SAVILLS RESEARCH

UK Housing Market Update

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Market retains momentum for now, but will likely slow as economic challenges mount

House prices rose by 0.8% in August, according to Nationwide. This is a marginal rise on July's growth, but annual growth still softened to 10% from 11% last month. With demand continuing to ease, and economic challenges mounting, we expect to see weaker value performance ahead.

While supply remains low, demand has continued to ease. New buyer enquires remained in negative territory in July, according to the latest RICS survey, although this is from historic highs. New instructions to sell homes remained largely flat, with supply still limited.

Transactions remained strong in July, but there are signs of slowing activity ahead. Completed transactions in July were 6% above the 2018/19 average for the month, according to HMRC. While this indicates a strong market, many of these sales were agreed months ago, before the recent rate hikes. Mortgage approvals were 9% below the 2018/19 average for the month, according to the Bank of England. Sales Agreed volumes are up, however: 8% above the 2018/19 average in July, according to TwentyCI. These sales agreed include cash buyers, a subsect of the market that has remained strong, insulated from the rate rises that are weighing down the mortgaged market.

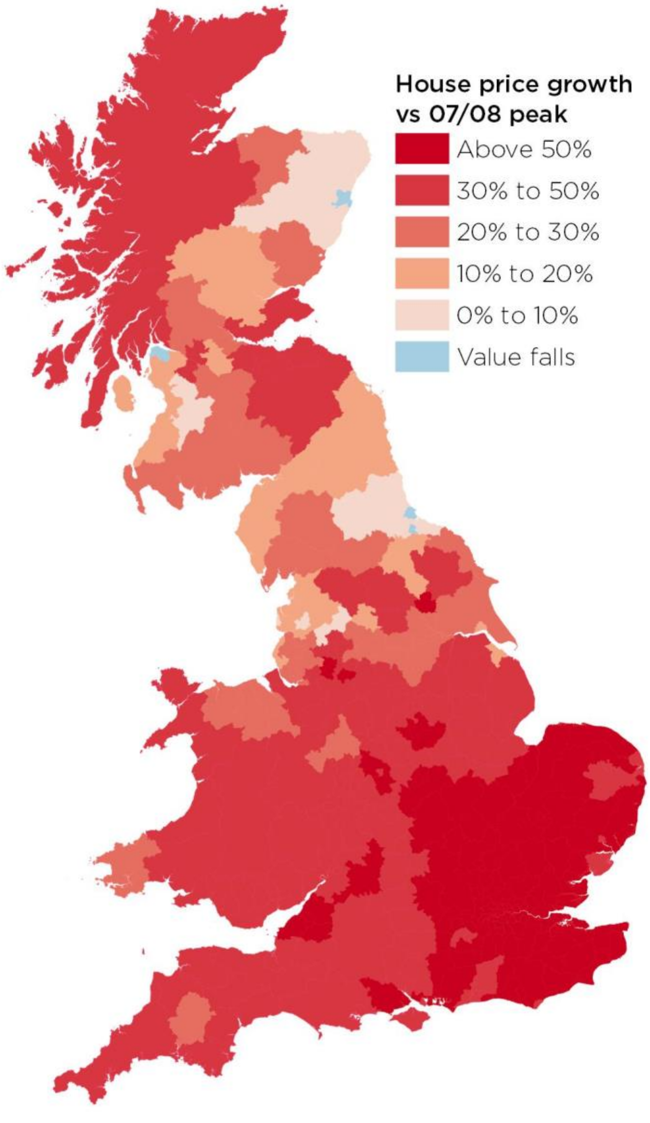
Demand is being tempered by increasing affordability challenges. The average 5yr fixed rate jumped to 3.5% in July, according to the Bank of England, up from 1.6% at the start of the year. While this is still much lower than the average rates of over 6% we saw prior to 2008, higher house values and squeezed living costs will make the market sensitive to any rate changes, as we have already seen with falling mortgage approvals.

