

UK Housing Market Update



House price growth the strongest in 18 years, with little prospect of slowing in the near future

House prices rose by 1.1% in March, with annual growth now at 14.3%, the highest growth since 2004 according to Nationwide. Growth has been strong across all regions, but annual growth was strongest in Wales (up 15.3%) and weakest in London, up 7.4%. It continues to be fuelled by a persistent supply/demand imbalance.

Despite tantalizing signs of rising supply, the imbalance compared to demand is set to continue and prices are expected to rise over the next few months. While growing numbers of surveyors have been reporting an increase in new instructions, according to RICS, they remain a minority. The number of homes coming to market has also exceeded new sales since January, according to TwentyCi. However, it will take time for these faint signs of new supply to meet the high levels of demand and have any impact on price growth.

Despite the low availability of stock, sales activity continues to be strong. Sales completions in February were 17% above the 2017-19 average. The number of sales agreed has also remained consistently high, about 15% above the 2017-19 average. The number of transactions completing each month is therefore likely to remain high for

the next few months at least. This means our forecast for 1.24m transactions this year is likely to be exceeded.

Economic headwinds will do little to slow the market in the short term. Although the Bank of England base rate went up to 0.75% last month, mortgage lending rates remain low. Likewise, rising costs of living will take time to bite on the housing market, which is driven by more affluent households who are better able to cope with rising costs.

Longer term, rising costs of living and higher mortgage interest rates will severely limit price growth. The level of activity in the market may also be reduced. First time buyers will be most affected and they are also contending with the rapid increase in rental prices, which will cut the amount of money they are able to save for a deposit.

Rental value growth remains strong, at 10.2% in the year to February, driven by a significant gulf between demand and supply. Unlike the sales market, there are no indications of rising supply.

House price growth was strongest in parts of Wales. Blaenau Gwent and Merthyr Tydfil saw annual growth of 24% and 22% respectively. Growth was weakest in the London Borough of Newham, down 4.3%.

Figure 1 House price growth to Dec-21 since 07/08 peak

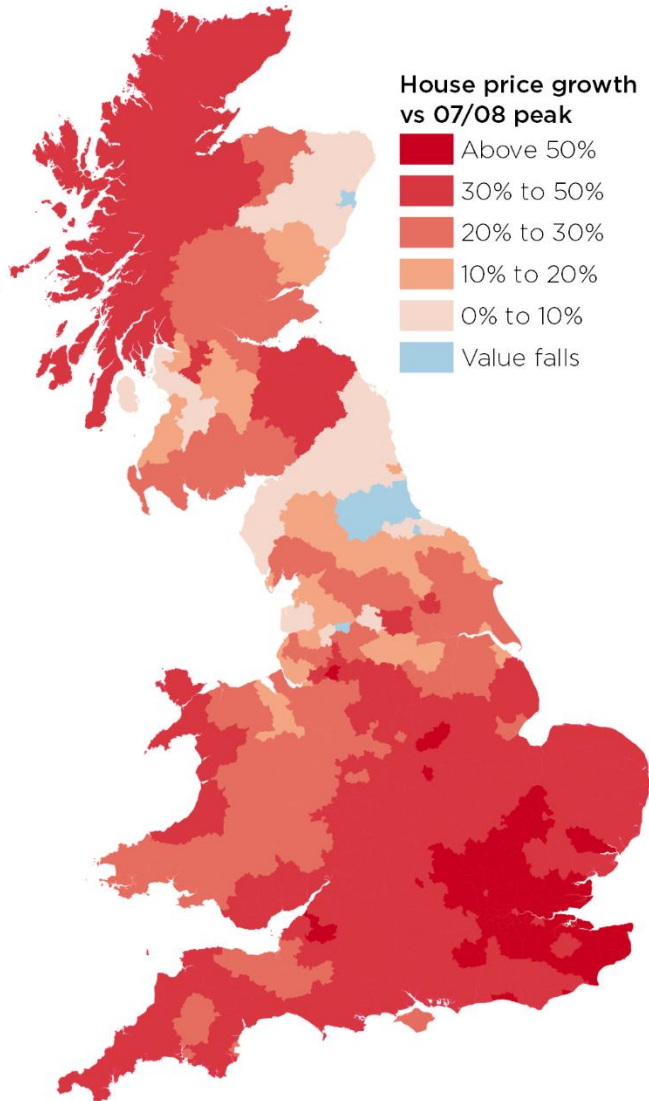
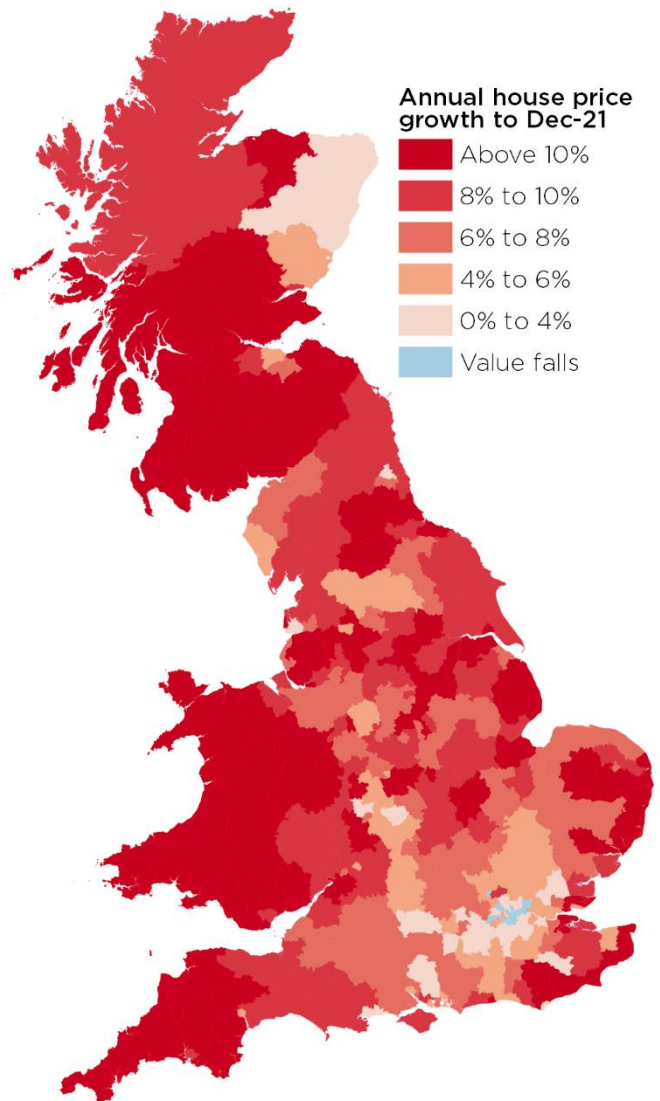


