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UK Cities House Price Index

July 2019

- UK city house price inflation ranges from +6% in Liverpool and Edinburgh to -5% in Aberdeen
- Twelve cities are registering price growth that is lower than the growth in average earnings.
- Affordability levels are slowly starting to improve in the highest value cities, but this looks set to be a drawn-out process. The potential for growth remains in the most affordable cities but increased uncertainty is weighing on market sentiment and headline price growth.

City house price inflation ranges from +6% to -5%
UK city house price inflation was 2.3% in the 12 months. Edinburgh (5.8%) and Liverpool (5.8%) continue to register well above average price growth. Aberdeen remains the weakest growth city with prices 4.8% lower over the last 12 months.

Table 1 - UK 20 city index summary, July 2019

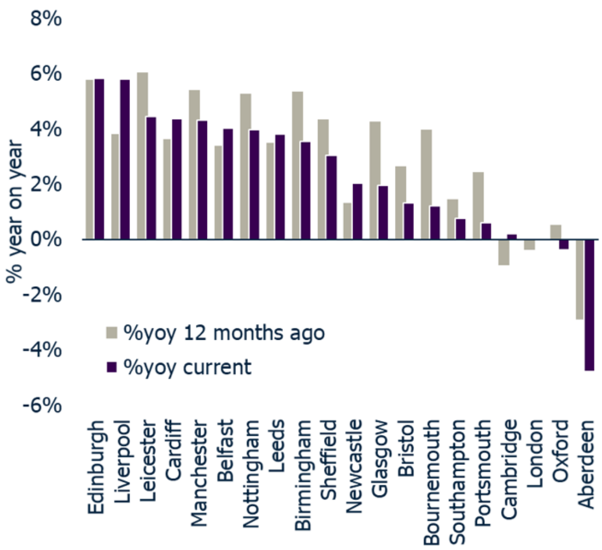
Month	3 mth. change	%yoy	Average price
Feb-19	0.0%	0.8%	£251,700
Mar-19	0.3%	0.5%	£252,000
Apr-19	0.7%	0.4%	£253,000
May-19	1.2%	1.0%	£254,700
Jun-19	1.8%	1.7%	£256,700
Jul-19	2.0%	2.3%	£258,000

Source: Zoopla House Price Indices, powered by Hometrack

Birmingham drops to 9th in growth rankings
Last month we highlighted that market conditions were weakening in Birmingham. The annual growth rate has slowed noticeably to 3.5% as demand fails to keep pace with rising supply. The city has slipped to 9th in the annual growth rankings (Table 3). Other cities with slower growth than a year ago include Leicester, Nottingham, Sheffield and Glasgow (Fig. 1).

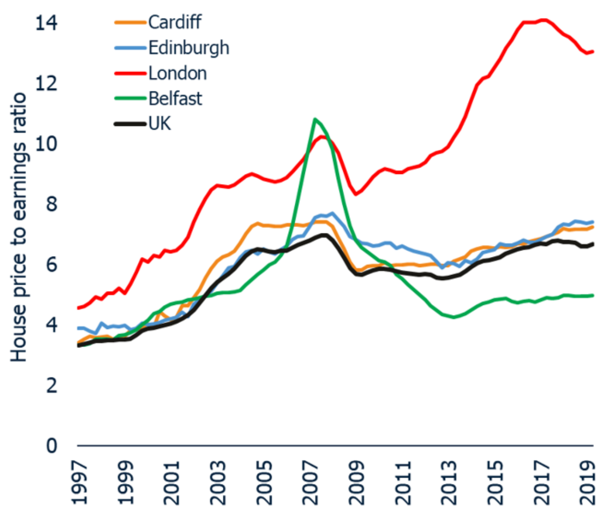
12 cities with price inflation below earnings growth
This month we focus on housing affordability, as measured by the ratio of average house prices to average earnings. Twelve cities are currently registering house price inflation that is lower than the growth in average earnings (3.7% nationally). This means improving affordability in low growth cities where affordability has been stretched in most cases.

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



Source: Zoopla House Price Indices, powered by Hometrack

Fig.2 – Price to earnings – UK and national capitals



Source: Zoopla Research

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

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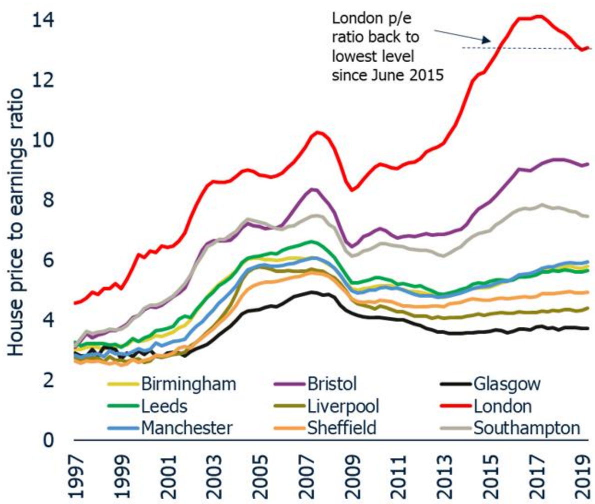
Wide variance in price/earnings by capital city

Fig. 2 tracks the house price to earnings ratio for the UK compared to capital cities of the home nations. After a spectacular boom and bust in Belfast house prices, the price to earnings ratio has stabilised at 5x. Edinburgh (7.4x) and Cardiff (7.2x) have ratios that have tracked the UK average over time.

Affordability in London is slowly improving off a high base. The price to earnings ratio is currently 13.1x, down from a high of 14.1x two years ago (June 2019). This takes affordability, on this measure, back to the level last seen 4 years ago, in mid-2015. Despite this modest improvement, the London ratio remains extended and well ahead of the 20-year average (9.9x).