Rates have also been converging for different mortgage products. There is currently little advantage in securing a mortgage with a longer length, or lower LTV, which are typically on lower rates. This will act to support those who are reliant on small deposits and larger loans.

And rates are going to keep climbing. August saw the Bank of England enact the greatest base rate hike in 27 years, and with inflation continuing to climb, further sizable rate hikes seem inevitable. Energy costs also present a significant headwind for households, with the average household annual energy cost potentially rising to £5,400 by January, according to Cornwall Insights.

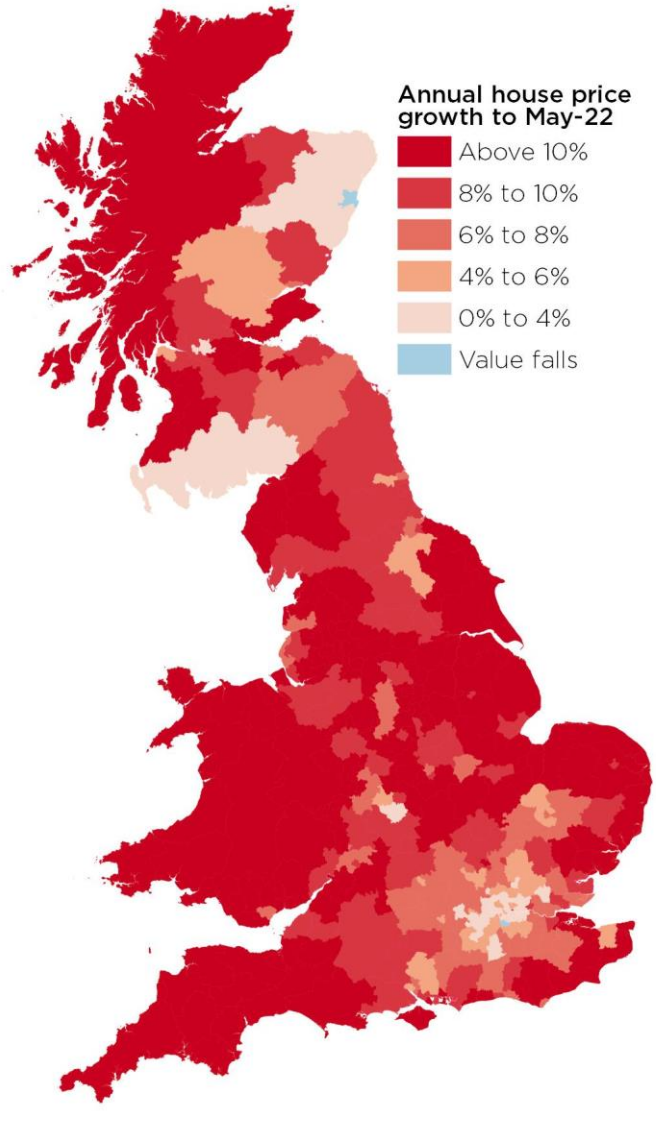
Annual value growth to May was strongest in Blaenau Gwent, up 22.3%, and weakest in Aberdeen, down 2.5%.

