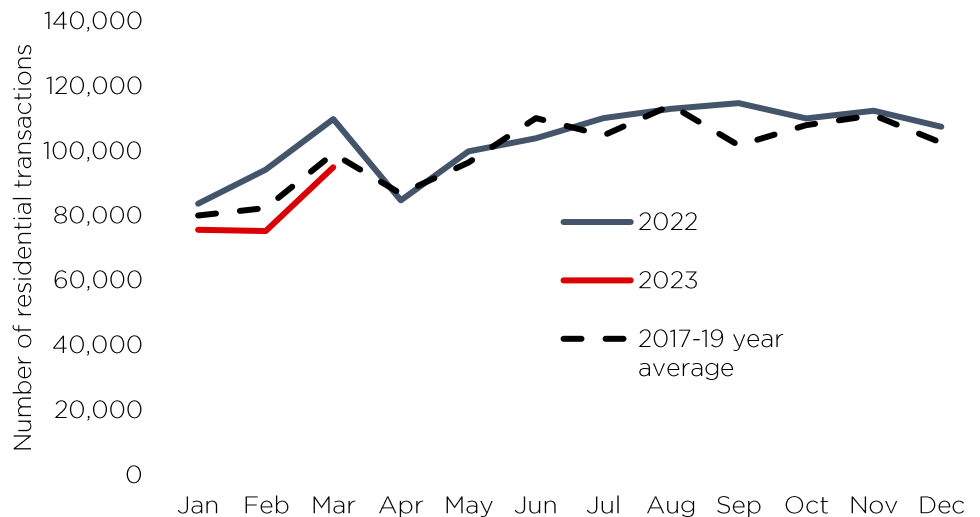
The RICS survey can be a good early indicator of house price movements, which are later picked up by other indices.

A majority of surveyors reported price falls in March with a net balance of opinion of -43. This is a slight reduction from February at -47.

Despite the recent uptick, house prices fell on a three-month basis for the seventh consecutive month at -0.7%, according to Nationwide.

House prices fell further according to the more lagged ONS index, down -0.6% in the three months to February.

Figure 5 Number of transactions in March approaching pre-Covid levels



Source HMRC

94,870 transactions completed in March, according to HMRC. This is -4% below the pre-Covid average, up from -9% below for February, suggesting a gradual return to normal levels of activity after the mini-budget.

However, activity remained below the heightened levels seen since the housing market reopened in June 2020 with March's transactions -33% below the 2021-22 average.

Annual rental growth across the UK slowed further in March at 10.6% down from a peak of 12% in July 2022. Only the West Midlands, North East, and Scotland have seen increases in monthly rental growth, while all other regions have seen growth slow, according to Zoopla. Richmondshire was the only local authority to have annual rental falls, at -4.5% to February.

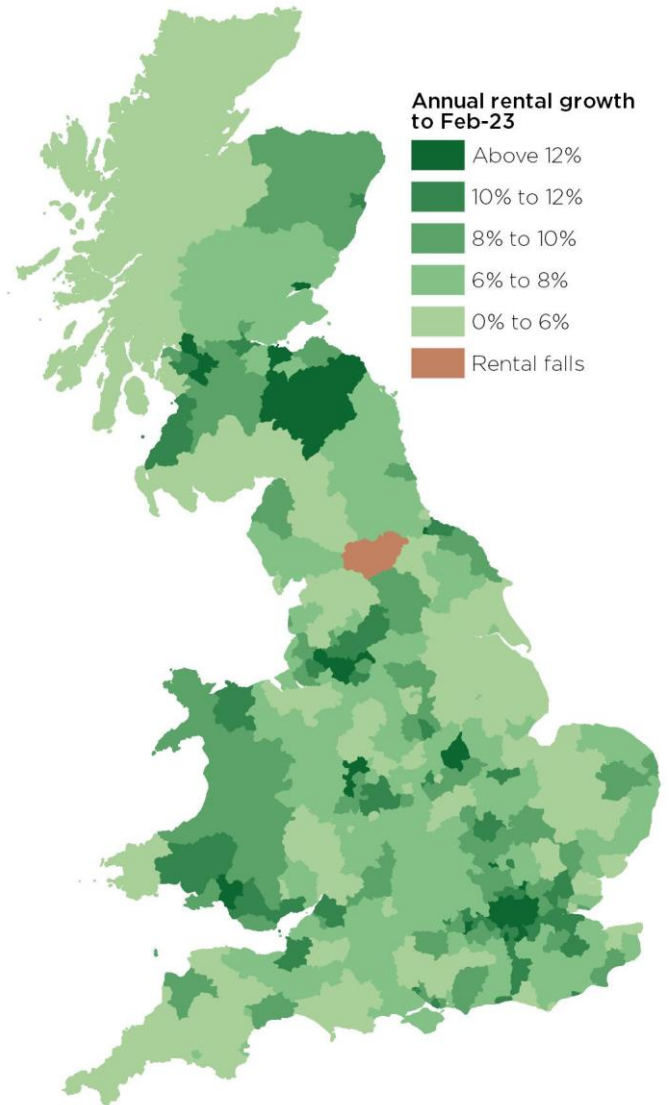
London remained the region with the greatest annual rental growth at 14.2% in March. However, when compared to the start of the pandemic in March 2020, London's growth still lags behind the UK average of 21.5%. In this time period Wales has seen the greatest growth of 27% followed by the North West at 24.7%.

