

UK Housing Market Update



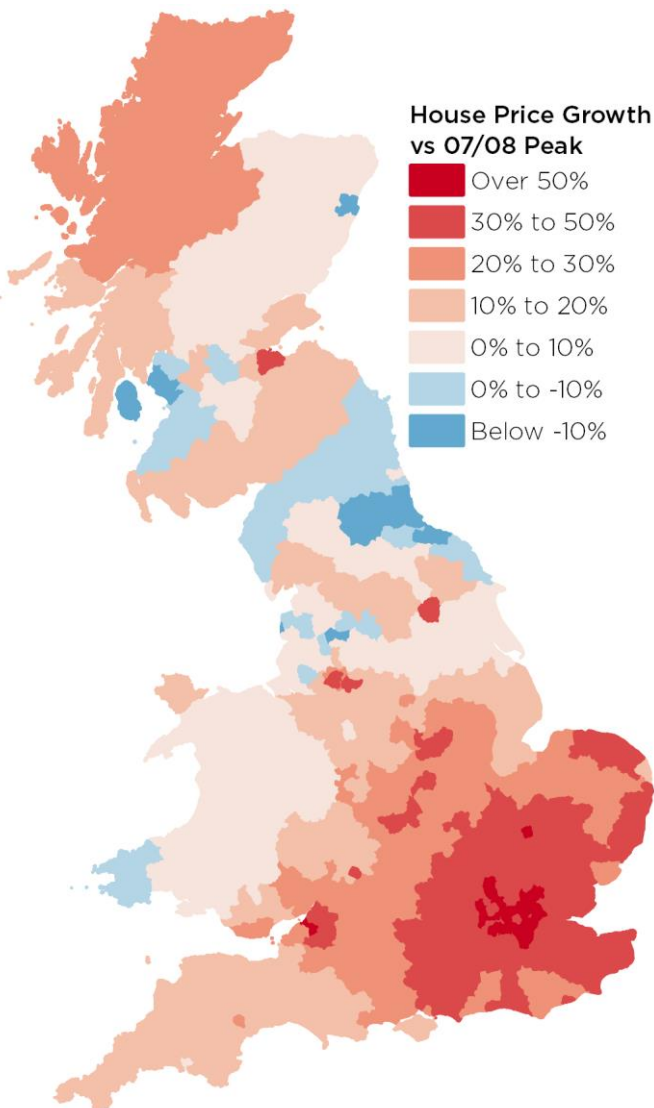
House price growth at a high as new activity levels peak

House prices rose by 0.9% in September, according to Nationwide. This takes annual growth up to 5.0%, its strongest level since September 2016. We see fairly even growth across the country with most regions sitting at between 2%-3% growth over Q3. The North East saw the strongest growth over the quarter at 3.1%, followed by the commuter belt around London at 3.0%. London itself sat at 1.5% quarterly growth. This followed a much weaker Q2 for most regions. Scotland was the only region to see price falls during Q3, down -1.0%.

Strong price growth has been driven by high levels of competition and market activity. New sales subject to contract (SSTCs) at the end of September were at 175% of last year's level. They have fallen marginally through September, down from the 183% of last year's level at the beginning of the month. While SSTCs remain high, it is taking time for them to filter into completed transactions.

The latest RICS survey suggest new activity levels may have hit a high peak. September saw 76% of surveyors report rising levels of new buyer enquiries, and 69% reported rising levels of new instructions. While still very positive, this is the second month these indicators have slipped down from their record high in July.

