SAVILLS RESEARCH

UK Housing Market Update

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House price falls continue and activity indicators remain subdued

House prices fell for the sixth consecutive month in February, down by -0.5%, according to Nationwide. Prices are now down -3.7% from their pre-mini budget peak last August, and down -1.1% on an annual basis.

Completed sales volumes remained relatively strong in January, down just -3.2% compared to the pre-Covid average for the month reflecting a pipeline of 2022 agreed sales. New mortgage approvals in January were at their lowest level since 2011, -40.8% down on their pre-Covid average for the month, according to the Bank of England, a low yet to be reflected in completed sales figures.

The imbalance between supply and demand, a key driver of value growth, is correcting. The ratio of new sales to new instructions across the market as a whole has returned to pre-Covid levels, according to TwentyCi. The February RICS survey also supports this, showing demand still dropping more rapidly than supply.

The weakening activity is a direct consequence of higher mortgage rates. Another rise to the base rate could be on the cards, potentially above what has already been priced in by lenders and this could stall the current downward trend in mortgage rates.

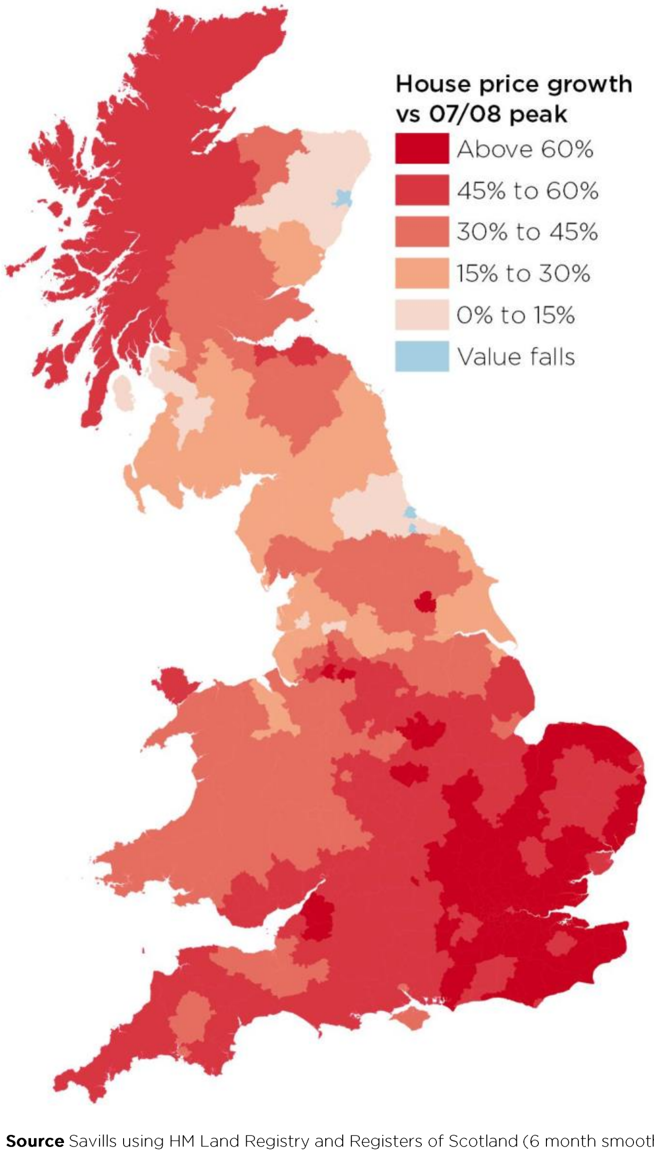
These high interest rates are particularly deterring mortgaged home movers, with their numbers in December down by -6% compared to their 2017-19 average for the month. As they are often more discretionary buyers, there is little incentive for them to move while mortgage rates are high and the economic backdrop is uncertain.

First time buyers have remained undaunted so far, with their numbers 8% higher in December than the pre-Covid average. Despite the challenges of securing a mortgage with the current high rates, high levels of rental growth and fierce competition for rental stock provide them with a strong incentive to access the housing ladder if they can.

Cash buyers numbers are similarly robust, up 10% in November on their pre-Covid average. Their immunity to the high rates has provided some additional strength to the market, particularly at the upper end.

