

UK Housing Market Update



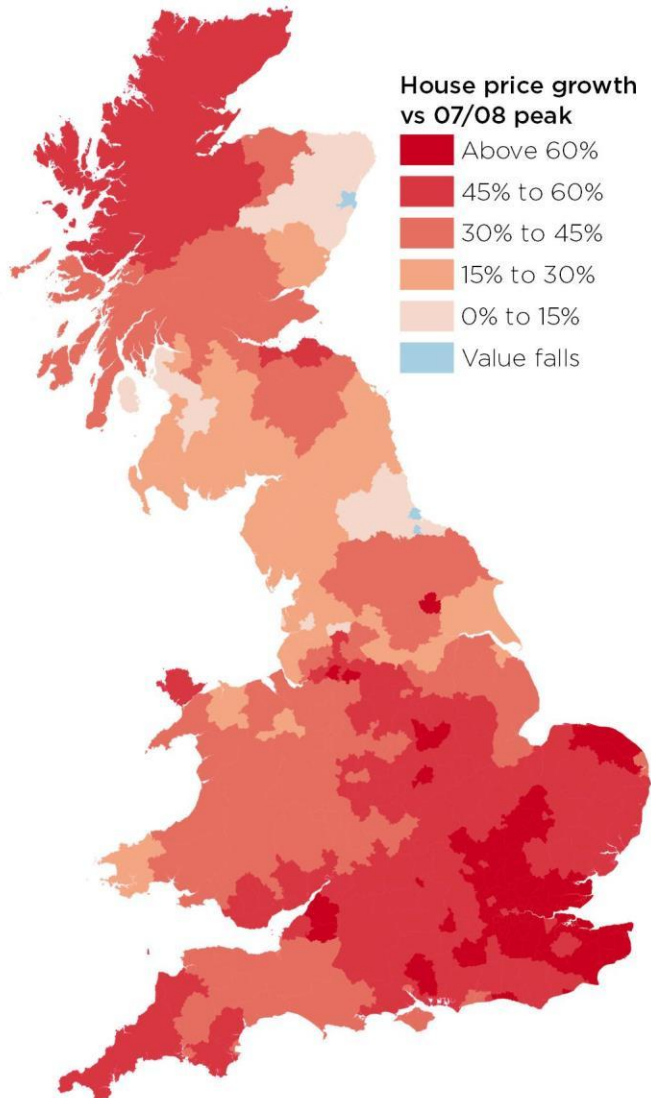
House prices hold steady as falling mortgage rates trigger increased demand

House prices remained flat in December, putting the total value change over 2023 at just -1.8%, according to Nationwide. This average conceals significant regional variation. East Anglia saw the biggest annual falls of -5.2%, while Scotland was the most resilient market with annual growth of 0.6%. Prices have generally proven more stable than predicted, but smaller falls now may impact capacity for growth later in the year.

The relative resilience of house prices has been supported by falling mortgage rates. Lenders have been cutting rates to compete in a low activity market and doing so in anticipation of an earlier reduction in the Bank of England base rate.

The first base rate cut is now expected in May, according to Oxford Economics, much sooner than previously forecast. Revisions to GDP figures in December indicated that the economy was weaker in 2023 than earlier figures implied. Alongside a faster than expected fall in inflation, this is likely to shift the economic focus away from inflationary pressures towards recessionary risks. This creates a stronger case for cutting the base rate sooner, although this is highly dependent on the next round of economic data.

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



Demand in the housing market has risen in response to the falling mortgage rates, although it is still below pre-Covid levels. The number of surveyors reporting increasing demand rose in November, although they are still in the minority. Sales agreed also rose, with December at a 9-month high, according to TwentyCI. New mortgage approvals also ticked up in November, to 76% of the 2017-19 average for the month. This increasing level of demand and a narrowing gap compared to supply has helped ease the downward pressure on house prices.

