

# UK Housing Market Update



## Affordability concerns heighten but demand remains strong, as house prices continue to grow

House prices rose by 0.3% in April, taking annual house price growth to 12.1%, continuing a string of double digit growth for six consecutive months, according to Nationwide. The rapid level of house price inflation unmatched by income growth has squeezed affordability. The ratio of house prices to earnings reached a new high of 8.9 for England & Wales, compared to 7.7 in 2019, report the ONS.

**The cost-of-living crisis is adding to affordability concerns, with banks building the higher costs into their checks on borrowers.**

Lenders expecting lower availability of mortgages in Q2 2022 outweighed those expecting increased lending by 22%, according to the Bank of England credit conditions survey. And the BoE has also increased the base rate to 1.0%, the fourth rise in five months. All of these factors will erode mortgage affordability and limit future house price growth.

**Increased supply of homes for sale could also help take some heat out of the market, eventually.** The number of homes on the market has increased in each of the first three months of 2022, reverting to normal seasonal trends, according to TwentyCi. But that number is still 44% down on pre-pandemic levels and it could take many months to recover

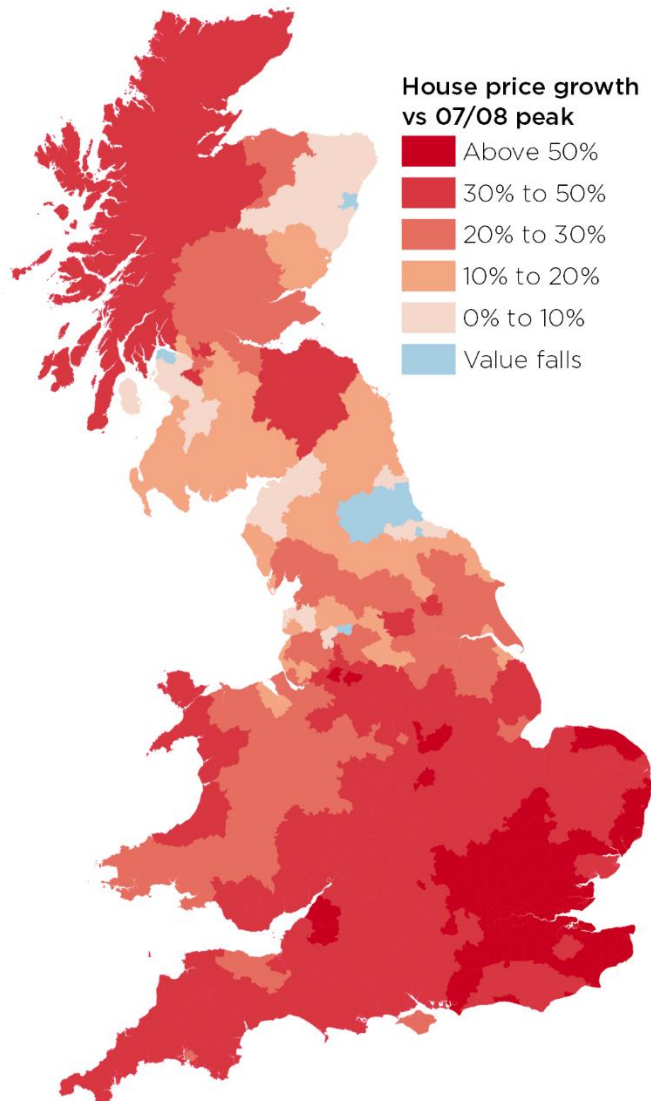
to more normal levels. So strong house price growth is therefore likely to continue over the short term.

**Low supply is not holding back market activity,** with transactions in March totalling 111k, 12% above 2017-19 levels for the month. Demand from buyers remains strong, according to the RICS, and this is still converting into sales. Sales agreed remained 18% higher than pre-pandemic levels in April, according to TwentyCi. So high numbers of sales will continue for the next few months at least.

