

UK Housing Market Update



House price growth slows and buyer demand eases, but supply remains constrained

House prices rose by 0.3% in June, the lowest monthly rise since September 2021. This took annual house price growth to 10.7%, according to Nationwide. Annual price growth during Q2 slowed across all regions except the South West, North West and West Midlands. Over the year to June, the strongest price growth was in the South West (up 14.6%) and the weakest in London (up 5.9%). Prices have risen 23.6% on average across the UK since the start of the pandemic.

Slowing price growth comes alongside signs of cooling buyer demand. Buyer enquiries at a UK level fell for the first time in nine months, according to the June RICS Survey. Mortgage approvals in April were also back to pre-pandemic levels, according to the Bank of England.

Sales volumes are starting to reflect this moderated demand. The number of sales agreed in May was down by around 10% compared to May 2021, according to TwentyCi and Zoopla. Completed transaction numbers fell slightly in May, but remained 5% above their pre-pandemic norm.

The stock of homes on the market remains constrained, but numbers are slowly increasing. There were 32% fewer homes for sale in

May compared to the same month in 2019, according to TwentyCi, down from 34% in April. Savills agents have reported that stock levels increased during Q2 and we expect this to continue. Reduced demand alongside more supply and continued pressure on the cost of living will cause house price growth to continue to slow over the coming months.

The Bank of England has decided to relax its mortgage affordability tests from August, providing more flexibility for lenders and borrowers. Currently borrowers are tested on whether they could still afford mortgage repayments if interest rates were to rise by 3%. This will be reduced to 1%, which may allow some buyers to borrow more. This could open up some modest additional capacity for price growth above our current forecast, but this is being eroded by interest rates rising faster than anticipated. Other restrictions remain in place, including the limit on lending at a loan to income ratio of over 4.5. A full discussion of this change is available on our [blog](#).

House price growth was strongest in Blaenau Gwent and Merthyr Tydfil in Wales, where prices grew on average 21.4% and 18.1% in the year to March. There were small house price falls in Southwark, down -1.5%.

Figure 1 House price growth to Mar-22 since 07/08 peak

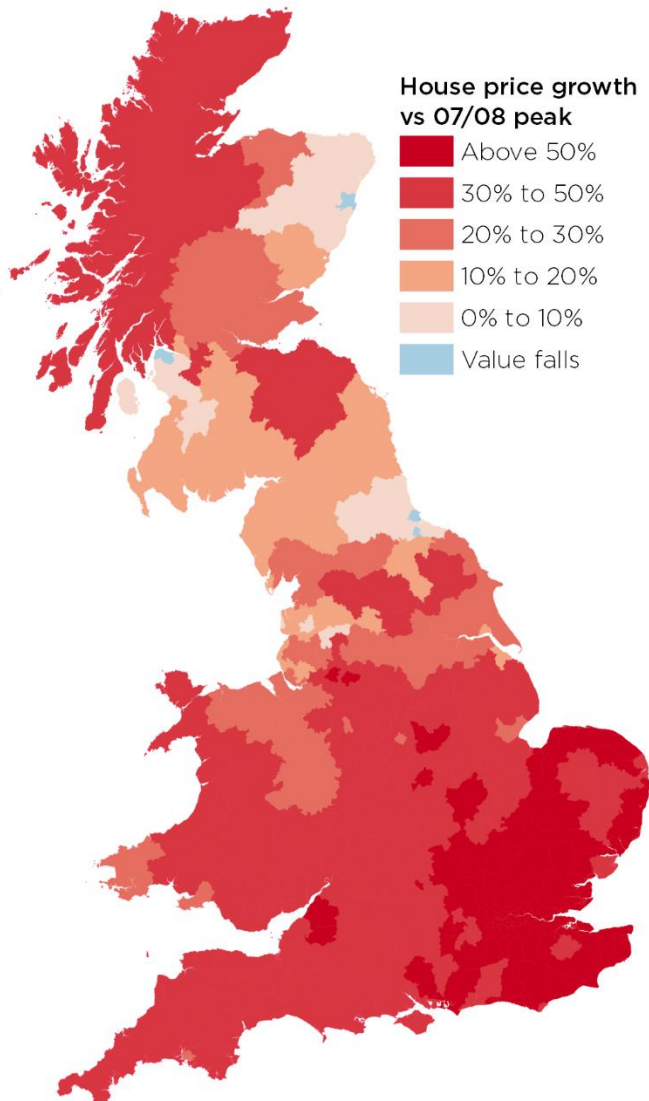
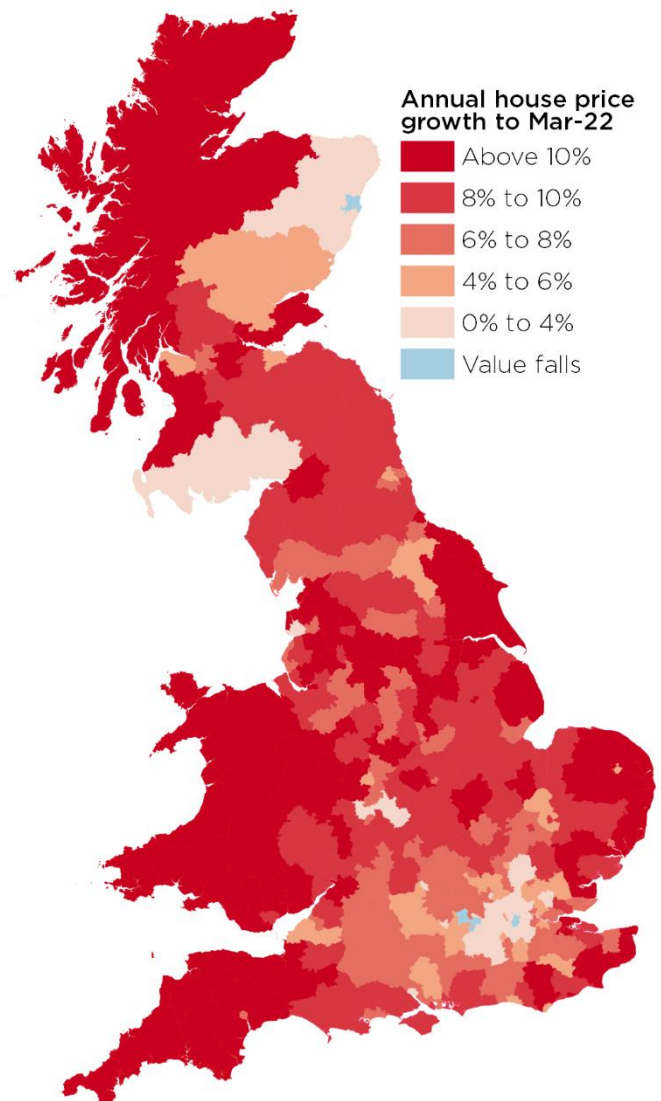


