

# UK Housing Market Update



## The housing market remains strong for now, despite weakness in the wider economy

The housing market has continued to experience remarkably high levels of activity. In the first week of August, sales subject to contract (SSTCs) were at almost double their number the same time last year, indicating a significant release of pent up demand. The number of SSTCs in the first week of August was no higher than the previous week, after 5 weeks of strong growth, suggesting the market may have hit a high peak.

The RICS survey for July also showed high activity levels. A record 87% of surveyors reported rising levels of new enquiries, and 80% reported rising levels of new instructions.

Data on sales completions is lagged and doesn't yet reflect the surge in SSTC figures. But numbers have increased sharply and completed transaction levels in June stood at 64% of their level the same time last year. Transactions numbers are likely to be high for the rest of the year as the many of the sales agreed move to completion. A similar level of recovery is also evident in the number of new mortgage approvals, with the number in June back up to 60% of last year's figure.

Although mortgage volumes are recovering, lenders are limiting the speed at which transactions can progress. Many lenders are struggling to find enough capacity to process new applications, as well as dealing with high numbers of mortgage holiday requests. To help limit the number of

new applications, many lenders have imposed stricter loan-to-income or deposit requirements on their products.

The ONS has now recorded two quarters of GDP falls, putting the UK officially in a recession. House prices typically fall during a recession, usually after a period of strong growth. This time around, house price growth has been modest over recent years. House prices did fall in May and June, but have since bounced back, rising 1.7% in July, according to Nationwide. This puts annual growth at a modest, but still positive, 1.5%.

This relative strength may not last. Pent-up demand, the stamp duty holiday and extension of the furlough scheme have all supported the market in the short term, but these factors will not last indefinitely. Towards the end of the year we expect unemployment to rise along with a renewal of Brexit uncertainty as we near the end of the transition period. This may hold back activity and value growth towards the end of the year.

Rents in the UK increased by an average of 1.5% in the year to June, according to the ONS. The highest growth was in the South West (2.5%), followed by the East Midlands (2.3%). More localised rental data from Zoopla showed that Derbyshire Dales saw the strongest growth of 7.5% in the year to May, followed by Gwynedd and Blaenau Gwent, at 6.5% and 6.0% respectively.

