

UK Housing Market Update



Highest annual house price growth for 15 years in 2021, with strong momentum leading into the new year

With house price growth at 10.4%, 2021 was the strongest calendar year for price growth since before the Global Financial Crisis (GFC) in 2008. House prices rose by 1.0% in December alone, according to Nationwide, and annual house price growth has now exceeded 10% in seven of the last eight months.

The ‘race for space’ pushed up prices across the UK in 2021. Demand was driven by the experiences of lockdown and fuelled by the stamp duty holiday. Wales saw the highest house price growth at 15.8%, and was the strongest performing part of the UK for the first time since the Nationwide data began in 1973. The South West was the best performer of the English regions at 11.4%, while London saw the lowest growth at 4.2%.

This strength looks set to last, at least for the next few months. Demand continued to outstrip supply in November, according to the RICS survey. And that will underpin continued house price growth.

The number of homes sold in 2021 will also set a post-GFC record. Completed transactions for the first 11 months of 2021 totalled 1.36 million, 25% higher than the 2017-19 average. The scene

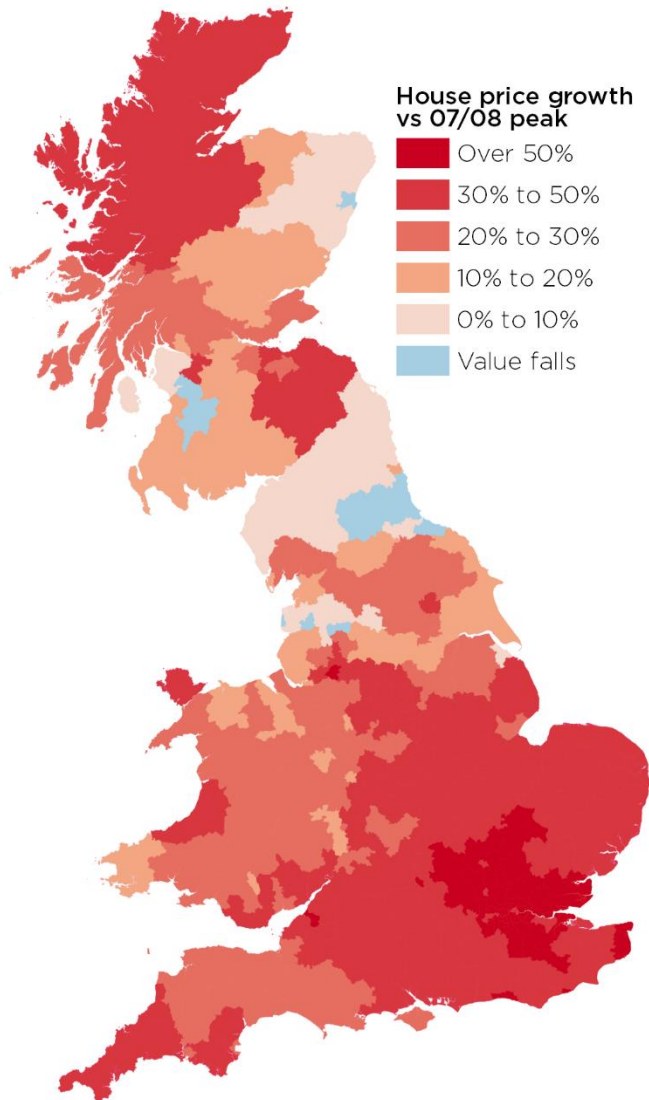
is set for a busy start to 2022, as sales agreed remained at elevated levels in November, according to TwentyCi.

Heightened activity may not last many more months, however. Mortgage approvals have returned to pre-pandemic levels, according to the Bank of England, and the supply of homes coming onto the market for sale has been falling since April, according to RICS.

Rising interest rates present a longer term restraint on house price growth. The Bank of England’s base rate rise to 0.25% has been reflected by mortgage lenders, but will have little effect on the market. A further rise to 0.5% is expected in the middle of the year. This is particularly bad news for first time buyers, who also face rapidly rising rents and energy bills, limiting their ability to save for a deposit.