Table 1 Regional rental growth to Mar-23

	m/m	q/q	y/y
UK	0.6%	2.1%	10.6%
London	0.5%	2.1%	14.2%
South East	0.6%	1.8%	8.7%
East of England	0.7%	2.2%	8.9%
South West	0.4%	1.0%	7.0%
East Midlands	0.5%	2.2%	8.7%
West Midlands	0.9%	2.4%	9.5%
North East	0.9%	2.5%	8.5%
Yorks & Humber	0.4%	1.5%	8.1%
North West	0.7%	2.2%	10.6%
Wales	0.8%	2.1%	10.0%
Scotland	1.3%	3.6%	13.3%

Source Zoopla Rental Index powered by Hometrack

Figure 6 Annual rental growth to Feb-23

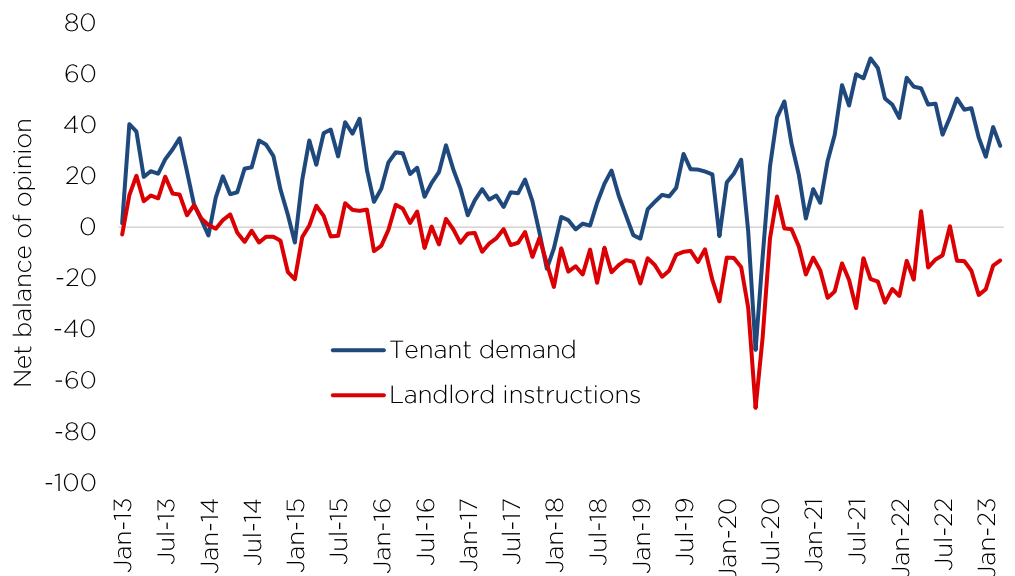


Source Zoopla Rental Index powered by Hometrack

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.

Tenant demand slightly decreased in March as new supply marginally increased. However, the large gap between the two means the upward pressure on rents remains.

Figure 7 Gap between tenant demand and landlord instructions remains significant



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%

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Table 3 Recent house price growth

	Nationwide (Regions to Q1 2023, UK to April 2023)			ONS (to February 2023)			Savills (to January 2023)		
	m/m	q/q	y/y	m/m	q/q	y/y	m/m	q/q	y/y
UK	0.5%	-0.7%	-2.7%	-0.3%	-0.8%	5.5%	0.1%	1.3%	9.6%
London	-	-2.2%	-1.3%	-0.5%	-1.0%	3.0%	-0.1%	0.6%	5.6%
South East	-	-2.2%	-1.5%	-0.5%	-0.9%	5.8%	0.2%	1.5%	9.3%
East of England	-	-3.3%	-1.8%	-0.2%	-1.0%	5.6%	0.1%	1.2%	8.7%
South West	-	0.3%	0.6%	-0.6%	-1.9%	5.8%	0.2%	1.7%	11.7%
East Midlands	-	-0.9%	0.5%	-0.3%	0.4%	7.3%	0.2%	1.6%	10.9%
West Midlands	-	-0.9%	1.5%	-0.1%	0.8%	8.6%	0.3%	2.0%	10.2%
North East	-	-2.2%	-0.3%	-1.5%	0.1%	7.7%	0.4%	1.6%	9.4%
Yorks & Humber	-	-1.5%	-1.4%	0.0%	-1.3%	5.4%	0.0%	1.3%	9.2%
North West	-	-2.3%	-0.3%	-0.5%	-2.2%	7.0%	0.2%	1.5%	9.9%
Wales	-	-1.7%	-0.6%	-0.2%	-0.8%	6.3%	0.0%	1.1%	10.5%
Scotland	-	-2.3%	-3.1%	-0.3%	-2.7%	1.0%	-0.2%	0.2%	8.6%

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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