

# UK Housing Market Update



## Housing market remains busy but there are signals of a slow-down ahead

House prices rose by 0.9% in May, taking annual house price growth to 11.2%. Month on month price growth has been softening since the start of year, down 0.9% this month from 1.7% in February.

The deficit of homes on the market will continue to support price growth in the short term, before affordability pressures finally press on the brakes over the medium term. Our latest forecasts, released 31<sup>st</sup> May, predict annual house price growth to finish 2022 at around 7.5%. We expect more subdued growth of 5.1% over the following four years, with 12.9% growth nationally over the entire five year period.

The sales market remains busy for now, with the number of sales agreed at 18% above pre-pandemic levels in April, according to TwentyCi. Mortgage approvals fell in April, however, back to levels more in line with pre-Covid levels for the month. Completions remained 13% up on the pre-Covid average in April, though the return to pre-Covid mortgage approvals is likely to filter into normalising levels of completions as the year progresses.

First time buyers (FTBs) and Buy to Let landlords are transacting more readily than home-movers. The number of loans granted to FTBs

in March was 16% above the 2017-19 average for the month, according to UK Finance. They have maintained their majority share of the mortgaged market since October, overtaking home-movers following the end of the stamp duty holiday. Investment in new buy to let properties remains strong, with the number of loans granted in March 50% higher than pre-pandemic levels. FTBs and landlords benefit from a chain-free position and could be bidding on flats and smaller homes, which have seen less demand during the 'race for space'.

This buyer preference for larger homes could be slowly losing intensity, as demand for houses outside the capital softens. Buyer interest for London flats is making a comeback, with demand 16% up in May compared to the same period in 2021, according to Zoopla. The time taken to sell this property type has reduced slightly, while houses saw an increase in time spent on the market.

House price growth was strongest in Blaenau Gwent and Merthyr Tydfil in Wales, where prices grew on average 23.0% and 22.9% in the year to February. Small house price falls occurred in parts of London, with Southwark and Lambeth down 1.6% and 1.4% respectively.

