

UK Cities House Price Index

June 2019

- UK city house price inflation +1.7% - growing polarisation in market conditions and price growth between cities in southern cities and the rest of the country.
- Our updated analysis of sales agreed and supply growth shows continued signs of improvement in London and why price growth has weakened rapidly in cities along the south coast of England.
- We find that the dynamics of sales and new supply point to weaker price growth in Birmingham while market conditions remain strong in Liverpool which has a high rate of growth.

Seven cities with annual growth less than +1%

UK city house price growth is running at +1.7% as the rate of price inflation continues to slow. Seven cities are registering house price growth of less than +1% per annum – the first time we have seen this since June 2013. All these cities are in the south of England except for Aberdeen where price growth is -3.2% (Fig.1). Edinburgh (+5.1%) is registering the highest growth, followed by Liverpool (+4.9%) and Cardiff (+4.7%).

Table 1 - UK 20 city index summary, June 2019

Month	3 month change	%yoy	Average price
Jan-19	-0.1%	1.3%	£251,500
Feb-19	0.0%	0.9%	£251,700
Mar-19	0.2%	0.6%	£251,700
Apr-19	0.7%	0.9%	£253,300
May-19	1.5%	1.5%	£255,500
Jun-19	2.1%	1.7%	£257,000

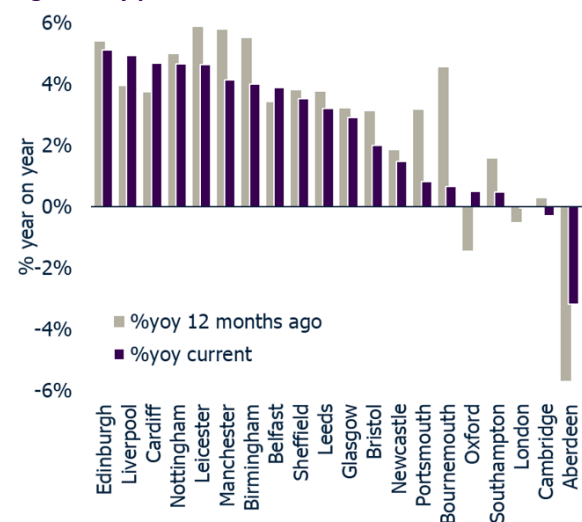
Source: Zoopla House Price Indices, powered by Hometrack

Growing polarisation in underlying market conditions

There is a growing polarisation in market conditions across southern England and the rest of the country (Fig 1). Bristol has the highest annual growth rate in southern England at +2.0%. The remaining six cities are all registering growth of between -0.3% and +0.8% as affordability constraints impact demand, resulting in a lower rate of house price inflation.

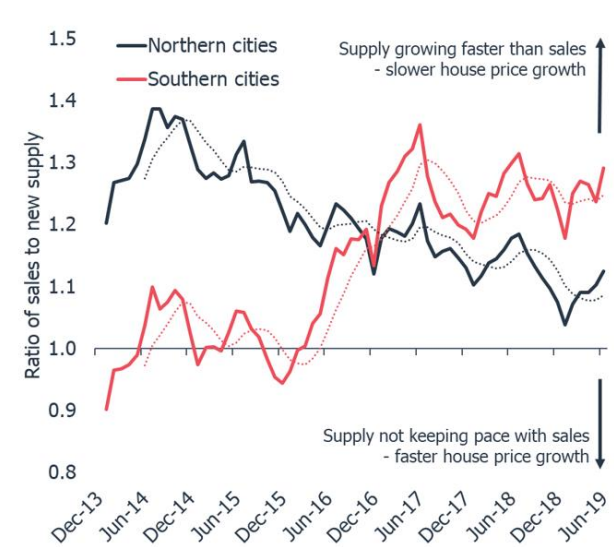
Weaker demand means sales are not keeping pace with the new supply of homes for sale. Increases in supply are compounding the downward pressure on prices in southern cities. The opposite is true elsewhere.

Fig.1 – City price inflation – current and 12 months ago



Source: Zoopla House Price Indices, powered by Hometrack

Fig.2 – Ratio of sales agreed to new supply (6ma)



Source: Zoopla Research

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

Sales fail to keep pace with new supply in south

Fig. 2 uses Zoopla listings data to plot the ratio of sales agreed to new supply in cities across southern and northern England. New supply has grown faster than sales in cities across southern England since 2016 - the start of the slowdown in price growth. Today there are 1.3 units of supply new to the market for every sale agreed. Before 2016 supply struggled to keep pace with sales with a ratio closer to 1 which created scarcity and a strong upward pressure on prices.

