

UK Cities House Price Index

March 2019

- UK city house price growth slows to 1.7%. Lowest growth rate since May 2012 as slowdown extends into cities across southern England.
- Sales volumes in southern cities are 13% lower than in 2015. Weaker demand has steadily reduced the rate of residential property price inflation.
- Above average price inflation in regional cities with sales volumes up to 19% higher than in 2015.

Price growth weakens across southern England

UK city house price inflation has slowed to 1.7%, the weakest growth since May 2012. Weaker market conditions are spreading out from London into cities across southern England as affordability pressures grow and moving costs increase.

All six cities covered by the index in southern England, outside London, are recording the lowest growth rates since 2012 – ranging from -0.6% in Oxford to +2.2% in Bristol (Fig.1).

Table 1 - UK 20 city index summary, March 2019

Month	3 mth. change	%yoy	Average price
Oct-18	-0.4%	1.2%	£251,800
Nov-18	-0.5%	1.1%	£251,400
Dec-18	-0.4%	1.2%	£251,300
Jan-19	0.1%	1.3%	£252,000
Feb-19	1.0%	1.8%	£253,800
Mar-19	1.3%	1.7%	£254,600

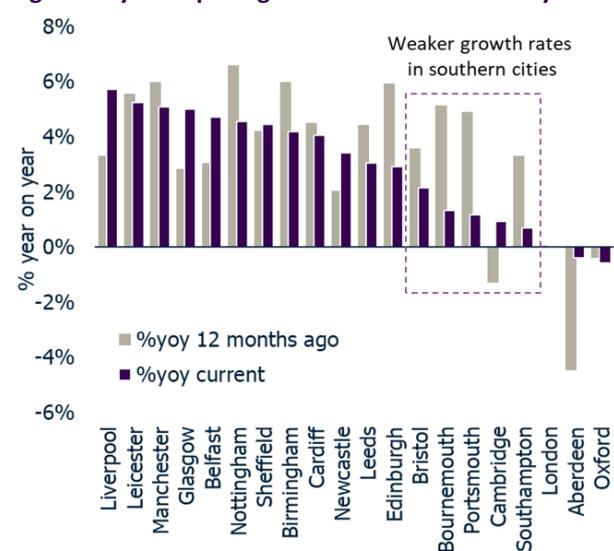
Source: Zoopla House Price Indices, powered by Hometrack

Weaker demand as sales volumes fall 13% since 2015

Demand for housing in southern cities has weakened, evidenced by falling sales volumes, and this has resulted in lower levels of house price growth.

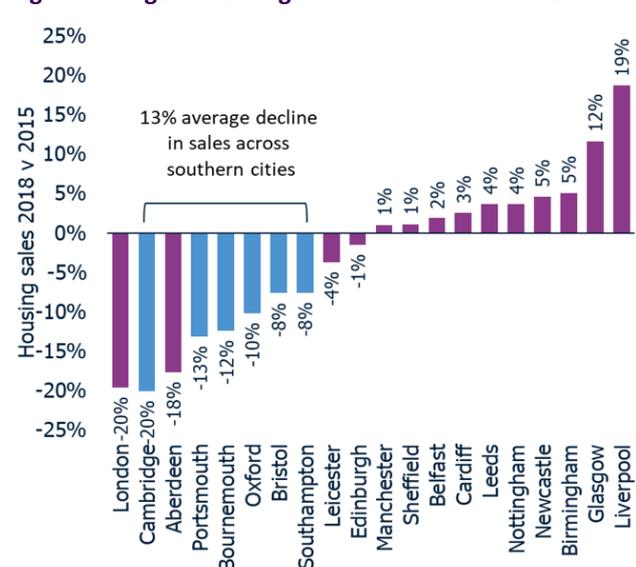
Our latest analysis of city level housing transactions shows sales volumes down by an average of 13% across southern cities since 2015. (Fig.2). Sales are down by 20% in Cambridge, in line with the decline in London, and by 12% to 13% in Portsmouth and Bournemouth.

