

UK Cities House Price Index

July 2018

- UK city house price inflation moderates to 4.2% year on year ranging from +7.5% to -4.0%.
- Nottingham and Leicester are the fastest growing cities.
- 10 years on from the financial crisis city level house price growth has varied widely – three cities have prices below the levels a decade ago while four cities have prices >50% higher than in 2008.

City house price growth moderates to 4.2%

The annual rate of UK city house price inflation has moderated to 4.2%, in line with the average growth rate over the last 2 years (Fig.1). Flat prices in London and a slower growth across large regional cities are weighing on the headline rate. Weaker market sentiment and affordability pressures in southern England are limiting the willingness of buyers to bid up the cost of housing.

Nottingham the fastest growing city

Nottingham and Leicester are currently registering the fastest growth of 7.5% and 6.6% as prices increase off a low base. Birmingham and Manchester have dropped out of the top 3 fastest growing cities, although the rate of growth at 5.7% and 6.1% respectively is still above average.

Table 1 - UK 20 city index summary, July 2018

Month	3 mth. change	% yoy	Average price
Feb-18	0.0%	3.0%	£243,200
Mar-18	0.7%	3.2%	£244,300
Apr-18	1.0%	3.1%	£245,300
May-18	1.9%	3.6%	£247,700
Jun-18	2.6%	4.0%	£250,600
Jul-18	2.9%	4.2%	£252,400

Source: Hometrack House Price Indices

London slips into negative annual growth

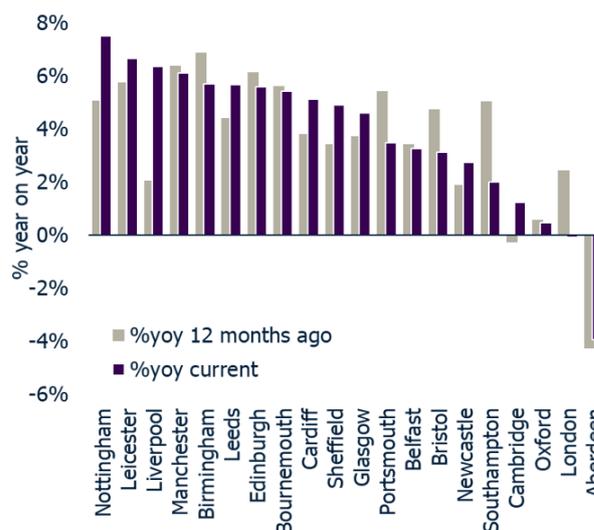
The annual rate of price inflation across London has slipped into negative territory (-0.1%), although prices are 1.2% higher over the last quarter, continuing the trend over recent months for small month on month price gains on greatly reduced volumes.

Fig.1 – UK city house price inflation (%yoy and 3m)



Source: Hometrack UK Cities Index

Fig.2 – House price growth – %yoy current / 12m ago



Source: Hometrack UK Cities Index

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

Insight Series

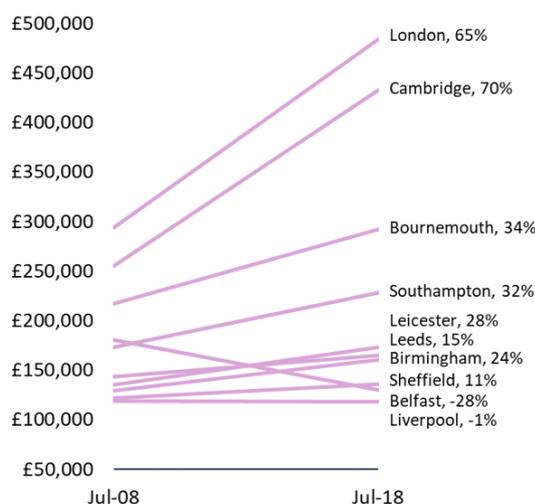
Hometrack UK Cities Index – July 2018

Recovery since the financial crisis varies widely

It is 10-years since the financial crisis. 2008 was a year when house prices posted their fastest rate of price falls and prices continued to fall for a further 1-4 years depending on each city. Figures 3 and 4 plot the average price for housing in July 2008 and July 2018. The analysis highlights the very wide range in growth over the last decade.

