

UK Cities House Price Index

October 2018

- UK city house price inflation ranges from +7.7% in Leicester to -2.8% in Aberdeen.
- Despite Brexit dominating the headlines, our lead housing indicators suggest no imminent deterioration in the outlook for prices or levels of market activity.
- The slowdown in London since 2016 has been a result of weaker market fundamentals. Uncertainty around Brexit has been a compounding factor.

City house price inflation ranges from +8% to -3%

The 20-city index is currently registering annual house price inflation of 3.2%. Price growth at a city level ranges from +7.7% in Leicester to -2.8% in Aberdeen.

Six cities are registering annual growth of more than 6%, while in London the average prices are falling by -0.4%. Over the last year the rate of growth has slowed the most in cities across southern England (Fig.1).

Table 1 - UK 20 city index summary, October 2018

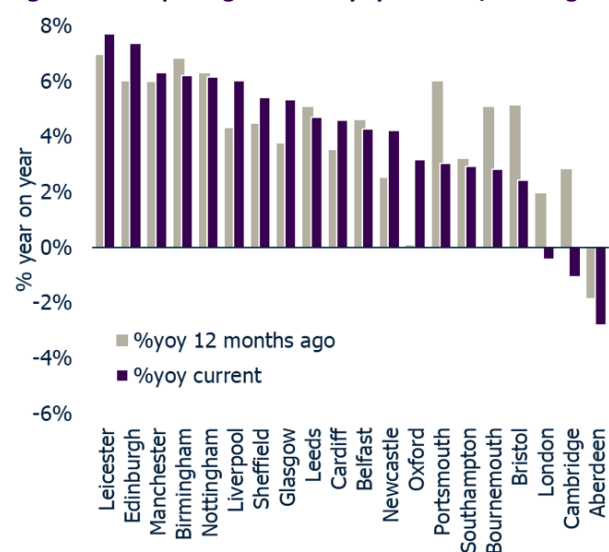
Month	3 month change	%yoy	Average price
May-18	1.3%	2.2%	£249,600
Jun-18	1.2%	2.0%	£250,600
Jul-18	1.0%	1.5%	£251,000
Aug-18	1.2%	1.9%	£252,500
Sep-18	1.3%	2.4%	£253,900
Oct-18	1.7%	3.2%	£255,200

Source: Hometrack House Price Indices

Brexit impact on housing limited so far

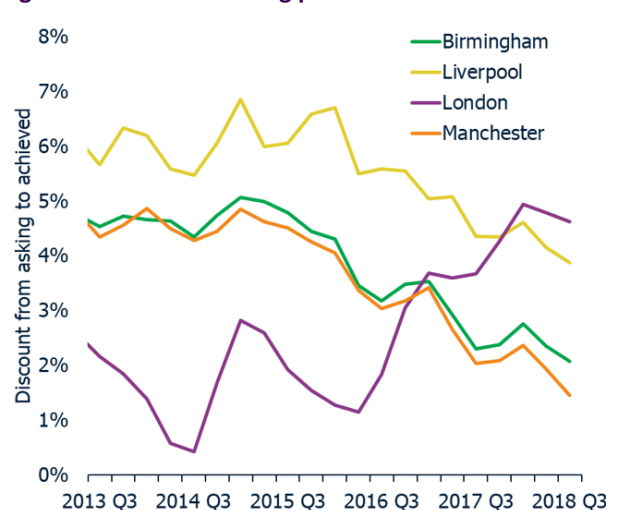
Two and a half years on from the BREXIT vote, the headlines are dominated by the exit process. Our analysis reveals a limited direct impact from Brexit uncertainty so far. There is a continued narrowing in the size of the discount between asking and sales prices in large regional cities. Buyers are getting less than a 2% discount to asking price in Manchester while in Liverpool the discount is the smallest for 5 years (Fig.2 and Table 2). In addition, the number of sales agreed is increasing, keeping pace with new supply and providing support for above average price inflation (Fig.3).

Fig.1 – House price growth – %yoy current / 12m ago



Source: Hometrack UK Cities Index

Fig.2 – Discounts to asking price – selected cities



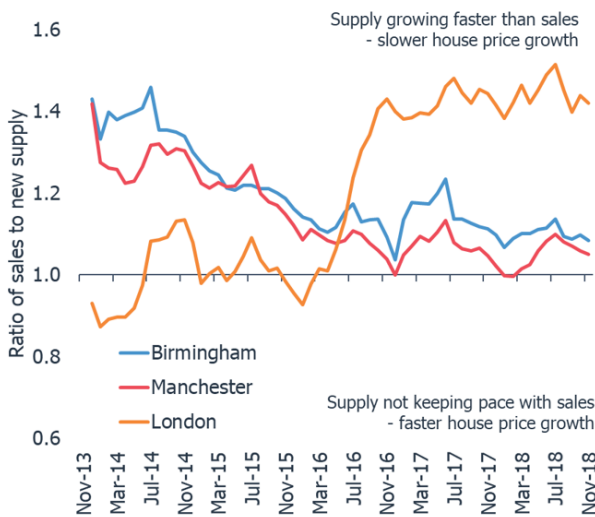
Source: Hometrack analysis of Zoopla listings

Brexit uncertainty compounds London slowdown

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

The timing of the slowdown in London house price inflation, and market activity, aligns to the Brexit vote. Increased uncertainty has impacted demand and recorded sales have fallen by 15-20% since 2014. The ratio of sales to new supply in London has registered a marked increase since 2016 (Fig.3). This trend is also evident in other cities where price growth is weak.