Fig.1 – City level price growth - current and last year



Source: Zoopla House Price Indices, powered by Hometrack

Fig.2 – Change in housing sales from 2015 to 2018



Source: Zoopla analysis of ROS, HMLR, NISRA

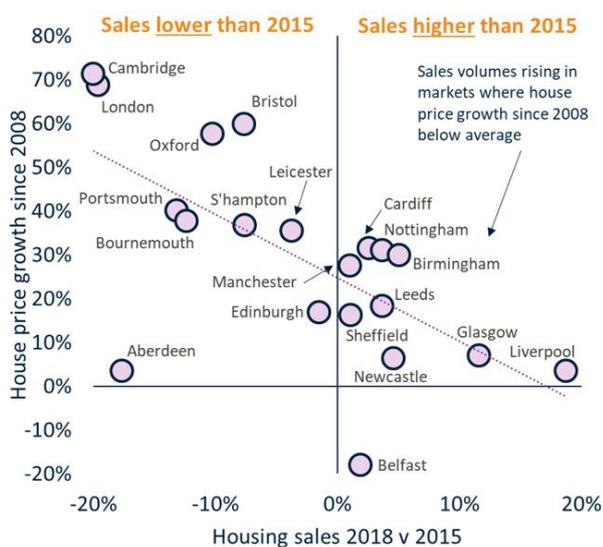
Note: All price changes are quoted in nominal terms. Hometrack's House Price Indices are revisionary and not seasonally adjusted.

High price growth eventually results in lower sales

Falling sales volumes after a prolonged period of high house price growth is part and parcel of the unfolding housing cycle. The reality is that the more house prices increase over time, the more buyers are priced out of the market through a mix of affordability factors and higher moving costs.

Figure 3 shows the relationship between price growth since 2008 and the change in sales since 2015. It shows cities with the greatest increase in house prices have registered a steeper decline in sales since 2015 - the year with the highest overall sales since 2007.

Fig. 3 – Change in price from 2008 and sales from 2015



Source: Zoopa analysis of ROS, HMLR, NISRA

Above average price growth in affordable cities

The cities with the highest rates of price growth at present are those where the recovery in prices since 2008 has been weakest and where affordability levels remain most attractive. Liverpool currently has the highest annual rate of house price growth (5.8%) with three other cities registering price growth over 5% - Leicester, Glasgow and Manchester. Housing sales in Glasgow and Liverpool are, respectively, 12% and 19% higher than in 2015.

Coverage of price falls in London continues to decline

House prices in London are unchanged compared to 12 months ago. The decline in proportion of local markets registering annual price falls that we highlighted last month has continued into March. Greater realism over pricing after a 3-year period of falling sales means house price growth is currently stabilising.

Table 2 - City level summary, March 2019

City	Current price	%yoy Mar-19	%yoy Mar-18
Liverpool	£122,100	5.7%	3.3%
Leicester	£176,600	5.3%	5.6%
Manchester	£169,300	5.1%	6.0%
Glasgow	£124,000	5.0%	2.8%
Belfast	£133,800	4.7%	3.1%
Nottingham	£153,800	4.6%	6.6%
Sheffield	£138,200	4.4%	4.2%
Birmingham	£164,100	4.2%	6.0%
Cardiff	£207,300	4.1%	4.5%
Newcastle	£128,800	3.4%	2.0%
Leeds	£165,300	3.1%	4.4%
Edinburgh	£226,700	2.9%	5.9%
Bristol	£277,900	2.2%	3.6%
Bournemouth	£290,700	1.3%	5.2%
Portsmouth	£239,100	1.2%	4.9%
Cambridge	£426,000	0.9%	-1.3%
Southampton	£227,100	0.7%	3.3%
London	£482,800	0.0%	0.1%
Aberdeen	£164,500	-0.4%	-4.5%
Oxford	£399,900	-0.6%	-0.4%
20 city index	£254,600	1.7%	2.4%
UK	£218,500	2.5%	3.3%

Source: Zoopa House Price Index, powered by Hometrack

Housing cycle continues to unfold

The housing cycle continues to unfold driven by market fundamentals and the backdrop of Brexit uncertainty. Over the last 20 years, falling mortgage rates have provided an ongoing boost to buying power but with rates bottoming out at 2% in 2016 this trend has run its course. In addition to lower mortgage rates, the growth in house prices since 2008 has been driven by rising levels of employment and income growth. These factors have played out at different speeds across cities. Prices in some cities also received an additional boost from investor and overseas demand.

Over the last 3 years we have seen tax changes for investors and tighter mortgage regulations for homeowners shifting the dynamics of affordability. Together with higher prices, this has impacted demand for housing and the rate of house price growth. Low single digit house price growth is the medium-term outlook once cities have adjusted to the changed fundamentals.