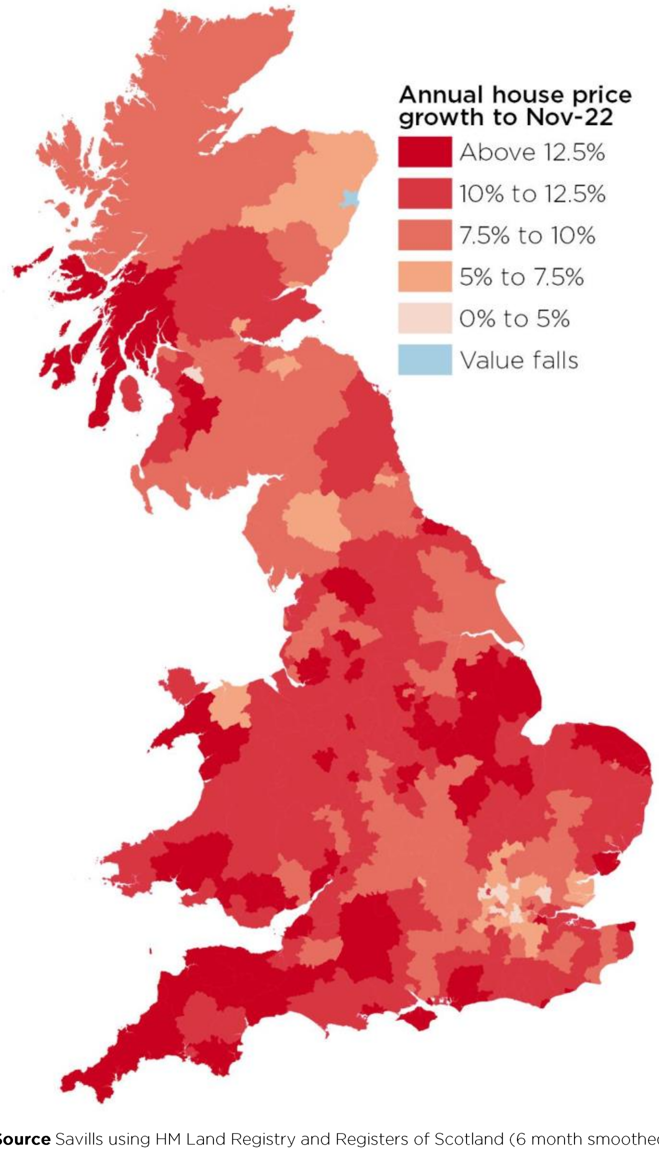
Annual house price growth was strongest in Torridge in Devon and Hastings, up 17.9% and 17.6% respectively. Aberdeen continued to be the only district seeing price falls, down -3.2%. However, local measures of house price growth are lagged and are not yet picking up the most recent three months of house price falls.

Figure 1 House price growth to Nov-22 since 07/08 peak



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

Figure 2 Annual house price growth to Nov-22



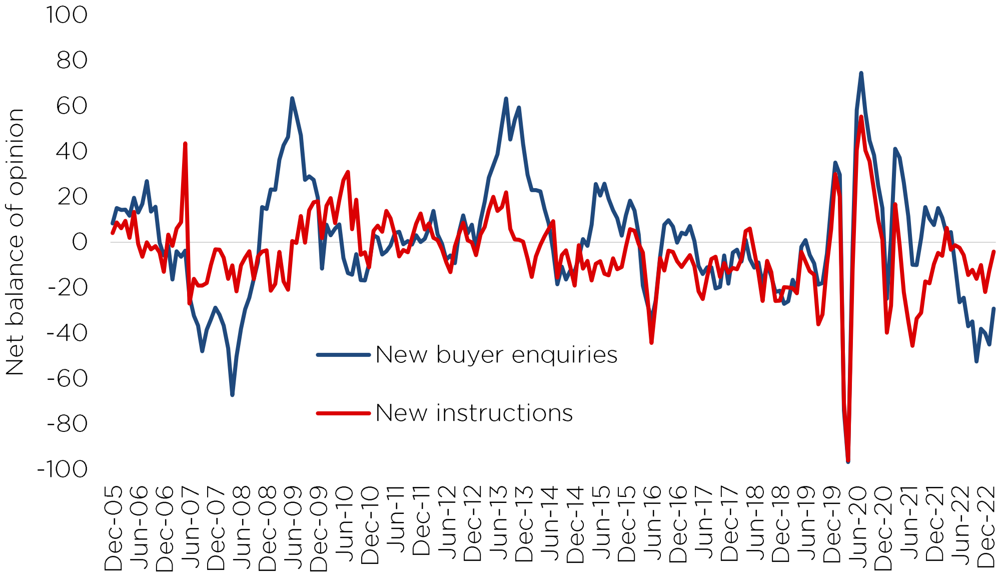
Source Savills using HM Land Registry and Registers of Scotland (6 month smoothed)*

Most surveyors continued to report falling numbers of both new instructions and new buyer enquiries in February. Although the number reporting falls was at its lowest since August, prior to the mini-budget.