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

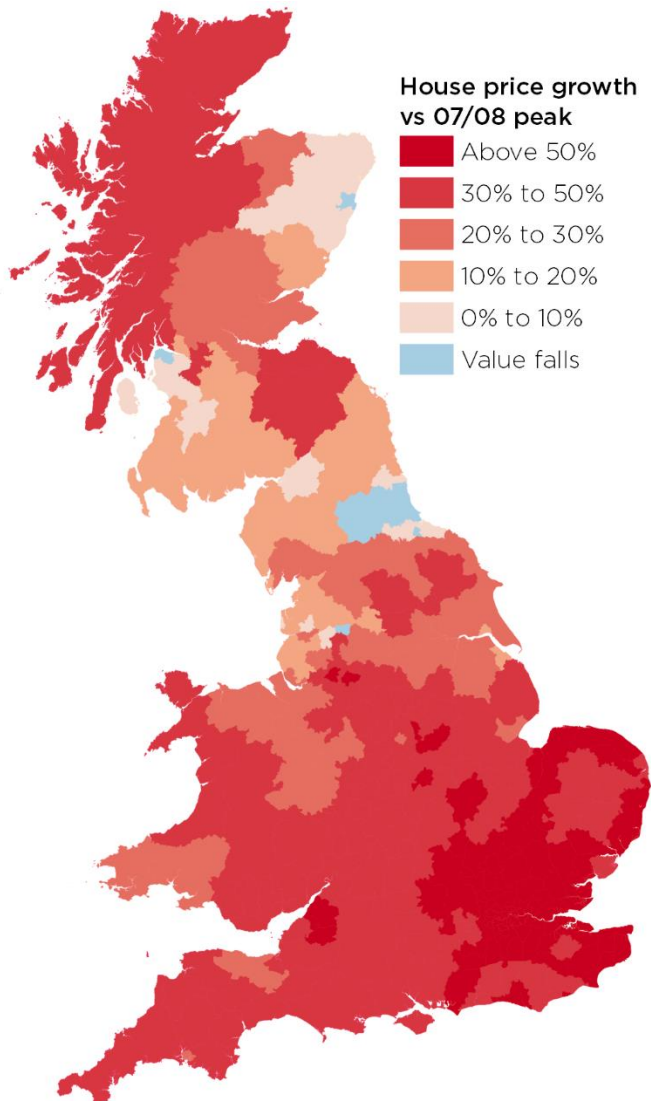
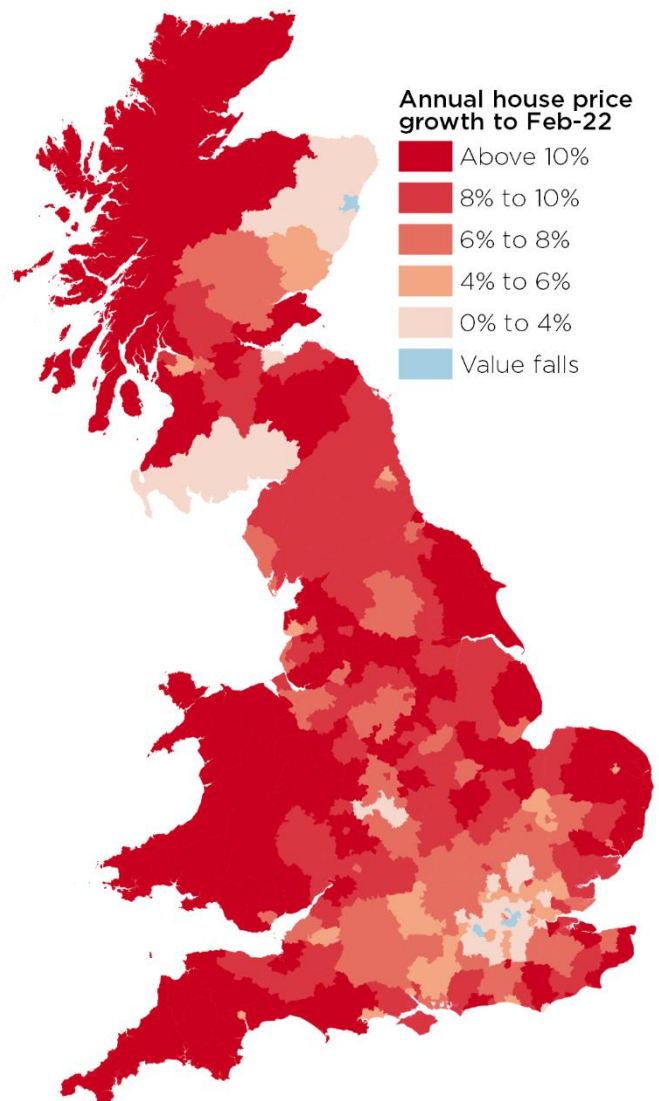


Figure 2 Annual house price growth to Feb-22

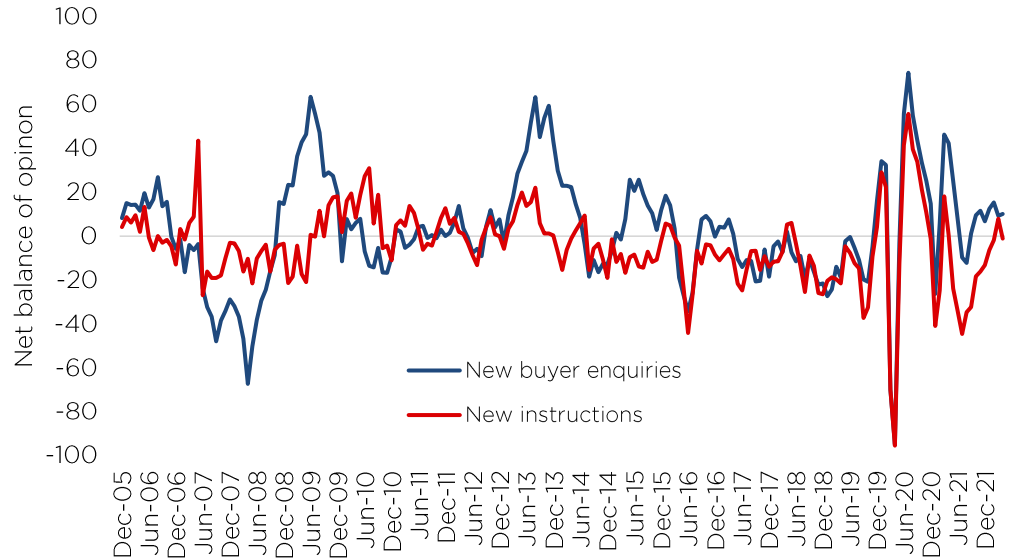


Source Savills using HM Land Registry and Registers of Scotland (6 month smoothed)\*