Market dynamics are stronger in northern cities

The dynamics in northern cities are different to the south of England with continued growth in sales eroding supply at an increasing rate, supporting above average price growth. While the trend in the ratio of sales to new supply has been downward over the last 5 years it has started to rise over 2019H1 as new supply comes to the market at a faster rate than sales.

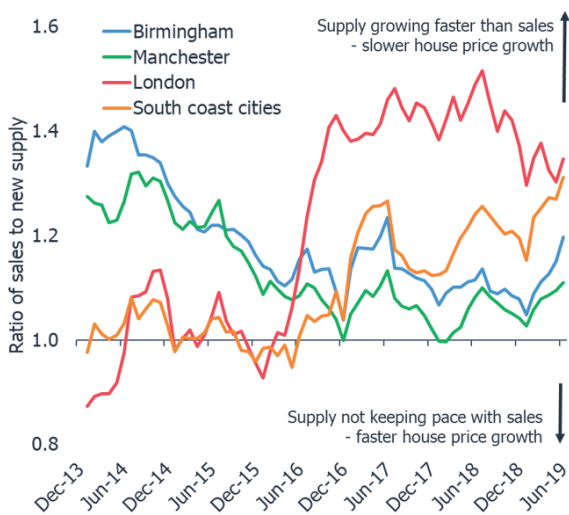
Stronger market conditions in northern cities

Manchester has not seen as sharp an increase in the ratio of sales to new supply as Birmingham although the ratio has shifted higher. This suggests continued above average price growth in Manchester. While not shown in Fig. 3, Liverpool has a sales to supply ratio of 1 and it is no surprise it has one of the fastest rates of growth as sales match new supply creating scarcity.

Signs of continued, modest improvement in London

London has led the slowdown in price inflation since 2016. In our view, the London market is coming to the end of a 3-year repricing process. There has been an improvement in the ratio of sales to new supply thanks to a small, but important, increase in sales agreed and less new supply. Prices are still falling across many parts of London on an annual basis, but the quarterly growth rate has improved. Prices are firming on the back of more realistic pricing of new supply which is much closer to what buyers are prepared to pay.

Fig. 3 – New supply to sales ratio selected cities



Source: Zoopla Research

Dynamics shift in coastal cities of southern England

Fig.3 tracks the sales to new supply ratio for selected cities. It reinforces how underlying market conditions have weakened in cities along the south coast of England where the ratio of sales to new supply is approaching the current ratio in London.

Signs of weaker conditions extending to Birmingham

Underlying market conditions in Birmingham appear to be changing with the ratio increasing over 2019Q2 as the growth in supply expands faster than sales. This suggests a weaker outlook for price growth in Birmingham where the rate of growth has slowed from a recent high of 7.2% in July 2017 to 4.0% today.

Table 2 - City level summary, June 2019

City	Current price	%yoy June-19	%yoy June-18
Edinburgh	£232,300	5.1%	5.4%
Liverpool	£124,100	4.9%	3.9%
Cardiff	£211,100	4.7%	3.7%
Nottingham	£155,800	4.7%	5.0%
Leicester	£180,300	4.6%	5.9%
Manchester	£171,200	4.1%	5.8%
Birmingham	£167,000	4.0%	5.5%
Belfast	£135,900	3.9%	3.4%
Sheffield	£139,400	3.5%	3.8%
Leeds	£168,400	3.2%	3.8%
Glasgow	£124,700	2.9%	3.2%
Bristol	£280,700	2.0%	3.1%
Newcastle	£128,100	1.5%	1.8%
Portsmouth	£239,100	0.8%	3.2%
Bournemouth	£291,800	0.7%	4.5%
Oxford	£404,300	0.5%	-1.4%
Southampton	£227,300	0.5%	1.6%
London	£484,200	0.0%	-0.5%
Cambridge	£425,800	-0.3%	0.3%
Aberdeen	£160,100	-3.2%	-5.7%
20 city index	£257,000	1.7%	1.7%
UK	£220,000	2.1%	2.8%

Source: Zoopla House Price Index, powered by Hometrack