

UK Housing Market Update



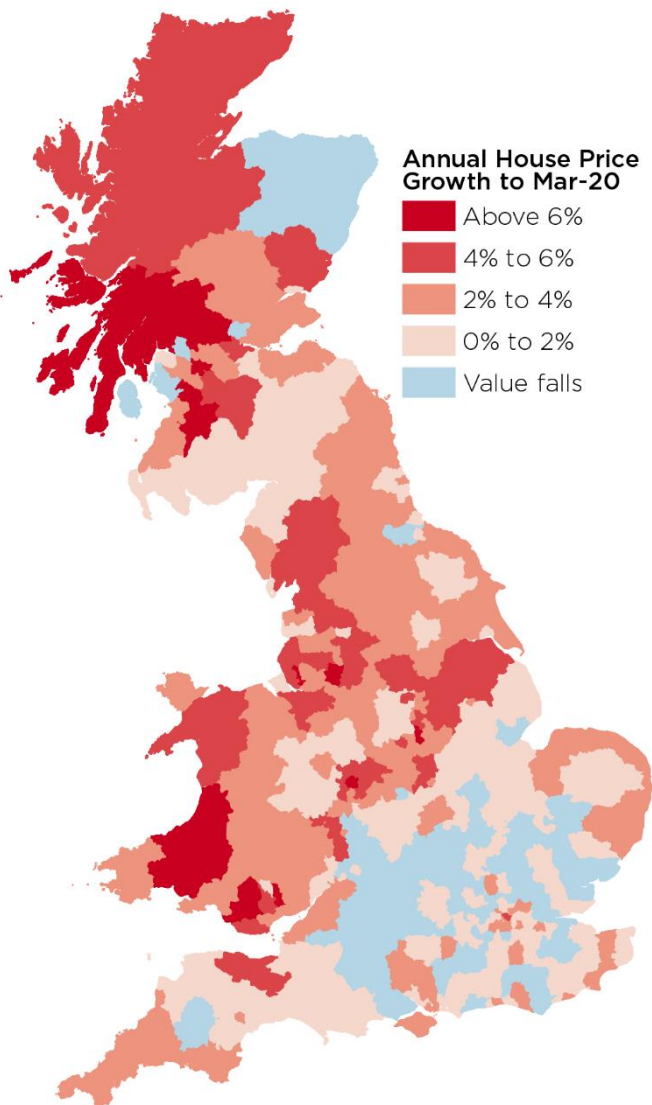
Activity still strong, but are we at the peak?

House prices rose by 2.2% in August according to Nationwide, the strongest single month of growth since Feb-04. While we always treat a single month's figure with caution, this brings annual growth to 3.7%, the fastest growth in over three years. Growth over the last two months more than reverses the price falls earlier in the summer.

Activity also remains robust. In the RICS survey for August, 82% of surveyors reported rising numbers of new buyer enquiries, while 73% saw rising numbers of new instructions. This supply/demand mismatch has increased competition in the mainstream market, supporting the current value growth. The stamp duty holiday has also contributed to greater buyer demand.

Other metrics show activity levelling off, albeit from a record high. Analysis of TwentyCI data shows there were 50% more sales agreed subject to contract in the first week of September than the same time in 2019. Although still high, this is a 16% fall on the previous week, with relatively flat growth in the few weeks before that. The market has been boosted by pent-up demand until now, but it seems this demand is starting to return to more normal levels.

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



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

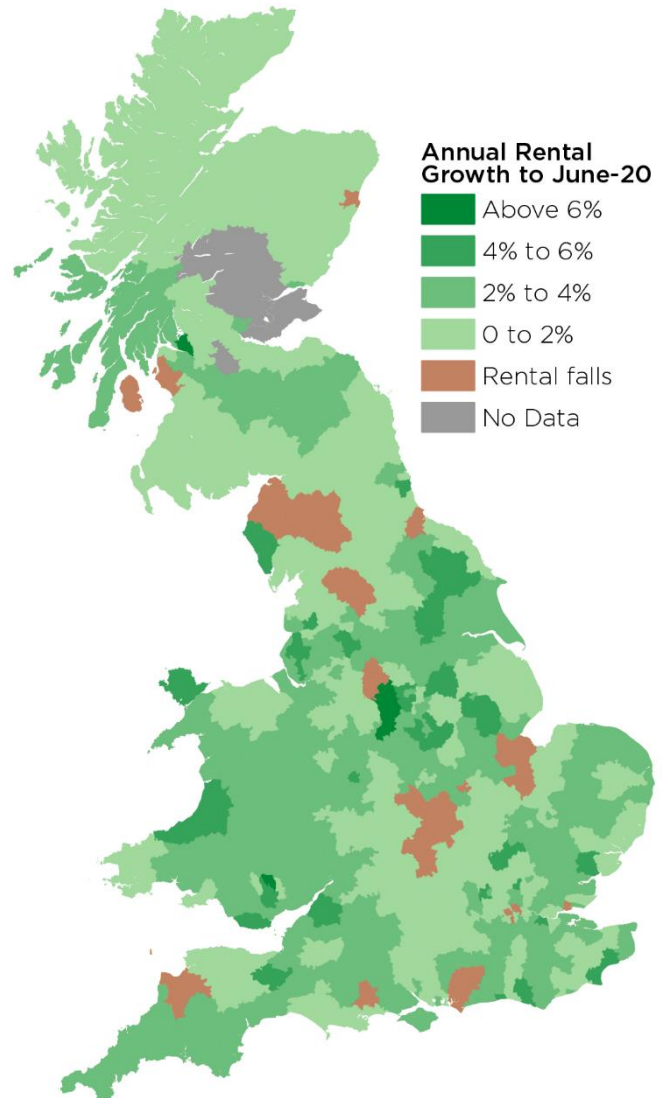
High activity levels have stressed lender capacity. Many lenders have therefore reduced the number of high LTV mortgages on offer, and raised the rates on others. This will make it harder for those with small deposits to get on the ladder. Other pathways into low deposit ownership, Help to Buy or Shared Ownership for example, may become more attractive as result.