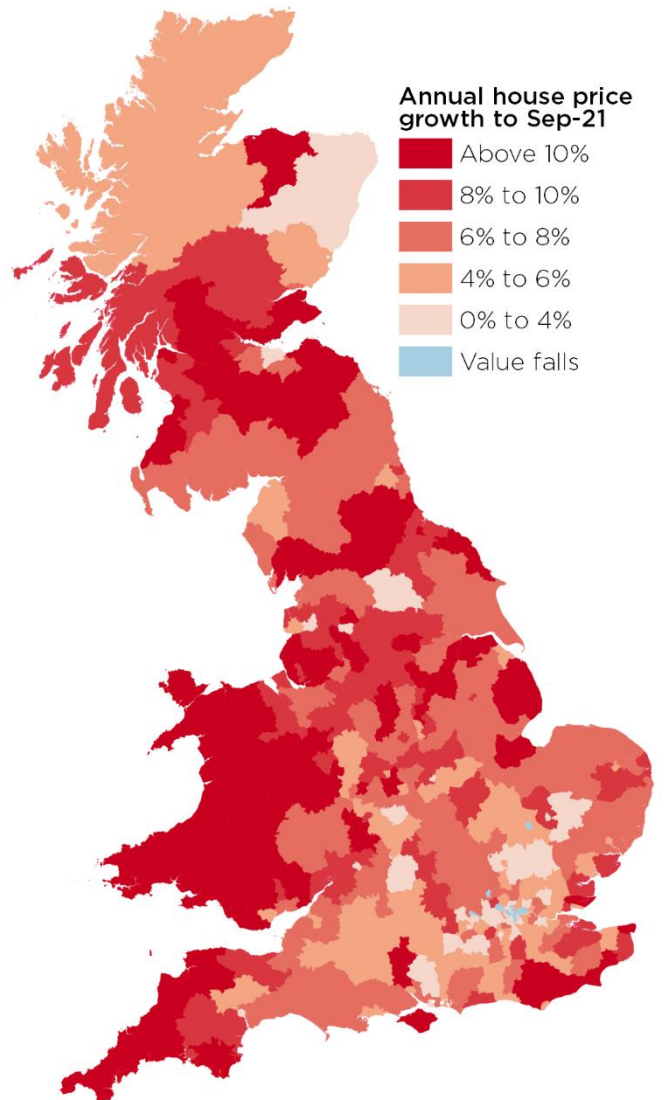
The top five local authorities for annual house price growth in September were all in Wales, with Ceredigion at 21.6%, the only local authority to exceed 20% house price growth. Blaenau Gwent and Powys followed at 19.4% and 17.1% respectively. Nine local authorities experienced annual house price falls. Most were in London, including Islington at -3.9% and Westminster at -2.5%.

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



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

Figure 2 Annual house price growth to Sep-21



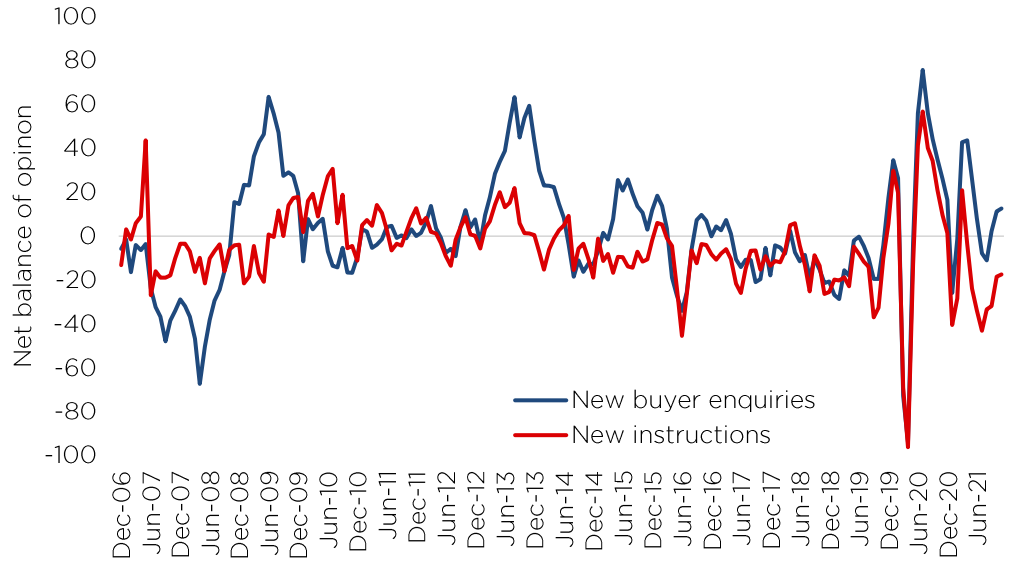
Source Savills using HM Land Registry and Registers of Scotland (6 month smoothed)*

The RICS survey for November showed that levels of demand remained steady. A majority of surveyors reported rising new buyer enquiries, at a net balance of +13, slightly up on the +11 reported in October.