It will take time for improved market conditions to translate into completed sales. Many months of low mortgage approvals earlier in the year have suppressed completed transactions. There were 87,640 in November, according to HMRC, 21% below the 2017-19 average.

House price falls have been widespread, particularly in the more affordability-stretched south of the country. The greatest falls in the year to September were Runnymede (-7.2%) and Hastings (-6.4%). Markets in the North, Midlands and parts of Wales have been more resilient, with the highest growth in Rossendale in Lancashire (7.3%) and Blaenau Gwent in South Wales (6.7%).

Figure 2 Annual house price growth to Sep-23

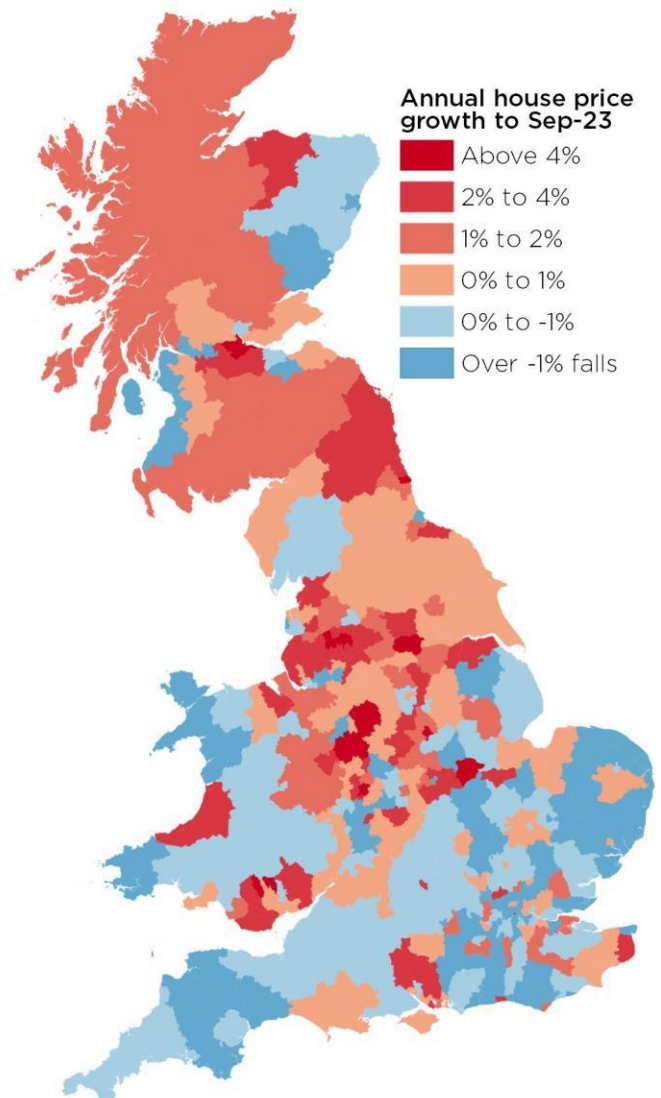
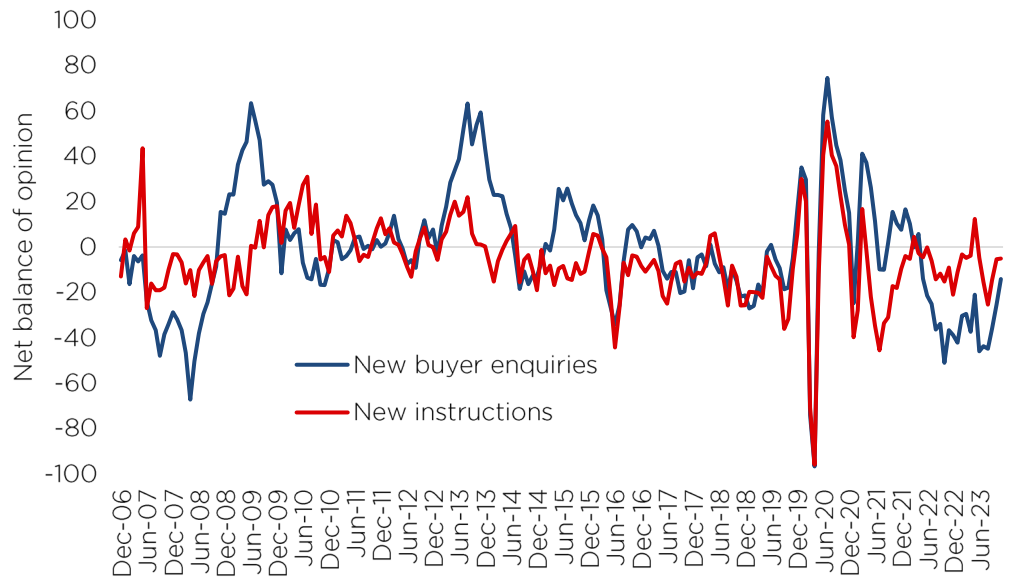