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



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

Figure 2 Annual house price growth to May-22



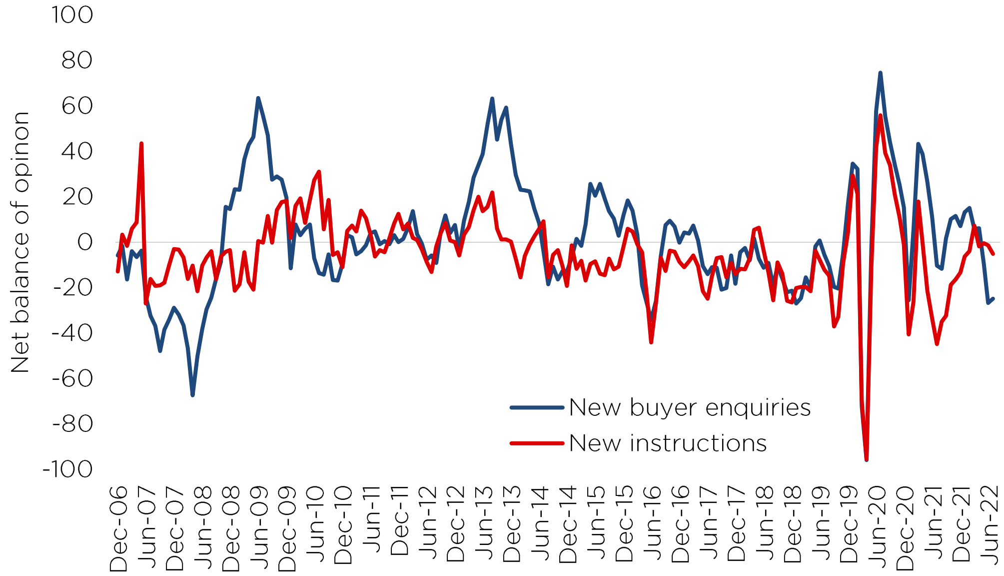
Source Savills using HM Land Registry and Registers of Scotland (6 month smoothed)*

The majority of surveyors continued to report falling demand in July – although this has been from a historically high level.

A slim majority of surveyors reported falling supply, but there's been no significant change in supply since March.

This paints a picture of falling demand, but still restricted supply, which will likely support value growth in the short term.

Figure 3 Demand continues to fall, while supply remains largely flat



Source RICS (seasonally adjusted)

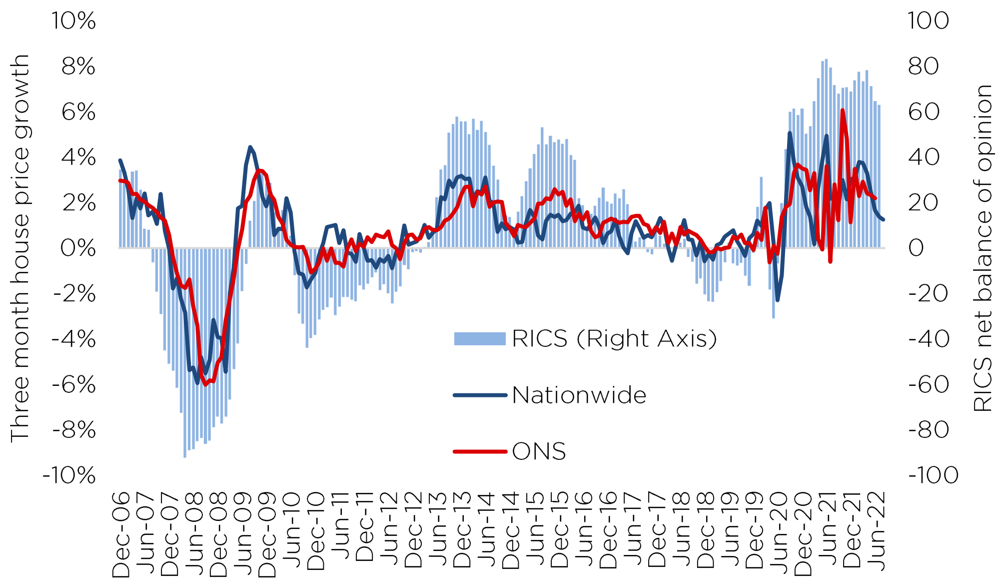
The RICS survey can be a good early indicator of house price movements, which are later picked up by other indices.

The majority of surveyors were still reporting rising values in July, although the majority has been gradually slimming down since the start of the year.

Similarly, value growth has been trending down over broadly the same period according to Nationwide.

