

UK Housing Market Update



A pause in price falls as we enter a period of greater stability

House prices saw no change in September compared to August, retaining an annual fall of -5.3% nationally, according to Nationwide. Values were most robust in the North West, down -2.2% annually, and weakest in the South West, down -6.3%. This tells us that we are gradually shifting back to a pre-pandemic distribution of regional value growth, with stronger growth in the more affordable parts of the country.

Further price adjustments are anticipated over the coming months. Demand is still falling faster than supply, according to the August RICS survey, which suggests price falls and lower activity will continue for at least the next few months. More surveyors reported price falls in August than at any time since 2009.

But the medium term outlook has improved, with a sense of finely balanced economic stability. The Bank of England maintained the base rate at 5.25% on 21st September, breaking the trend of 14 consecutive rises since the end of 2021. This followed a surprise fall in inflation in August by -0.1%, according to the ONS, defying the more pessimistic expectations of many economists.

Lenders have responded by further decreasing mortgage rates as

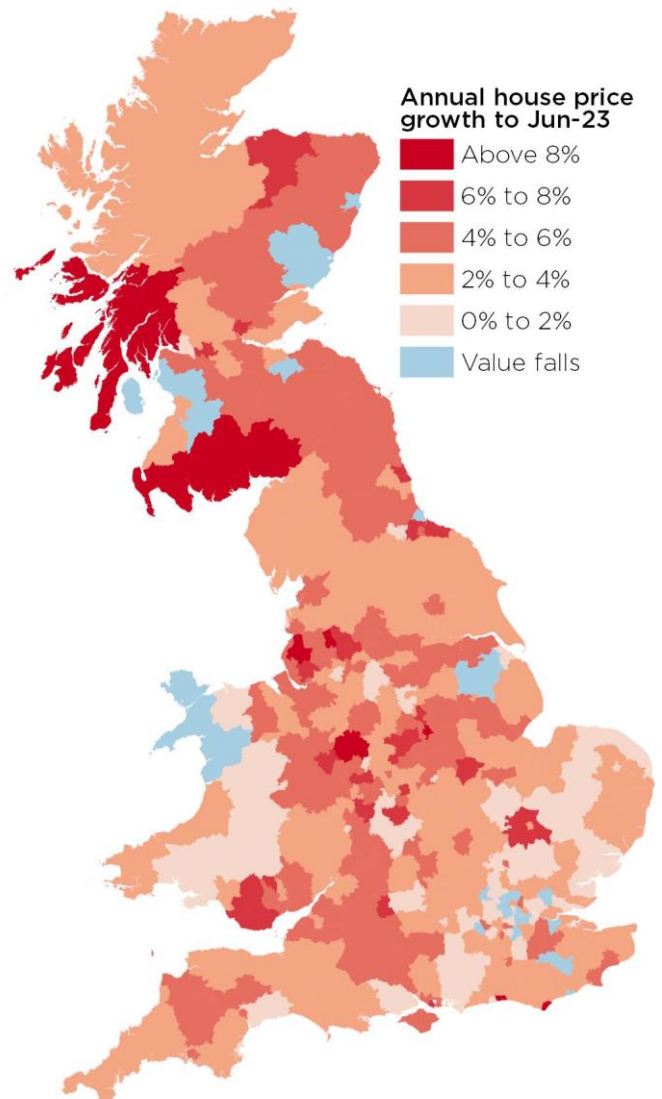
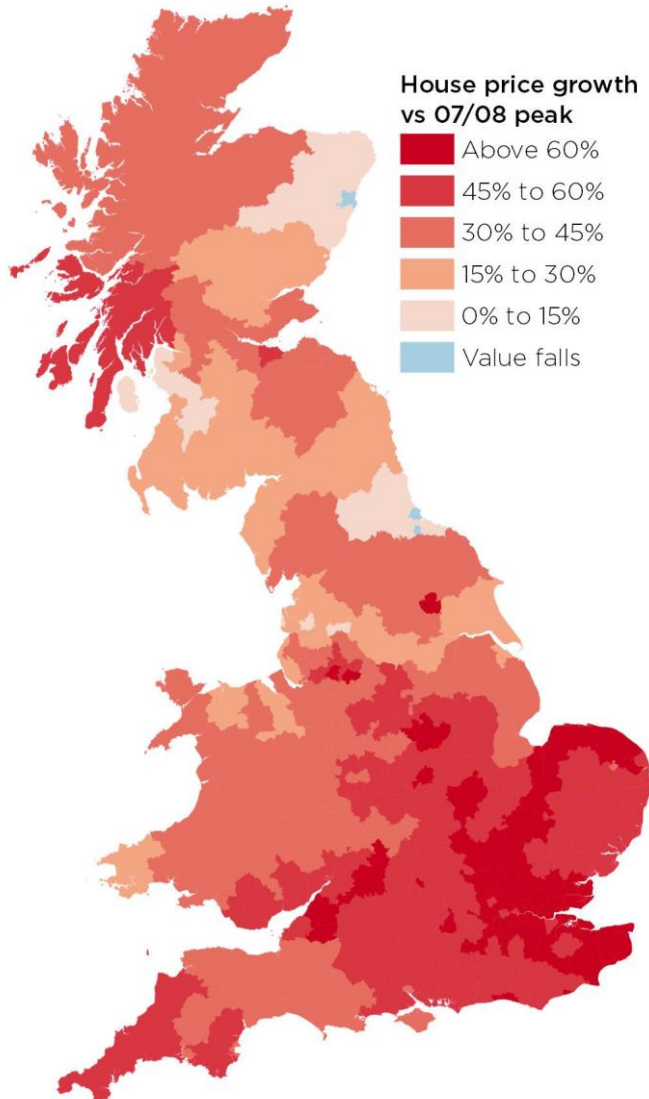
they become more competitive over pricing. There is only so far they can squeeze their margins, however, before a fall in the base rate is needed for rates to go lower. They will also remain wary of new inflation figures which could restart base rate rises if higher than expected.