Fig.3 – Ratio of sales to new supply



Source: Hometrack analysis of Zoopla listings

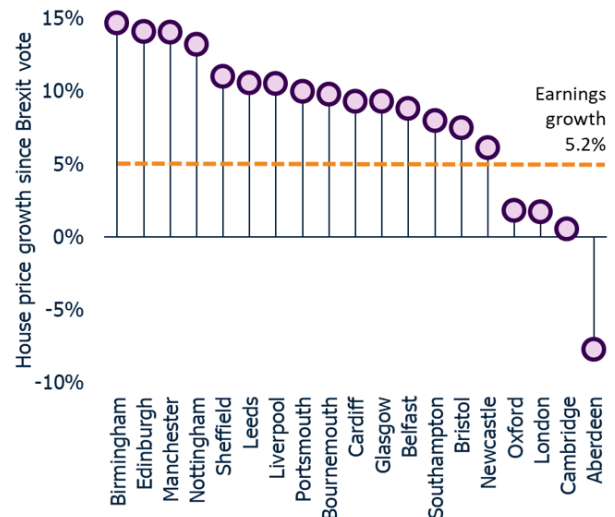
Market fundamentals behind London slowdown

In our view, housing market fundamentals – affordability, tax changes, mortgage regulation – are the main drivers of the slowdown in London. The Brexit vote has been a compounding factor.

London house price growth of 84% since 2009 has far out-paced household income growth and resulted in low yields for investors and double-digit price to earnings ratio for purchasers. Multiple tax changes between 2012 and 2016, aimed at overseas and second home buyers, have impacted demand, especially in inner areas of London. New mortgage regulations and affordability tests introduced from 2014 have effectively capped the amount that mortgaged purchasers can afford to pay in high value cities.

Taking these together it is no surprise that sales have declined in London, and price growth has stagnated. Average prices are up by less than 2% since the Brexit vote in June 2016 while across other cities prices have grown by almost 15% (Fig.4).

Fig.4 – Price inflation since Brexit vote (June 2016)



Source: Hometrack UK Cities Index, ONS

Political uncertainty dominates the near term

The near-term outlook for UK city house prices is down to the outlook for the economy and mortgage rates, as well as households’ expectations for employment. While consumer confidence has dipped since 2016, it has not fallen back to the lows seen before 2014. Our index reveals how households in regional markets appear to be shrugging off any uncertainty.

The political debate about the nature and shape of the future relationship with the EU will continue to dominate the headlines in the weeks ahead, coinciding with the usual seasonal slowdown in market activity.

The current political uncertainty means we simply don’t know what the outlook is for the UK economy in 2019 and 2020. Housing markets are intrinsically linked to the health of local and national economies.

Over the last 3 years the Aberdeen housing market shows what happens when an economy suffers from external economic factors that impact jobs and investment, even when mortgage rates remain low.

However, if the Government gets the proposed withdrawal deal, and transition period, approved by Parliament then the outlook for city housing markets in 2019 could well mirror the trends of 2018.

Table 2 -City level summary, October 2018

City	Current price	%yoy Oct-18	Discount to asking price
Leicester	£177,200	7.7%	2.8%
Edinburgh	£238,400	7.4%	-8.2%
Manchester	£167,800	6.3%	2.0%
Birmingham	£163,200	6.2%	2.4%
Nottingham	£154,100	6.1%	2.2%
Liverpool	£121,000	6.0%	4.3%
Sheffield	£139,300	5.4%	2.0%
Glasgow	£122,600	5.3%	-6.1%
Leeds	£166,700	4.7%	2.9%
Cardiff	£207,100	4.6%	2.2%
Belfast	£131,200	4.3%	No data
Newcastle	£131,100	4.2%	4.9%
Oxford	£413,900	3.2%	4.6%
Portsmouth	£241,200	3.0%	3.0%
Southampton	£229,900	2.9%	2.7%
Bournemouth	£290,000	2.8%	3.3%
Bristol	£279,600	2.4%	2.1%
London	£483,500	-0.4%	4.8%
Cambridge	£429,600	-1.1%	2.8%
Aberdeen	£164,100	-2.8%	6.5%
20 city index	£255,200	3.2%	3.3%
UK	£217,900	3.6%	3.5%

Source: Hometrack UK Cities Index, Zoopla – note that property in Scotland sells at a premium to asking price hence the ‘negative’ discount.

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