The ONS index, which tends to lag Nationwide, reported 2.2% growth in the three months to June.

Figure 4 Pace of house price growth is slowing



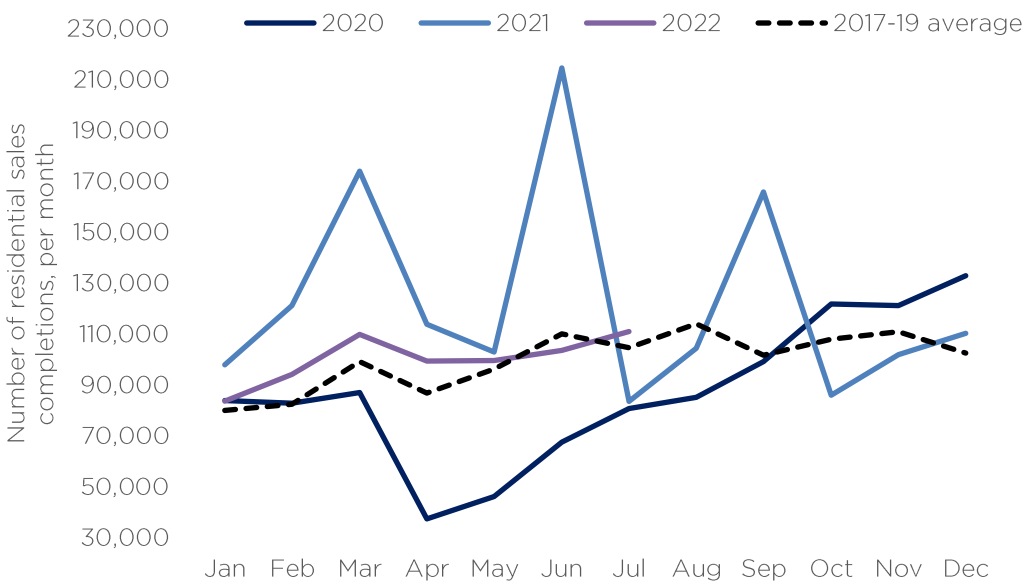
Source RICS, Nationwide, ONS (seasonally adjusted)

111,000 transactions completed in July, according to HMRC. This is a slight recovery from June, which saw activity drop down below the Pre-Covid average for the first time this year.

Activity seems now to have largely normalised after the Covid pandemic and three spikes from the Stamp Duty Holiday. Disruption.

With increasingly stretched household finances, it seems likely that activity will continue to moderate.