Market activity has also been fairly stable but hovered below the pre-pandemic average with completed transactions at 95,000 in August, according to HMRC. These figures have been -14% below their 2017-19 averages for the past three months while sales agreed are down -11% over the same timeframe, according to TwentyCi. Mortgage approvals have slipped further to -32% below their 2017-19 levels in September, according to the Bank of England. This is likely to limit transaction numbers until at least early next year and means the market is more reliant on cash buyers.

Local variation in price falls has become increasingly apparent in the more lagged Land Registry data. There is an emerging pattern of price falls in the year to June in areas of London, including Brent (-4.6%), Hammersmith and Fulham (-3.1%), and Tower Hamlets (-1.8%), as well as its surrounding areas, including Brentwood (-0.4%), Tunbridge Wells (-0.3%), and Three Rivers (-0.2%).

Figure 1 House price growth to Jun-23 since 07/08 peak

Figure 2 Annual house price growth to Jun-23



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

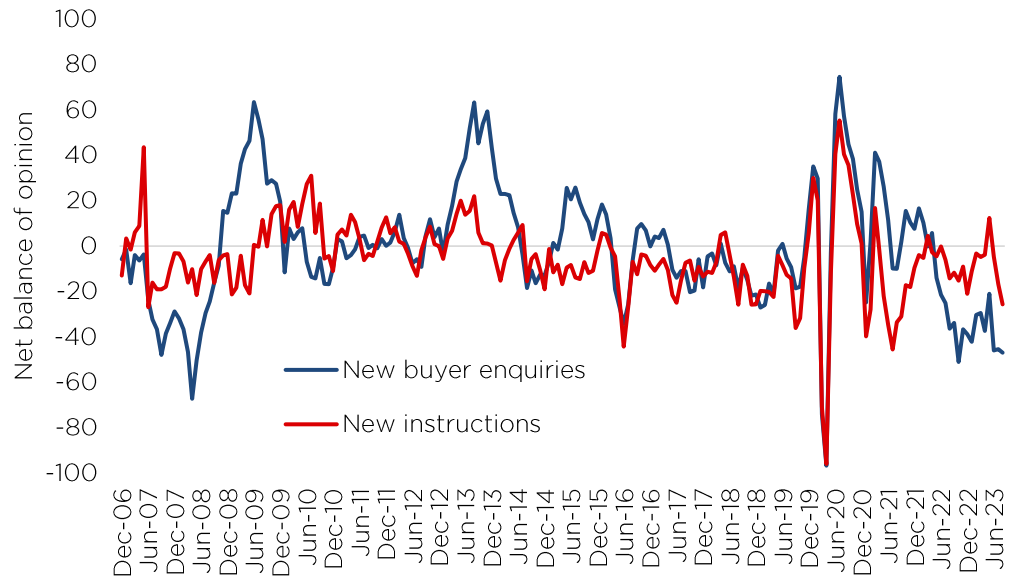
Source Savills using HM Land Registry and Registers of Scotland (6 month smoothed)*