Figure 2 Annual house price growth to Dec-21



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

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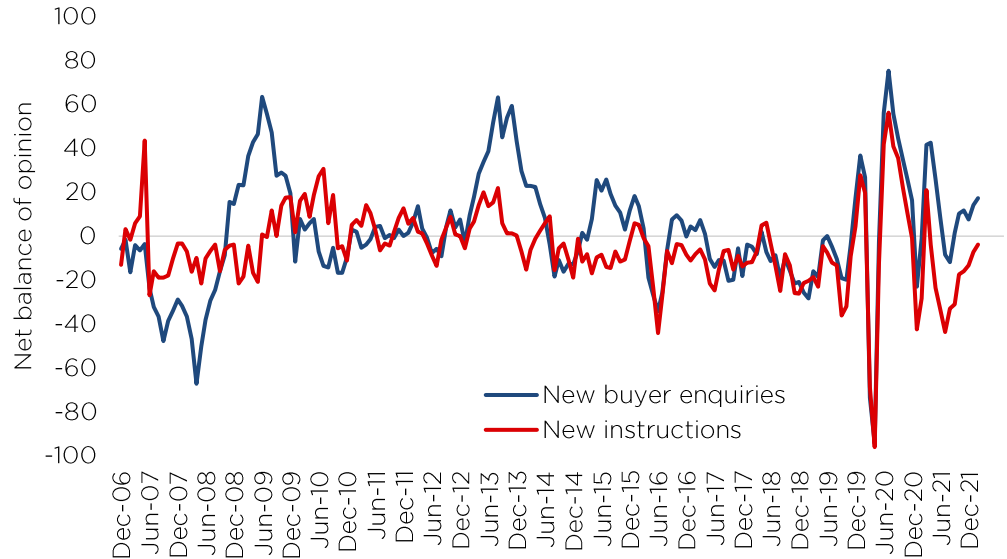
The gap between the number of surveyors reporting rising supply and demand remained unchanged for a third month in a row in February.

A growing majority of surveyors are reporting rising demand. Reports of supply rises are still in the minority, but that minority is continuing to narrow.

This suggests that the period of falling supply is nearing its end, but supply is still some way from meeting demand.

As a result, value growth is likely to be maintained for the next few months at least.