Figure 5 Transactions in June were lower than pre-pandemic levels

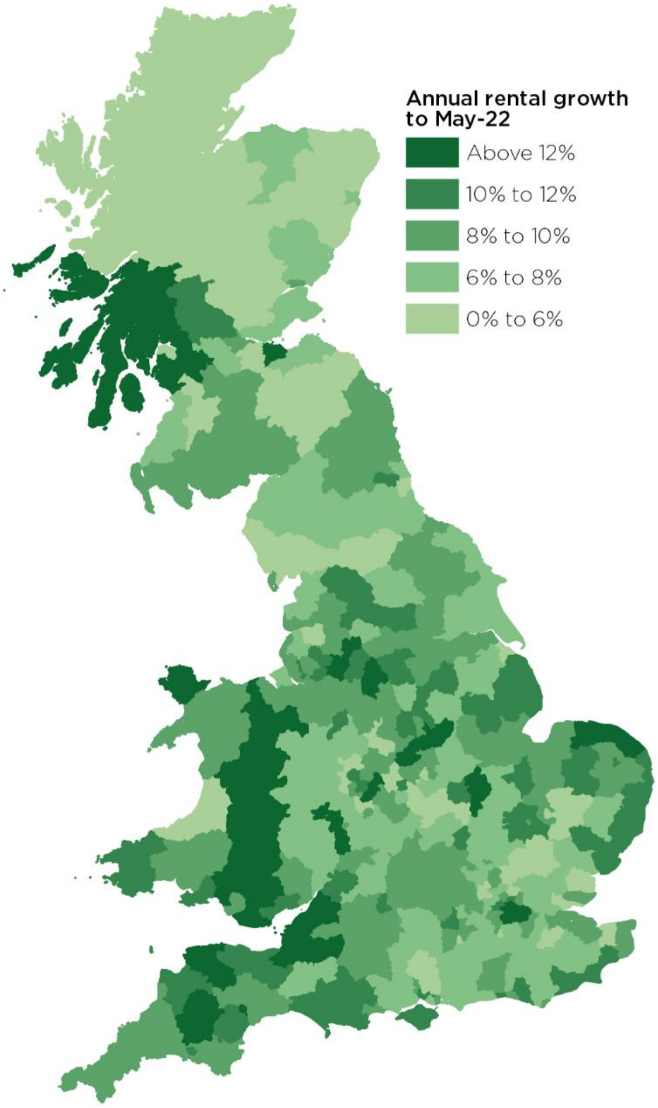


Source HMRC

Rents grew 12.3% across the UK in the year to July, according to Zoopla. This is the fastest growth since at least 2011, and is still showing signs of accelerating. This growth remains above wage growth and inflation, and will be rapidly squeezing household finances.

Growth has been the strongest in London, up 17.8% annually – this is after rental falls of 10% during the pandemic however. Average rents exceed their pre-pandemic peaks in every region, ranging from 19.4% above Mar-20 levels in the South West and 19.2% higher in Wales to 8.5% higher in London.

Figure 6 Annual rental growth to May-22



Source Zoopla Rental Index powered by Hometrack

Table 1 Regional rental growth to Jul-22

	m/m	q/q	y/y
UK	0.9%	2.5%	12.3%
London	1.1%	3.0%	17.8%
South East	0.9%	2.3%	9.0%
East of England	0.6%	2.1%	7.7%
South West	1.0%	2.5%	10.6%
East Midlands	0.4%	1.6%	9.9%
West Midlands	0.7%	2.4%	11.3%
North East	0.2%	0.8%	7.6%
Yorks & Humber	0.9%	2.2%	10.2%
North West	0.8%	2.6%	12.2%
Wales	0.9%	2.3%	12.3%
Scotland	0.8%	3.0%	10.0%

Source Zoopla Rental Index powered by Hometrack

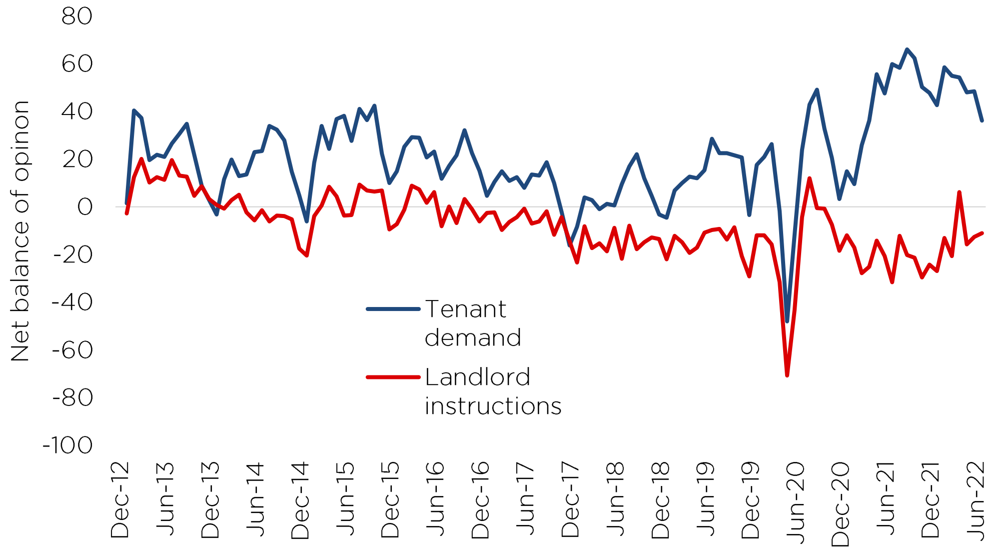
The RICS survey for the lettings market gives a good indication of the mismatch between rental supply and demand that has underpinned rental growth across the UK.

