

UK Housing Market Update



Housing market expected to remain active through latest lockdown

House prices rose by 0.8% in December, according to Nationwide. Total growth for 2020 was 7.3%, the highest in six years. But the end of the stamp duty holiday and rising unemployment will temper the market in 2021. Q1 is likely to be the strongest of the year, despite the latest lockdown, as buyers rush to beat the stamp duty deadline.

Most regions saw accelerating price growth in Q4 2020 compared to Q3. Over the year as a whole, the East Midlands saw the highest growth at 8.5%, followed by the North West and Outer South East, both at 8.0%. Scotland saw the lowest growth, up 3.1% over the year.

House price growth in 2020 was driven by consistently high levels of demand in the latter half of the year. Sales agreed have continued to fall from their October peak, but the number in December was still 70% higher than in 2019. Completed transactions also rose in November, 13% higher than the last year. This was supported by the highest levels of mortgage approvals in almost 14 years, exceeding 100,000 approvals in November for the second month in a row.

The proportion of First Timer Buyers (FTBs) across the market acquiring new loans fell by 2% in October, according to UK Finance.

Higher rates and restrictions on high LTV mortgages have contributed to this. FTBs are often younger and so more exposed to current unemployment risks, while equity-rich home owners have benefited from the strong value growth this year, leading to home mover numbers overtaking FTBs in October.

Current levels of strong activity are likely to continue in the short term, despite the new national lockdown. November's lockdown made little impact on the housing market, and assuming no further restrictions, we would expect it to continue operating with relative strength until the stamp duty holiday finishes at the end of March 2021. This is despite Oxford Economics now downgrading its Q1 2021 GDP forecast to a fall of -4%.

The average UK rent increased 1.4% over the year to November, according to the ONS. Rents grew the most in the South West, up 2.3%, and were weakest in Scotland, up 0.6%.

Annual house price growth in September was strongest in Broxtowe, Nottinghamshire, at 8.7%, followed by Mid Lothian at 8.5%. House prices fell most over the same period in Aberdeen (-3.5%), followed by Harrow (-2.5%).