Figure 3 Buyer demand remained low as new supply fell further

An increased majority of surveyors reported falling supply in August, according to the latest RICS survey.

A majority of surveyors continued to report falling demand, at similar levels over the past three months. This metric has now been negative for 16 consecutive months.

The gap between supply and demand has further narrowed but an excess of supply relative to demand persists, maintaining downward pressure on house prices.



Source RICS (seasonally adjusted)

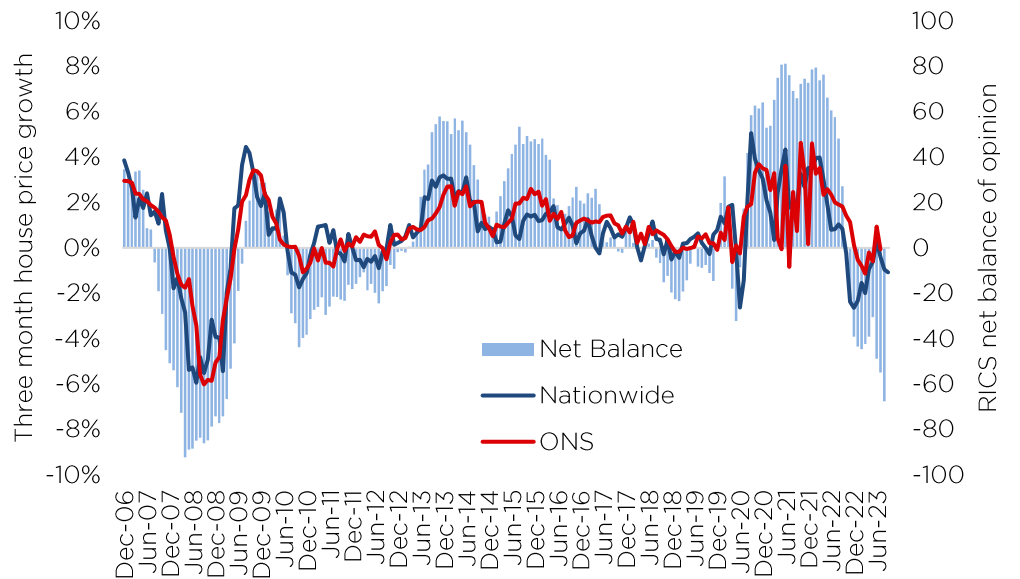
Figure 4 House price growth in negative territory as sentiment further decreased

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

The number of surveyors reporting price falls increased to their highest levels since 2009.

On a three-month basis house prices fell by -1.1% in September, according to Nationwide, slightly more than the -0.9% fall in August.

