

UK Housing Market Update



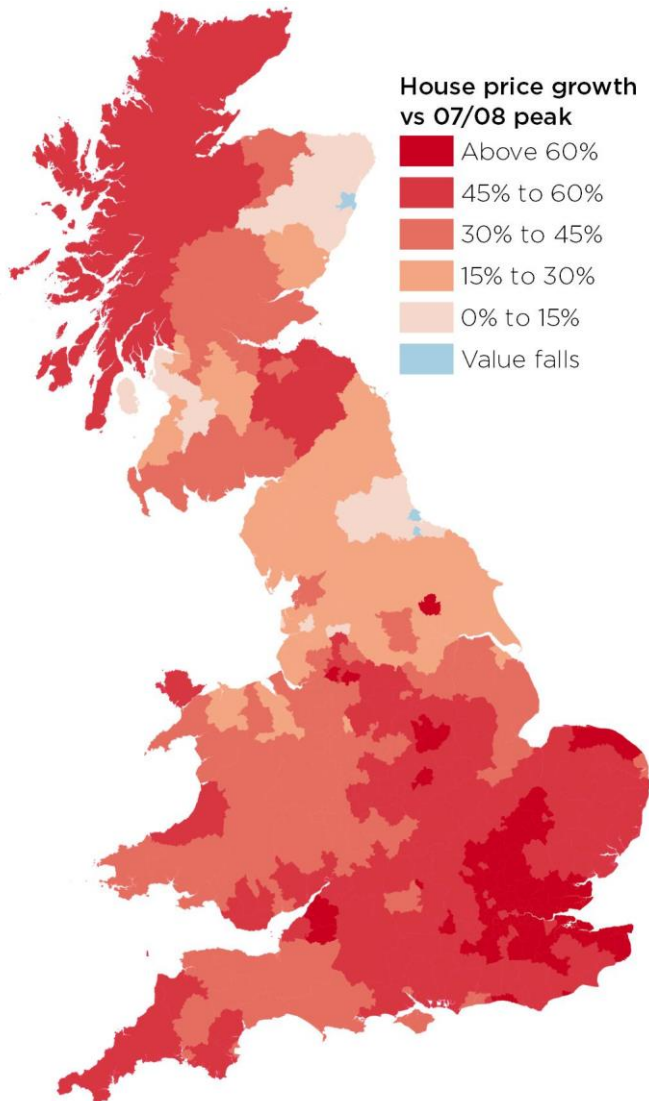
House prices grow on an annual basis but conflicting economic indicators point to continued near-term uncertainty

House prices grew by 0.7% in February, taking annual growth to 1.2%, according to Nationwide. This is the first time annual growth has been positive since January 2023, as an increase in demand at the start of the year has led to greater market activity.

But contradictory economic indicators make the near-term outlook uncertain. The Bank of England (BoE) continues to balance tackling inflation with low economic growth. The UK fell into a technical recession at the end of 2023 while wage growth continued to outstrip inflation, according to the ONS. These conflicting narratives have pushed back expectations for the first base rate cut, which Oxford Economics now predicts to come in June followed by two further cuts expected later in 2024.

Mortgage lenders have shown greater caution in light of the economic uncertainty and an increase in swap rates. Many have increased their rates following substantial reductions at the start of the year when they anticipated earlier base rate cuts. Further delays to these cuts will keep rates higher for longer, tempering the growth in demand and reducing upward pressure on prices.

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



Buyers have taken advantage of previous falls in mortgage rates, increasing market activity. Mortgage approvals in January ticked up to 55,200, according to the Bank of England, the highest number in 15 months. This supported an increase to sales agreed which were 27% higher in February compared to the same month last year and even 13% above the 2017-19 average, according to TwentyCI.

Early activity indicators are yet to translate into completed transaction numbers, with 68,090 in January, according to HMRC. This was -15% below the 2017-19 average, but will likely grow in the coming months due to the higher number of sales agreed in the first two months of 2024.