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**Figure 3** Supply remains limited as buyer demand holds steady

The number of surveyors reporting new instructions to sell was fairly stable, following a short-lived sign of increasing supply in March. At the same time, overall buyer demand held steady, with a net balance of +10 similar to the +9 reported previously. The rate at which house price growth slows will hinge on this supply/demand imbalance that, while reducing recently, remains in play.



Source RICS (seasonally adjusted)

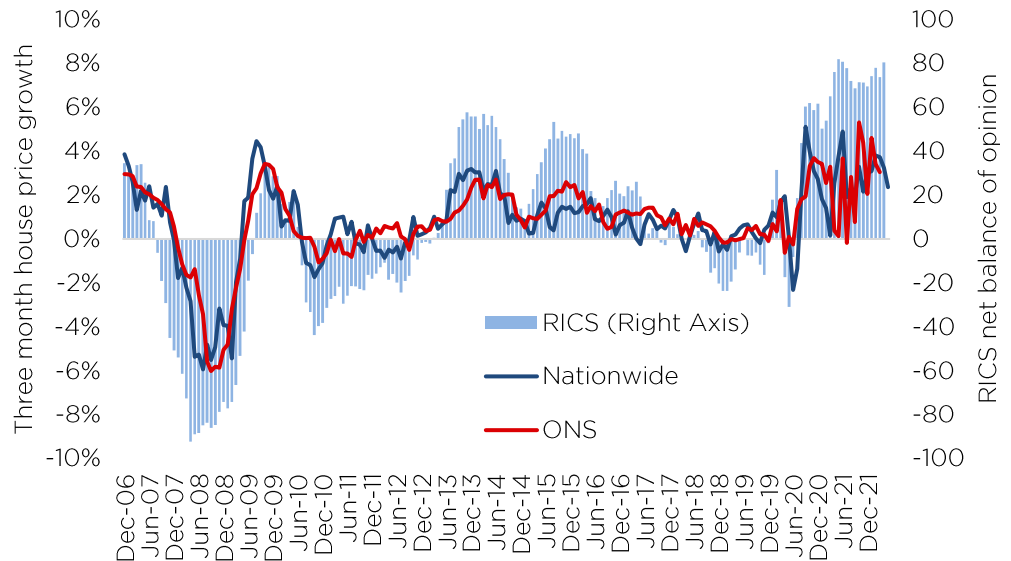
**Figure 4** House price growth remains strong

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

April saw an increasing number of surveyors report of house price growth, at a net balance of +80.

Value growth slowed slightly on a three month basis according to Nationwide, up 2.4% in May from 3.2% in April.

The ONS index reported a similar three month figure of 3.0% growth to March.



Source RICS, Nationwide, ONS (seasonally adjusted)

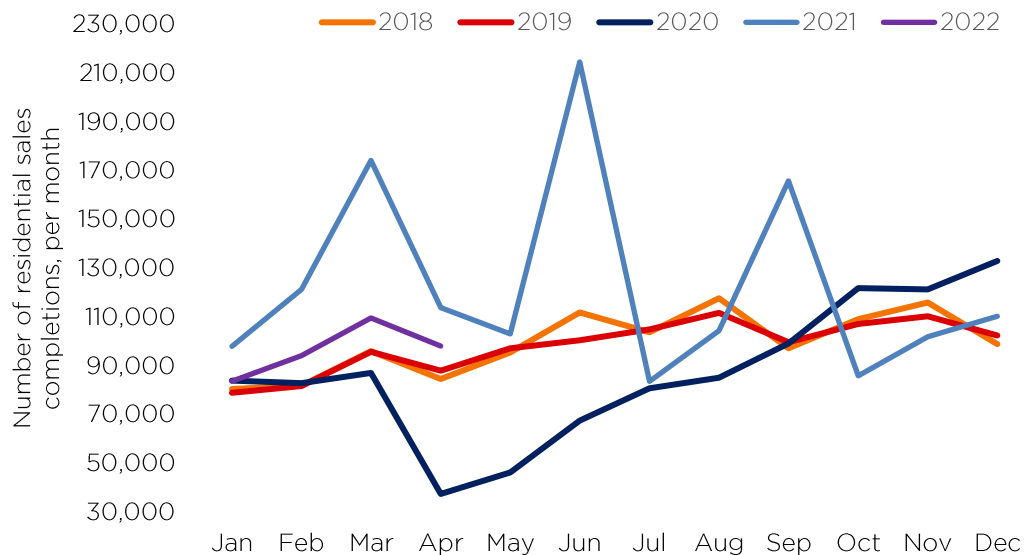
**Figure 5** Transactions in April follow seasonal pattern, but remain elevated

