

UK Housing Market Update



House price growth slowed in January, but the outlook remains positive

House prices rose by 0.1% in January, according to Nationwide. This means that annual house price growth slowed to 4.1% at the end of the year, but 2024 still came in ahead of our forecasts despite mortgage rates weighing on affordability.

Transaction volumes also improved in 2024, with sales almost back in line with the pre-pandemic average by the end of the year. 1.1 million transactions completed in 2024, -8% below the 2017-19 average, but 8% above 2023. Market activity picked up in the second half of 2024, and peaked before the Budget in October. A further peak is expected in March, as buyers aim to complete before the Stamp Duty change. This will be supported by increasing numbers of sales agreed, according to early data from TwentyCI. 2025 got off to a stronger start than either of the previous two years, according to Zoopla, with high levels of both supply and demand.

January proved to be a rollercoaster for gilt yields, causing concern that mortgage rates may rise, but we're back at the station now. In mid-January, gilt yields spiked to their highest level since the 2008 global financial crisis, sparking fears of Truss 2.0. Mortgage rates, however, remained relatively steady, and by the end of January gilt yields had eased to 4.5%, where they were at the beginning of the month, and there was little impact on the housing market. But it did highlight the continued vulnerability of the market to external shocks.

Mortgage rates are now more likely to move downwards again, following the Bank of England (BoE) cut of base rate to 4.5%. Although some inflationary pressures remain, there is mounting worry over the UK's slow economy, which has encouraged the MPC to act to stimulate economic growth. This will allow lenders to cut mortgage rates, opening up more affordability in the housing market. Oxford Economics continue to forecast a further three cuts in 2025, bringing the base rate to 3.75% by the end of the year.

Another route to easing affordability and access to the housing market is the proposed relaxation of mortgage regulation. The Financial Conduct Authority has been encouraged to review rules to stimulate growth, including increasing the loan to income cap and relaxing stress testing. Critics, however, have warned that this could inflate house prices and leave more households at risk of repossession in the event that interest rates reach higher than expected levels.

Scotland continues to see the highest house price growth, according to price paid data. West Dunbartonshire, Inverclyde, and Moray had the highest growth of 8.7%, 8.0%, and 7.0% respectively, during the year to October. House price growth was more muted across most of the country, with over a third of local authorities seeing falls. Devon was the weakest area, with price falls in Torridge (-6.3%), North Devon (-4.7%), and Torbay (-4.3%).