Figure 1 Annual house price growth, year to Mar-20

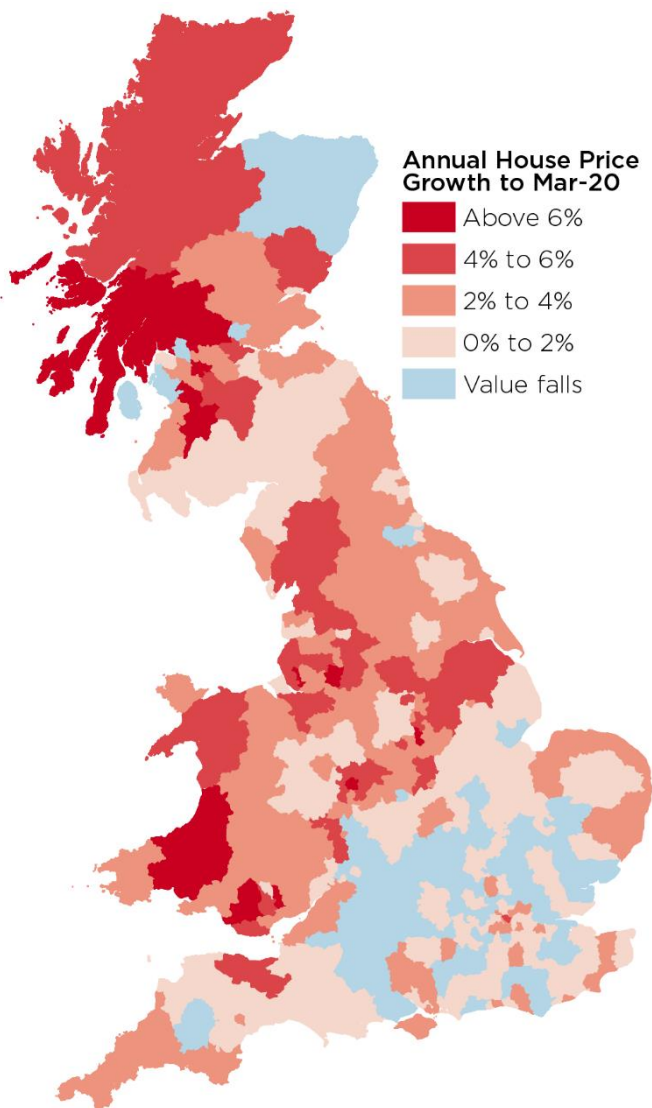
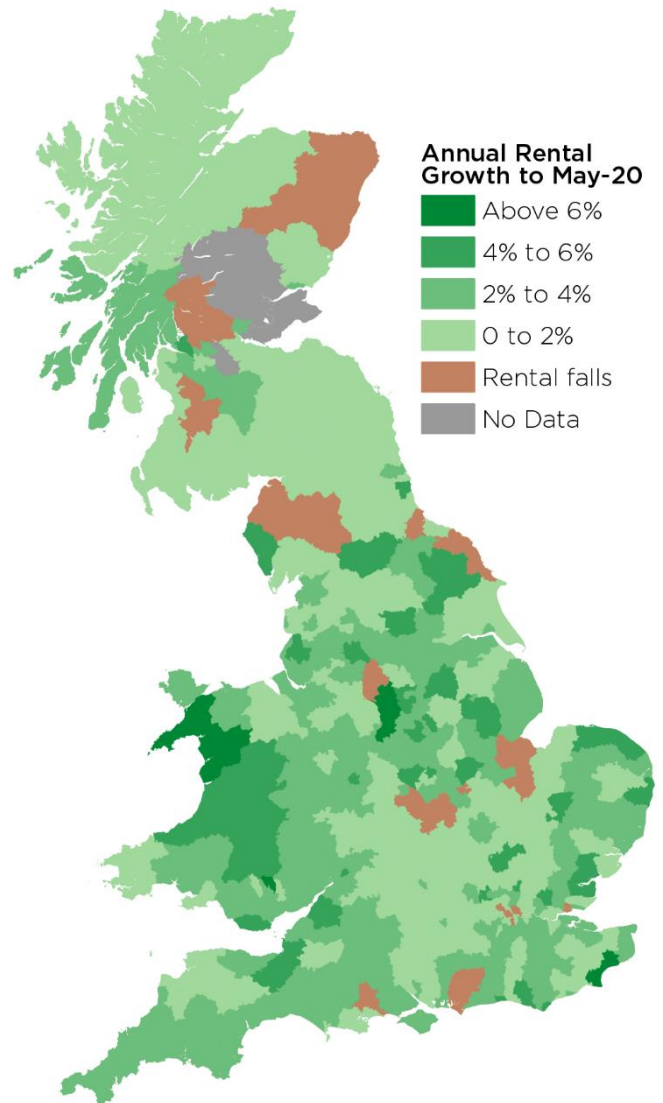


Figure 2 Average rental value growth, year to May-20



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

Source Zoopla Rental Index – powered by Hometrack

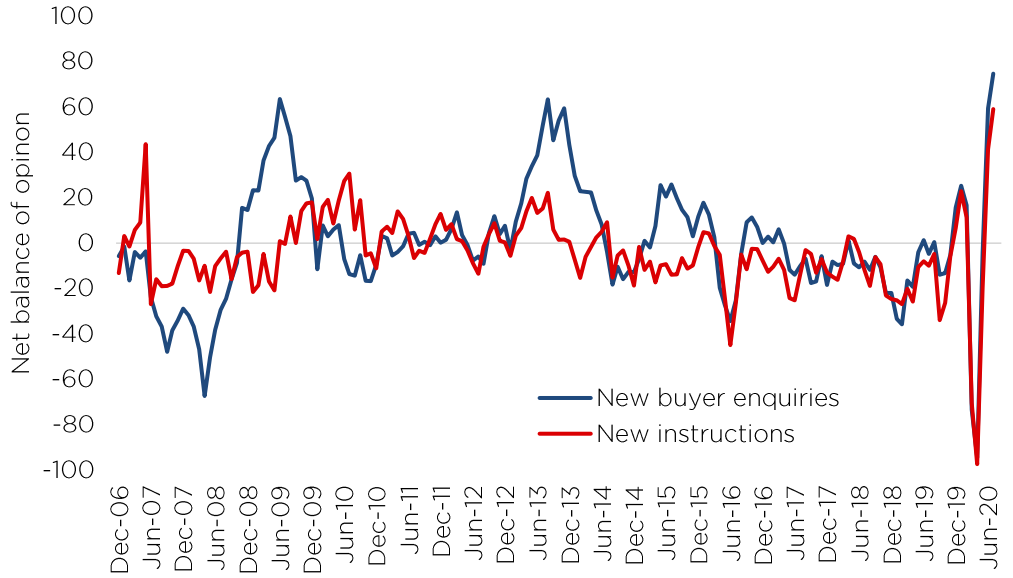
**Figure 3** Surveyors continue to report strong and widespread activity

The latest RICS survey for July showed continued positivity from surveyors.