Figure 2 Annual house price growth to Mar-22



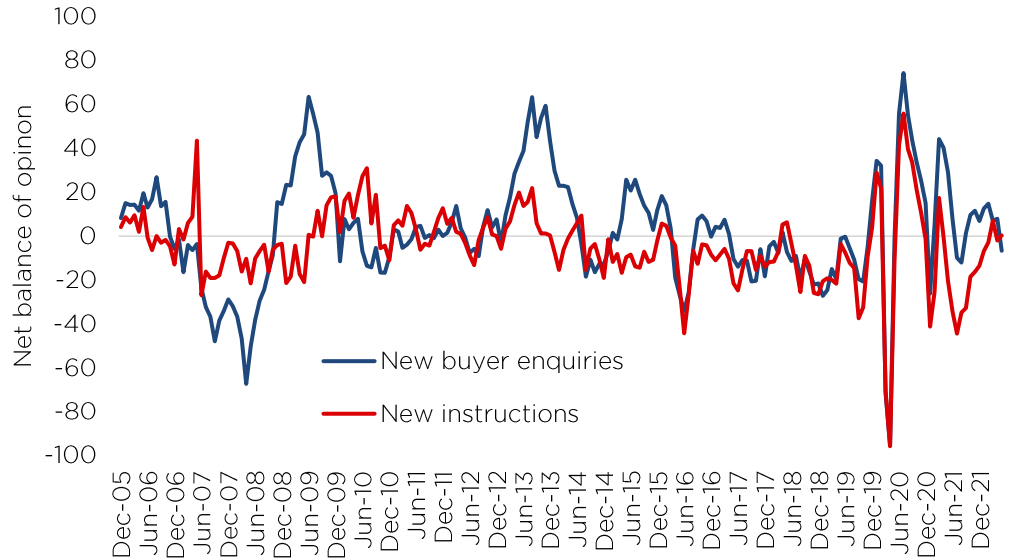
Source Savills using HM Land Registry and Registers of Scotland (6 month smoothed)*

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Figure 3 New buyer enquiries fall across the UK according to agents

The number of surveyors reporting new buyer enquiries fell into negative territory for the first time since August last year, indicating falling buyer demand. This fall is from a very high level, however.