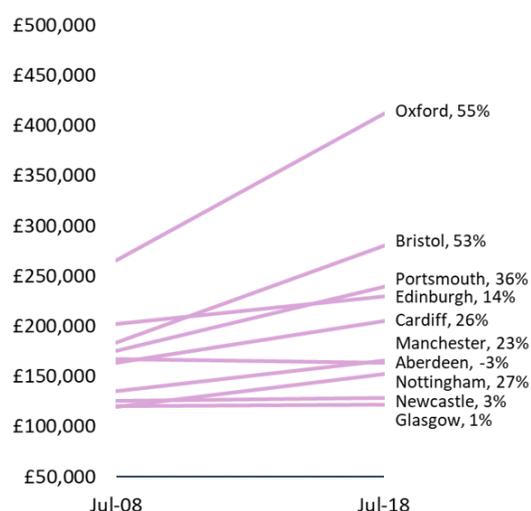
Five cities are below or within 5% of the level of prices in 2008. Four cities have prices more than 50% higher than in 2008 while the remaining eleven cities have prices that are 11% to 36% higher than a decade ago.

Fig.3 – City house prices in Jul-08 and Jul-18



Source: Hometrack UK Cities Index

Fig.4 – City house prices in Jul-08 and Jul-18



Source: Hometrack UK Cities Index

Five cities still below or within 5% of 2008 prices

Three cities have average prices that are still below their 2008 levels – Belfast (28%), Aberdeen (3%) and Liverpool (1%). Two other cities, Glasgow and Newcastle have average prices that are within 5% of where prices were a decade ago.

2008 did not mark the end of price falls in these cities and average values continued to fall for a further 3 to 4 years. The subsequent recovery phase has been shorter and with below average rates of house price growth compared to other cities, reflecting weaker underlying demand for housing.

Four cities register prices 50% above 2008 levels

At the other end of the spectrum, prices in Cambridge are 70% higher than in 2008 followed by London (65%), Oxford (55%) and Bristol (53%). Stronger economic growth, a broader base of demand for housing and limited availability of homes for sale are behind this stronger performance. However, these cities are now registering some of the weakest levels of growth as a result of low yields and stretched affordability.

Strongest current performers in mid-segment

The cities currently registering above average growth, and with further upside for house prices, are to be found in the middle performing segment where prices are 11% to 36% higher than 2008 levels. House prices in these markets remain relatively affordable and have not fully priced in low mortgage rates.

What might the picture look like in 2028?

We do not create 10-year forecasts but given our insight into how housing cycles have unfolded in the past we would expect the underperforming cities to have closed much of the gap to the top performers in terms of percentage price change from 2008.

The timing and scale of this process will rely on economic growth and job creation in these cities and the trajectory of mortgage rates. Average prices in the highest value cities are set to remain, at best, largely static for the foreseeable future as affordability pressures unwind through a drawn-out period of low real house price falls and underlying growth in household incomes.

Table 2 - City level summary, July 2018

City	Current price	%yoy Jul-18	% change from Jul-08
Nottingham	£152,000	7.5%	27%
Leicester	£173,000	6.6%	28%
Liverpool	£117,800	6.3%	-1%
Manchester	£165,600	6.1%	23%
Birmingham	£160,100	5.7%	24%
Leeds	£164,700	5.7%	15%
Edinburgh	£229,900	5.6%	14%
Bournemouth	£292,000	5.4%	34%
Cardiff	£205,000	5.1%	26%
Sheffield	£135,900	4.9%	11%
Glasgow	£122,000	4.6%	1%
Portsmouth	£239,100	3.5%	36%
Belfast	£129,700	3.2%	-28%
Bristol	£280,200	3.1%	53%
Newcastle	£128,700	2.7%	3%
Southampton	£228,000	2.0%	32%
Cambridge	£432,500	1.2%	70%
Oxford	£411,900	0.5%	55%
London	£483,800	-0.1%	65%
Aberdeen	£163,200	-4.0%	-3%
20 city index	£252,400	4.2%	40%
UK	£215,700	3.7%	26%

Source: Hometrack UK Cities Index

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