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

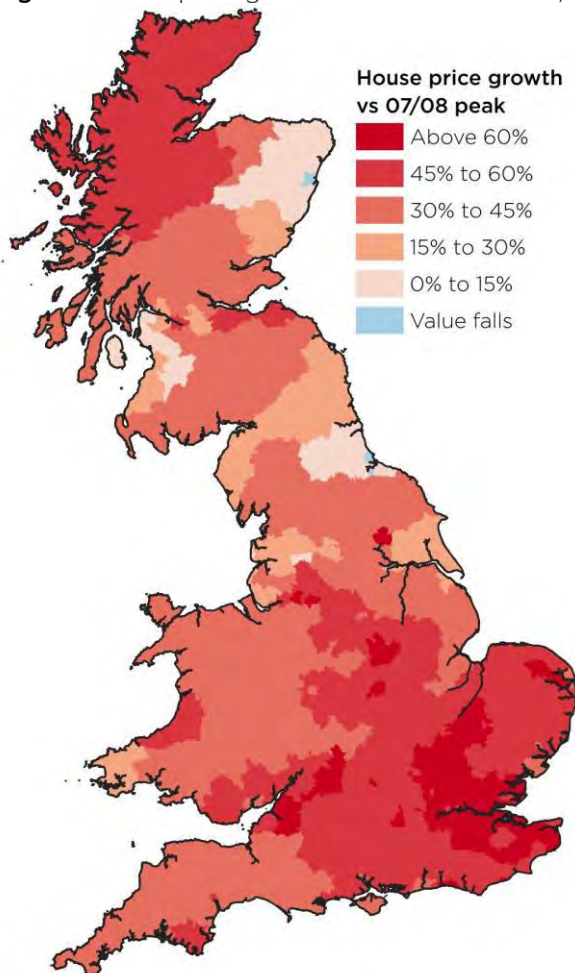
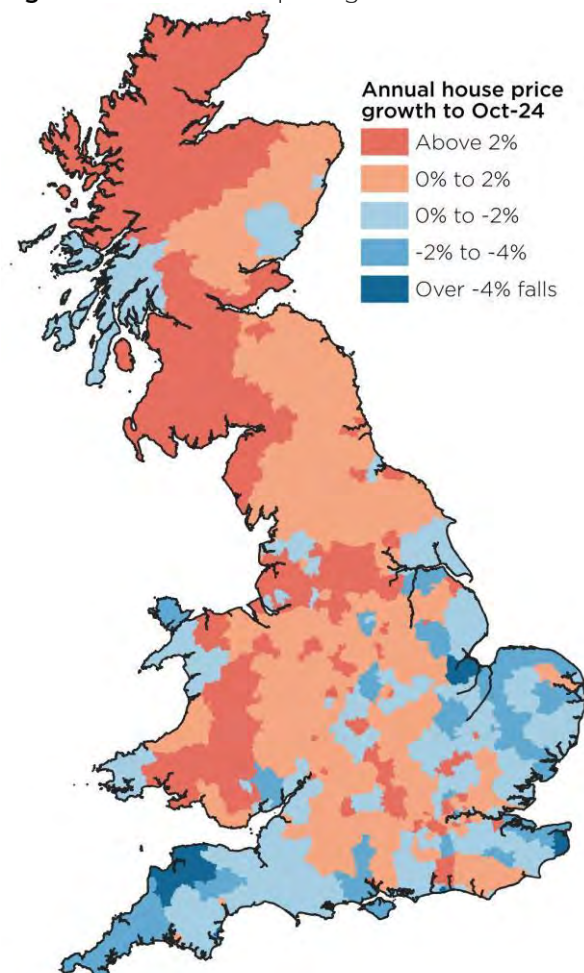


Figure 2 Annual house price growth to Oct-24



The majority of surveyors reported a slight drop in both supply and demand in December. It was a smaller fall than usual for this time of year, indicative of cautious optimism for Q1 2025. December is typically the slowest month of the year, but confidence remained relatively strong. This is only the second December in the past 11 years where both supply and demand were positive, and indicates a keenness from buyers and sellers. The gap between supply and demand increased slightly, with more stock than buyers. This may dampen price growth in the coming months despite a boost in activity.

The RICS survey can be a good early indicator of house price movements which are later picked up by other indices. Surveyors continued to report growing house price momentum as a result of seasonally strong activity. This is expected to continue during Q1, but could ease off come April.

Nationwide data shows that house prices rose by 0.9% in the three months to January. After dipping around the Budget, quarterly growth is returning to levels seen this time last year.

According to the more lagged ONS index, house prices were flat in the three months to November.

98,100 transactions completed in December, according to HMRC. Sales were slightly lower (-4%) than the 2017-19 average, but 15% higher than December 2023.

Looking quarterly, Q4 2024 was very close to the Q4 pre-pandemic average, just -2% below. Looming Stamp Duty changes and stable interest rates, bolstered by a base rate cut in November, encouraged buyers to act, and indicate a steady underlying market.

Future activity is likely to remain sensitive to interest rates. The government is considering relaxing mortgage limits to boost activity, although economists have raised concerns of unintended house price growth and overborrowing risks.

