

UK Housing Market Update



Modest house price growth shows market resilience as activity continues to recover

House prices grew by 0.4% in May, taking annual growth to 1.3%, according to Nationwide. This return to monthly growth, following two months of price falls, suggests the market has been resilient in spite of the ongoing high cost of borrowing.

Price growth will remain muted until there are additional mortgage rate cuts. Mortgage interest rates have been relatively unchanged in recent weeks in spite of a slight increase to swap rates. This stability has given some reassurance to buyers, but lower rates will be necessary to bring more demand back to the market.

Lower mortgage rates are dependent on base rate cuts. Inflation data for April was higher than many economists expected, at 2.3% according to the ONS. This has delayed expectations of the first base rate cut by the Bank of England (BoE). Oxford Economics now expect this to come in August, rather than June, with just one additional cut in 2024.

Clarity over the path of interest rate falls will have a bigger impact on the market than the General Election. At the time of writing, there are no emerging policies from the major parties that are likely to disrupt the mainstream housing market.

Supply has increased as sellers return to the market but demand held steady. The number of surveyors reporting increased supply rose to the highest level since September 2020, according to the April RICS survey. Zoopla have also reported the highest number of homes for sale in the last eight years. This will limit upward pressure on house prices until demand strengthens.

Sales activity is close to pre-pandemic levels. Mortgage approvals stayed level in April, according to the BoE, at 94% of their 2017-19 average. The boost to agreed sales at the start of 2024 is now showing in the number of completed transactions, which grew to 92% of 2017-19 levels, according to HMRC. This is likely to further improve as sales agreed in May were 10% above their 2017-19 average according to TwentyCI data.

The majority of local areas continued to see annual house price falls in the more lagged Land Registry data. Scotland remained the only region with positive annual growth of 1.5% in February 2024. Resilient local markets which have seen the highest annual growth include Inverclyde (7.6%), Angus (4.7%), and Glasgow (4.6%). The biggest falls were in markets which saw strong growth during the pandemic.