87% reported rising levels of new buyer enquiries, and 80% saw rising levels of new instructions. This puts both measures at their highest values on record.

Surveyors have been reporting the stamp duty holiday as a driver for the high level of activity.

New buyer enquires have now pulled ahead of new instructions. If maintained, this suggests more demand than supply, supporting continued house price growth in the short term.



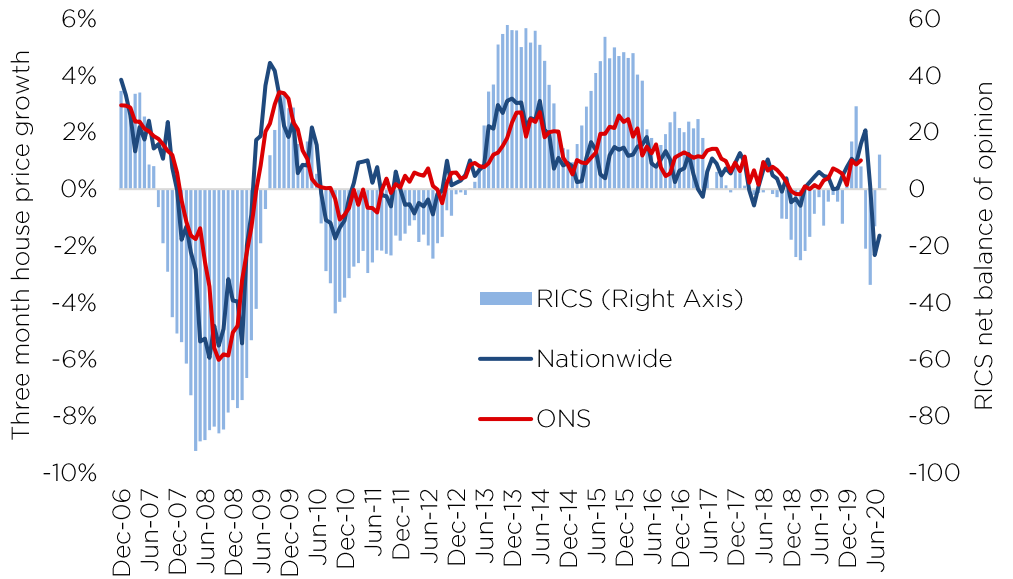
Source RICS (seasonally adjusted)

**Figure 4** Value growth returns to the market after a brief drop

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

July saw the majority of surveyors reporting price rises for the first time since March, a strong rebound from the low of May.

While the three month Nationwide figure is still negative, July did see a return to growth, after two months of falls.



Source RICS, Nationwide, ONS

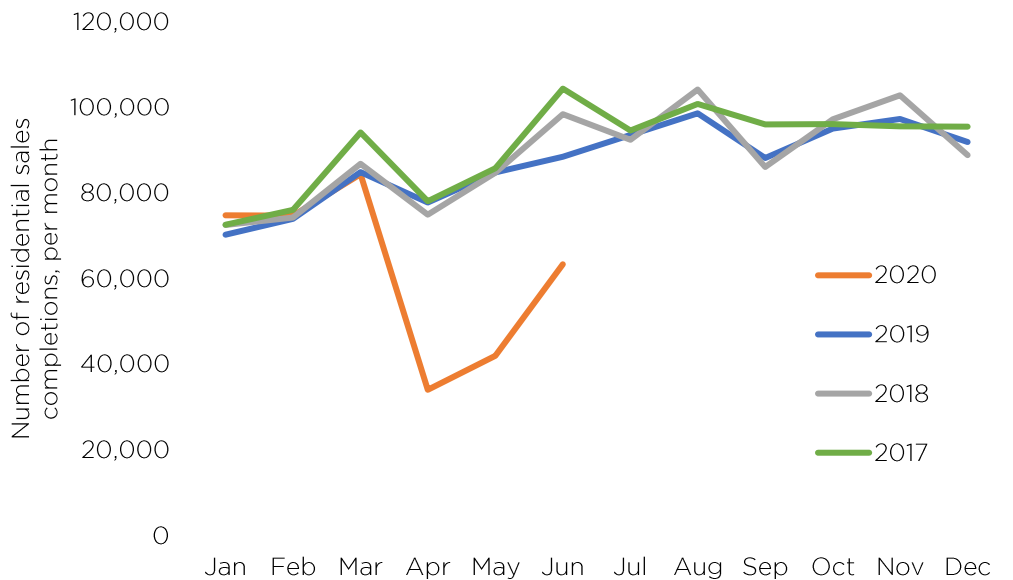
**Figure 5** Transaction activity is recovering at pace