Figure 3 Supply and demand both remain positive in December

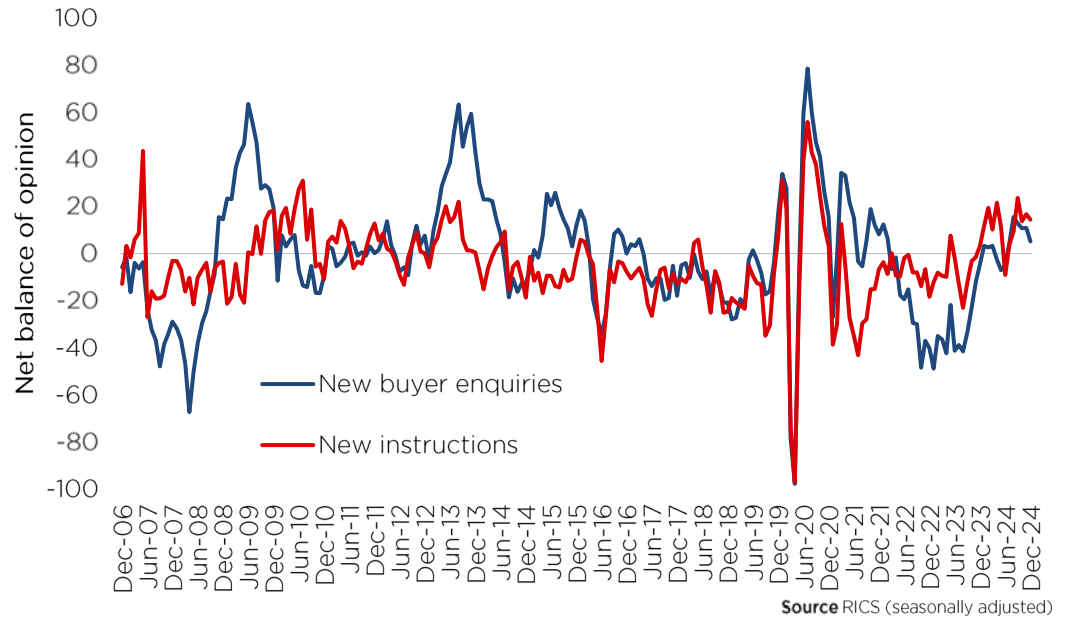


Figure 4 House price growth strengthens on all metrics

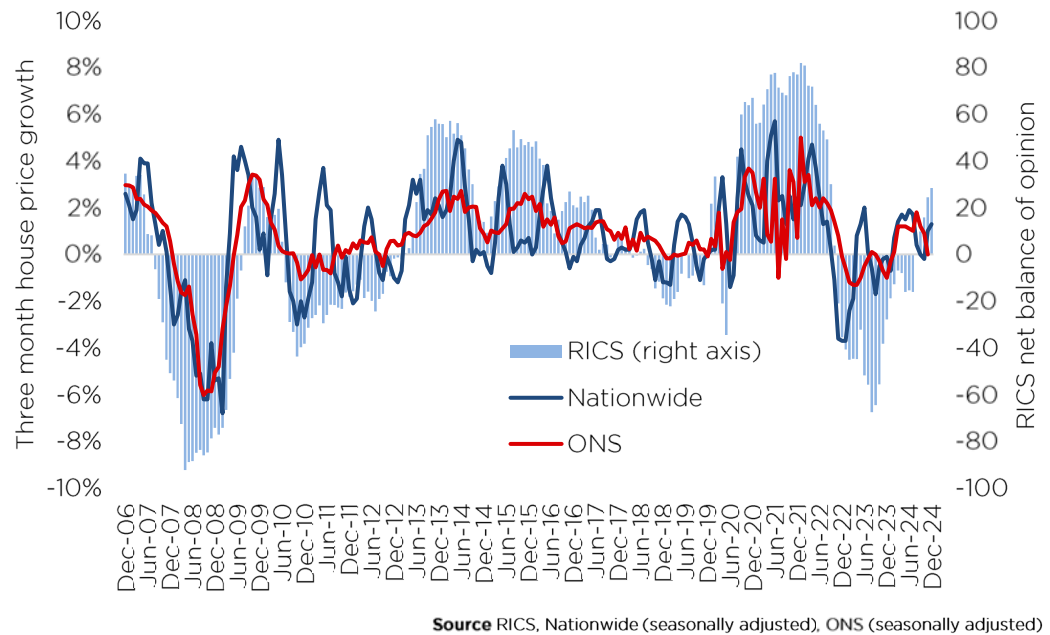
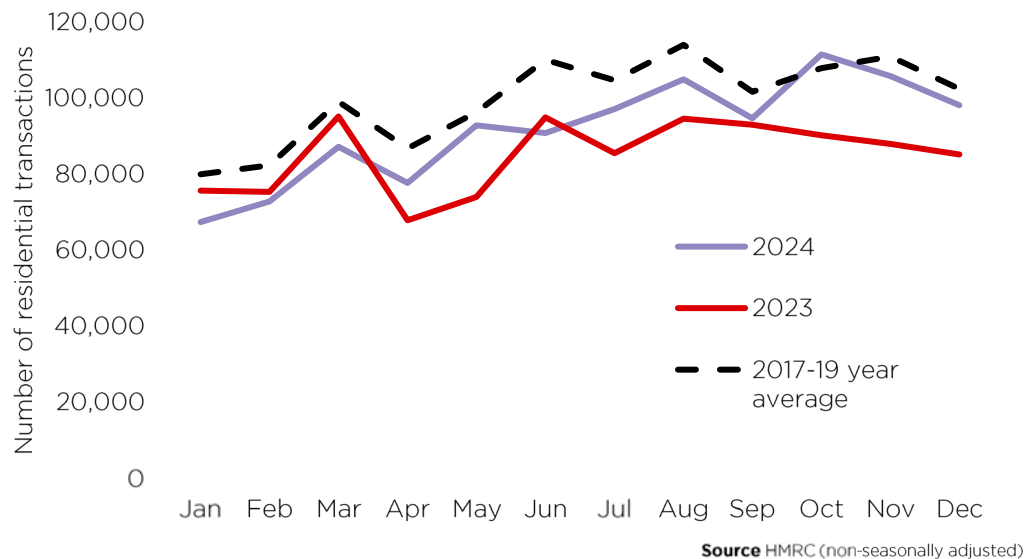


Figure 5 Completed transactions moved above pre-pandemic average



Annual rental growth across the UK in December was 3.9% according to Zoopla, an increase from 3.5% in November. According to the RICS survey, tenant demand remained relatively flat from November, but the amount of stock fell sharply across the UK, leading to greater competition for available homes.