New instructions, with a net balance of -18, continue to indicate falling supply, with comments left by respondents frequently citing the lack of supply limiting activity. This is the 8th consecutive month new instructions have been reported to be falling across the UK.

The continued disparity between supply and demand will support house price growth.

Figure 3 High demand and low supply sustained in November



Source RICS (seasonally adjusted)

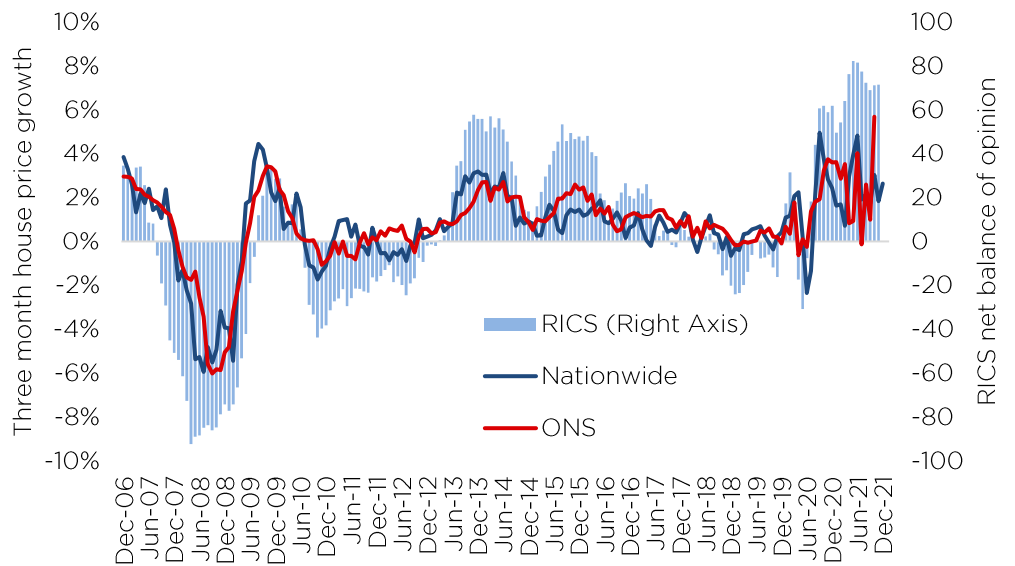
The RICS survey can be a good early indicator of house price movements, which are later picked up by other indices.

During November, the majority of respondents (+71%) reported rising house prices at a national level, in line with October's reading.

House prices increased by 2.6% over the three months to December according to Nationwide, up from the 1.8% reported in November.

The ONS index gave a three month house price growth figure of 5.7% to October. That was a big increase on the 1.0% reported in September, but this index has been particularly volatile in recent months.