The current rise in rates is likely to be temporary. As activity eases, lenders will be keen to remain competitive. The low interest rate environment will allow them to deliver affordable mortgage products with low rates, which will help sustain house prices.

The rental market is also showing signs of strength. RICS data showed 75% of surveyors reported rising levels of demand from tenants. This isn't quite matched by the levels of supply as only half of surveyors saw increasing numbers of new landlord instructions. This is still relatively high compared the long term trend however.

Rental growth for the country as a whole stood at 1.4% in the year to July. It was strongest in the South West at 2.5%, and weakest in Scotland, at 0.6%.

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



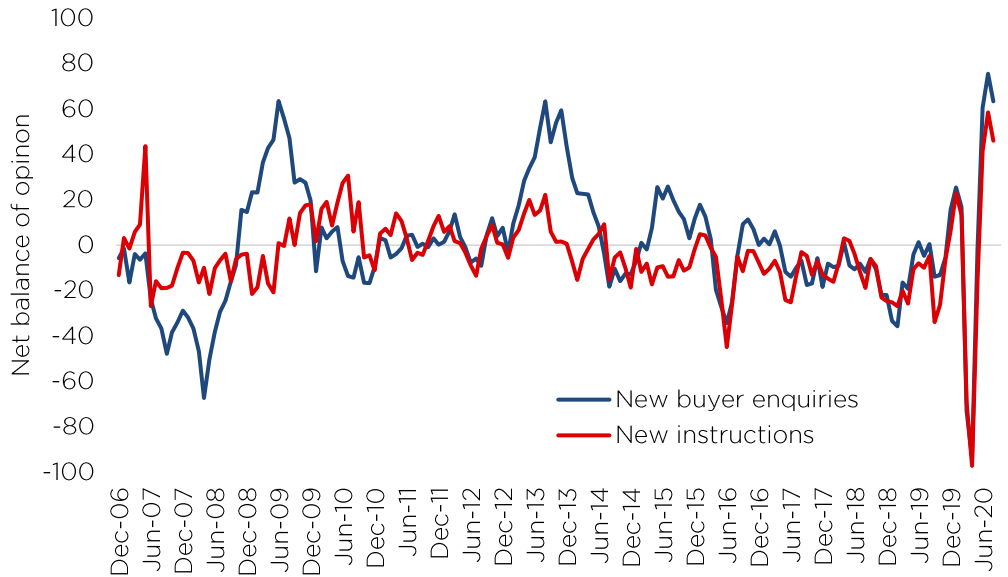
Source Zoopla Rental Index – powered by Hometrack

Figure 3 The majority of surveyors continue to see rising levels of activity

The RICS survey for August showed 82% of surveyors reporting rising numbers of new buyer enquiries, while only 73% saw rising levels of new instructions.

While still high, both metrics have declined slightly since last month, implying the rate of activity growth is slowing.

The gap between the number of new buyer enquiries and new instructions has been maintained. This is likely to be a driver behind the current levels of strong house price growth.



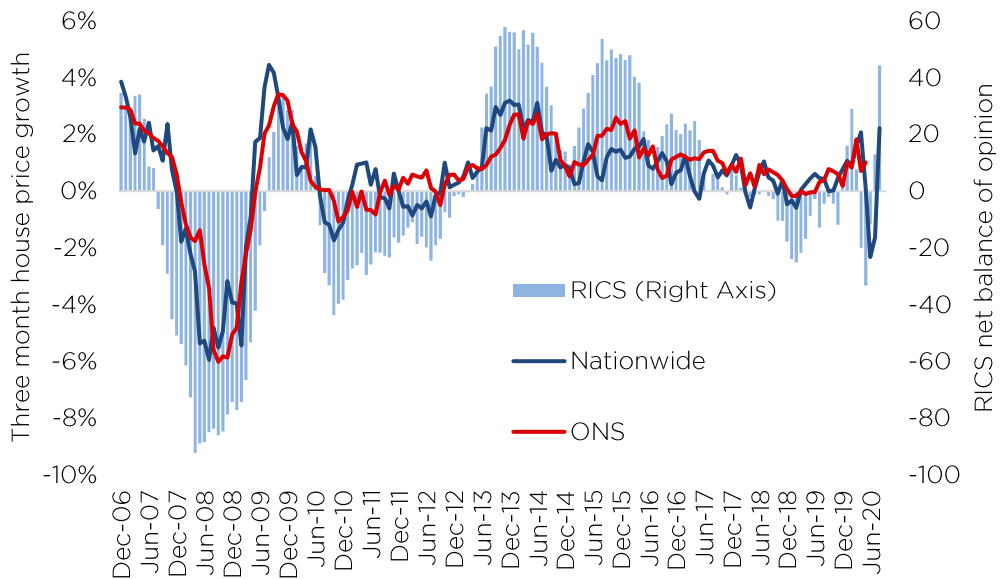
Source RICS (seasonally adjusted)