April saw 98k homes transacted, according to HMRC. This is 13% above the 2017-19 average for the month.

There were 18% more sales agreed in April than the 2018/19 average, meaning completions are also likely to remain elevated in the short term.

Mortgage approvals have fallen back in line with the pre-Covid average, however.

If this trend in mortgage approvals holds for the next few months, we will see a gradual normalisation of agreed sales, and then completions, as well.



Source HMRC

Rents grew 11.4% in the 12 months to April across the UK, according to Zoopla. This was another record for annual rental growth since at least 2011, but month on month growth continued to slow. Rental growth decelerated most rapidly in the East Midlands, as supply constraints here are less prominent than in London and the South West, according to Zoopla.

Lack of choice in the rental market is causing more tenants to stay put for longer, however, amplifying the stock issue. Tenancy lengths continue to rise, as tenants roll-over their contracts to avoid the likelihood of paying a higher rent for a new tenancy. The majority of landlords reported they would keep the rent the same for existing tenants, but would be more likely to increase the rent for new tenancies. The English Private Landlord Survey was carried out at the end of 2021, when rental growth was up 8.3% year-on-year.

Figure 6 Annual rental growth to Feb-22

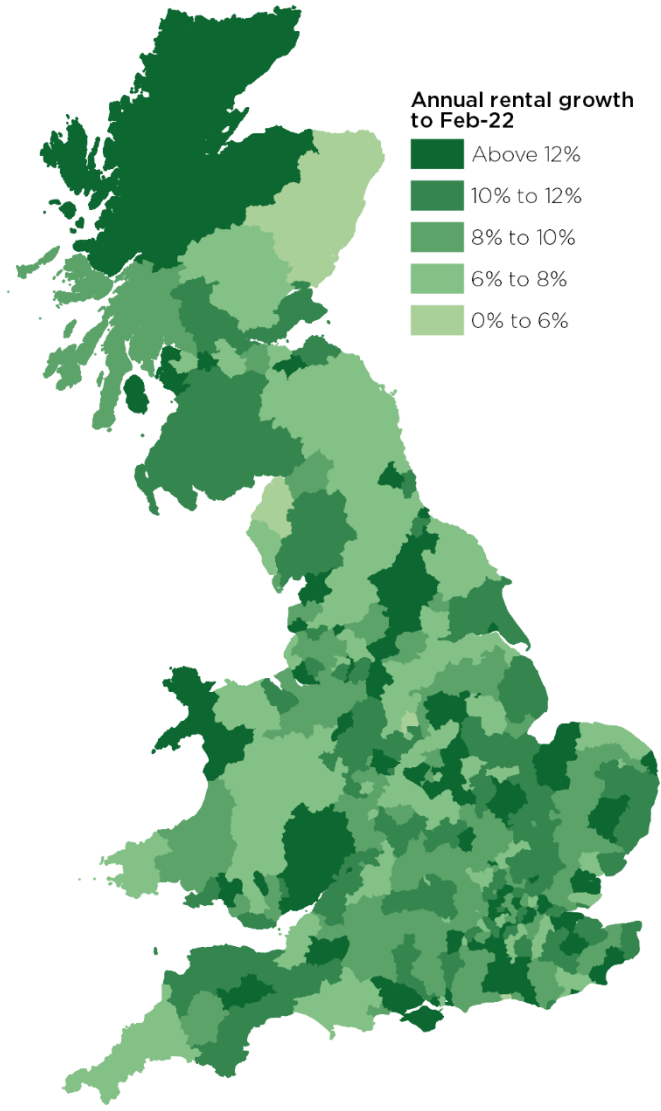


Table 1 Regional rental growth to Apr-22

	m/m	q/q	y/y
UK	0.7%	2.3%	11.4%
London	0.8%	2.7%	16.5%
South East	0.7%	2.0%	8.1%