More areas saw house price falls in the lagged Land Registry data, but regional differences remained. At least half of local authorities in every region experienced annual price falls for completed sales in the year to November 2023. In the North and Midlands, 65% of local authorities saw prices decrease, as affordability pressures impacted even these more affordable markets. Affordability constraints were nevertheless still more pronounced in the South, where 92% of local authorities saw annual falls.

Figure 2 Annual house price growth to Nov-23

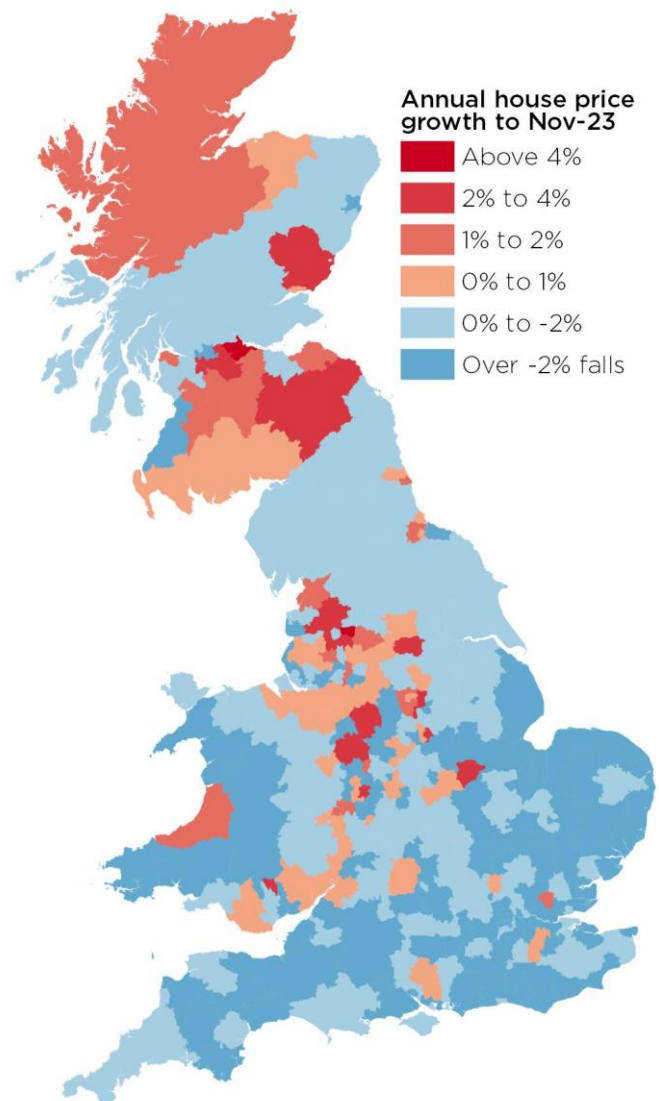
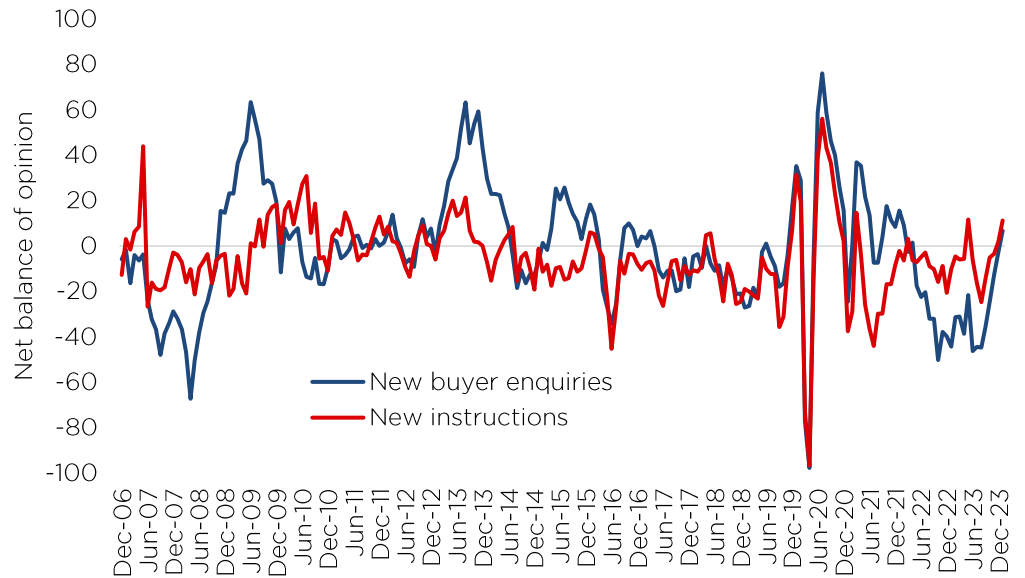
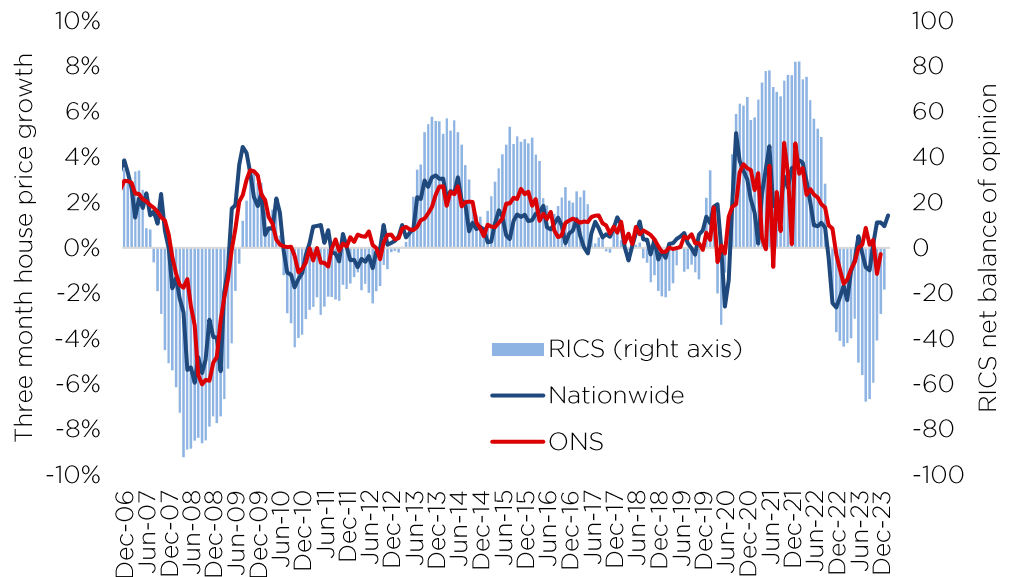