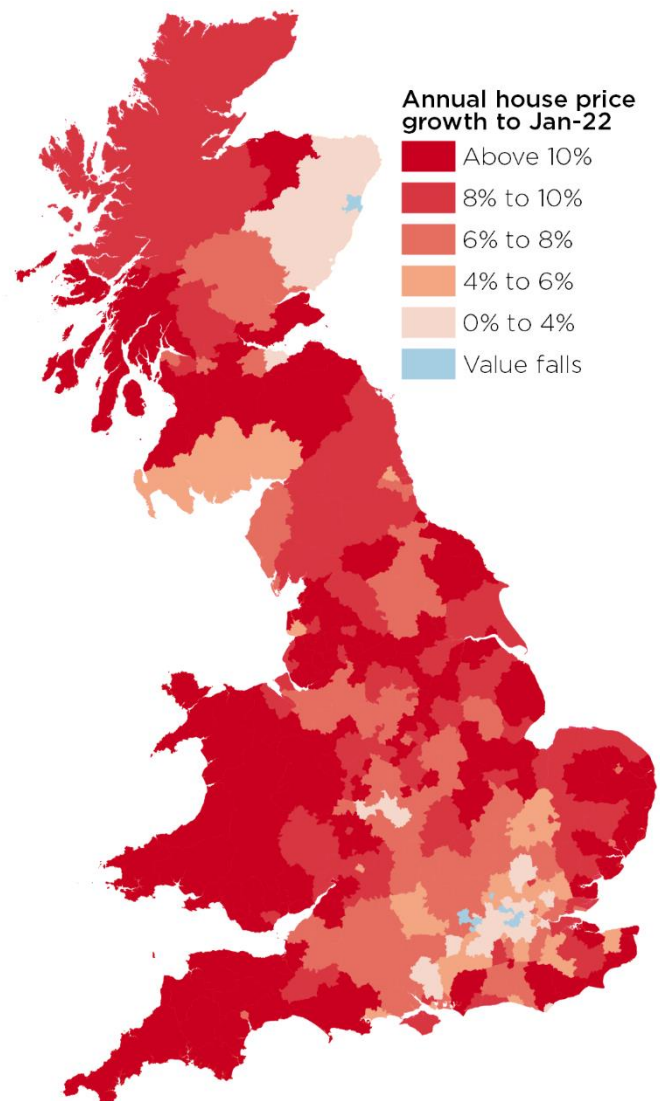
**Rents are also rising quickly, driven by a lack of supply.** They increased 11.0% in the year to March, up 1.0% month on month. Renewed investment by buy-to-let landlords may help to ease the shortage over coming months. New buy-to-let loans granted in February were 37% above the pre-pandemic average, according to UK Finance. And this supported the recent uptick in landlord instructions reported in the latest RICS survey. This will slow the rate of rental growth.

**House price growth was strongest in Merthyr Tydfil and Pendle in Lancashire which saw annual growth of 22% and 21% respectively.**

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



**Figure 2** Annual house price growth to Jan-22

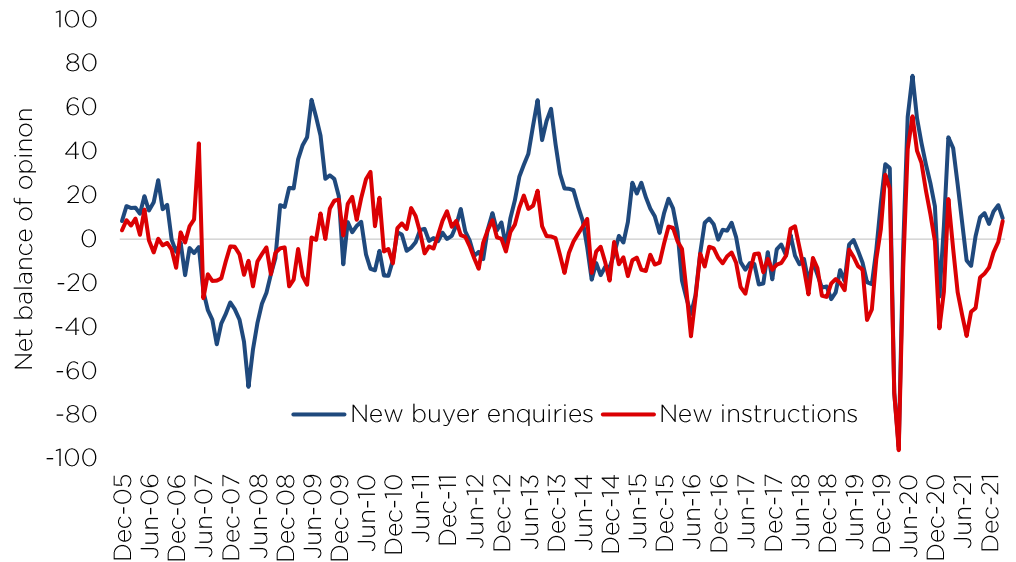


The gap between the number of surveyors reporting rising supply and demand from new buyers was the smallest it's been since March 2020, in the latest RICS survey.