East of England	0.6%	2.0%	7.2%
South West	0.7%	2.2%	10.8%
East Midlands	0.5%	2.5%	9.8%
West Midlands	0.6%	2.3%	11.0%
North East	0.1%	1.1%	7.5%
Yorks & Humber	0.4%	1.9%	9.9%
North West	0.7%	2.5%	11.2%
Wales	0.9%	2.9%	11.9%
Scotland	0.3%	2.1%	7.4%

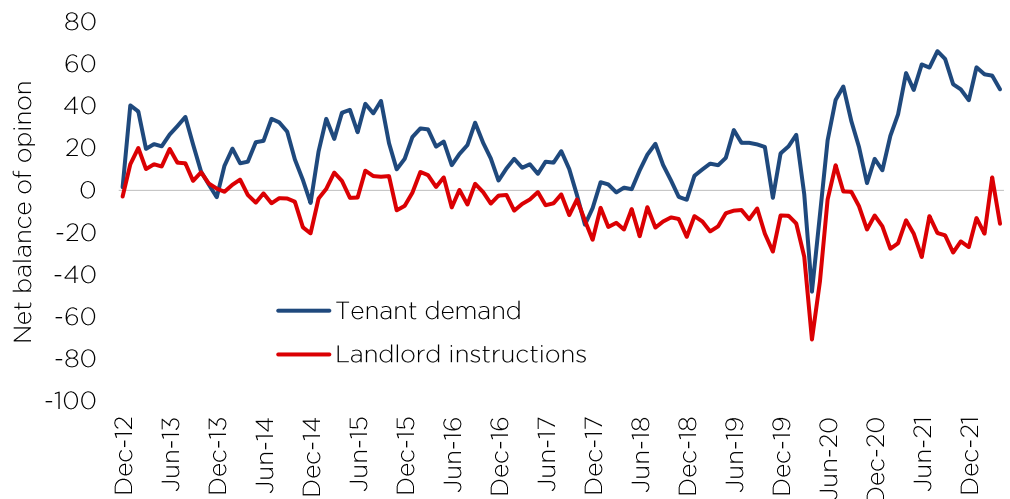
Source Zoopla Rental Index powered by Hometrack

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 remains strong at +48. As in the sales market, increasing supply appears to have been short-lived, with landlord instructions once again entering negative territory. This continues to put upward pressure on rents across the UK.



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 May-22/Q1 2022 for regions)			ONS (to Mar-22)			Savills (to Feb-22)		
	m/m	q/q	y/y	m/m	q/q	y/y	m/m	q/q	y/y
UK	0.9%	3.0%	12.5%	0.6%	3.1%	9.9%	0.8%	2.2%	7.7%
London	-	2.9%	7.4%	-0.6%	1.9%	4.7%	0.3%	1.0%	1.9%
South East	-	2.7%	12.8%	0.9%	3.3%	11.6%	0.8%	2.4%	6.9%
East of England	-	4.0%	14.2%	-0.6%	2.9%	11.0%	0.8%	2.4%	7.8%
South West	-	3.4%	14.4%	0.6%	2.5%	10.8%	1.0%	3.0%	9.1%
East Midlands	-	3.2%	13.4%	1.3%	4.7%	12.2%	0.7%	2.4%	9.8%
West Midlands	-	2.8%	11.6%	1.0%	3.7%	10.2%	0.6%	2.2%	8.8%
North East	-	3.1%	10.7%	0.8%	4.0%	8.5%	0.7%	1.7%	8.5%
Yorks & Humber	-	4.2%	13.4%	-0.1%	3.4%	9.4%	0.8%	2.6%	9.2%
North West	-	3.3%	12.3%	1.0%	3.5%	9.6%	0.6%	2.4%	9.5%
Wales	-	2.8%	15.2%	0.2%	2.2%	11.6%	1.0%	3.0%	13.8%
Scotland	-	4.1%	11.9%	-0.6%	1.6%	7.9%	0.5%	0.3%	7.2%

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)

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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