Figure 1 House price growth to Feb-24 since 07/08 peak

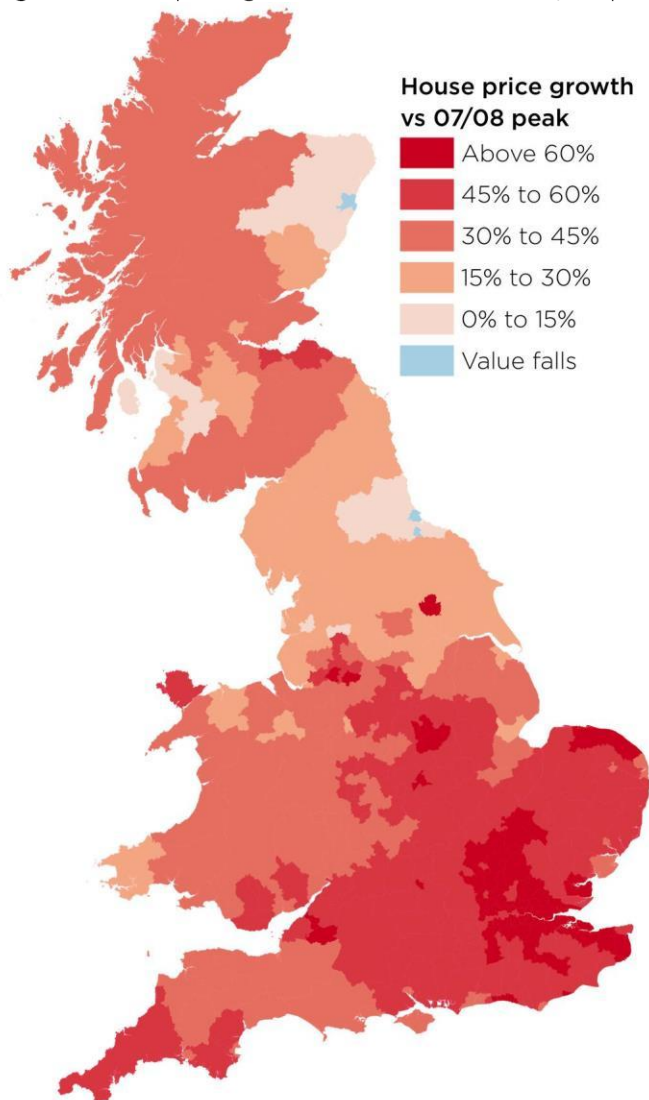


Figure 2 Annual house price growth to Feb-24

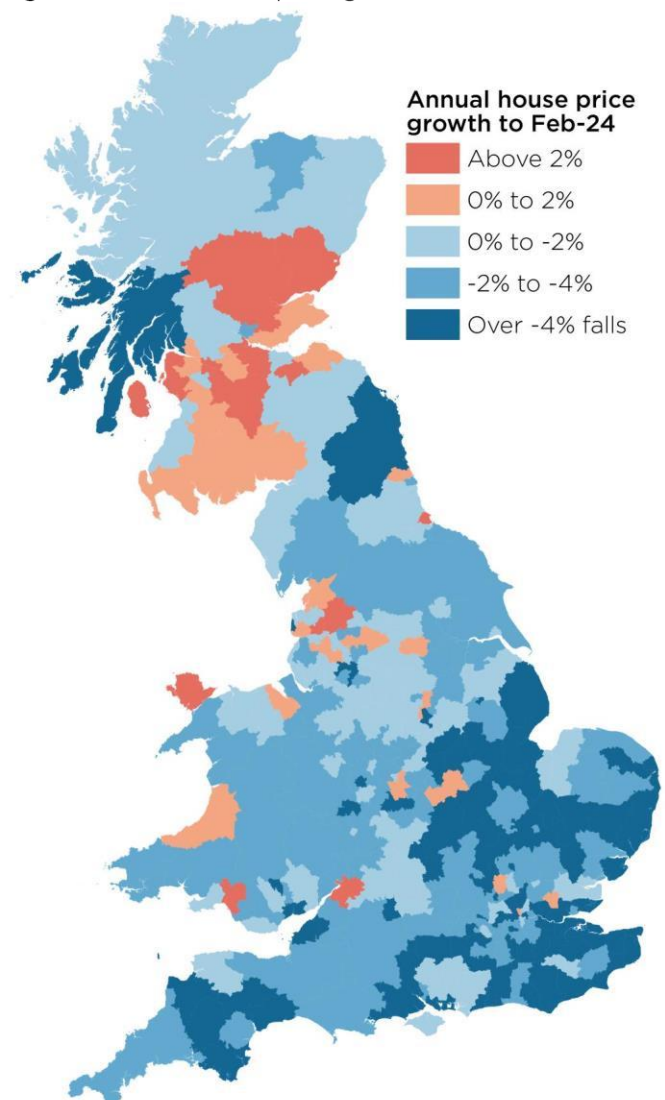
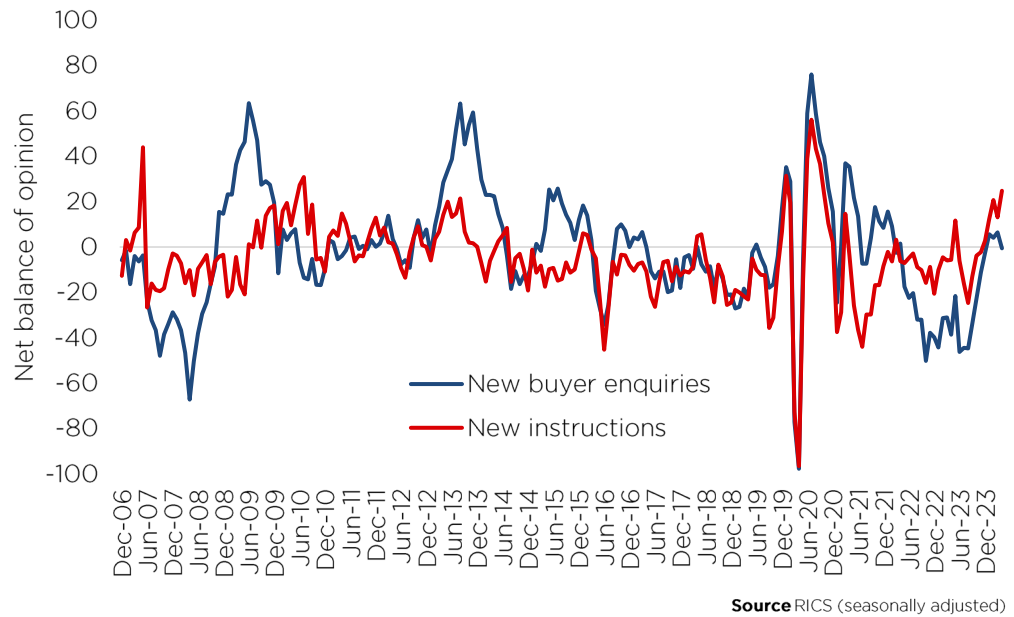