Figure 3 Both supply and demand were positive for the first time since March 2021



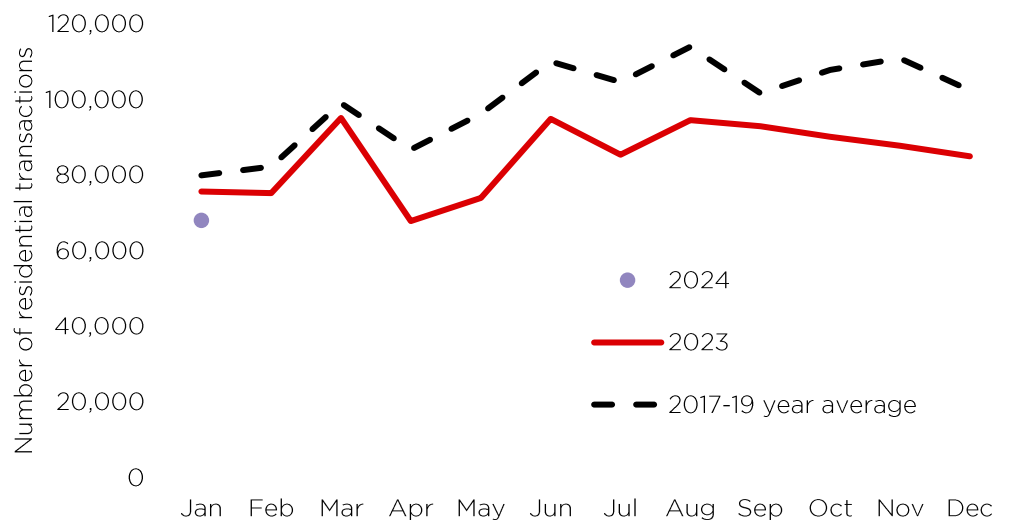
Source RICS (seasonally adjusted)