At the same time, new instructions remained flat, suggesting stock remains low. Should new buyer enquires continue to dip below new instructions over the next few months, house price growth is likely to slow.



Source RICS (seasonally adjusted)

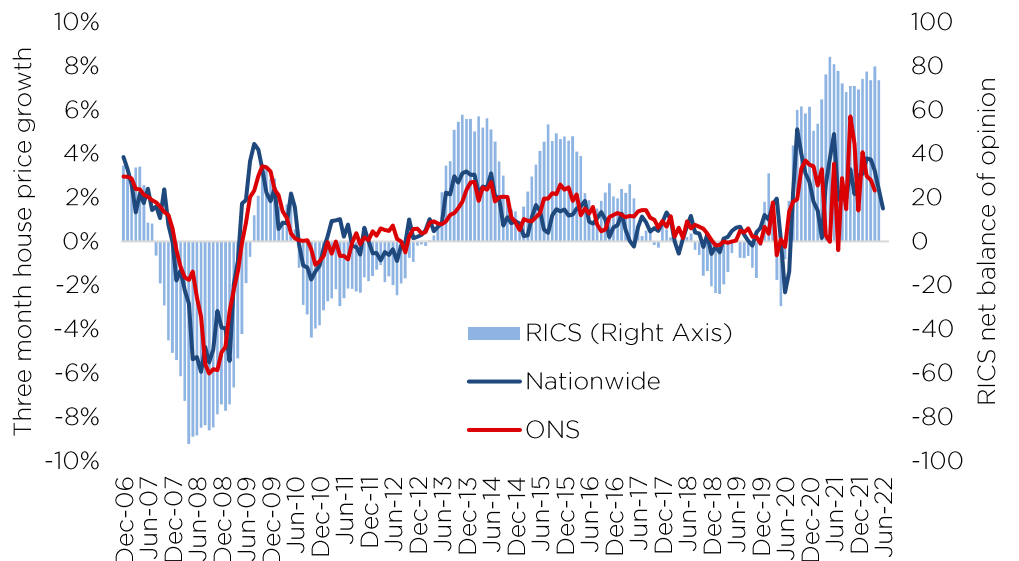
Figure 4 House price growth remains strong

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

May saw a strong majority of surveyors report house price growth, at a net balance of +73, slightly down from April's reading of +80.

Value growth continued to slow significantly on a three month basis according to Nationwide, up 1.5% in June compared to 2.4% in May.

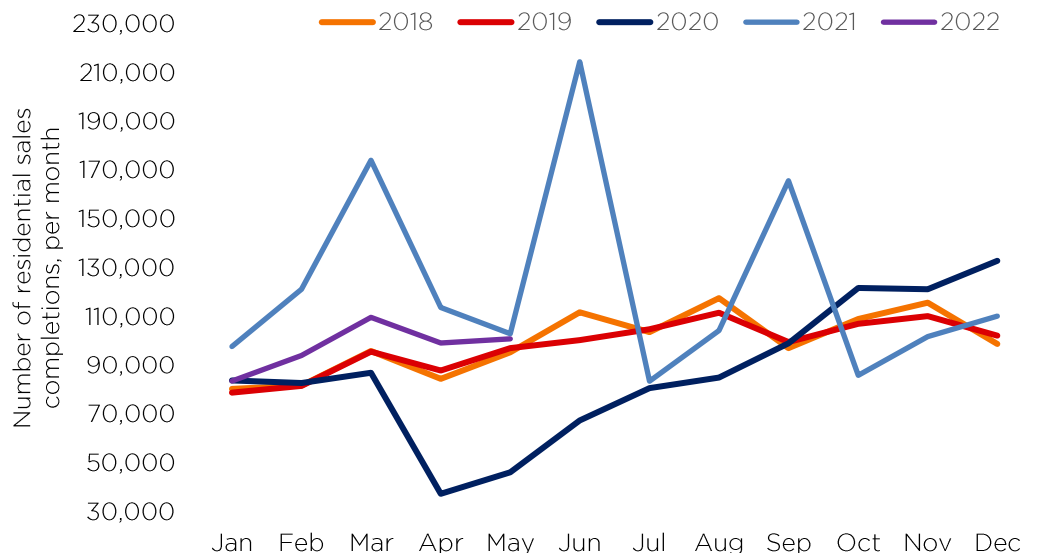
The ONS index reported a three month figure of 2.3% growth to April.