Figure 3 The gap between supply and demand remained in February



Source RICS (seasonally adjusted)

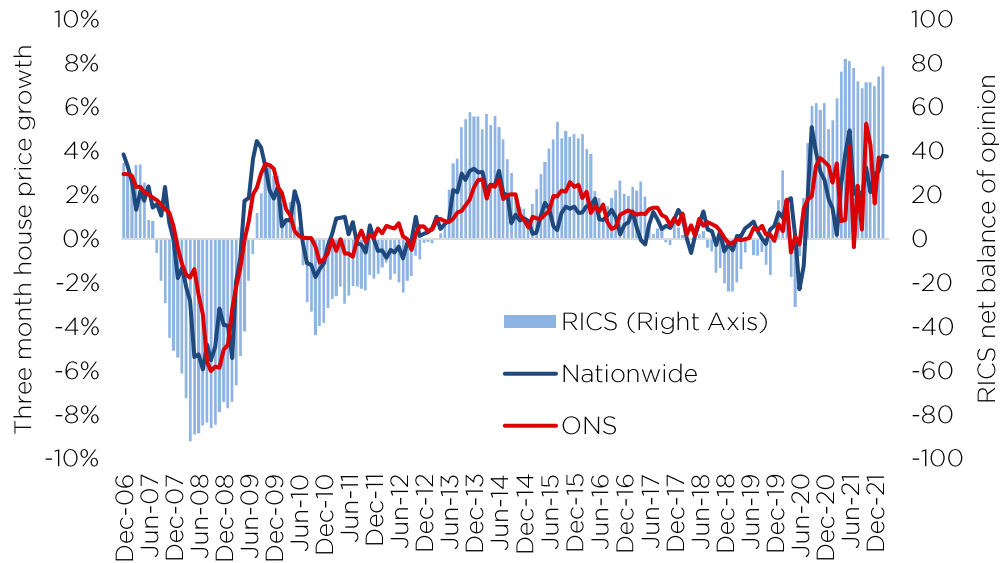
The RICS survey can be a good early indicator of house price movements, which are later picked up by other indices.

February saw a third month in a row of rising numbers of surveyors reporting house price increases.

Value growth was also strong on a three month basis according to Nationwide, up 3.8%.

The ONS index reported a similar three month figure of 3.7% growth to January.

Figure 4 House price growth remains strong



Source RICS, Nationwide, ONS (seasonally adjusted)

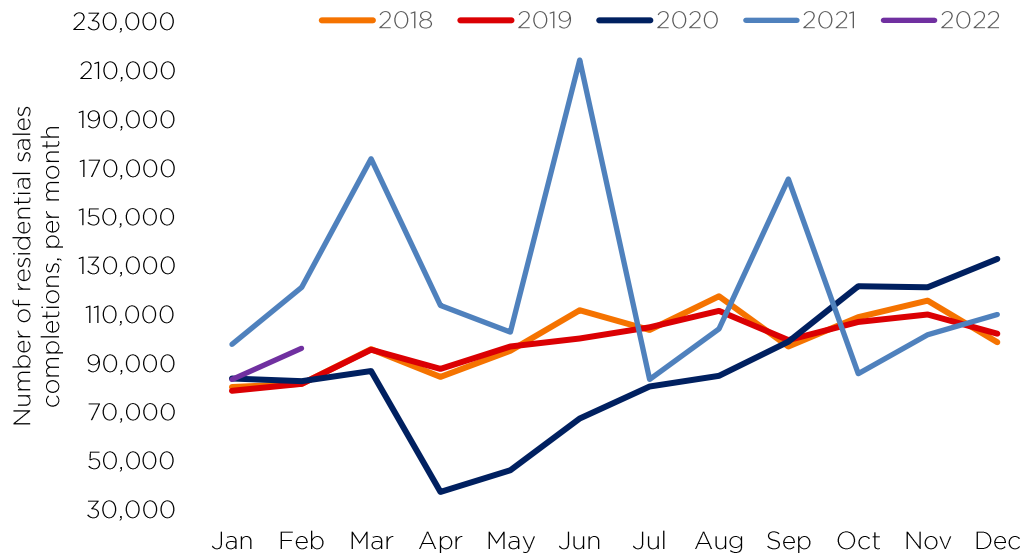
February saw 96k transactions, 17% above the 2017-19 average for the month.

This shows market activity has continued to be strong even without the stamp duty holidays fuelling it.

Sales agreed numbers indicate that activity will remain at around 10% - 20% above pre-Covid levels for the next few months at least.

As a result, our transaction forecast for this year (1.24m) is likely to be exceeded.