Demand continued to fall on a more widespread basis than supply, as the current high interest rates deter buyers.

The gap between falling supply and falling demand actually increased in February, suggesting house price falls will continue.

Figure 3 New buyer demand continued to fall more widely than new instructions



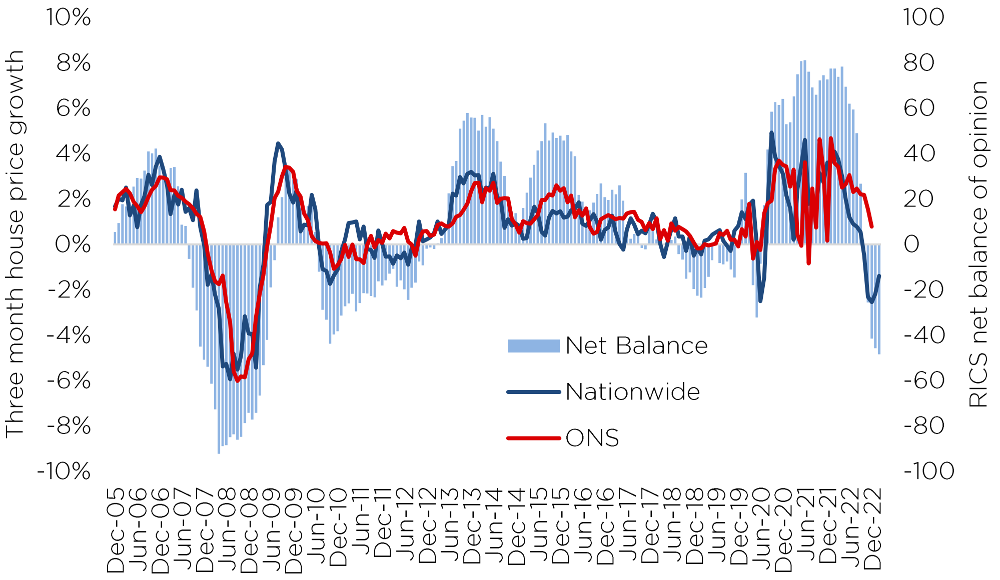
Source RICS (seasonally adjusted)

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

A large majority of surveyors reported price falls in February, the greatest proportion since 2008 with a net balance of -48.

House prices fell on a three-month basis for the fifth consecutive month, according to Nationwide. However, house price falls are yet to be recorded by the more lagged ONS index, although the price growth measured by this index has slowed sharply.

