Insight Series

UK Cities House Price Index

September 2017

- City house price inflation is running at 4.9% per annum down from 6% a year ago. Quarterly growth rate at a 14-month high supported by increased sales volumes.
- Edinburgh is the fastest growing city (6.7%), overtaking Manchester (6.5%) and Birmingham (5.9%).
- Nominal house price growth in London has stabilised at 2.3% per annum. Over four-fifths of markets covered by the London City index are registering real house price falls.

Prices and sales volumes rising

The annual rate of UK city house price growth is 4.9%, down from 6% a year ago. The quarterly rate of growth is at the highest level for 14 months (Fig. 1). This trend has been supported by a nationwide increase in housing sales over the last quarter compared to the previous 12 months. This unseasonal increase in sales is likely a result of households delaying purchases earlier in the year at the time of the General Election.

Price falling in real terms across five cities

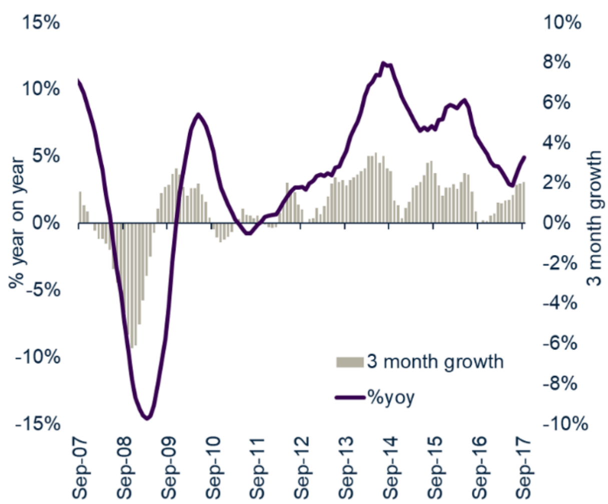
Across the 20-city index, annual growth ranges from -1.8% in Aberdeen to +6.7% in Edinburgh. This the smallest variation in growth since July 2015 and is a result of a marked slowdown in price inflation across all cities in southern England – see Fig. 2. There are five cities where the current level of nominal house price growth is below the rate of consumer price inflation – Aberdeen, Cambridge, Oxford, London and Cardiff.

Table 1 - UK 20 city index summary, September 2017

Month	3 mth. change	%yoy	Average price
Apr-17	1.1%	3.4%	£244,100
May-17	1.2%	2.9%	£245,400
Jun-17	1.4%	2.8%	£246,600
Jul-17	1.9%	3.7%	£248,800
Aug-17	2.0%	4.3%	£250,300
Sep-17	2.0%	4.9%	£251,600

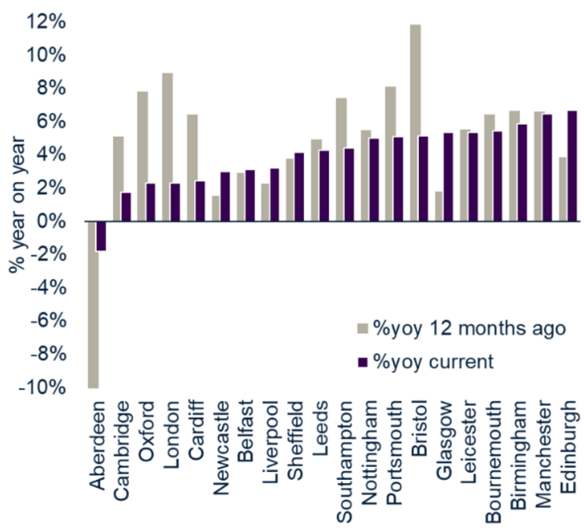
Source: Hometrack House Price Indices

Fig. 1 – 20 City house price inflation (% yoy and 3m)



Source: Hometrack UK Cities Index

Fig. 2 – Annual growth rate – current and 12m ago



Source: Hometrack House Price Indices

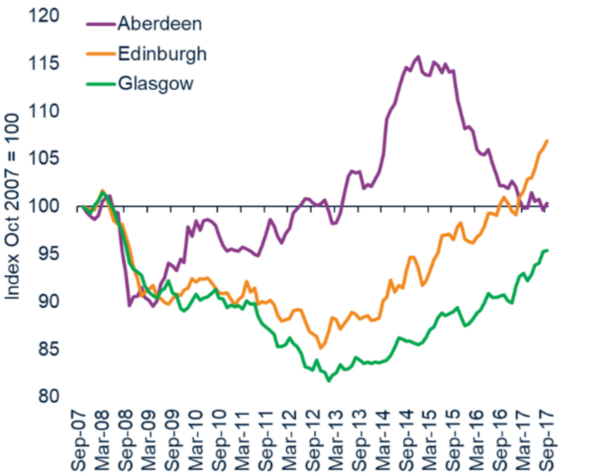
Note: All price changes are quoted in nominal terms. Hometrack's House Price Indices are revisionary and not seasonally adjusted.

Scottish cities out-performing on rising sales

While most cities are registering house price growth below that a year ago, there are six cities where the annual rate of growth is higher, most notably in Scotland. Residential transactions data from HMRC shows there has been a 20% increase in the monthly run rate of sales over the last quarter in Scotland.