Figure 5 Activity remains strong, despite the end of the stamp duty holiday



Source HMRC

Rents grew 10.2% in the 12 months to February across the UK, according to Zoopla. This was the strongest rental growth since at least 2011. Growth was widespread across the country, but particularly strong in London, the West Midlands and Wales. Scotland has seen the weakest growth, with rents even falling on a monthly basis.

Central London experienced the strongest rental growth, with the City of London, Kensington & Chelsea and Westminster the top performers, all with growth over 20%. Outside of London, Purbeck in Dorset and Torfaen in south Wales saw the next strongest growth, at 21% and 17% respectively.

Figure 6 Annual rental growth to Feb-22

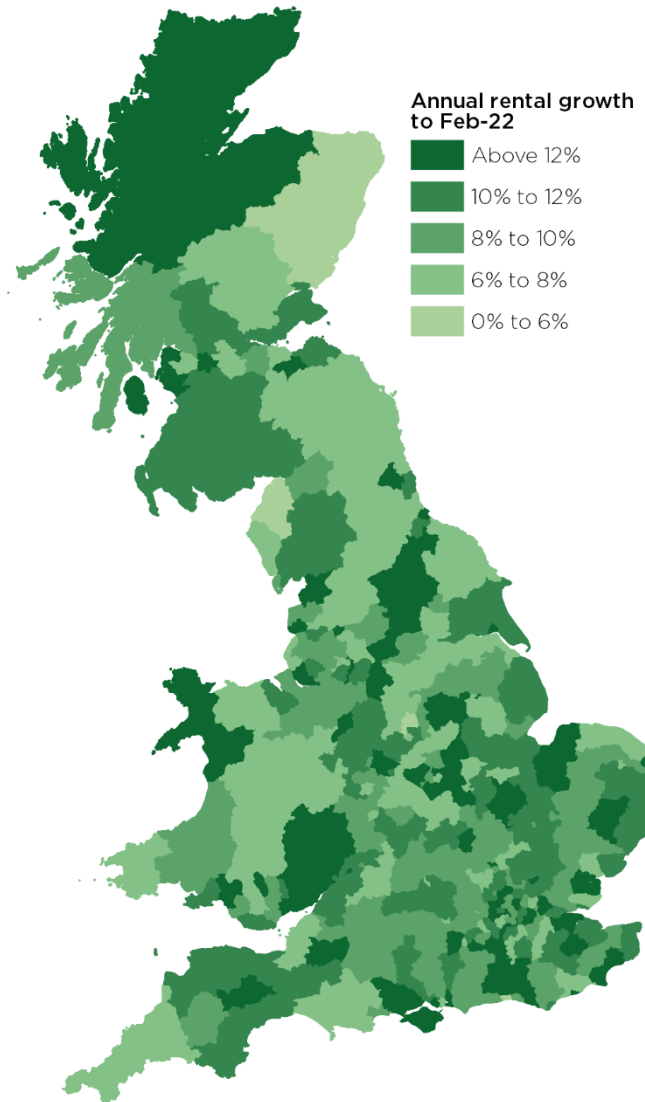


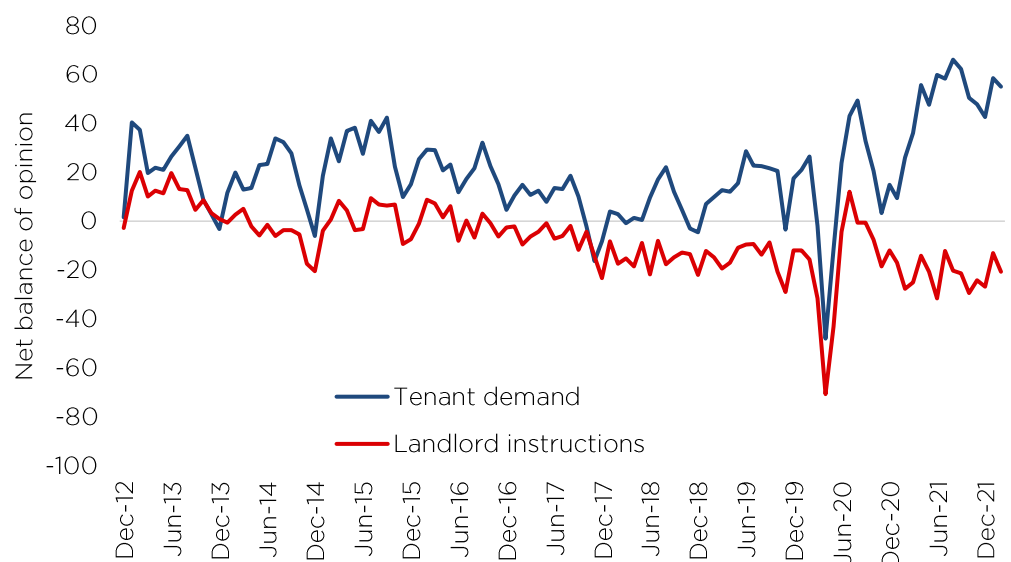
Table 1 Regional rental growth to Feb-22