Figure 3 The gap between new buyer enquiries and new instructions widened

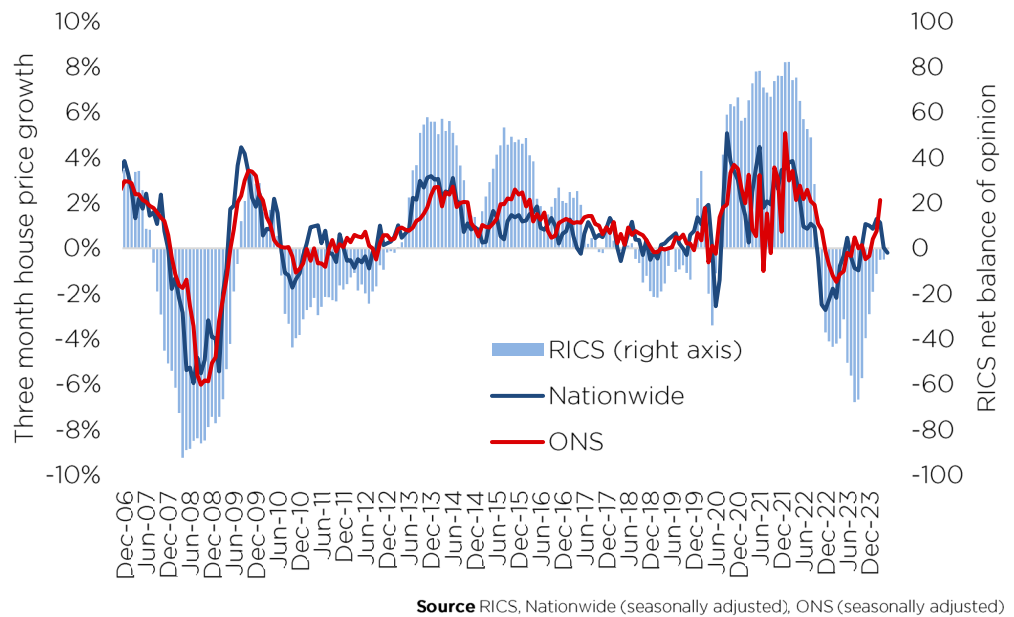


An increased majority of surveyors reported higher levels of supply in April, according to the latest RICS survey.

Demand remained subdued with almost equal numbers of surveyors reporting rising and falling new buyer enquiries.

This has widened the gap between supply and demand, limiting the potential for price growth.