Transactions reached their low point in April, a month into lockdown in which estate agents were prevented from opening and surveyors and valuers were unable to carry out inspections.

The April figure was just 43% of the 2019 monthly average, with many sales that completed having been agreed before lockdown.

Transactions have subsequently bounced back, and sat at 64% of average 2019 activity in June.

Early indicators from the RICS survey and SSTC figures suggest this recovery in transaction activity is likely to continue for the new few months at least.



Source HMRC

Table 1 Recent house price growth

	Nationwide (to Jul-20 for UK, to Jun-20 for regions)			ONS (to Mar-20)			Savills (to Mar-20)		
	m/m	q/q	y/y	m/m	q/q	y/y	m/m	q/q	y/y
<b>UK</b>	1.7%	-1.6%	1.5%	0.1%	1.0%	2.0%	0.1%	0.1%	2.2%
<b>London</b>	-	1.4%	2.0%	1.5%	2.2%	4.6%	0.0%	-0.3%	1.5%
<b>South East</b>	-	0.1%	2.2%	0.9%	1.1%	1.9%	0.0%	-0.1%	0.6%
<b>East of England</b>	-	-0.2%	0.9%	0.7%	1.3%	1.5%	0.0%	-0.1%	0.5%
<b>South West</b>	-	1.2%	2.2%	2.2%	3.0%	4.0%	0.1%	0.1%	1.5%
<b>East Midlands</b>	-	-1.5%	1.6%	0.7%	0.8%	2.1%	0.3%	0.3%	2.8%
<b>West Midlands</b>	-	-0.8%	0.7%	-1.5%	0.1%	0.4%	0.0%	0.2%	2.3%
<b>North East</b>	-	0.3%	-0.1%	0.0%	0.8%	1.8%	-0.2%	-0.3%	1.9%
<b>Yorks &amp; Humber</b>	-	-1.8%	2.2%	-3.0%	-2.0%	-1.1%	0.1%	0.0%	3.2%
<b>North West</b>	-	0.4%	5.1%	1.1%	2.1%	3.4%	0.2%	0.4%	4.0%
<b>Wales</b>	-	-2.2%	1.2%	-2.8%	-1.8%	1.2%	0.1%	0.4%	4.3%
<b>Scotland</b>	-	2.5%	3.7%	0.1%	1.4%	1.4%	-0.2%	-0.4%	2.7%

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

Table 2 Five year mainstream house price forecasts (first published June 2020)

	2020	2021	2022	2023	2024	5-year
<b>North West</b>	-7.5%	8.5%	9.0%	7.0%	6.0%	<b>24.1%</b>
<b>Yorkshire &amp; the Humber</b>	-7.5%	3.0%	10.0%	8.0%	7.0%	<b>21.1%</b>
<b>Scotland</b>	-7.5%	7.0%	8.5%	6.0%	5.5%	<b>20.1%</b>
<b>North East</b>	-7.5%	2.0%	10.0%	8.0%	7.0%	<b>19.9%</b>
<b>East Midlands</b>	-7.5%	7.0%	7.5%	5.5%	5.5%	<b>18.4%</b>
<b>West Midlands</b>	-7.5%	2.0%	10.0%	7.0%	6.5%	<b>18.3%</b>
<b>Wales</b>	-7.5%	2.0%	10.0%	7.0%	6.0%	<b>17.7%</b>
<b>South West</b>	-7.5%	3.0%	8.0%	5.5%	4.0%	<b>12.9%</b>
<b>South East &amp; East</b>	-7.5%	8.0%	5.5%	2.5%	2.5%	<b>10.7%</b>
<b>London</b>	-7.5%	6.0%	3.0%	1.5%	1.5%	<b>4.0%</b>
<b>UK</b>	<b>-7.5%</b>	<b>5.0%</b>	<b>8.0%</b>	<b>5.0%</b>	<b>4.5%</b>	<b>15.1%</b>

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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