Figure 3 Gap between buyer demand and new supply narrowed

A small majority of surveyors reported falling supply in November, unchanged from October, according to the latest RICS survey.

The majority of surveyors also reported falling demand, a metric which has been negative for 19 consecutive months. However, this majority is now at its smallest since May 2022.

There remained a gap between supply and demand but this was also the smallest since May 2022, which will ease some of the downward pressure on prices.



Source RICS (seasonally adjusted)

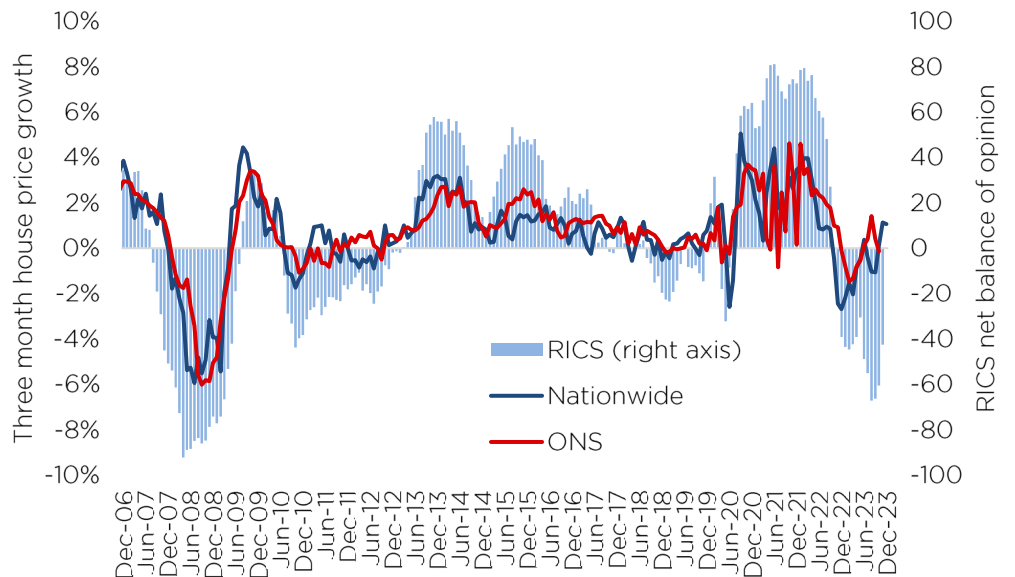
Figure 4 House prices were resilient as sentiment improved but remained negative

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 decreased from their peak but they remained strongly in the majority.

On a three-month basis house prices continued to show growth, increasing by 1.1% during the three months to December, according to Nationwide.

House prices fell by -0.1% during the three months to October according to the more lagged ONS index.