Figure 4 House prices stayed flat while surveyor sentiment was neutral

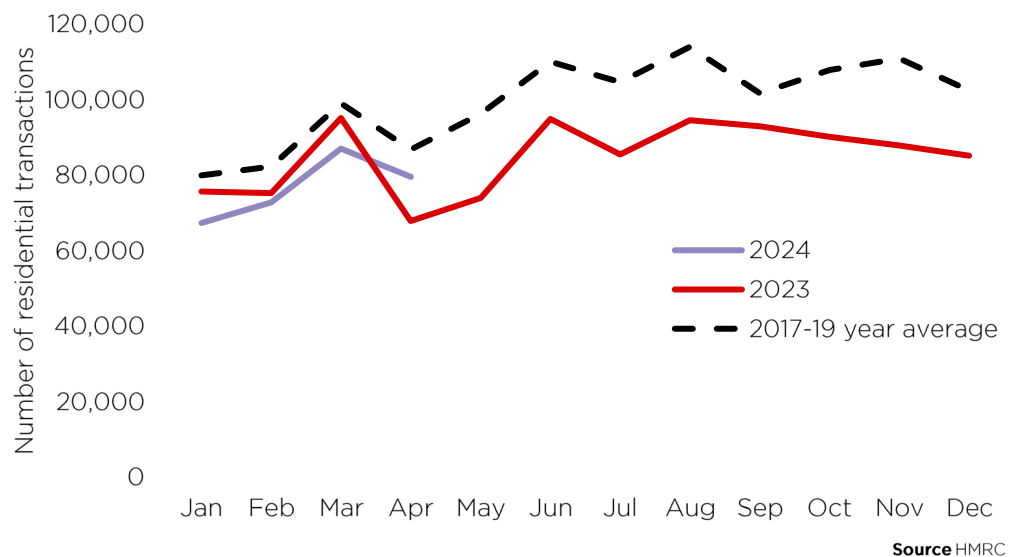


The number of surveyors reporting price falls has further reduced from its peak in August 2023. Almost an equal number of surveyors are now reporting price rises as falls, suggesting very little change in prices overall.

This is evident in the Nationwide data which shows house prices fell by just -0.2% in the three months to March.

House prices grew by 2.1% during the three months to March, according to the more lagged ONS index.

Figure 5 Completed transactions in April showed recovery towards 2017-19 levels



79,590 transactions completed in April, according to HMRC. The uptick in sales agreed and mortgage approvals at the start of 2024 has begun to filter through into these numbers. Completions were at just -8% below the 2017-19 average, up from -12% in March.

These figures are likely to further improve as the increase in agreed sales in early 2024 continues to translate into completions.

Annual rental growth across the UK in April was 6.6% according to Zoopla, down slightly from 6.7% in March. The North East is now the region with the strongest annual growth (9.5%), overtaking Scotland (9.3%). There is significant variation within these regions, with areas adjacent to large cities such as Midlothian and North Tyneside seeing rental growth accelerating while others mirror the regional averages more closely.