Figure 1 Average price verses 2007/08 peak, Jun-20

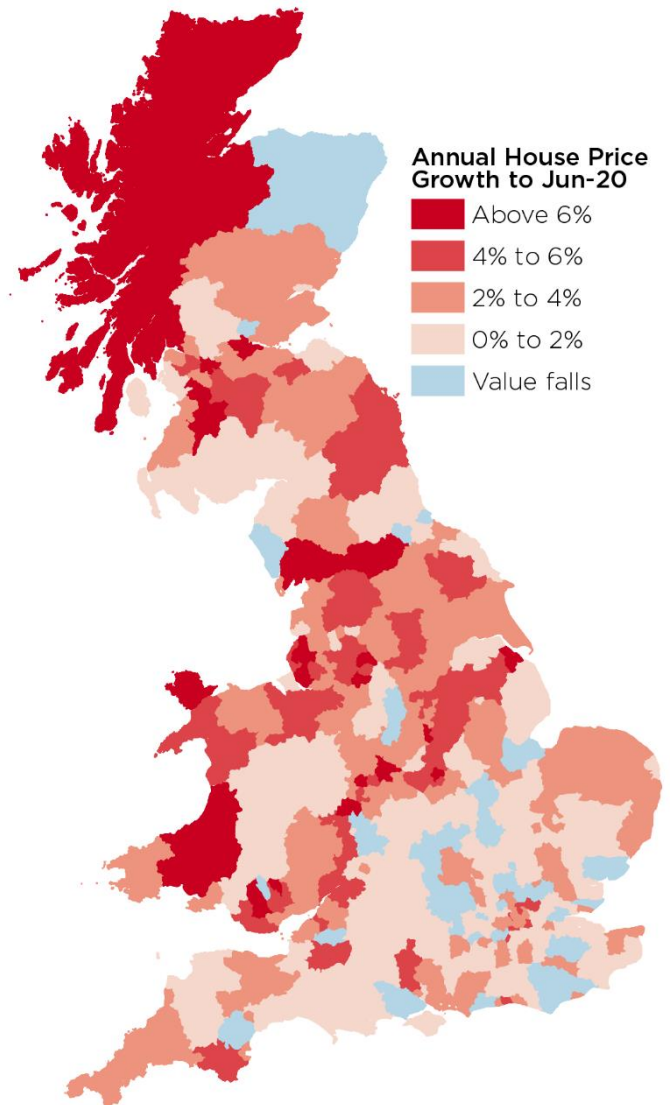


Evidence of strong activity also comes from the mortgage market, which saw a 12 year high for the number of mortgage approvals in August. Rising rates and more stringent loan to value requirements may restrict the market going forward however, especially for those with lower deposits, such as first time buyers (FTB). As a result, we would expect FTB numbers to fall away, and home movers with equity to take a larger proportion of the market.

Armed with more up to date house price data, we have revised our forecasts. We now expect positive value growth across all regions this year, but no growth in 2021. While 2020 has been stronger than previously anticipated, rising unemployment as government support reduces, the end of the stamp duty holiday, underwhelming August GDP figures, and the impending end of the Brexit transition period will likely subdue the market next year. You can read the full forecast document [here](#).

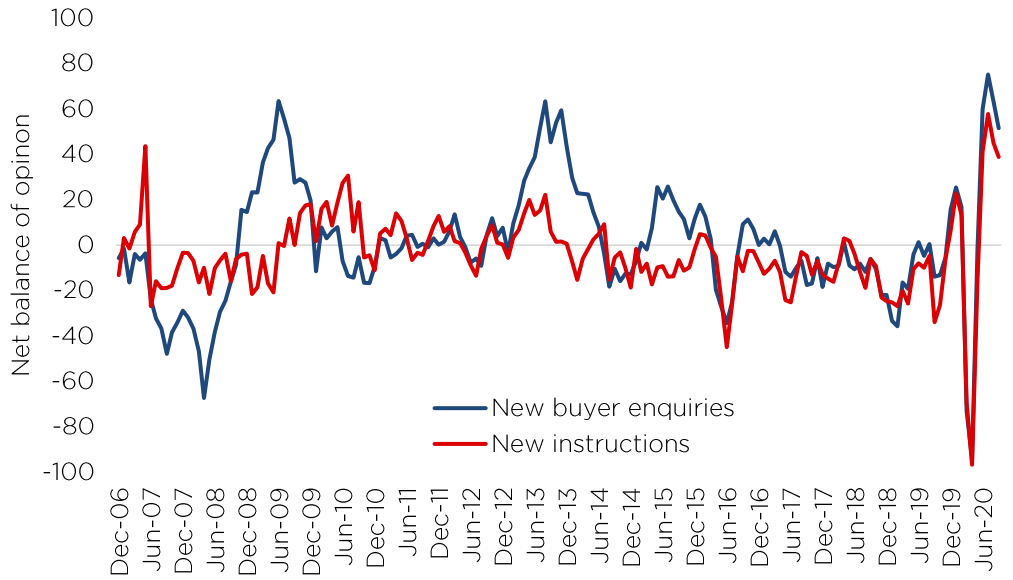
The average UK rent was up 1.5% in the year to August, according to the ONS. Growth was highest in the South West, up 2.5% annually, and lowest in Scotland, at just 0.5%.