Figure 1 House price growth to Sep-20 since 07/08 peak

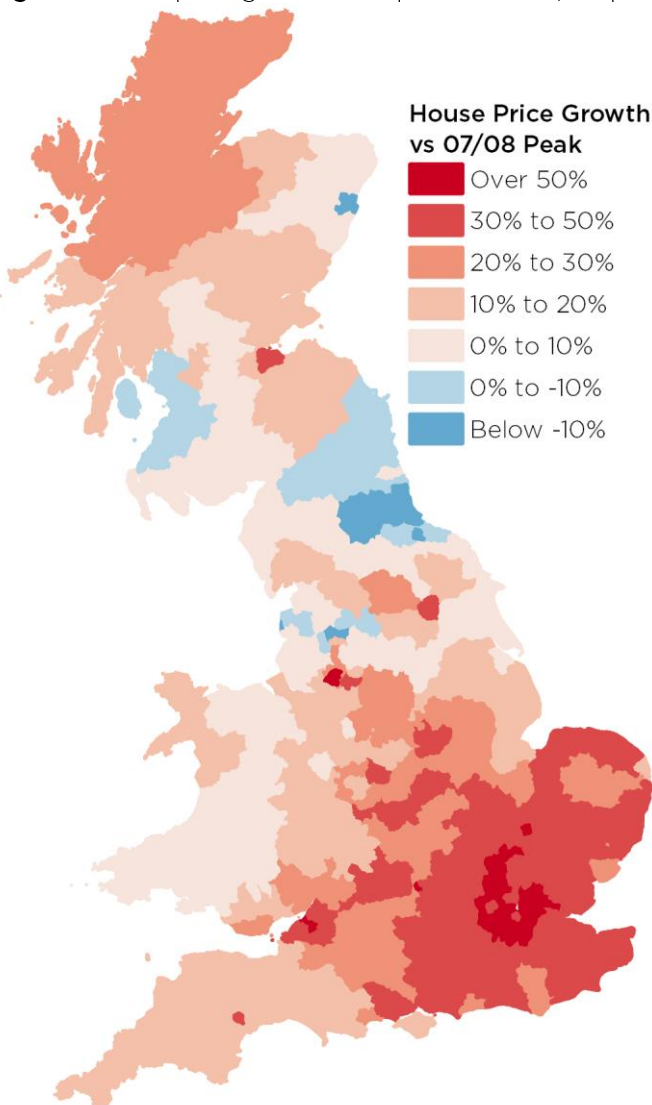
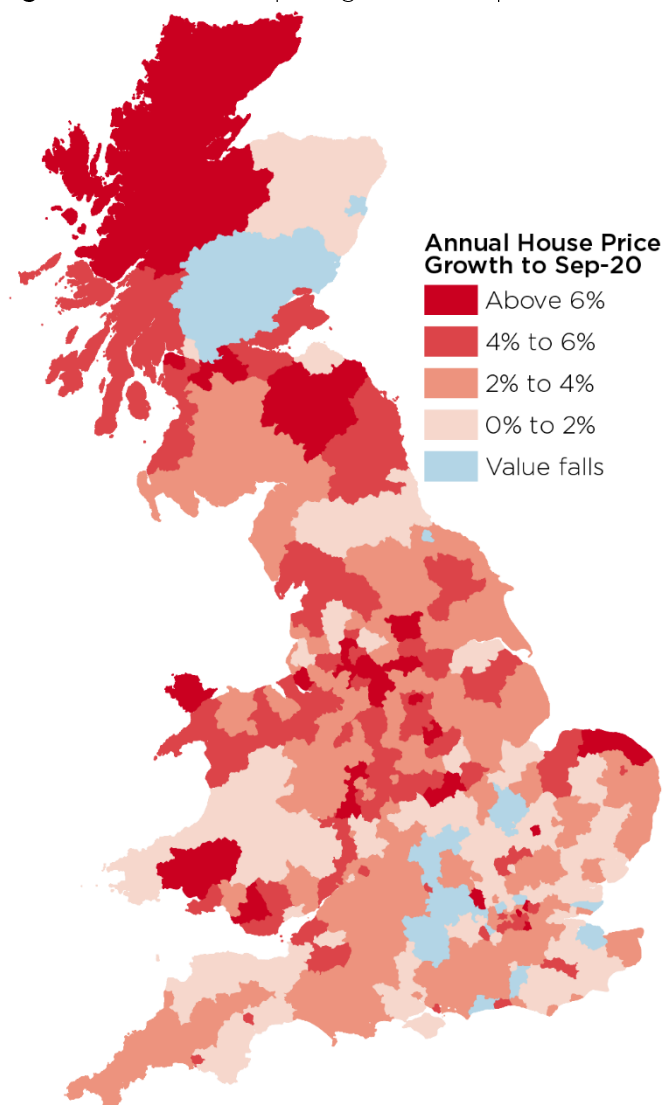


Figure 2 Annual house price growth to Sep-20



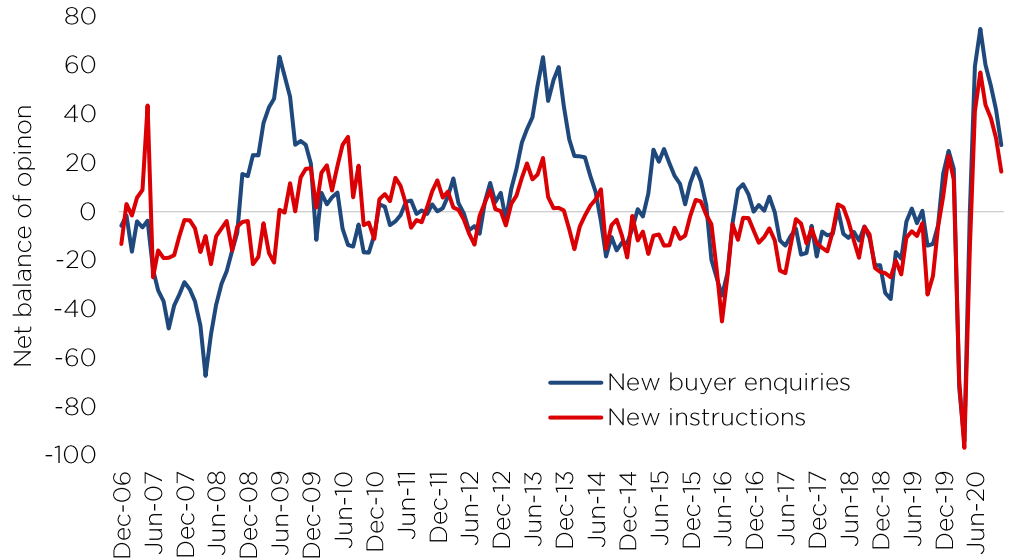
Source Savills using HM Land Registry and Registers of Scotland (6 month smoothed)*