Source RICS, Nationwide, ONS (seasonally adjusted)

Figure 5 Transactions in May more in line with pre-pandemic average

May saw almost 101k homes transacted, according to HMRC. This was 5% above the 2017-19 average for the month which is the closest to pre-pandemic levels seen since the start of the year. However, sales agreed in May were still running at 18% above the 2018/19 average, so completions are likely to continue to track above normal as this feeds through the system.



Source HMRC

Rents grew 11.8% in the 12 months to May across the UK, according to Zoopla. This was another record for annual rental growth since at least 2011, but 3-month growth has slowed by more than a third from a peak of 3.8% in November to 2.2% in May. Rental growth decelerated most rapidly in the North East and London compared to the previous quarter. Scotland and the East of England are the only regions to see a continued acceleration in rental growth.

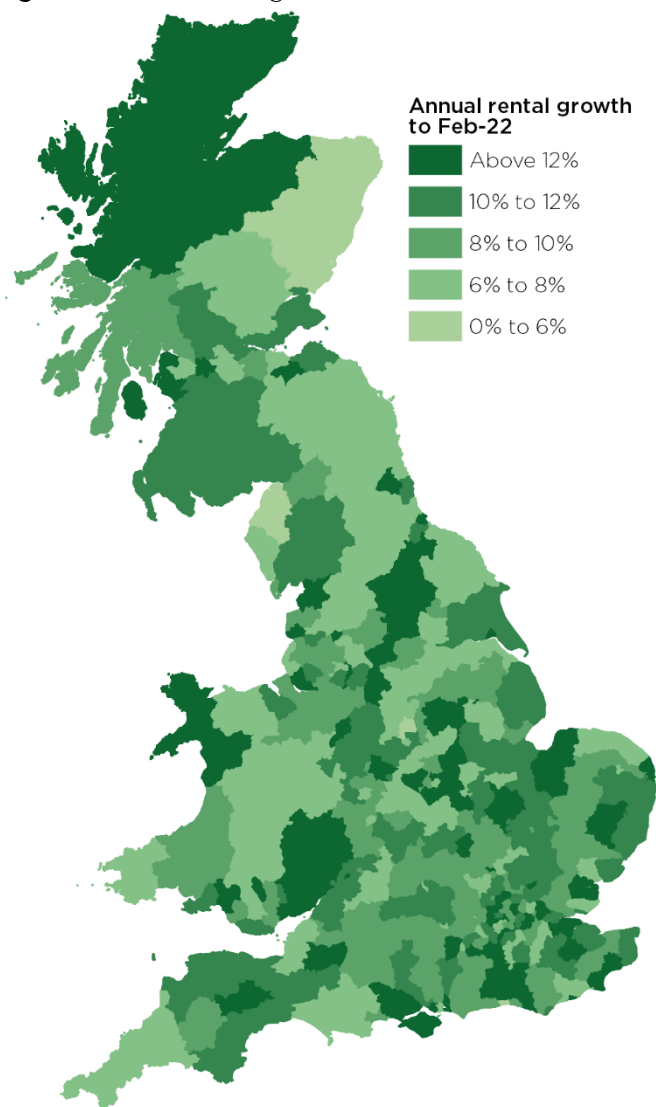
Lack of stock to rent and high demand are allowing landlords to push up rents, with some tenants priced out as a result. Affordability is becoming more stretched, with single-person households spending 37% of gross income on rent, up from the 10-year average of 36%, and 18.5% for sharers, up from 18%, according to Zoopla.

Table 1 Regional rental growth to May-22

	m/m	q/q	y/y
UK	0.7%	2.2%	11.8%
London	0.8%	2.6%	17.1%
South East	0.7%	1.8%	8.3%
East of England	0.8%	2.1%	7.4%
South West	0.8%	2.1%	10.6%
East Midlands	0.7%	2.3%	10.1%
West Midlands	0.8%	1.9%	11.2%
North East	0.3%	0.8%	7.8%
Yorks & Humber	0.6%	1.4%	10.1%
North West	0.9%	2.5%	11.7%
Wales	0.0%	1.8%	11.3%
Scotland	0.8%	3.0%	8.7%