The number of surveyors reporting increasing levels of stock continues to rise, although they remain in the minority for now.

More surveyors are seeing falling demand, but levels of demand are still high.

This supply/demand gap is starting to close, but this will take time, and will continue to drive strong rental growth in the coming months.

Figure 7 The gap between supply and demand continues to slowly close



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 1 Recent house price growth

	Nationwide (Regions to Q2 2022, UK to August 2022)			ONS (to June 2022)			Savills (to May 2022)		
	m/m	q/q	y/y	m/m	q/q	y/y	m/m	q/q	y/y
UK	0.8%	1.4%	10.0%	0.5%	1.9%	7.7%	0.9%	2.3%	8.7%
London	-	2.1%	5.9%	1.1%	2.2%	6.3%	0.5%	1.1%	3.1%
South East	-	2.0%	11.1%	0.8%	2.0%	8.9%	0.7%	2.2%	7.9%
East of England	-	3.0%	14.1%	0.5%	2.6%	9.7%	0.8%	2.1%	8.9%
South West	-	3.9%	14.6%	0.2%	2.3%	8.0%	1.1%	2.8%	10.6%
East Midlands	-	2.0%	11.4%	1.0%	2.9%	9.3%	1.1%	2.9%	11.2%
West Midlands	-	3.3%	11.8%	-0.1%	2.4%	6.5%	1.0%	2.3%	9.9%
North East	-	3.4%	10.5%	0.7%	1.0%	3.6%	1.1%	1.9%	8.8%
Yorks & Humber	-	2.3%	11.7%	-1.0%	2.0%	4.2%	0.9%	2.1%	10.2%
North West	-	3.6%	13.2%	1.5%	3.3%	6.2%	0.8%	2.4%	10.2%
Wales	-	2.3%	13.4%	0.0%	1.8%	8.6%	1.1%	2.5%	13.7%
Scotland	-	0.8%	9.4%	1.3%	3.6%	11.6%	0.7%	1.4%	7.6%

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

Table 2 House price forecasts (published July 2022)

Region	2022	2023	2024	2025	2026	5 years to 2026
UK	7.5%	-1.0%	3.0%	3.5%	3.5%	**17.4%**
London	3.5%	-1.0%	1.5%	2.0%	2.0%	**8.2%**
South East	6.0%	-1.5%	2.5%	3.0%	3.0%	**13.5%**
East of England	6.0%	-1.5%	2.5%	3.0%	3.0%	**13.5%**
South West	7.5%	-1.5%	3.0%	3.5%	3.5%	**16.8%**
East Midlands	8.5%	-1.0%	3.5%	4.0%	4.0%	**20.2%**
West Midlands	8.5%	-1.0%	3.5%	4.0%	4.0%	**20.2%**
North East	9.0%	-0.5%	4.0%	4.5%	4.5%	**23.2%**
Yorks & Humber	10.0%	-0.5%	4.0%	4.5%	4.5%	**24.3%**
North West	10.0%	-0.5%	4.0%	4.5%	4.5%	**24.3%**
Wales	10.0%	-1.5%	4.0%	4.5%	4.5%	**23.1%**
Scotland	8.5%	-1.0%	3.5%	4.0%	4.0%	**20.2%**

Savills team

Please contact us for further information

Lawrence Bowles
Director
LBowles@savills.com
207 299 3024

Ed Hampson
Associate
ed.hampson@savills.com
0203 107 5460

*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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