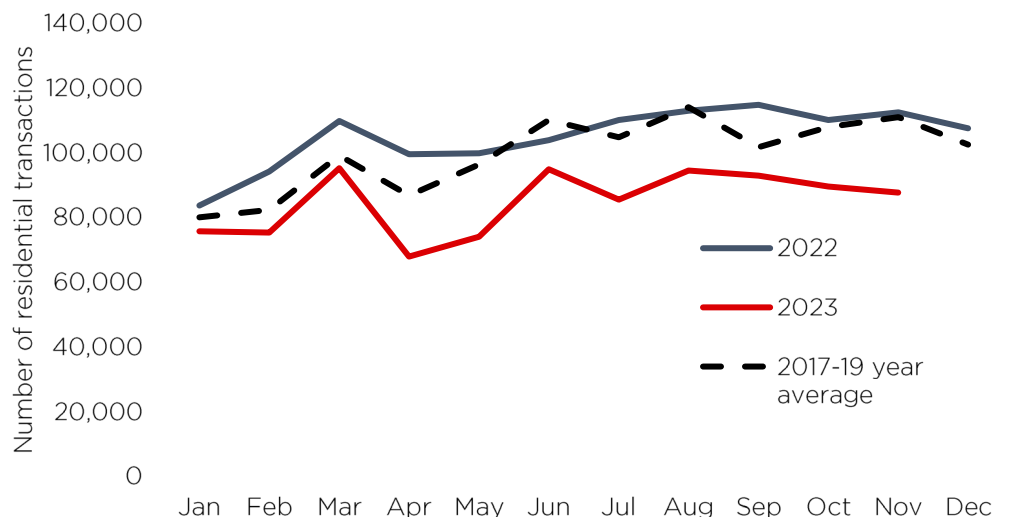
Source RICS, Nationwide, ONS (seasonally adjusted)

Figure 5 Completed transactions in November remained subdued

87,640 transactions completed in November, slightly down on the 89,480 seen in October, according to HMRC.

This figure has been fairly static for several months and remains low compared to the pre-pandemic average. November's completed transactions were -21% below their 2017-19 average as the reduced number of mortgage approvals in early 2023 fed into the number of completed transactions.

Activity is likely to increase as mortgage rates fall.



Source HMRC

Annual rental growth across the UK fell to 9.0% in November according to Zoopla. The rate of growth remains high everywhere but has slowed across all regions as affordability pressures mount. Growth was strongest in the South West, North East, and Wales. Certain local areas continued to see very high growth, with 141 (37%) local authorities having annual increases of 10% or more.

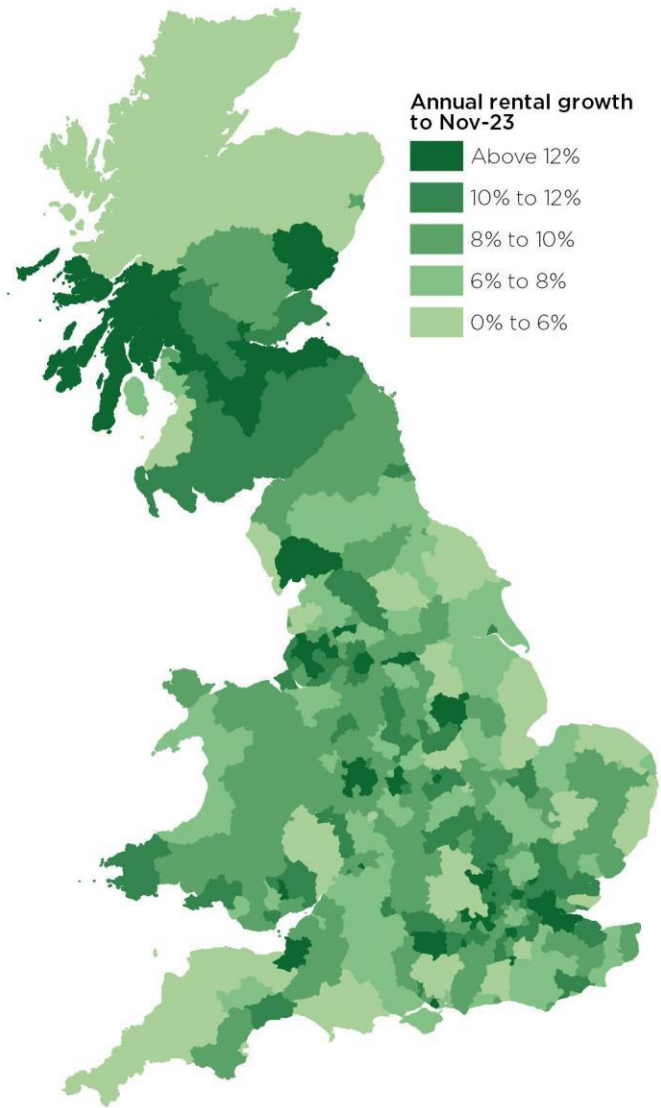
Scotland remained the region with highest annual rental growth, at 12.1% in November. The impact of rent control policies has reduced the level of supply in the market, driving continued growth. The fastest slowdown in rental growth was in London. The capital had the second lowest rate of growth at 8.0%, just above Yorks & Humber at 7.7%.