Figure 4 House prices fall further and negative price sentiment continues

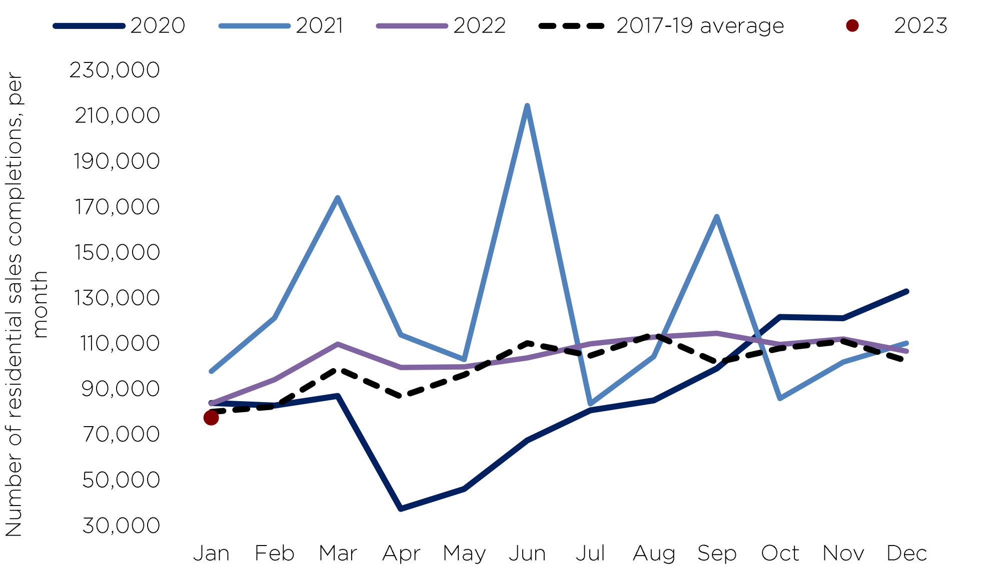


Source RICS, Nationwide, ONS (seasonally adjusted)

77,390 transactions were completed in January, according to HMRC. This was broadly in line with the 2017-19 average for January.

However, with new mortgage approvals falling sharply throughout Q4 2022 and Q1 2023, transaction numbers are likely to be lower than pre-Covid levels over the coming months.

Figure 5 Relatively strong level of transactions recorded in January



Source HMRC

Annual rental growth across the UK continued to slow in January, with rents up 11.1% from this time last year. The rate of annual growth slowed across all regions, except for the East of England and Scotland, according to Zoopla.

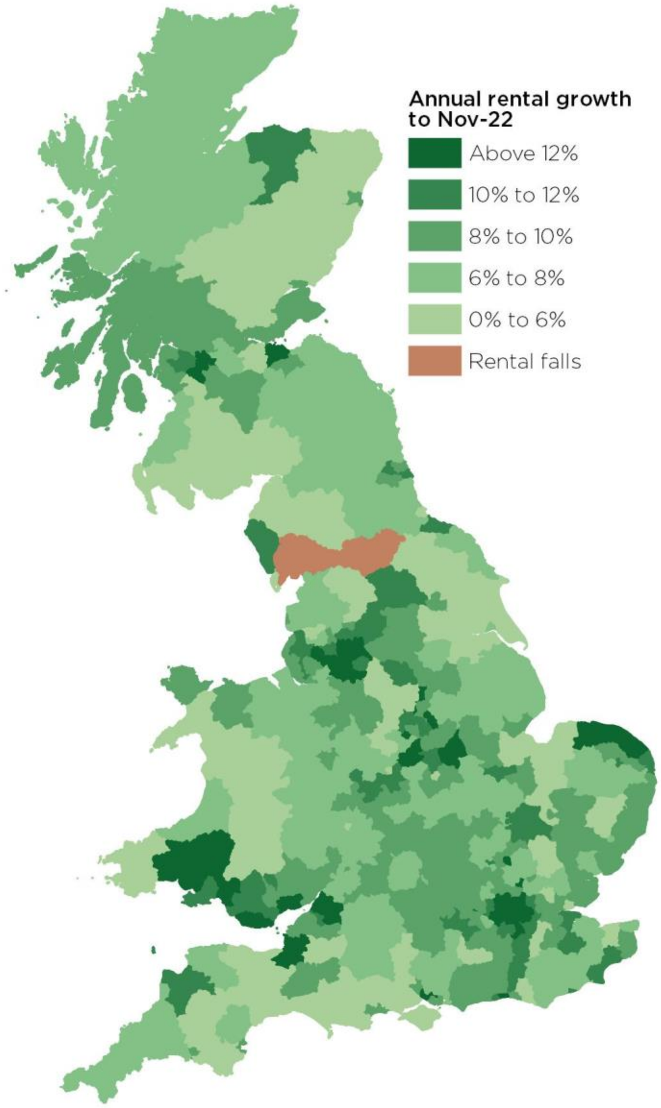
Despite slowing for the sixth consecutive month, annual rental growth in London remained above 15.2% in January, this is being driven by excess tenant demand and a shortage of supply in the capital. Rents in the city have recovered from falls during the pandemic and are up 18.9% since March 2020, but still lag behind national growth of 20.2% over the same period.