Source Zoopla Rental Index powered by Hometrack

Figure 6 Annual rental growth to Feb-22

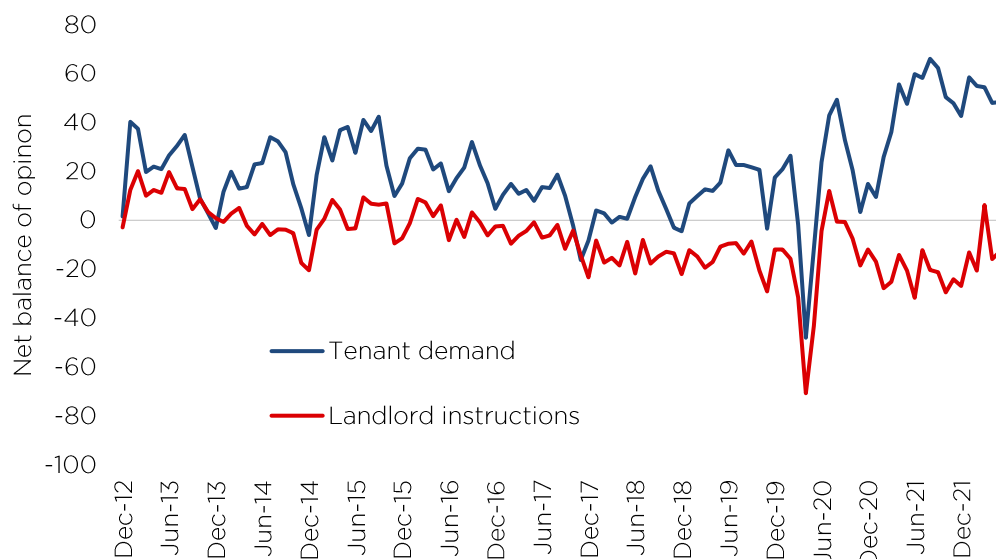


Source Zoopla Rental Index powered by Hometrack

Figure 7 Landlord instructions fall as tenant demand remains strong

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

The balance of opinion on tenant demand remained stable at +48. Landlord instructions were reported to be falling, as they have been in almost every month since 2017. This will continue to place upward pressure on rents across the UK, but the cost of living rise may eventually limit the ability of tenants to pay more rent.



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 Jun-22)			ONS (to Apr-22)			Savills (to Mar-22)		
	m/m	q/q	y/y	m/m	q/q	y/y	m/m	q/q	y/y
UK	0.3%	2.6%	11.4%	0.4%	2.2%	12.0%	0.4%	2.5%	7.5%
London	-	2.1%	5.9%	0.5%	2.4%	7.8%	0.3%	1.2%	2.0%
South East	-	2.0%	11.1%	-0.5%	1.5%	11.8%	0.4%	2.4%	6.7%
East of England	-	3.0%	14.1%	0.0%	1.8%	11.6%	0.5%	2.6%	7.9%
South West	-	3.9%	14.6%	1.4%	3.5%	14.0%	0.6%	3.1%	9.0%
East Midlands	-	2.0%	11.4%	-0.3%	2.6%	12.3%	0.7%	2.6%	9.9%
West Midlands	-	3.3%	11.8%	0.6%	2.5%	11.8%	0.6%	2.4%	8.8%
North East	-	3.4%	10.5%	-0.3%	2.0%	10.8%	0.3%	1.8%	8.4%
Yorks & Humber	-	2.3%	11.7%	1.0%	2.9%	11.5%	0.4%	2.8%	9.0%
North West	-	3.6%	13.2%	1.6%	4.0%	13.2%	0.4%	2.5%	9.2%
Wales	-	2.3%	13.4%	2.5%	3.1%	16.1%	0.7%	2.5%	13.3%
Scotland	-	0.8%	9.4%	2.3%	2.5%	16.1%	0.2%	-0.2%	7.0%

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 June 2022, pre Band of England stress-test announcement)

Region	2022	2023	2024	2025	2026	5 years to 2026
UK	7.5%	-1.0%	1.5%	2.0%	2.5%	12.9%
London	3.5%	-1.0%	0.5%	1.0%	1.0%	5.0%
South East	6.0%	-1.5%	1.0%	1.5%	1.5%	8.6%
East of England	6.0%	-1.5%	1.0%	1.5%	1.5%	8.6%
South West	7.5%	-1.5%	1.5%	2.0%	2.5%	12.4%
East Midlands	8.5%	-1.0%	2.0%	2.5%	3.0%	15.7%
West Midlands	8.5%	-1.0%	2.0%	2.5%	3.0%	15.7%
North East	9.0%	-0.5%	2.0%	2.5%	3.5%	17.4%
Yorks & Humber	10.0%	-0.5%	2.0%	2.5%	3.5%	18.4%
North West	10.0%	-0.5%	2.0%	2.5%	3.5%	18.4%
Wales	10.0%	-1.5%	2.0%	2.5%	3.5%	17.2%
Scotland	8.5%	-1.0%	2.0%	2.5%	3.0%	15.7%

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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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