Figure 4 House prices grew as sentiment further improved but remained negative



Source RICS, Nationwide (seasonally adjusted), ONS (seasonally adjusted)

Figure 5 There were 68,090 completed transactions in January



Source HMRC

A majority of surveyors reported both increasing supply and demand in January, according to the latest RICS survey.

This was the first time both measures were in positive territory since March 2021. For the first time since April 2022 a majority of surveyors reported an increase in buyer enquiries.

The gap between supply and demand had also closed to its smallest level in the last two years, which would further ease the downward pressure on prices.

The number of surveyors reporting price falls decreased from their peak but they remained in the majority.

House prices fell by -0.3% during the three months to December, according to the more lagged ONS index.

But the more recent data from Nationwide showed that on a three-month basis house prices continued to show growth, increasing by 1.4% during the three months to February.

68,090 transactions completed in January, according to HMRC. This is typically the month with the lowest completions activity.

These figures are slightly below the 75,690 transactions that completed at the same time in 2023 and -15% below the 2017-19 average, as the impact of high mortgage rates in 2023 subdued demand and reduced the number of sales agreed.

The uptick in sales agreed at the start of 2024 will likely see completions increase in the coming months.

Annual rental growth across the UK in January was 7.8% according to Zoopla, down from 8.2% in the year to December. Scotland is now the only region with annual growth of over 10%, as rent control policies have led to a reduction in supply and put upward pressure on newly agreed rents. Other northern regions had above average growth, including the North East (9.9%) and the North West (9.8%).

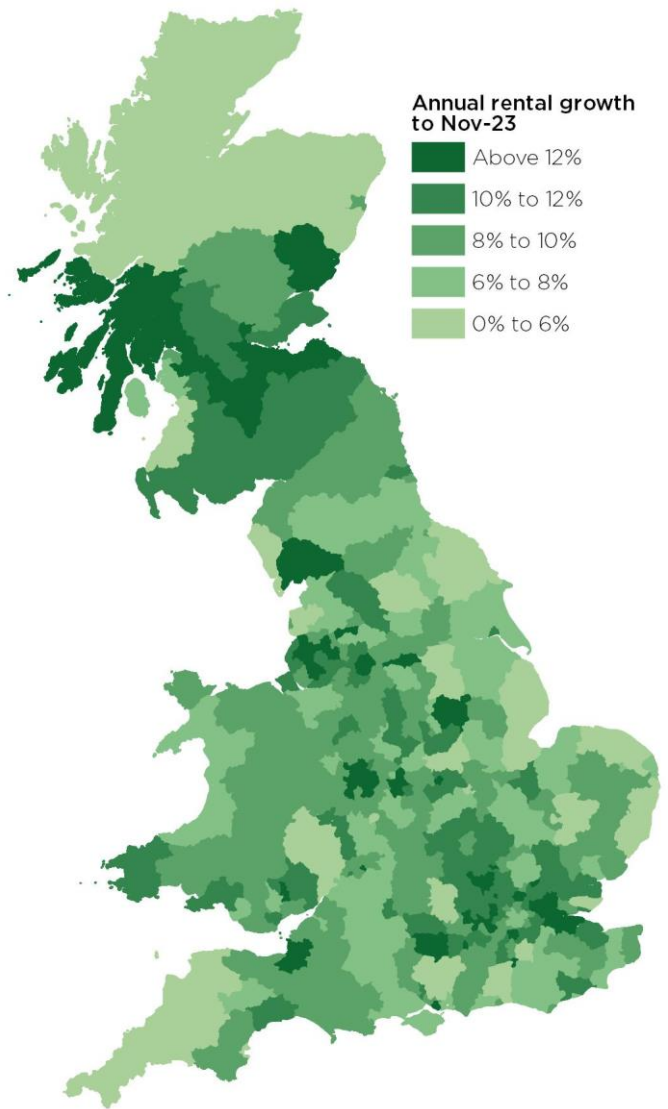
London saw a decrease in rents on a monthly basis for the first time since March 2021, down -0.1% in January, suggesting the affordability ceiling for many renters has been reached. The capital remained the region with the lowest annual growth, falling to 5.1%. This is a substantial slowdown from August 2023 when growth was over 10%.