Figure 2 Annual house price growth, year to Jun-20



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

Figure 3 The number of surveyors seeing rising activity remains high



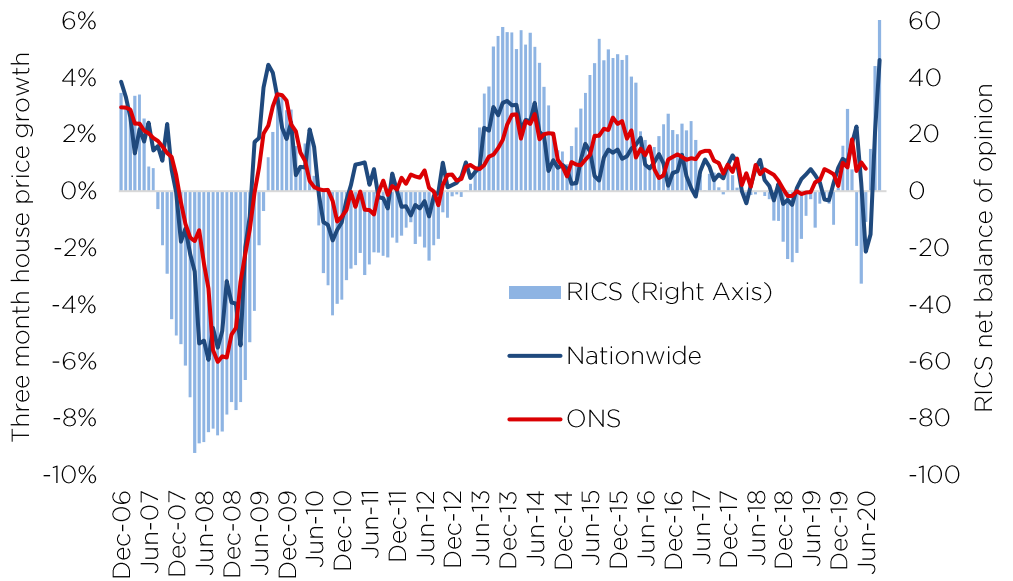
Source RICS (seasonally adjusted)

The RICS survey for September showed 76% of surveyors reporting rising numbers of new buyer enquiries, and 69% seeing more new instructions.

The number of surveyors expecting activity to increase further has also dropped, to just 58%.

This implies that while market activity is still strong, it is starting to come down from its peak.

Figure 4 House price growth surges to 16 year high



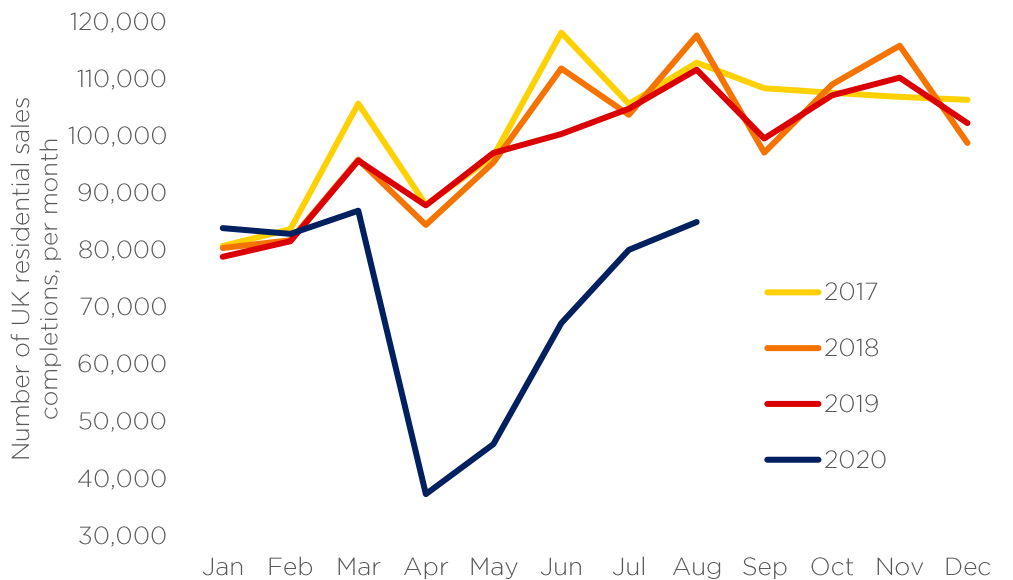
Source RICS, Nationwide, ONS

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.