	m/m	q/q	y/y
UK	0.8%	3.0%	10.2%
London	1.2%	4.7%	14.4%
South East	0.6%	2.0%	7.2%
East of England	0.4%	1.6%	6.7%
South West	0.7%	2.3%	10.0%
East Midlands	1.0%	3.2%	9.1%
West Midlands	0.8%	3.3%	10.4%
North East	1.1%	3.1%	6.9%
Yorks & Humber	0.8%	2.4%	9.7%
North West	0.9%	3.1%	9.7%
Wales	0.4%	2.7%	10.3%
Scotland	-0.9%	0.1%	4.6%

Source Zoopla Rental Index powered by Hometrack

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Figure 7 Tenant demand picks up again for the start of 2022



The RICS survey for the lettings market gives a good indication of the mismatch between rental supply and demand that has been underpinning rental growth across the UK.

The latest survey showed reports of both rising demand and continued falling supply. Rental growth is likely to remain strong until this gap starts to close.

Source RICS

Table 2 Rental forecasts (published November 2021)

Region	2022	2023	2024	2025	2026	5 years to 2026
UK	5.5%	3.7%	3.2%	3.2%	3.0%	19.9%
London	6.5%	4.0%	3.5%	3.5%	3.0%	22.2%

Table 3 Recent house price growth

	Nationwide (to Mar-22)			ONS (to Jan-22)			Savills (to Dec-21)		
	m/m	q/q	y/y	m/m	q/q	y/y	m/m	q/q	y/y
UK	1.1%	3.8%	14.3%	0.7%	3.6%	9.6%	0.2%	1.7%	7.2%
London	-	2.2%	7.4%	-1.8%	-1.0%	2.2%	0.3%	0.9%	1.6%
South East	-	2.2%	12.8%	0.6%	3.2%	11.0%	0.4%	1.6%	6.3%
East of England	-	3.4%	14.2%	1.7%	4.9%	11.5%	0.4%	2.1%	6.9%
South West	-	2.1%	14.4%	-0.9%	3.5%	10.9%	0.5%	2.5%	8.4%
East Midlands	-	2.5%	13.5%	1.8%	4.6%	11.5%	0.6%	2.7%	9.4%
West Midlands	-	2.7%	11.7%	1.0%	5.8%	10.2%	0.5%	2.3%	8.1%
North East	-	3.3%	10.6%	2.8%	5.2%	8.2%	0.3%	1.6%	8.4%
Yorks & Humber	-	4.4%	13.5%	0.8%	4.5%	7.3%	0.6%	2.5%	8.7%
North West	-	3.9%	12.4%	0.5%	5.2%	9.6%	0.3%	2.1%	8.9%
Wales	-	2.4%	15.3%	1.9%	3.9%	13.8%	1.0%	3.5%	13.4%
Scotland	-	3.3%	12.0%	1.0%	1.8%	10.8%	0.7%	3.0%	9.6%

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 2021)

Region	2022	2023	2024	2025	2026	5 years to 2026
UK	3.5%	3.0%	2.5%	2.0%	1.5%	13.1%
London	2.0%	1.5%	1.0%	0.5%	0.5%	5.6%
South East	3.0%	2.5%	2.0%	1.5%	1.0%	10.4%
East of England	3.0%	2.5%	2.0%	1.5%	1.0%	10.4%
South West	3.5%	3.0%	2.5%	2.0%	1.5%	13.1%
East Midlands	4.0%	3.5%	3.0%	2.5%	2.0%	15.9%
West Midlands	4.0%	3.5%	3.0%	2.5%	2.0%	15.9%
North East	4.0%	3.5%	3.5%	3.0%	2.5%	17.6%
Yorks & Humber	4.5%	4.0%	3.5%	3.0%	2.5%	18.8%
North West	4.5%	4.0%	3.5%	3.0%	2.5%	18.8%
Wales	4.0%	4.0%	3.5%	3.0%	2.5%	18.2%
Scotland	4.0%	3.5%	3.0%	2.5%	2.0%	15.9%

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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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