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Figure 3 Fewer surveyors are reporting rising activity

The RICS survey for November showed the number of surveyors reporting rising levels of activity had continued to fall from the July peak, although remains positive. There was no notable impact from the second national lockdown last month.

Still, demand from new buyers has remained above supply from new sellers. This rising demand in excess of rising supply has helped drive strong price growth over recent months.



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. Given the current pace of change, it may for the time being only reflect the state of the market as it is now.

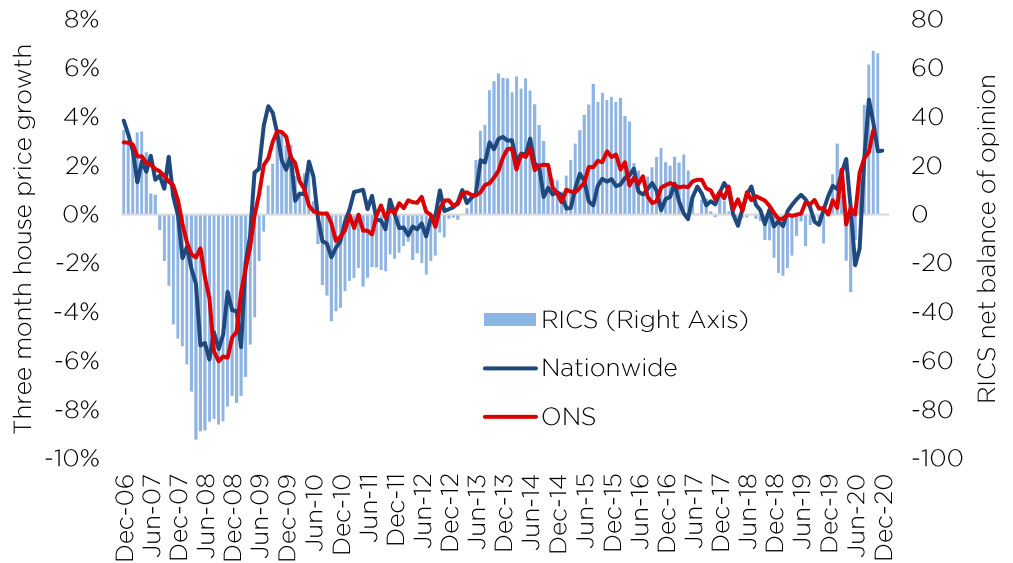
In November, the majority of surveyors continued to report price growth.

Nationwide reported a three month growth figure of 2.6%, the same as last month.

The ONS index, which tends to lag the others, broadly matches this level of growth.

After the recent strong growth, we expect values to be flat in 2021.