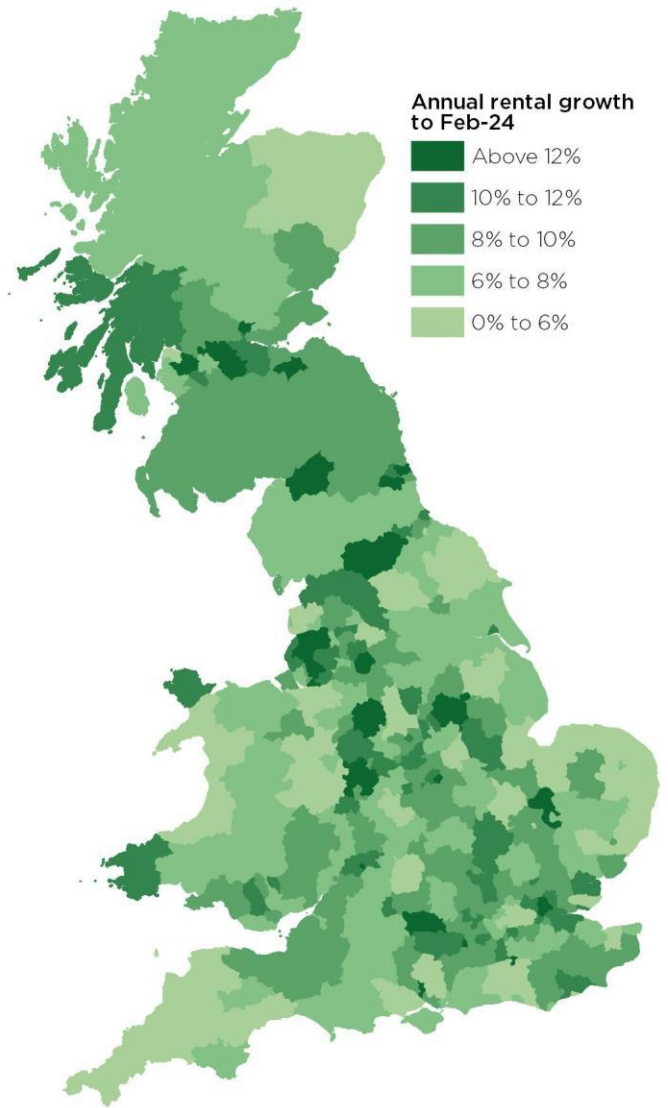
In London, rents stayed level on an annual basis, maintaining annual growth of 3.7%. Growth has slowed over the past few months as certain parts of the capital continue to hit up against affordability ceilings. This has led to falls of -0.3% on a three-month basis across the city as whole.

Table 1 Regional rental growth to Apr-24

	m/m	q/q	y/y
UK	0.4%	0.7%	6.6%
London	0.2%	-0.3%	3.7%
South East	0.3%	0.9%	7.9%
East of England	0.6%	1.5%	8.2%
South West	0.5%	1.4%	7.8%
East Midlands	0.3%	0.7%	7.3%
West Midlands	0.6%	1.4%	7.8%
North East	0.2%	1.4%	9.5%
Yorks & Humber	0.2%	0.9%	7.0%
North West	0.9%	1.2%	8.4%
Wales	0.6%	1.1%	7.8%
Scotland	0.6%	1.5%	9.3%

Source Zoopla Rental Index powered by Hometrack

Figure 6 Annual rental growth to Feb-24



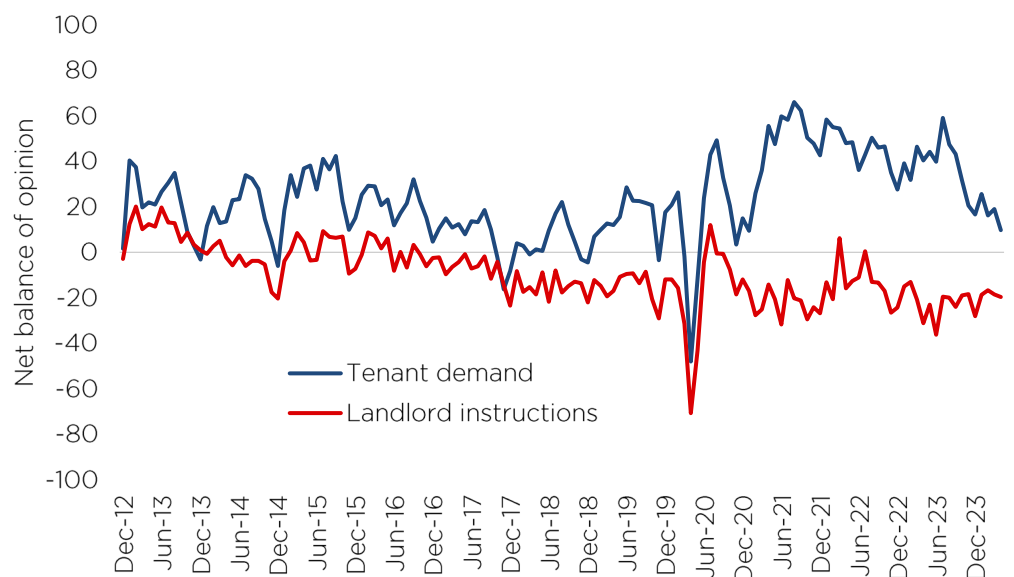
Source Zoopla Rental Index powered by Hometrack