Figure 4 House price growth remains positive

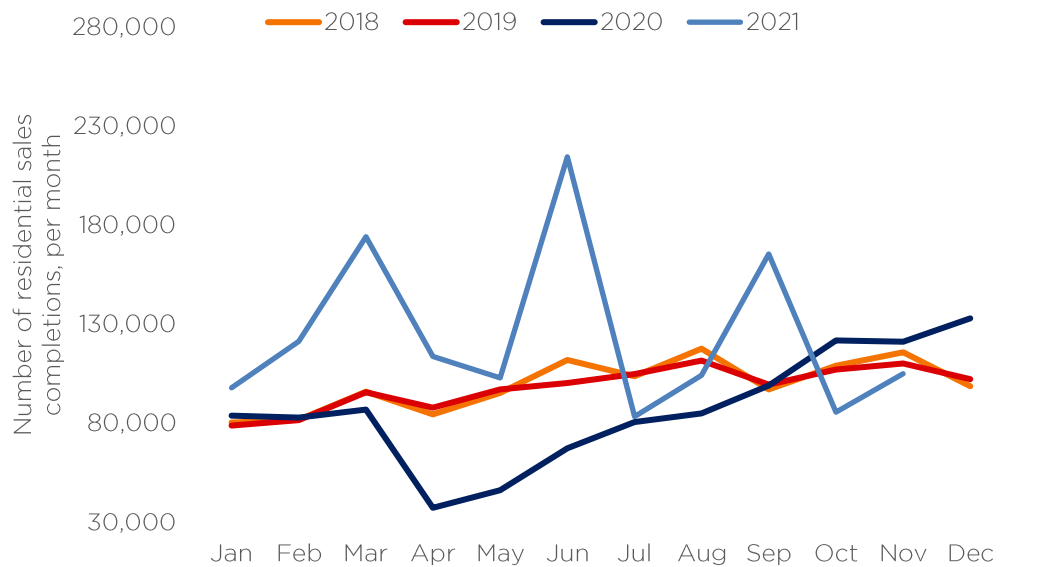


Source RICS, Nationwide, ONS (seasonally adjusted)

Transactions totalled 104,980 in November, a 23% rise from October's more subdued figure. This is 5% below the 2017-19 November average, as transactions begin to rebalance back to normal levels. The backlog of sales agreed earlier in 2021 has now cleared.

The three peaks of completed sales in March, June and September caused by the stamp duty holiday will result in a record-breaking year for transactions since the GFC.

Figure 5 Transactions track back to pre-pandemic levels in November



Source HMRC

Rents also rose by a significant 7.4% across the UK in the year to November 2021, according to Zoopla. The South West region saw the strongest rental growth, at 9.6%. But strong rental growth is scattered around the country. All local authorities saw positive rental growth in the year to November 2021, with the highest rental growth in Richmondshire at 22.9%, Folkestone and Hythe at 15.8% and Torfaen at 15.4%.

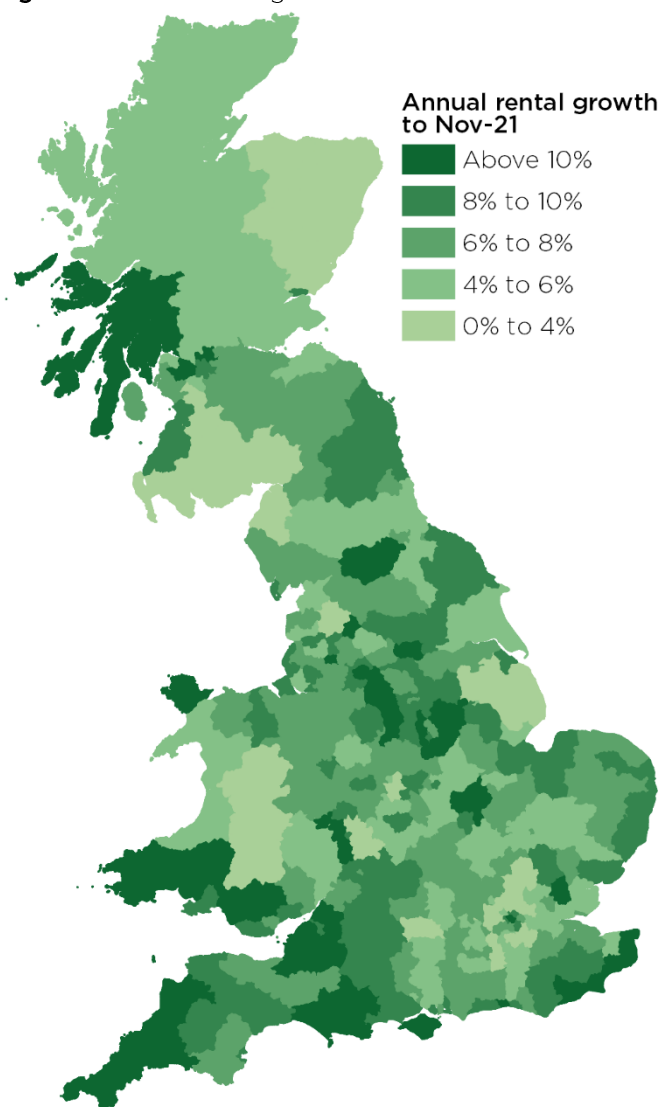
London has seen the strongest rental growth more recently, with 6.2% growth over the three months to November. The central London boroughs of Westminster, Kensington & Chelsea and Islington have seen the greatest rent rises over the same three month period, at 9.5%, 7.7% and 7.4% respectively.