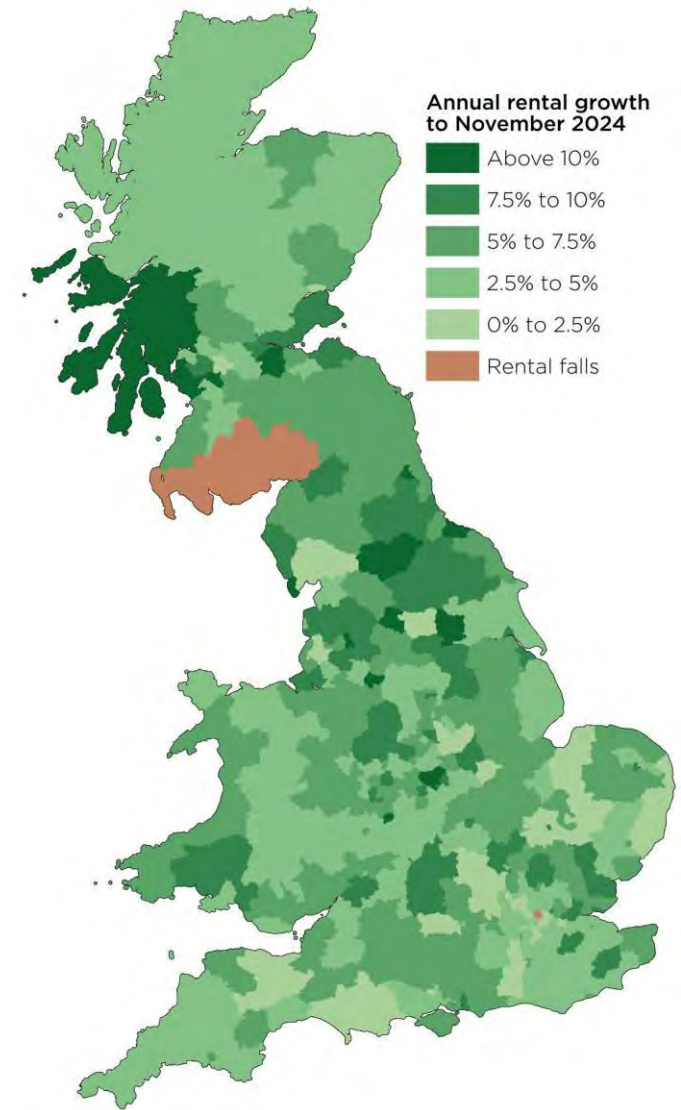
Rental growth is increasing in most regions, but by modest amounts. In the South, annual rental growth has settled within the historic norm of 3% to 5%, and is approaching those levels in the Midlands. Rental growth remains strongest, and above historic norms, in the North where affordability can be less constrained. Concerns remain that the Renters Rights Bill, currently going through Parliament, could see less stock becoming available, leading to a renewed surge in rental growth.

Table 1 Regional rental growth to December 2024

	m/m	q/q	y/y
UK	0.7%	1.3%	3.9%
London	0.8%	1.2%	1.8%
South East	0.6%	1.0%	4.3%
East of England	0.3%	0.6%	4.4%
South West	0.3%	0.7%	4.0%
East Midlands	0.3%	1.3%	3.7%
West Midlands	0.9%	2.0%	5.4%
North East	1.3%	3.3%	7.7%
Yorkshire and the Humber	0.3%	0.7%	3.5%
North West	1.2%	2.2%	6.4%
Wales	0.6%	1.7%	5.1%
Scotland	1.9%	2.2%	6.2%

Source Zoopla Rental Index powered by Hometrack

Figure 6 Annual rental growth to November 2024

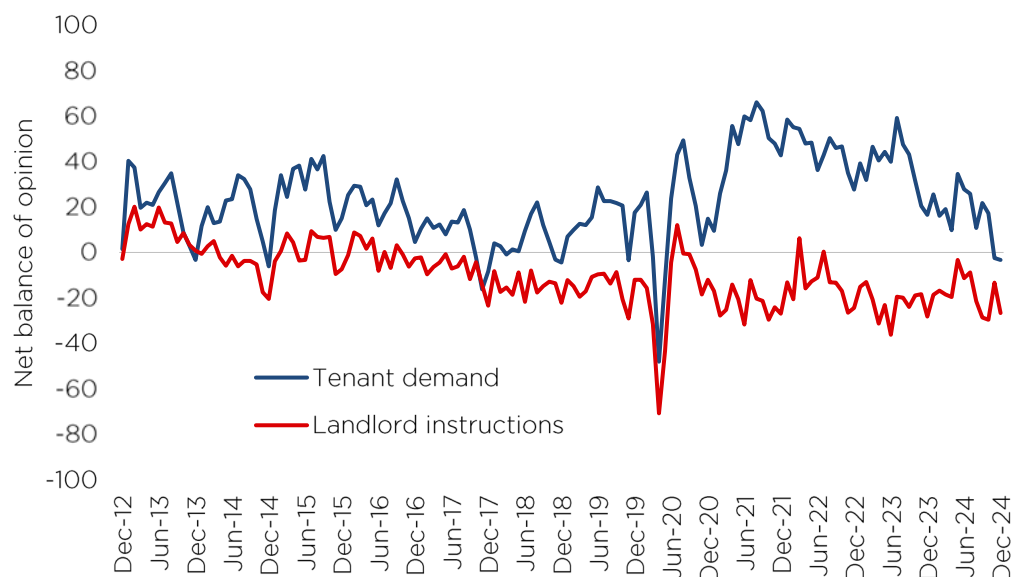


Source Zoopla Rental Index powered by Hometrack

The December RICS survey saw supply and demand drop with Christmas seasonality leading to a quieter market.