Figure 7 Demand further cooled as the gap with supply narrowed

The RICS survey for the lettings market has shown further cooling in tenant demand from its 2023 peak. The number of surveyors reporting increasing demand fell further to its lowest level since January 2021.

The number of surveyors reporting falling supply has stayed level.

While the gap between supply and demand remains wide, as renters hit up against affordability ceilings demand has reduced, dampening upward pressure on rents.



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%

Table 3 Recent house price growth

	Nationwide (Regions to Q1 2024, UK to May 2024)			ONS (to March 2024)			Savills* (to February 2024)		
	m/m	q/q	y/y	m/m	q/q	y/y	m/m	q/q	y/y
UK	0.4%	-0.2%	1.3%	1.1%	2.1%	1.6%	-0.8%	-1.5%	-3.0%
London	-	1.6%	1.6%	-1.0%	-2.0%	-3.4%	-1.0%	-1.8%	-3.8%
South East	-	1.1%	-1.0%	0.6%	1.7%	-1.3%	-1.0%	-2.1%	-4.3%
East of England	-	0.5%	-1.2%	0.9%	3.3%	0.7%	-0.8%	-1.7%	-4.3%
South West	-	0.8%	-1.8%	0.6%	2.3%	0.5%	-0.9%	-1.8%	-3.8%
East Midlands	-	2.0%	0.4%	0.8%	1.6%	1.0%	-0.8%	-1.8%	-3.6%
West Midlands	-	1.4%	-0.1%	1.2%	0.1%	2.4%	-0.6%	-1.5%	-2.9%
North East	-	2.3%	4.2%	-0.5%	-0.2%	3.3%	-0.2%	-1.1%	-1.5%
Yorks & Humber	-	1.0%	2.4%	1.9%	2.6%	4.6%	-0.8%	-1.4%	-1.6%
North West	-	1.6%	3.0%	1.4%	1.9%	3.7%	-0.9%	-1.3%	-2.0%
Wales	-	1.2%	1.3%	0.8%	1.7%	1.4%	-0.4%	-1.1%	-2.3%
Scotland	-	0.9%	3.8%	1.4%	3.8%	6.6%	-0.3%	-0.1%	1.5%

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 May 2024)

Region	2024	2025	2026	2027	2028	5 years to 2028
UK	2.5%	3.5%	4.5%	5.0%	4.5%	21.6%
London	2.0%	2.5%	2.5%	3.5%	3.0%	14.2%
South East	1.5%	3.0%	4.5%	4.5%	3.5%	18.2%
East of England	1.0%	3.0%	4.5%	4.5%	4.0%	18.1%
South West	1.0%	3.5%	4.0%	4.5%	4.5%	18.7%
East Midlands	2.5%	4.0%	4.5%	5.5%	4.5%	22.8%
West Midlands	2.0%	4.0%	5.0%	6.0%	4.5%	23.4%
North East	4.5%	4.5%	4.5%	5.0%	4.5%	25.2%
Yorks & Humber	3.5%	4.5%	5.5%	6.5%	5.5%	28.2%
North West	4.0%	4.5%	5.5%	6.5%	5.5%	28.8%
Wales	4.5%	4.5%	5.0%	5.5%	4.5%	26.4%
Scotland	4.0%	4.0%	5.0%	5.5%	5.0%	25.8%

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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