Table 1 Regional rental growth to Nov-23

	m/m	q/q	y/y
UK	0.6%	2.3%	9.0%
London	0.5%	1.8%	8.0%
South East	0.4%	2.3%	9.3%
East of England	0.5%	2.1%	9.5%
South West	0.8%	2.3%	8.6%
East Midlands	0.6%	2.7%	9.7%
West Midlands	0.4%	2.3%	8.8%
North East	1.6%	4.3%	9.7%
Yorks & Humber	0.5%	2.3%	7.7%
North West	0.8%	2.8%	10.8%
Wales	1.0%	3.0%	10.1%
Scotland	0.7%	2.5%	12.1%

Source Zoopla Rental Index powered by Hometrack

Figure 6 Annual rental growth to Nov-23



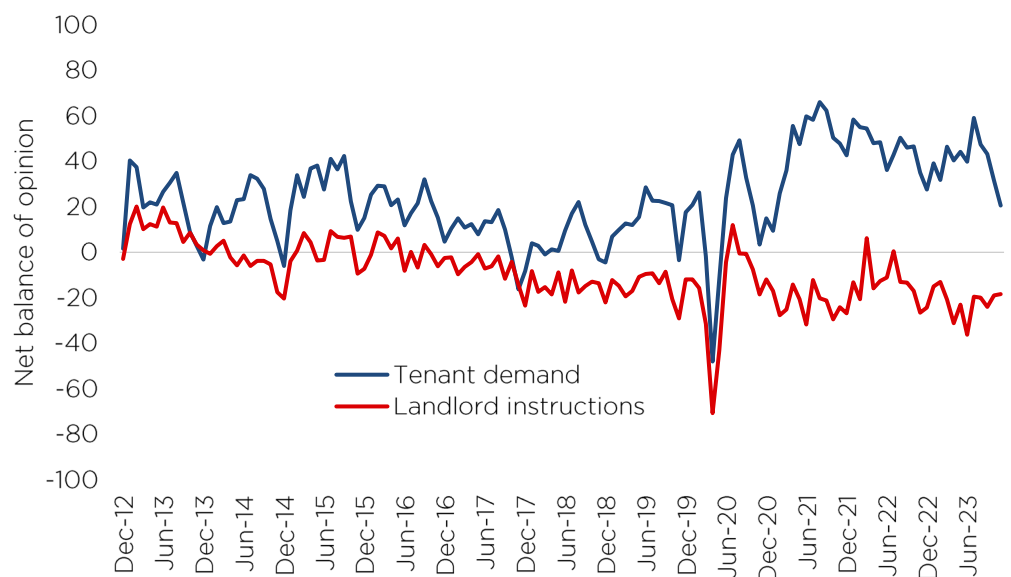
Source Zoopla Rental Index powered by Hometrack

The RICS survey for the lettings market showed a substantial fall in the number of surveyors reporting rising tenant demand. In November it shrank to its lowest level since January 2021.