Figure 4 Strong bounce back in house price growth

The RICS Survey can be a good early indicator of house price movements, which are later picked up by other indices. Given the current rate of change, it may only reflect the current state of the market however.

August's survey saw price expectations jump to their highest level in four years.

Nationwide reported similarly strong growth, with their three month figure at its highest value in over six years.



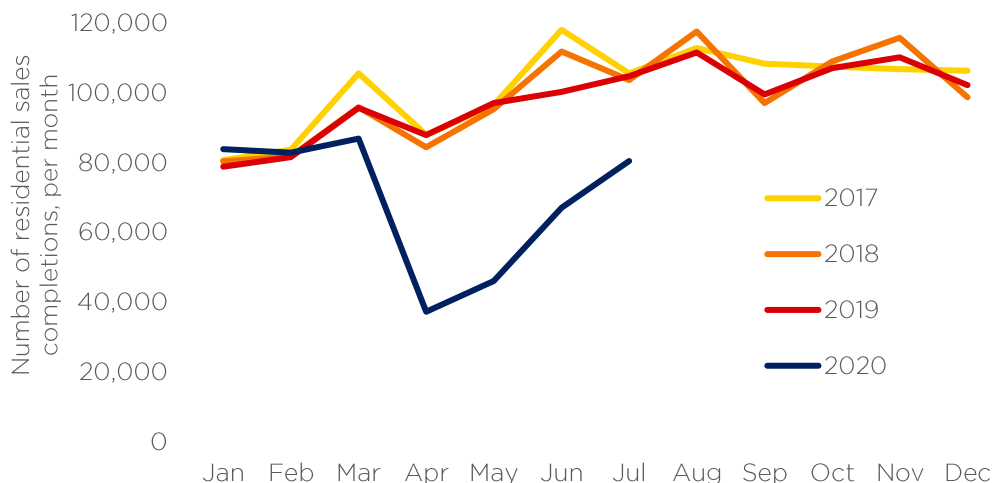
Source RICS, Nationwide, ONS

Figure 5 Transaction activity is recovering at pace

Data on actual completed transactions is not as timely as the forward indicators from RICS, or on sales subject to contract.

The latest data from HMRC shows that by July, completed transactions had recovered to 77% of their numbers the same time last year.

It is likely to continue rising over the coming months, based on the trend from forward indicators such as mortgage approvals.



Source HMRC

Table 1 Recent house price growth

	Nationwide (to Jul-20 for UK, to Jun-20 for regions)			ONS (to May-20)			Savills (to Mar-20)		
	m/m	q/q	y/y	m/m	q/q	y/y	m/m	q/q	y/y
UK	2.2%	2.2%	3.7%	0.2%	1.0%	2.9%	0.1%	0.1%	2.2%
London	-	1.4%	2.0%	-1.2%	-0.3%	3.3%	0.0%	-0.3%	1.5%
South East	-	0.1%	2.2%	-1.2%	1.0%	2.0%	0.0%	-0.1%	0.6%
East of England	-	-0.2%	0.9%	-1.2%	-0.2%	0.7%	0.0%	-0.1%	0.5%
South West	-	1.2%	2.2%	-0.4%	1.6%	3.4%	0.1%	0.1%	1.5%
East Midlands	-	-1.5%	1.6%	-1.0%	1.2%	2.9%	0.3%	0.3%	2.8%
West Midlands	-	-0.8%	0.7%	0.7%	1.1%	3.4%	0.0%	0.2%	2.3%
North East	-	0.3%	-0.1%	4.6%	2.6%	4.4%	-0.2%	-0.3%	1.9%
Yorks & Humber	-	-1.8%	2.2%	2.6%	2.0%	4.9%	0.1%	0.0%	3.2%
North West	-	0.4%	5.1%	0.1%	1.2%	2.6%	0.2%	0.4%	4.0%
Wales	-	-2.2%	1.2%	1.5%	1.2%	4.8%	0.1%	0.4%	4.3%
Scotland	-	2.5%	3.7%	0.2%	0.3%	2.1%	-0.2%	-0.4%	2.7%

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

We are currently revising our house price forecasts to account for recent market developments and policy announcements. We hope to be able to share these with you soon. You can find our previous set of forecasts [here](#).

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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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