Table 1 Regional rental growth to Jan-23

	m/m	q/q	y/y
UK	0.3%	1.2%	7.8%
London	-0.1%	0.4%	5.1%
South East	0.2%	1.0%	8.9%
East of England	0.6%	1.7%	9.3%
South West	0.2%	0.9%	8.0%
East Midlands	0.4%	1.4%	8.7%
West Midlands	0.6%	1.9%	8.6%
North East	1.4%	3.3%	9.9%
Yorks & Humber	0.5%	1.5%	7.6%
North West	0.4%	1.6%	9.8%
Wales	0.7%	1.7%	9.5%
Scotland	1.2%	2.7%	11.6%

Source Zoopla Rental Index powered by Hometrack

Figure 6 Annual rental growth to Nov-23



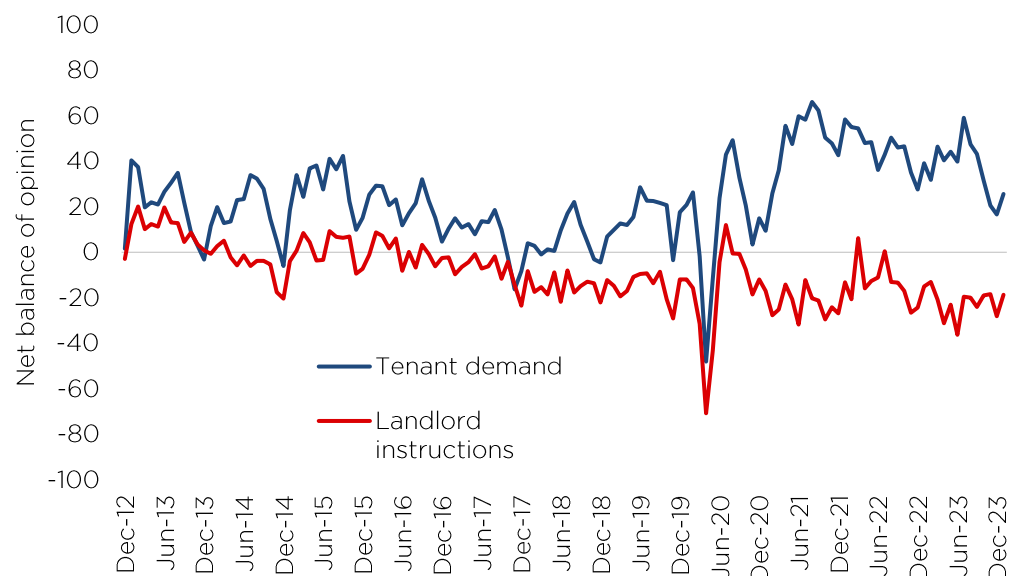
Source Zoopla Rental Index powered by Hometrack

Figure 7 Supply and tenant demand both improved as the gap remained the same

The RICS survey for the lettings market showed the number of surveyors reporting rising tenant demand increased in January after a period of falls.