The number of surveyors reporting falling supply remained static. So the gap between supply and demand was also at its narrowest since January 2021.

This reduction in demand relative to supply is likely to have supported the recent lower level of rental growth. But the gap between supply and demand remains wide, so strong rental growth is likely to continue in the short term.

Figure 7 Tenant demand increased at its lowest pace since January 2021



Source RICS

Table 2 Rental forecasts (published November 2023)

Region	2024	2025	2026	2027	2028	5 years to 2028
UK	6.0%	3.5%	3.0%	2.5%	2.0%	18.1%
London	5.5%	3.5%	3.0%	2.5%	2.5%	18.2%

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Table 3 Recent house price growth

	Nationwide (Regions to Q4 2023, UK to December 2023)			ONS (to October 2023)			Savills* (to September 2023)		
	m/m	q/q	y/y	m/m	q/q	y/y	m/m	q/q	y/y
UK	0.0%	1.1%	-1.8%	-0.3%	0.0%	-1.2%	0.2%	0.3%	0.0%
London	-	0.8%	-2.2%	-1.8%	-1.3%	-3.9%	0.3%	0.2%	-1.5%
South East	-	0.5%	-2.4%	-0.3%	-0.2%	-2.0%	0.1%	-0.2%	-0.7%
East of England	-	-0.6%	-4.5%	-0.6%	-0.5%	-2.2%	0.2%	-0.2%	-1.0%
South West	-	-0.3%	-5.2%	1.4%	1.7%	-0.6%	0.2%	0.1%	-0.4%
East Midlands	-	0.2%	-2.8%	-0.7%	-0.6%	-1.7%	0.2%	0.0%	0.6%
West Midlands	-	0.3%	-3.1%	0.2%	1.4%	-0.3%	0.2%	0.2%	0.8%
North East	-	-1.4%	-2.8%	0.2%	0.8%	0.1%	0.5%	0.6%	1.9%
Yorks & Humber	-	0.5%	-0.8%	-0.1%	-0.8%	-1.2%	0.3%	0.9%	1.5%
North West	-	2.1%	-0.4%	-0.1%	0.9%	-0.4%	0.1%	0.3%	1.3%
Wales	-	1.0%	-1.0%	-0.5%	-1.0%	-3.1%	0.2%	0.4%	0.6%
Scotland	-	0.7%	-1.9%	-0.4%	0.6%	0.1%	0.5%	1.6%	1.4%

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 2023)

Region	2024	2025	2026	2027	2028	5 years to 2028
UK	-3.0%	3.5%	5.0%	6.5%	5.0%	17.9%
London	-4.0%	2.0%	4.0%	6.0%	5.5%	13.9%
South East	-3.5%	3.0%	4.5%	6.5%	5.5%	16.7%
East of England	-3.5%	3.0%	4.5%	6.5%	5.5%	16.7%
South West	-3.0%	3.5%	5.0%	6.5%	5.0%	17.9%
East Midlands	-2.5%	4.0%	5.5%	6.5%	5.0%	19.6%
West Midlands	-2.0%	4.0%	5.5%	6.5%	5.0%	20.2%
North East	-1.5%	4.5%	5.5%	7.0%	4.5%	21.4%
Yorks & Humber	-2.5%	4.5%	5.5%	7.0%	4.5%	20.2%
North West	-2.5%	4.5%	5.5%	7.0%	4.5%	20.2%
Wales	-2.0%	4.5%	5.5%	7.0%	5.0%	21.4%
Scotland	-2.0%	4.0%	5.5%	6.5%	5.0%	20.2%

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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