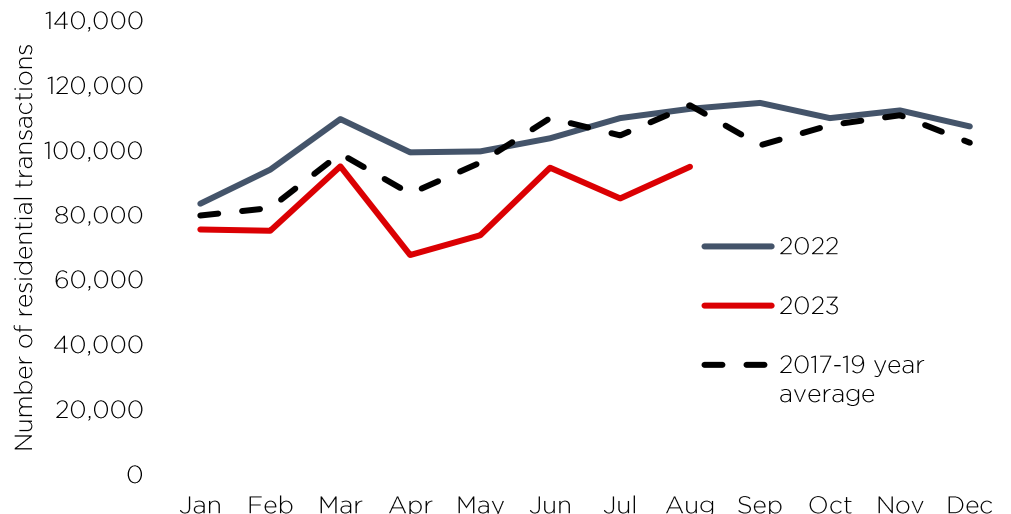
House prices fell by -0.1% according to the more lagged ONS index.



Source RICS, Nationwide, ONS (seasonally adjusted)

Figure 5 Completed transactions in August remained below levels in recent years

95,000 transactions were completed in August, according to HMRC. This showed a slight increase on July's figure of 85,260. However, this is still -13% below their pre-covid average as the reduced number of mortgage approvals in late 2022 and early 2023 feeds into the number of completed transactions. Activity is likely to remain subdued while mortgage interest rates remain high.



Source HMRC

Annual rental growth across the UK stayed high at 10.3% in August, the same figure as July, according to Zoopla. Rental growth accelerated across all regions except the East, North East, and Yorkshire and Humber on a three-month basis, as competition for limited stock remained elevated.

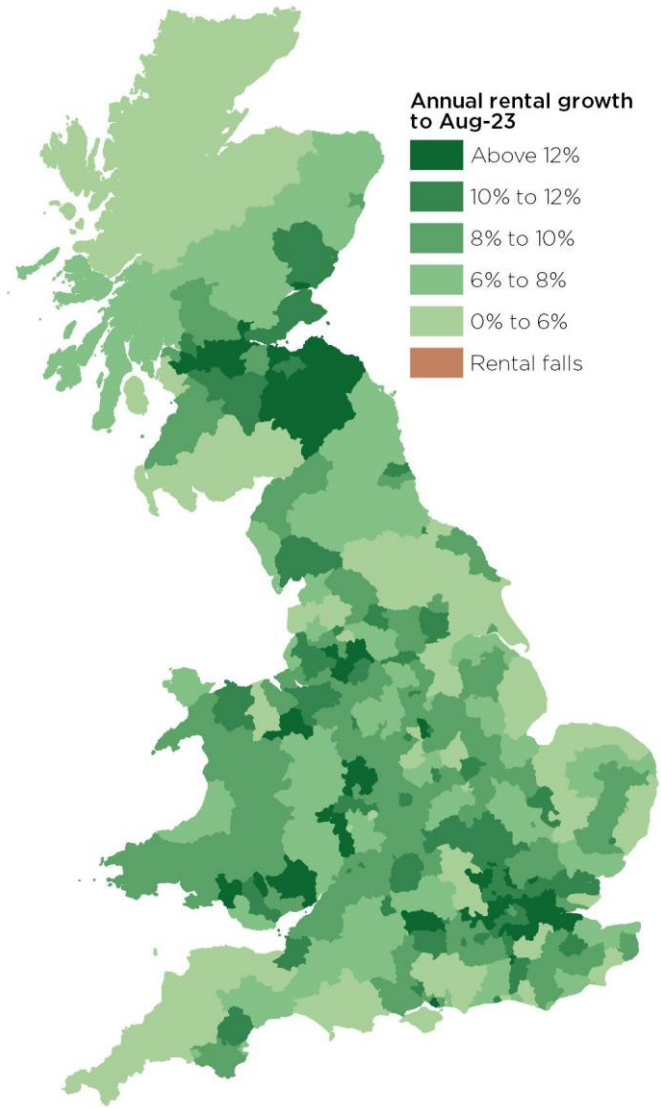
Scotland remained the region with highest annual rental growth, at 12.8% in August. London had the second strongest annual growth at 11.5%, down from 12.2% in July. However, the capital continues to lag behind the rest of the UK in terms of growth since the start of the pandemic in March 2020, up 23.4% compared to the UK average of 26.0%. Wales has experienced the greatest growth since the pandemic, at 31.9%.