The number of surveyors reporting falling supply decreased, maintaining the same gap between supply and demand.

Although the gap between supply and demand has shrunk significantly in recent months, it remained wide compared to previous years. This will continue to keep rental growth high in the short term.



Source RICS

Table 2 Rental forecasts (published November 2023)

Region	2024	2025	2026	2027	2028	5 years to 2028
UK	6.0%	3.5%	3.0%	2.5%	2.0%	18.1%
London	5.5%	3.5%	3.0%	2.5%	2.5%	18.2%

Table 3 Recent house price growth

	Nationwide (Regions to Q4 2023, UK to February 2024)			ONS (to December 2023)			Savills* (to November 2023)		
	m/m	q/q	y/y	m/m	q/q	y/y	m/m	q/q	y/y
UK	0.7%	0.7%	1.2%	0.3%	-0.2%	-1.4%	-0.4%	0.1%	-1.8%
London	-	0.8%	-2.4%	-0.2%	-2.6%	-5.1%	-0.5%	-0.1%	-3.2%
South East	-	0.5%	-4.5%	-1.4%	-2.0%	-4.6%	-0.4%	-0.3%	-2.6%
East of England	-	-0.6%	-5.2%	-0.3%	-1.6%	-3.8%	-0.5%	-0.3%	-2.9%
South West	-	-0.3%	-2.8%	-0.1%	-0.5%	-2.2%	-0.4%	0.2%	-2.3%
East Midlands	-	0.2%	-3.1%	1.2%	0.0%	-1.1%	-0.4%	-0.4%	-1.6%
West Midlands	-	0.3%	-2.8%	2.4%	0.3%	0.3%	-0.6%	0.0%	-1.4%
North East	-	-1.4%	-0.8%	-0.6%	-0.9%	-0.8%	-0.6%	0.0%	-0.4%
Yorks & Humber	-	0.5%	-0.4%	0.1%	-0.4%	-1.3%	-0.3%	0.2%	-0.5%
North West	-	2.1%	-1.0%	2.3%	1.6%	1.0%	-0.4%	-0.2%	-0.7%
Wales	-	1.0%	-1.9%	0.3%	-0.5%	-2.5%	-0.6%	-0.2%	-1.5%
Scotland	-	0.7%	0.6%	1.0%	1.9%	3.2%	0.4%	1.3%	0.9%

Source Savills using HM Land Registry and Registers of Scotland (6 month smoothed)*, Nationwide (seasonally adjusted), ONS (seasonally adjusted)

Table 4 Mainstream house price forecasts (published November 2023)

Region	2024	2025	2026	2027	2028	5 years to 2028
UK	-3.0%	3.5%	5.0%	6.5%	5.0%	17.9%
London	-4.0%	2.0%	4.0%	6.0%	5.5%	13.9%
South East	-3.5%	3.0%	4.5%	6.5%	5.5%	16.7%
East of England	-3.5%	3.0%	4.5%	6.5%	5.5%	16.7%
South West	-3.0%	3.5%	5.0%	6.5%	5.0%	17.9%
East Midlands	-2.5%	4.0%	5.5%	6.5%	5.0%	19.6%
West Midlands	-2.0%	4.0%	5.5%	6.5%	5.0%	20.2%
North East	-1.5%	4.5%	5.5%	7.0%	4.5%	21.4%
Yorks & Humber	-2.5%	4.5%	5.5%	7.0%	4.5%	20.2%
North West	-2.5%	4.5%	5.5%	7.0%	4.5%	20.2%
Wales	-2.0%	4.5%	5.5%	7.0%	5.0%	21.4%
Scotland	-2.0%	4.0%	5.5%	6.5%	5.0%	20.2%

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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