More surveyors across the country are reporting price growth than at any time since 2002. This supports the widespread value growth across most regions shown by September's Nationwide house price data.

Three month house price growth at a national level is at its highest since 2004, according to Nationwide.

Figure 5 Recovery in transactions is slowing



Source HMRC

There remains a significant time lag in converting SSTCs into completed transactions, due to delays with mortgages and the conveyancing process.

The latest data from HMRC shows that transactions in August were at 76% of last year's figure. This is the second month of holding at 76%. Transaction numbers generally do increase in August compared to July, and the increase this year was the same as last year.

The pace of recovery in transactions therefore seems to be slowing down. This may be partially due to the increased delay in translating SSTCs into transactions however.

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Table 1 Recent house price growth

	Nationwide (UK Sep-20; regions to Q3)			ONS (to Jun-20)			Savills (to Jun-20)		
	m/m	q/q	y/y	m/m	q/q	y/y	m/m	q/q	y/y
UK	0.9%	4.6%	5.0%	2.4%	0.7%	3.4%	0.3%	0.4%	2.3%
London	-	1.5%	4.4%	3.6%	0.2%	4.3%	0.1%	0.1%	2.1%
South East	-	2.8%	4.7%	1.0%	-0.3%	2.1%	0.1%	0.2%	1.2%
East of England	-	2.3%	2.6%	2.0%	1.1%	2.6%	0.3%	0.4%	1.2%
South West	-	2.8%	5.5%	2.4%	0.5%	4.3%	0.2%	0.3%	1.9%
East Midlands	-	2.6%	4.0%	2.6%	1.0%	4.5%	0.3%	0.6%	2.6%
West Midlands	-	2.7%	3.1%	2.8%	1.0%	4.1%	0.5%	0.6%	2.5%
North East	-	3.1%	4.2%	2.0%	-0.9%	1.8%	0.3%	0.4%	1.3%
Yorks & Humber	-	2.7%	4.6%	2.1%	0.6%	3.3%	0.5%	0.8%	2.8%
North West	-	0.6%	3.1%	3.8%	0.6%	4.4%	0.3%	0.4%	3.0%
Wales	-	2.4%	3.8%	2.4%	-0.7%	2.9%	0.5%	0.6%	3.6%
Scotland	-	-1.0%	2.0%	1.6%	0.9%	2.9%	0.1%	0.7%	2.4%

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

Table 2 House price forecasts – Revised as of September 2020

Region	H1 2020 (Actual)	H2 2020 (Forecast)	2021	2022	2023	2024	5yrs to 2024
UK		4.0%	0.0%	4.0%	6.5%	4.5%	20.4%
London	3.7%	1.5%	0.0%	1.0%	4.0%	2.0%	12.7%
South East	2.3%	3.5%	0.0%	2.5%	5.0%	3.0%	17.3%
East of England	2.3%	3.5%	0.0%	2.5%	5.0%	3.0%	17.3%
South West	1.3%	3.0%	0.0%	3.0%	5.5%	3.5%	17.3%
East Midlands	1.5%	1.5%	0.0%	5.0%	7.5%	5.5%	22.6%
West Midlands	0.7%	1.5%	0.0%	5.0%	7.5%	5.5%	21.7%
North East	0.3%	0.5%	0.0%	5.5%	8.0%	6.0%	21.7%
Yorks & Humber	1.8%	1.0%	0.0%	5.5%	8.0%	6.0%	24.1%
North West	3.9%	0.5%	0.0%	6.0%	8.0%	6.5%	27.3%
Wales	1.7%	1.0%	0.0%	5.0%	7.5%	5.5%	22.3%
Scotland	1.8%	2.0%	0.0%	5.5%	8.0%	6.0%	25.4%

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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