Table 1 Regional rental growth to Aug-23

	m/m	q/q	y/y
UK	1.0%	2.8%	10.3%
London	1.0%	2.3%	11.5%
South East	1.1%	3.3%	9.8%
East of England	0.8%	2.8%	9.8%
South West	1.0%	3.4%	8.1%
East Midlands	0.9%	2.7%	9.8%
West Midlands	1.1%	3.1%	10.1%
North East	0.4%	1.8%	9.2%
Yorks & Humber	0.7%	2.4%	8.3%
North West	1.4%	3.6%	11.3%
Wales	1.2%	3.0%	10.2%
Scotland	1.2%	2.8%	12.8%

Source Zoopla Rental Index powered by Hometrack

Figure 6 Annual rental growth to Aug-23

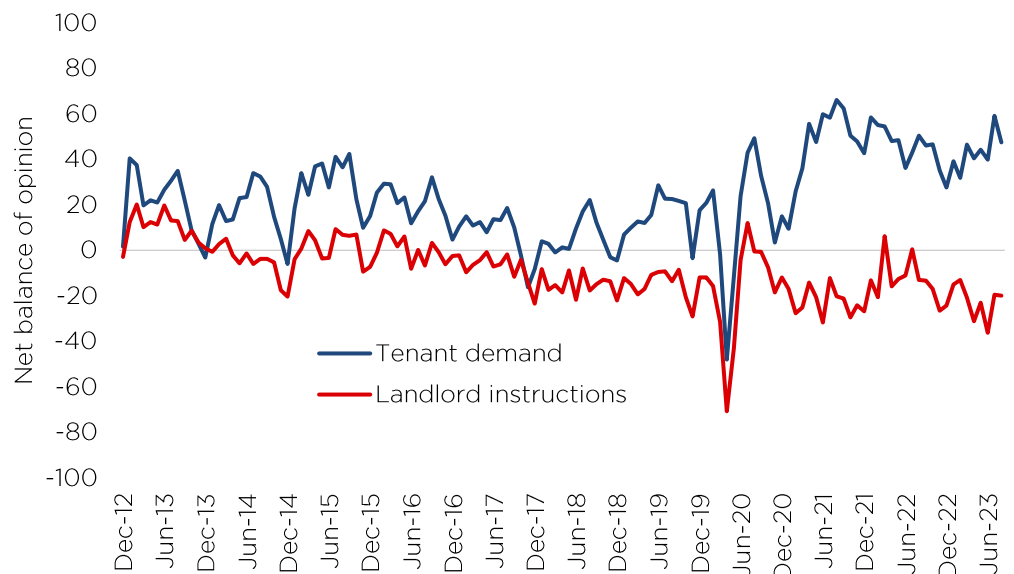


Source Zoopla Rental Index powered by Hometrack

Figure 7 Gap between tenant demand and landlord instructions remained significant

The RICS survey for the lettings market showed the continued mismatch between rental supply and demand that has underpinned rental growth across the UK over the last two years.

The majority of surveyors reporting greater tenant demand decreased slightly but stayed at high levels. Meanwhile, the majority of surveyors reporting falling supply stayed flat. The gap between supply and demand remained very wide, which will drive further strong rental growth.