The convergence came from a slightly lower reading on demand, at +9 in March, coupled with the first positive reading on increasing supply coming to the market since March 2021.

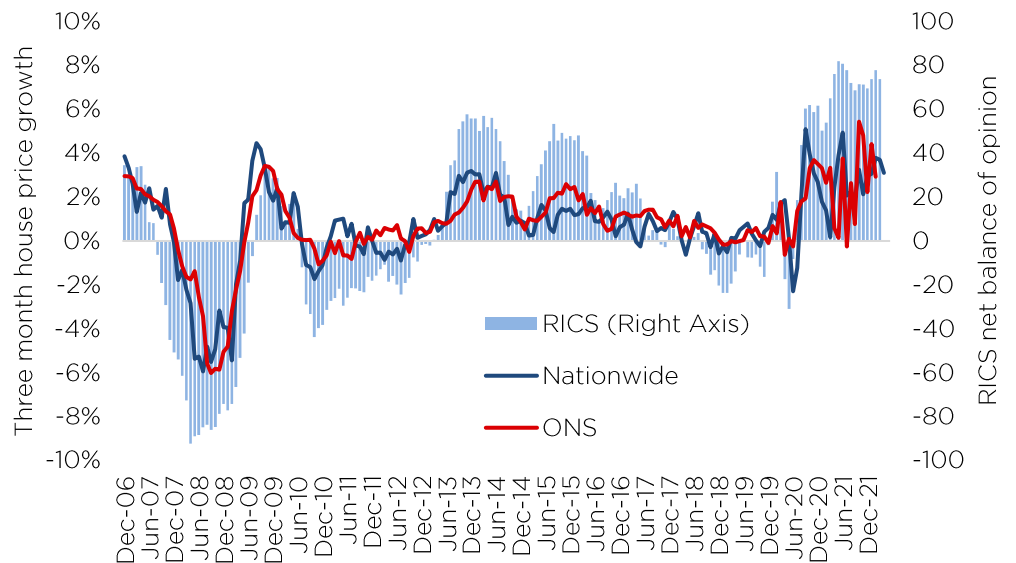
Should this gap remain tight, we would expect the rapid pace of house price growth to slow. But the total shortage of homes for sale is expected to support further price growth in the short term.

**Figure 3** The gap between supply and demand converged in March



Source RICS (seasonally adjusted)

**Figure 4** House price growth remains strong



Source RICS, Nationwide, ONS (seasonally adjusted)

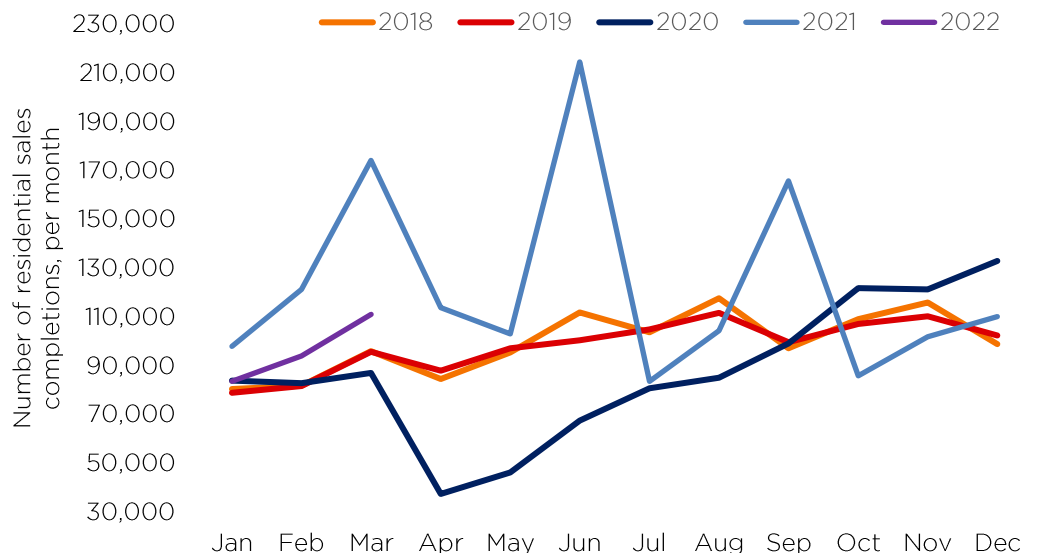
The RICS survey can be a good early indicator of house price movements, which are later picked up by other indices.

