

UK Cities House Price Index

July 2017

- UK city house price inflation at 5.3%, down from 7.4% in July 2016
- Birmingham is the fastest growing city (8.0%) followed by Manchester (7.1%) and Nottingham (6.9%). Aberdeen price growth negative for exactly 2 years, house prices are 16% lower since 2014.
- The steep slowdown in London house price inflation has bottomed out with an increase in the annual rate of growth to 2.8%. Small price gains are being recorded against the backdrop of lower turnover.

City house price growth 5.3% yoy

The UK City house price inflation is running at 5.3% compared to 7.4% in July 2016. The rate of growth has picked up in recent months thanks to above average growth in large regional cities and an increase in the annual rate of growth in the London City index.

Birmingham is the fastest growing city (8.0%, up from 6.8% in July 2016). The rate of growth has been consistent over the last year and trending upwards on sustained demand, a lack of homes for sale and attractive affordability. Manchester (7.1%) and Nottingham (6.9%) are the second and third fastest growing cities.

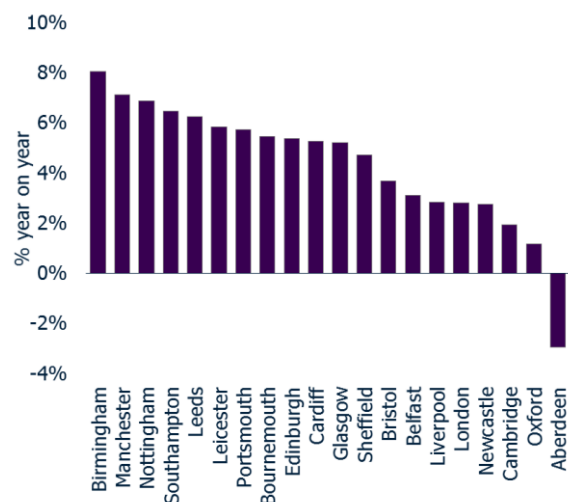
Aberdeen continues to register year on year price falls (-3.0%). House prices in Aberdeen have been registering negative annual growth for exactly 2 years. Average house prices are 16% lower since December 2014 as the fall in oil prices impacted the economy.

Table 1 - UK 20 city index summary, July 2017

Month	3 mth. change	%yoy	Average price
Feb-17	1.5%	4.4%	£242,100
Mar-17	1.7%	4.1%	£243,400
Apr-17	1.6%	3.7%	£244,700
May-17	2.3%	3.7%	£247,600
Jun-17	2.9%	4.3%	£250,600
Jul-17	3.3%	5.3%	£252,700

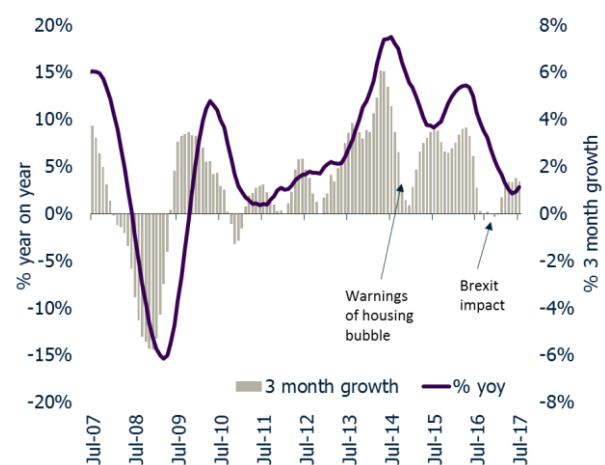
Source: Hometrack House Price Indices

Fig. 1 – City house price inflation – % year on year



Source: Hometrack UK Cities Index

Fig. 2 – London City index – % yoy and 3m growth



Source: Hometrack House Price Indices

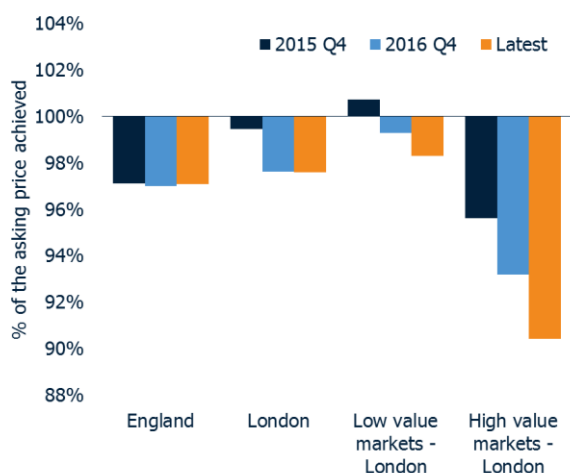
Note: All price changes are quoted in nominal terms. Hometrack's House Price Indices are revisionary and not seasonally adjusted.