Increased activity has supported an acceleration in the rate of house price growth. Edinburgh is the fastest growing city covered by the index (6.7%), overtaking Manchester (6.5%) and Birmingham (5.9%) where the rate of inflation has moderated slightly.

Fig. 3 – House price indices – Scottish cities



Source: Hometrack House Price Indices

Glasgow has also recorded a marked increase in the rate of house price inflation from 1.8% a year ago to 5.3% today. While Aberdeen has registered a 15% decline in average prices since 2015, the rate of annual rate of growth has slowed to -1.8%, the lowest level for exactly 2 years. Fig. 3 tracks the indices for house prices in Scotland's three major cities since 2007 showing the rise and fall of prices in Aberdeen and the recent acceleration in Edinburgh.

London City house price growth +2.3%

The annual rate of price inflation in London has stabilised at 2.3% per annum (Fig. 4.) This is well down on the 8% annual average growth rate since 2010.

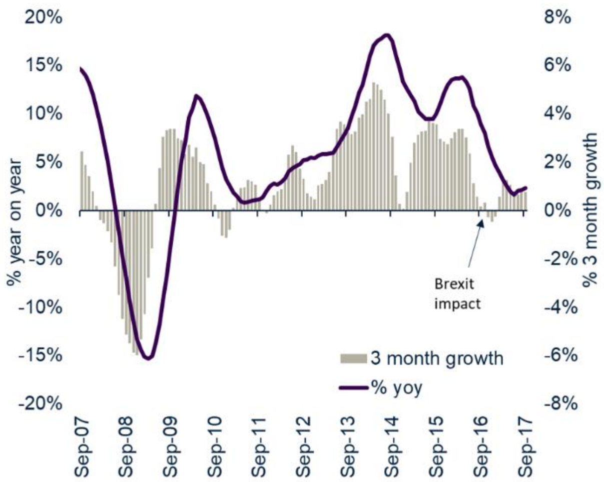
House price growth across the markets covered by the London City index range from +4% in Epping Forest and Gravesham to -5% in the City of London. There are six markets where house prices are falling in nominal terms, primarily those in inner London.

Real term price falls across 85% of London markets

However, low nominal rates of house price growth mean average values are currently falling in real terms across 85% of the markets covered by the London City index. Further price falls in real terms are inevitable as prices re-align to what buyers are willing to spend.

Concerns over Brexit and the impact on jobs and employment are weighing on market sentiment while low gross yields, and a weak outlook for house price growth are impacting the case for investing. We expect nominal house price inflation in London to remain in the 1-3% range for the next 6-12 months as volumes contract further.

Fig. 4 – London City house price index



Source: Hometrack House Price Indices

Moderation in UK City headline growth rate

We expect house prices to continue to rise in regional cities where values are still growing off a low base and affordability remains attractive. The rate of growth is likely to moderate around its current level, tempered by economic and sentiment factors – the squeeze on incomes from rising inflation, concerns over the economic outlook. Talk of a potential increase in interest rates, with a knock-on for mortgage rates, is likely to further temper demand.

Impact of a possible interest rate increase

A modest increase in mortgage rates will initially impact sentiment and levels of market activity. Mortgage rates remain low by historic standards and, for the last three years, all homeowners buying with a mortgage have had to prove they can afford a much higher mortgage rate which is c.7%. Recent sales levels already reflect the ability of buyers to afford higher borrowing costs.

Households are already responding to low mortgage rates and almost 90% of new mortgages written in 2017 Q2 were taken at fixed rates. Three fifths of outstanding mortgage balances are also at fixed rates providing some insulation to any increase in mortgage rates in the near term.

Investor buying power impacted by a rate rise

Higher borrowing costs would also impact demand from investors who account for c.20% of all housing sales a year. In the face of an increase in borrowing costs, rational investors should either seek property with higher yields, or look to pay less for homes to generate a higher yield.

This means bidding less for housing than they would have if rates stayed low. This would compound the impact of recent tax changes and further moderate investor demand and with it the rate of house price growth in markets where investors have been most prevalent.

Table 2 - City level summary, September 2017

City	Current price	%yoy Sep-17	%yoy Sep-16
Edinburgh	£219,500	6.7%	3.8%
Manchester	£156,800	6.5%	6.6%
Birmingham	£153,200	5.9%	6.6%
Bournemouth	£285,100	5.4%	6.4%
Leicester	£163,300	5.4%	5.5%
Glasgow	£120,300	5.3%	1.8%
Bristol	£276,900	5.1%	11.8%
Portsmouth	£230,300	5.1%	8.1%
Nottingham	£144,200	5.0%	5.5%
Southampton	£222,600	4.4%	7.4%
Leeds	£161,100	4.3%	4.9%
Sheffield	£135,100	4.2%	3.7%
Liverpool	£114,800	3.2%	2.2%
Belfast	£129,100	3.1%	2.9%
Newcastle	£125,900	3.0%	1.5%
Cardiff	£198,000	2.4%	6.4%
London	£493,800	2.3%	8.9%
Oxford	£427,100	2.3%	7.8%
Cambridge	£433,600	1.7%	5.1%
Aberdeen	£173,900	-1.8%	-10.6%
20 city index	£251,600	4.9%	6.0%
UK	£211,200	3.6%	6.0%

Source: Hometrack House Price Indices