March saw another robust report of house price increases from surveyors, at a net balance of +74.

Value growth was also strong on a three month basis according to Nationwide, up 3.1% in April.

The ONS index reported a similar three month figure of 2.9% growth to February.

**Figure 5** Rising number of transactions as market activity refuses to slow



Source HMRC

March saw 111k transactions, 12% above the 2017-19 average for the month.

This shows that despite stock issues, activity remains high. And with mortgage approvals and sales agreed data continuing to track above the pre-pandemic trend, this suggests transactions will remain robust over the coming few months.

**Rents grew 11.0% in the 12 months to March across the UK, according to Zoopla.** This was the strongest rental growth since at least 2011, although month on month growth is starting to slow. Growth was widespread across the country, but particularly strong in London, the West Midlands and Wales. However growth has been decelerating in the majority of regions over the past 3-months, with the lowest growth in Scotland at 1.1%.

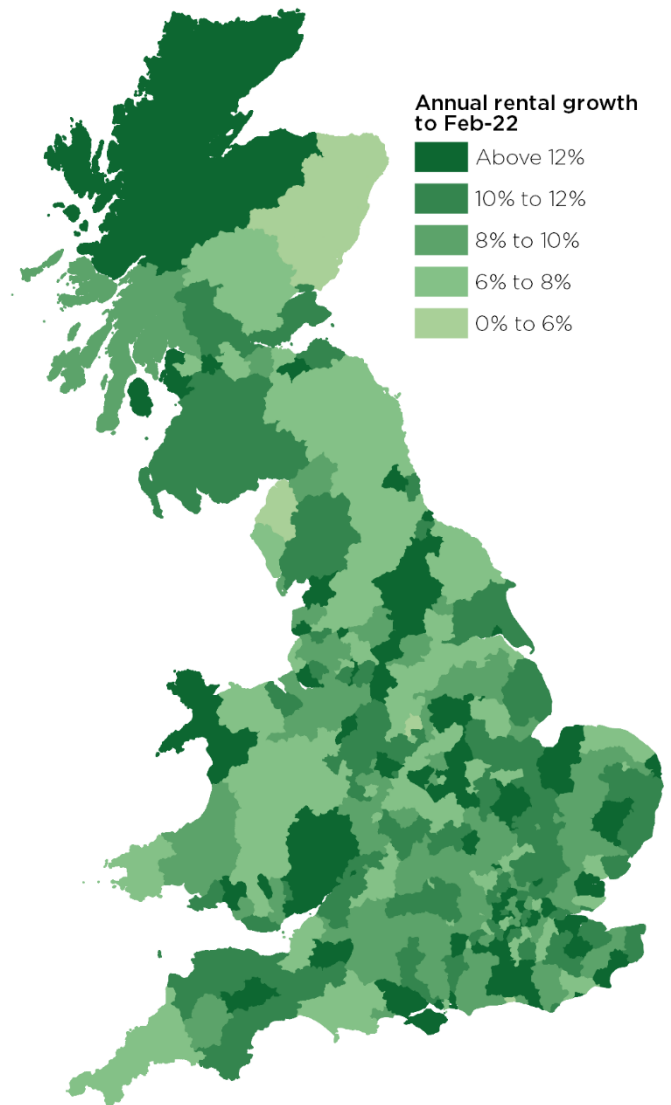
**Central London experienced the strongest annual rental growth**, with the City of London, Kensington & Chelsea and Westminster the top performers, but rents there are now just 2.5%, 4.1% and 5.3% above their pre-pandemic level. Much of the growth seen has been making up the falls experienced during 2020 and early 2021. Outside of London, Purbeck in Dorset and Torfaen in south Wales saw the next strongest growth, at 21% and 17% respectively.