London City house price growth ‘bottoms out’

The annual rate of growth in London has increased to 2.8% marking an end to the steep slowdown over the last 18 months. Figure 2 shows the annual and 3 month growth rate for London City. It shows how prices were unchanged over 2016H2 in the wake of the Brexit vote, while over the last 5 months the index has recorded positive growth, albeit at a relatively low level.

This stabilisation in the rate of London City house price growth is down to two main factors; 1) lower transaction volumes and 2) an absence of forced sellers. Housing turnover across London has fallen by 17% since 2015 as affordability pressures and recent policy changes impact demand. In the absence of a jump in borrowing costs, or other adverse economic factors, sellers are slow to accept downward adjustments in prices in the face of weaker, price sensitive demand.

Fig. 3 – Achieved price as a % asking price



Source: Hometrack/Zoopla

The gap between asking and achieved prices is a measure of how much downward pressure there is on values. Figure 3 shows the percentage of the asking price achieved over the last 3 years. It shows that the pressure on prices is greatest in the most expensive parts of London where demand has been weaker since the end of 2014. These inner London markets are registering small year on year price falls of up to -2%. The downward pricing pressure is less evident in the lowest value markets of London which have registered above average growth and price inflation of over 3%.

Pricing re-alignment still has room to run

This analysis of the gap between asking and achieved prices only captures those homes where the seller and buyer strike a mutually agreeable price. The reality is that there are homes for sale in London where levels of demand are low and/or pricing is out of line with what buyers are prepared to pay. Figure 4 shows the ratio between the supply of homes for sale and sales agreed each month for London City. A ratio of 1 shows new supply matching sales and price rises, a ratio below 1 shows sales running faster than supply which creates stronger upward price pressure.

Since mid-2016 this ratio in London has increased to around 1.4 as sales rates have dropped back and available supply has grown. This is consistent with weaker house price growth. More availability of supply relative to sales suggests there is further to run on the re-adjustment of prices.

Fig. 4 – Ratio of available supply to sales – London City



Source: Hometrack/Zoopla

Prospects for the remainder of 2017

There remains a clear divide between the prospects for house price growth in regional cities, where affordability levels are attractive, and the prospects for house price growth in London and other high value cities in southern England. We expect house price growth in regional cities to be sustained at current levels for the rest of 2017. London is set for a sustained period of low nominal house price growth and lower sales volumes.

Table 2 - City level summary, July 2017*

City	Current price	%yoy Jul-17	% last quarter
Birmingham	£155,400	8.0%	1.9%
Manchester	£157,500	7.1%	1.9%
Nottingham	£148,300	6.9%	1.9%
Southampton	£229,000	6.5%	1.4%
Leeds	£162,600	6.2%	1.7%
Leicester	£165,100	5.8%	0.8%
Portsmouth	£231,300	5.7%	1.3%
Bournemouth	£280,900	5.4%	1.0%
Edinburgh	£209,400	5.4%	1.7%
Cardiff	£198,900	5.3%	1.2%
Glasgow	£119,300	5.2%	1.2%
Sheffield	£133,900	4.7%	1.4%
Bristol	£268,400	3.7%	1.0%
Belfast	£129,500	3.1%	1.0%
Liverpool	£116,900	2.8%	1.0%
London	£494,300	2.8%	0.9%
Newcastle	£127,200	2.8%	1.3%
Cambridge	£432,400	1.9%	1.2%
Oxford	£418,400	1.2%	-0.1%
Aberdeen	£179,700	-3.0%	-0.3%
20 city index	£252,700	5.3%	1.6%
UK	£212,100	4.8%	1.4%

Source: Hometrack House Price Indices

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