Although tenant demand fell, the gap between supply and demand widened because of a more sizeable drop in landlord instructions. With fewer tenants looking for new properties to rent, as is typical of December, some landlords were waiting until the new year to list properties in hopes of catching better demand. Others were re-evaluating their position in preparation for the Renter's Rights Bill coming in 2025, with some deciding to sell rather than relist their properties for rent.

Figure 7 Demand and supply gap remains significant as supply drops further



Source RICS

Table 2 Rental forecasts (published November 2024)

Region	2025	2026	2027	2028	2029	5 years to 2029
UK	4.0%	3.5%	3.0%	3.0%	3.0%	17.6%
London	2.5%	2.5%	2.5%	3.0%	3.0%	14.2%

Source Savills

Table 3 Recent house price growth

	Nationwide (Regions to Q4 2024, UK to January 2024)			ONS (to November 2024)			Savills* (to October 2024)		
	m/m	q/q	y/y	m/m	q/q	y/y	m/m	q/q	y/y
UK	0.1%	2.0%	4.1%	0.1%	0.1%	3.3%	0.4%	1.2%	0.8%
London	-	0.5%	2.0%	-0.7%	-2.7%	-0.1%	0.1%	1.0%	0.9%
South East	-	1.0%	2.3%	-0.3%	-1.1%	1.4%	0.3%	1.1%	-0.4%
East of England	-	0.8%	0.5%	-0.7%	-0.7%	2.0%	0.3%	0.9%	-0.8%
South West	-	1.8%	2.8%	-1.1%	0.6%	2.3%	0.3%	1.2%	-0.8%
East Midlands	-	2.6%	4.5%	-0.2%	0.7%	2.7%	0.3%	0.8%	0.2%
West Midlands	-	1.8%	4.8%	0.2%	0.4%	3.6%	0.5%	1.0%	0.9%
North East	-	2.7%	5.8%	0.9%	1.8%	5.7%	0.5%	1.4%	1.5%
Yorks & Humber	-	1.7%	4.4%	0.7%	0.5%	5.8%	0.5%	1.7%	2.0%
North West	-	1.5%	5.5%	0.6%	1.1%	5.7%	0.3%	1.2%	2.2%
Wales	-	0.9%	2.7%	-0.1%	-0.9%	2.9%	0.5%	1.3%	1.6%
Scotland	-	1.9%	4.2%	-0.1%	0.2%	4.9%	0.4%	1.7%	2.7%

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 2024)

Region	2025	2026	2027	2028	2029	5 years to 2029
UK	4.0%	5.5%	5.0%	4.0%	3.0%	23.4%
London	3.0%	4.0%	3.5%	3.0%	2.5%	17.1%
South East	3.0%	4.0%	3.5%	3.5%	2.5%	17.6%
East of England	2.5%	5.0%	4.5%	3.5%	3.0%	19.9%
South West	2.5%	5.5%	5.0%	4.0%	3.0%	21.6%
East Midlands	4.0%	5.5%	5.5%	4.5%	3.0%	24.6%
West Midlands	4.5%	6.0%	6.0%	4.5%	3.0%	26.4%
North East	5.0%	6.5%	6.0%	4.5%	3.5%	28.2%
Yorks & Humber	5.0%	6.5%	6.0%	4.5%	3.5%	28.2%
North West	5.0%	7.0%	6.5%	4.5%	3.5%	29.4%
Wales	3.5%	5.5%	6.0%	4.5%	3.5%	25.2%
Scotland	5.0%	6.0%	5.5%	4.0%	3.0%	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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