Figure 4 House price growth remains high, but shows signs of slowing



Source RICS, Nationwide, ONS

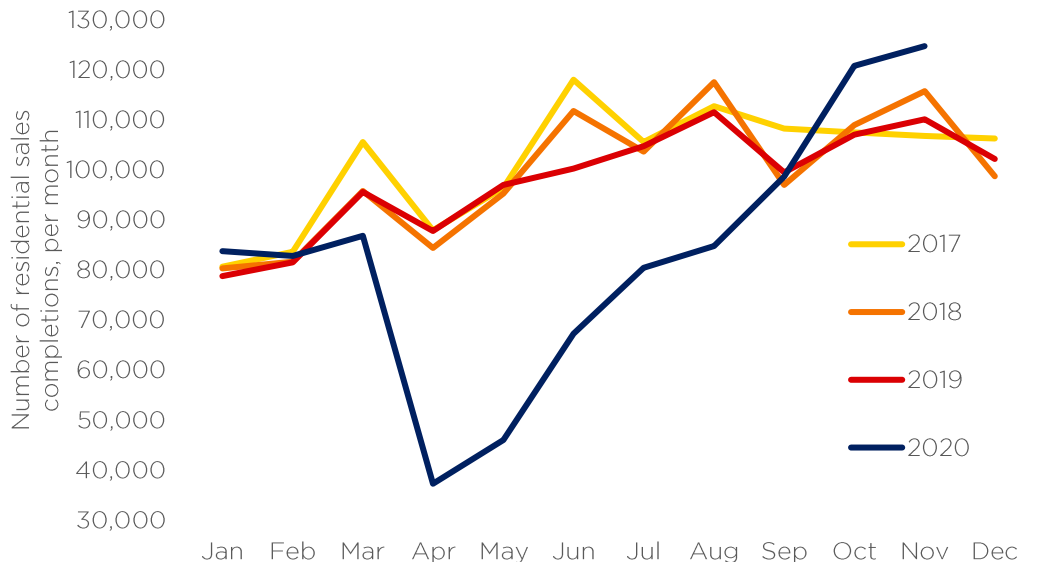
The number of completed transactions continued to rise in November, according to HMRC. Transactions were 13% above the same time last year.

The last national lockdown occurred in November, which had little effect on completed transactions or sales agreed.

We therefore expect little direct effect from the latest lockdown on the market.

There are large numbers of sales agreed and mortgages approved still working their way through the system. This will support transaction figures over the coming months.

Figure 5 Transactions remained high in the last national lockdown



Source HMRC

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Table 1 Recent house price growth

	Nationwide (to Q4 2020)			ONS (to Sep-20)			Savills (to Sep-20)		
	m/m	q/q	y/y	m/m	q/q	y/y	m/m	q/q	y/y
UK	0.8%	2.6%	7.3%	0.9%	3.3%	5.3%	0.7%	1.8%	3.1%
London	-	1.6%	6.2%	-0.9%	2.1%	3.9%	0.9%	2.4%	3.6%
South East	-	2.4%	8.0%	1.0%	3.8%	4.7%	0.6%	1.3%	1.9%
East of England	-	2.0%	6.4%	-0.6%	2.6%	3.4%	0.7%	1.5%	2.2%
South West	-	2.1%	6.4%	0.9%	3.8%	6.0%	0.6%	1.6%	2.8%
East Midlands	-	3.9%	8.5%	2.5%	3.4%	6.6%	0.6%	1.9%	3.6%
West Midlands	-	4.3%	7.4%	1.3%	3.1%	5.3%	0.7%	1.9%	3.7%
North East	-	2.7%	6.4%	0.0%	4.6%	5.4%	1.0%	2.2%	2.2%
Yorks & Humber	-	3.4%	7.6%	2.8%	5.3%	6.5%	0.8%	2.2%	3.9%
North West	-	3.5%	8.0%	1.6%	4.0%	6.6%	0.8%	2.1%	3.9%
Wales	-	2.7%	6.6%	1.7%	2.9%	5.9%	0.6%	1.5%	4.0%
Scotland	-	2.0%	3.1%	1.8%	6.9%	6.0%	1.0%	2.2%	3.4%

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

Table 2 House price forecasts (first published September 2020)

Region	2021	2022	2023	2024	5yrs to 2024
UK	0.0%	4.0%	6.5%	4.5%	15.7%
London	0.0%	1.0%	4.0%	2.0%	7.1%
South East	0.0%	2.5%	5.0%	3.0%	10.9%
East of England	0.0%	2.5%	5.0%	3.0%	10.9%
South West	0.0%	3.0%	5.5%	3.5%	12.5%
East Midlands	0.0%	5.0%	7.5%	5.5%	19.1%
West Midlands	0.0%	5.0%	7.5%	5.5%	19.1%
North East	0.0%	5.5%	8.0%	6.0%	20.8%
Yorks & Humber	0.0%	5.5%	8.0%	6.0%	20.8%
North West	0.0%	6.0%	8.0%	6.5%	21.9%
Wales	0.0%	5.0%	7.5%	5.5%	19.1%
Scotland	0.0%	5.5%	8.0%	6.0%	20.8%

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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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