Table 1 Regional rental growth to Jan-23

	m/m	q/q	y/y
UK	0.8%	2.7%	11.1%
London	1.0%	3.9%	15.2%
South East	0.6%	1.8%	8.9%
East of England	0.7%	2.2%	8.7%
South West	0.5%	1.3%	8.0%
East Midlands	0.6%	2.7%	9.4%
West Midlands	0.8%	2.6%	9.6%
North East	1.0%	2.9%	8.4%
Yorks & Humber	0.6%	2.0%	9.0%
North West	0.9%	2.7%	11.1%
Wales	0.5%	2.3%	10.3%
Scotland	1.5%	3.5%	13.0%

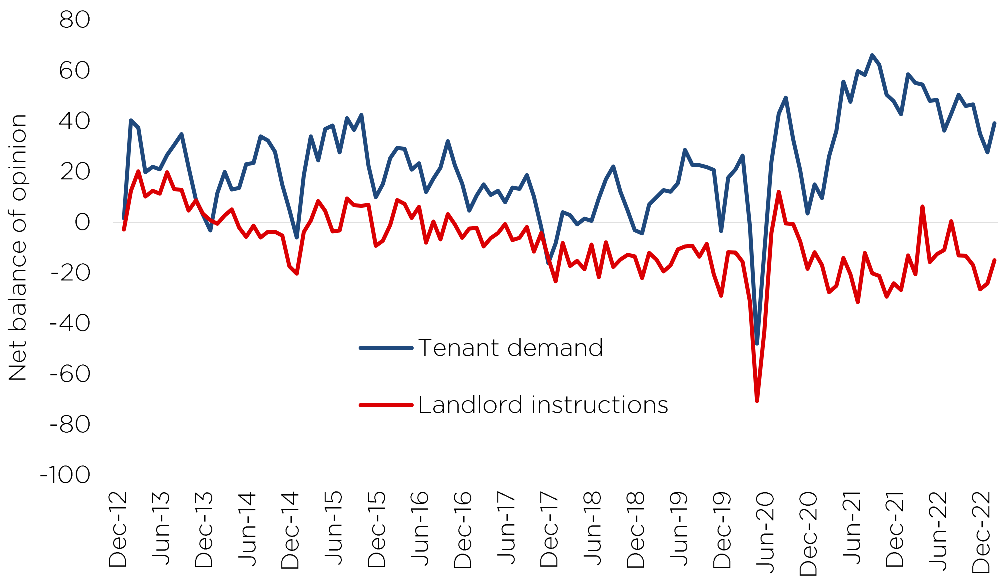
Source Zoopla Rental Index powered by Hometrack

Figure 6 Annual rental growth to Nov-22



Source Zoopla Rental Index powered by Hometrack

Figure 7 Significant gap maintained between tenant demand and supply



Source RICS

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

Tenant demand and new supply marginally increased in February, however the gap between the two is largely unchanged from January. The ongoing separation between the two is likely to support further strong rental growth.

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%**

Table 3 Recent house price growth

	Nationwide (Regions to Q4 2022, UK to February 2022)			ONS (to December 2022)			Savills (to November 2022)		
	m/m	q/q	y/y	m/m	q/q	y/y	m/m	q/q	y/y
UK	-0.5%	-1.8%	-1.1%	-0.2%	0.9%	9.8%	0.7%	2.7%	10.5%
London	-	-0.5%	4.2%	0.5%	1.0%	6.7%	0.4%	2.1%	6.2%
South East	-	1.5%	4.3%	0.5%	1.2%	10.0%	0.8%	2.6%	10.2%
East of England	-	-0.3%	6.6%	0.9%	1.2%	9.9%	0.7%	2.5%	10.0%
South West	-	-3.5%	4.4%	-1.5%	-0.4%	8.9%	0.8%	3.3%	12.7%
East Midlands	-	-2.4%	5.3%	0.7%	2.4%	12.3%	0.7%	2.9%	11.9%
West Midlands	-	-1.5%	6.2%	0.0%	1.2%	10.8%	0.9%	2.8%	10.6%
North East	-	-0.7%	6.1%	-0.3%	1.2%	11.8%	0.6%	3.1%	9.6%
Yorks & Humber	-	-2.7%	4.7%	0.5%	1.7%	11.8%	0.7%	2.8%	10.7%
North West	-	-1.2%	6.0%	-0.2%	1.6%	12.2%	0.8%	2.9%	11.0%
Wales	-	-2.7%	4.6%	0.4%	-0.1%	10.5%	0.5%	2.8%	11.9%
Scotland	-	-1.9%	3.5%	-1.4%	-1.0%	5.6%	0.3%	2.3%	8.6%

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

Table 4 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

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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.