Table 1 Regional rental growth to Nov-21

	m/m	q/q	y/y
UK	1.3%	4.0%	7.4%
London	2.0%	6.2%	7.9%
South East	1.0%	2.8%	6.3%
East of England	0.5%	1.7%	6.0%
South West	1.3%	3.7%	9.6%
East Midlands	1.1%	3.2%	7.5%
West Midlands	0.9%	3.7%	7.6%
North East	0.9%	3.1%	6.2%
Yorks & Humber	1.0%	3.7%	8.0%
North West	1.3%	3.8%	7.4%
Wales	0.9%	3.1%	8.7%
Scotland	0.8%	1.7%	4.3%

Source Zoopla Rental Index powered by Hometrack

Figure 6 Annual rental growth to Nov-21



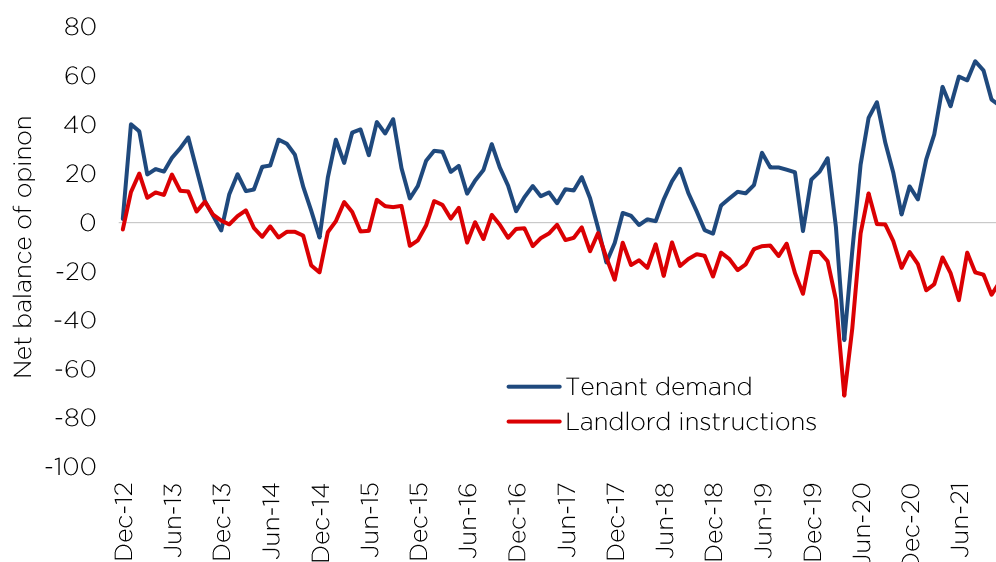
Source Zoopla Rental Index powered by Hometrack

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.

In the latest survey, a net balance of +48% reported rising tenant demand. But landlord instructions are falling, indicated by a reading of -24%. Many current tenants are renewing their leases rather than moving home.

The significant gap between rental demand and lettings available will keep rental growth positive into 2022.

Figure 7 Tenant demand strong but limited supply of homes to let



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 (Regions to Q4 2021, UK to Dec-21)			ONS (to Oct-21)			Savills (to Sep-21)		
	m/m	q/q	y/y	m/m	q/q	y/y	m/m	q/q	y/y
UK	1.0%	2.7%	10.1%	-1.0%	5.5%	10.2%	0.8%	1.2%	7.4%
London	-	1.5%	4.2%	2.3%	1.6%	6.2%	0.2%	0.0%	2.6%
South East	-	3.6%	11.3%	-0.1%	6.4%	10.4%	0.8%	1.1%	6.5%
East of England	-	3.4%	10.4%	0.5%	7.4%	11.2%	0.9%	1.3%	6.0%
South West	-	3.2%	11.4%	-0.6%	7.7%	9.9%	1.0%	1.2%	7.5%
East Midlands	-	3.4%	10.3%	-0.4%	7.1%	11.7%	1.2%	2.5%	8.4%
West Midlands	-	3.1%	9.2%	-2.7%	3.6%	8.4%	1.0%	2.1%	7.3%
North East	-	0.1%	7.6%	-3.4%	6.6%	9.7%	0.8%	2.0%	8.5%
Yorks & Humber	-	1.9%	10.7%	-1.4%	6.8%	11.1%	1.1%	2.0%	8.2%
North West	-	2.9%	11.2%	-5.1%	5.8%	9.8%	1.3%	2.1%	8.9%
Wales	-	3.2%	15.8%	2.1%	9.4%	15.7%	1.4%	3.7%	11.5%
Scotland	-	1.0%	10.1%	1.0%	3.5%	11.3%	1.1%	2.7%	8.5%

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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