Source RICS

Table 2 Rental forecasts (published November 2022)

Region	2023	2024	2025	2026	2027	5 years to 2027
UK	6.5%	4.0%	2.0%	2.4%	2.3%	18.3%
London	5.5%	5.0%	2.0%	2.4%	2.3%	18.4%

UK Housing Market Update

Table 3 Recent house price growth

	Nationwide (Regions to Q3 2023, UK to Sept 2023)			ONS (to July 2023)			Savills* (to June 2023)		
	m/m	q/q	y/y	m/m	q/q	y/y	m/m	q/q	y/y
UK	0.0%	-1.1%	-5.3%	-0.5%	0.0%	0.5%	-0.3%	-1.3%	3.1%
London	-	0.4%	-3.8%	0.2%	-0.3%	-0.8%	-0.5%	-1.6%	0.8%
South East	-	-0.7%	-5.4%	0.1%	0.7%	0.4%	-0.3%	-1.3%	2.8%
East of England	-	-0.9%	-5.5%	-0.2%	1.0%	0.3%	-0.3%	-1.6%	2.2%
South West	-	-1.3%	-6.3%	-1.1%	-0.9%	-1.0%	-0.4%	-1.4%	3.8%
East Midlands	-	-2.1%	-5.6%	-0.6%	0.4%	1.9%	-0.4%	-0.9%	4.3%
West Midlands	-	0.6%	-2.5%	-0.4%	1.2%	0.5%	-0.3%	-1.4%	4.1%
North East	-	1.1%	-2.2%	-0.1%	2.0%	2.7%	0.1%	-0.4%	4.8%
Yorks & Humber	-	-0.9%	-5.5%	0.7%	2.1%	2.6%	-0.3%	-1.0%	3.6%
North West	-	0.7%	-3.5%	-0.4%	0.4%	1.0%	-0.2%	-0.8%	4.4%
Wales	-	-1.6%	-5.5%	0.6%	0.8%	-0.1%	-0.4%	-1.3%	3.4%
Scotland	-	-1.4%	-4.3%	0.3%	1.1%	0.1%	0.2%	-0.5%	4.2%

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

Table 4 Mainstream house price forecasts (published November 2022)

Region	2023	2024	2025	2026	2027	5 years to 2027
UK	-10.0%	1.0%	3.5%	7.0%	5.5%	6.2%
London	-12.5%	-1.0%	2.0%	6.0%	5.0%	-1.7%
South East	-11.0%	0.0%	3.0%	6.5%	5.5%	3.0%
East of England	-11.0%	0.0%	3.0%	6.5%	5.5%	3.0%
South West	-10.0%	1.0%	3.5%	7.0%	5.5%	6.2%
East Midlands	-9.0%	1.5%	4.0%	7.5%	5.5%	8.9%
West Midlands	-9.0%	1.5%	4.0%	7.5%	5.5%	8.9%
North East	-8.5%	2.5%	4.5%	7.5%	6.0%	11.7%
Yorks & Humber	-8.5%	2.5%	4.5%	7.5%	6.0%	11.7%
North West	-8.5%	2.5%	4.5%	7.5%	6.0%	11.7%
Wales	-8.5%	2.0%	4.5%	7.5%	6.0%	11.1%
Scotland	-9.0%	2.0%	4.0%	7.5%	5.5%	9.5%

Source Savills

Savills team

Please contact us for further information

Chris Buckle
Director
CBuckle@savills.com
0207 6016 3881

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

Toby Parsloe
Analyst
toby.parsloe@savills.com
0207 123 6349

*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.

This report is for general informative purposes only. It may not be published, reproduced or quoted in part or in whole, nor may it be used as a basis for any contract, prospectus, agreement or other document without prior consent. Whilst every effort has been made to ensure its accuracy, Savills accepts no liability whatsoever for any direct or consequential loss arising from its use. The content is strictly copyright and reproduction of the whole or part of it in any form is prohibited without written permission from Savills Research.