**Table 1** Regional rental growth to Mar-22

	m/m	q/q	y/y
UK	0.7%	2.7%	11.0%
London	0.7%	3.5%	15.7%
South East	0.5%	1.9%	7.6%
East of England	0.6%	2.1%	7.2%
South West	0.7%	2.2%	10.5%
East Midlands	1.0%	3.1%	9.7%
West Midlands	0.5%	3.0%	10.9%
North East	0.3%	2.2%	6.9%
Yorks & Humber	0.4%	2.1%	10.0%
North West	1.0%	3.1%	10.9%
Wales	0.7%	2.7%	11.0%
Scotland	0.7%	1.1%	6.0%

Source Zoopla Rental Index powered by Hometrack

**Figure 6** Annual rental growth to Feb-22

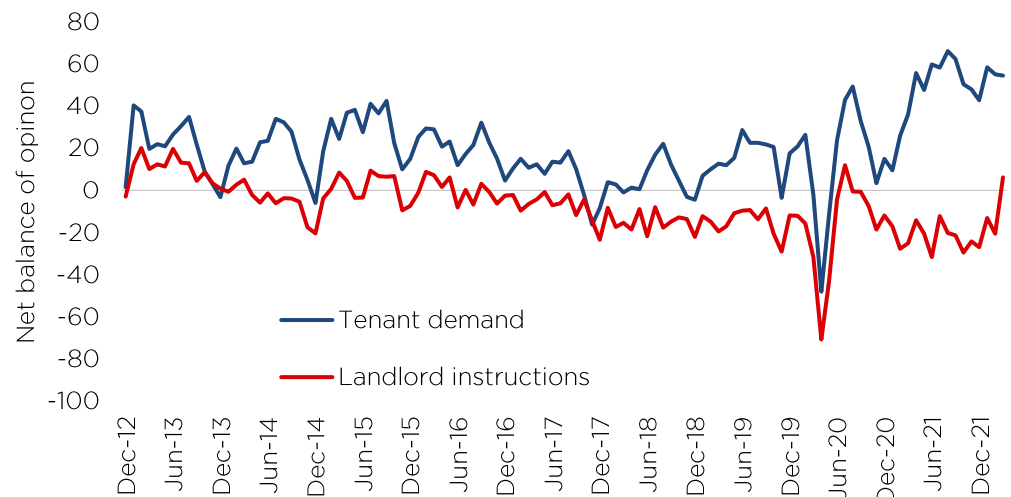


Source Zoopla Rental Index powered by Hometrack

**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.

Tenant demand continues to rise at a robust pace, with +54 balance of respondents citing a rise in March. Landlord instructions were reported to have increased for the first time since July 2020, with the latest net balance rising rapidly to +6 from -21 in February.



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 Apr-22/Q1 2022 for regions)			ONS (to Feb-22)			Savills (to Jan-22)		
	m/m	q/q	y/y	m/m	q/q	y/y	m/m	q/q	y/y
UK	0.3%	3.0%	12.5%	0.8%	2.9%	10.8%	1.1%	2.2%	7.6%
London	-	2.9%	7.4%	2.6%	2.9%	8.0%	0.7%	1.3%	2.0%
South East	-	2.7%	12.8%	0.1%	3.1%	11.9%	1.1%	2.3%	6.8%
East of England	-	4.0%	14.2%	1.5%	3.1%	12.5%	1.1%	2.6%	7.6%
South West	-	3.4%	14.4%	1.5%	2.5%	12.4%	1.3%	2.9%	8.9%
East Midlands	-	3.2%	13.4%	-0.1%	3.6%	10.8%	1.0%	2.8%	9.8%
West Midlands	-	2.8%	11.6%	0.4%	3.7%	9.9%	1.0%	2.7%	8.8%
North East	-	3.1%	10.7%	1.3%	4.1%	9.3%	0.7%	1.7%	8.7%
Yorks & Humber	-	4.2%	13.4%	1.2%	3.6%	9.4%	1.4%	2.9%	9.3%
North West	-	3.3%	12.3%	1.1%	3.3%	10.1%	1.2%	2.8%	9.5%
Wales	-	2.8%	15.2%	-0.2%	4.1%	14.1%	0.8%	3.1%	13.5%
Scotland	-	4.1%	11.9%	0.1%	1.2%	11.5%	-1.0%	0.9%	7.5%

**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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