Fig. 3 – Price to earnings ratio- selected cities



Source: Zoopla Research

Affordability slowly improves across southern England

Oxford and Cambridge have recorded a similar trend to London with the ratio falling back to 2015 levels off a high base (Table 2). The southern cities of Bournemouth, Southampton, Portsmouth and Bristol have the next highest affordability ratios of 7.5x to 9.7x. Here the ratio has been drifting lower since 2016 on weaker price growth. All other cities have ratios in line or below the 20-year average. Four cities have ratios that are still below the 20-year average – Belfast, Glasgow, Aberdeen and Newcastle (Table 2).

What is a sustainable price to earnings ratio?

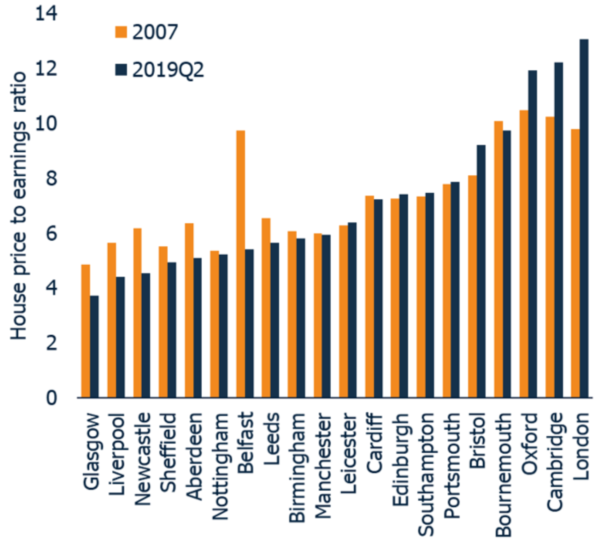
House price to earnings ratios provide a consistent and like for like benchmark to assess the relative level and trend in the affordability of home ownership for all households. The all-important question is 'what is a sustainable level of affordability?'.

Affordability benchmarks are complex

A long run, 20-year average price to earnings ratio is a possible benchmark but this does not reflect the boost to buying power, and house prices, from lower mortgage rates over time. Today's mortgage rates of c.2% are more than half the level recorded in 2007 (5.5%) and lower still compared to the mid-1990s.

In addition, the picture of affordability in London is complicated by its global city status and broad base of housing demand from international buyers, investors, second home-owners as well as residents living and working in and around the capital.

Fig. 4– Current price to earnings relative to 2007



Source: Zoopla Research

Benchmarking price to earnings ratios from the last market peak in 2007, reveals that there are eight cities where the current ratio is higher than in 2007 with the greatest differential in London, Oxford and Cambridge (Fig 4.). The remaining 12 cities have ratios below 2007 levels with seven where the ratio is materially lower, typically in cities with lower capital values (Table 2).

Affordability will continue to adjust in southern cities

This analysis re-confirms the weaker outlook for house prices in the most unaffordable cities where the ratio between house prices and earnings needs to further realign. In the absence of any external shocks to demand, this is most likely to result from flat house prices and continued growth in earnings. Lower turnover has created a scarcity of housing and this has reduced the downward pressure on prices. This means the improvement in affordability is set to be drawn out over a period of time.

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Room for price growth in most affordable cities

Housing affordability remains attractive in many cities across the UK, pointing to the potential for further price growth over the medium term as long as mortgage rates remain low and the economy continues to grow and create jobs.

House price growth has slowed more recently on weaker activity and increased uncertainty over the near-term outlook. This is likely to build further over the autumn until there is greater clarity over the BREXIT process and the implications for the economy.

Table 2 - City house price to earnings ratio summary

City	Current ratio	20 year average	2007 peak
London	13.1	9.9	9.8
Cambridge	12.2	9.8	10.2
Oxford	11.9	10.2	10.5
Bournemouth	9.7	8.7	10.1
Bristol	9.2	7.1	8.1
Portsmouth	7.9	6.8	7.8
Southampton	7.5	6.6	7.3
Edinburgh	7.4	6.2	7.3
Cardiff	7.2	6.3	7.4
Leicester	6.4	5.4	6.3
Manchester	5.9	5.0	6.0
Birmingham	5.8	5.1	6.1
Leeds	5.7	5.3	6.5
Belfast	5.4	5.6	9.7
Nottingham	5.2	4.6	5.4
Aberdeen	5.1	5.3	6.4
Sheffield	4.9	4.5	5.5
Newcastle	4.5	4.7	6.2
Liverpool	4.4	4.3	5.6
Glasgow	3.7	3.8	4.9
UK	**6.7**	**5.8**	**6.8**

Source: Zoopla House Price Index, powered by Hometrack using ONS average earning data – assumes a single earner

Table 3 - City level summary, July 2019

City	Current price	%yoy Jul-19	%yoy Jul-18
Edinburgh	£236,900	5.8%	5.8%
Liverpool	£125,500	5.8%	3.8%
Leicester	£181,900	4.4%	6.0%
Cardiff	£211,500	4.4%	3.6%
Manchester	£172,400	4.3%	5.4%
Belfast	£136,300	4.0%	3.4%
Nottingham	£156,000	4.0%	5.3%
Leeds	£169,600	3.8%	3.5%
Birmingham	£167,000	3.5%	5.3%
Sheffield	£139,900	3.0%	4.3%
Newcastle	£128,800	2.0%	1.3%
Glasgow	£124,800	1.9%	4.3%
Bristol	£280,300	1.3%	2.6%
Bournemouth	£293,100	1.2%	4.0%
Southampton	£228,500	0.8%	1.4%
Portsmouth	£238,200	0.6%	2.4%
Cambridge	£427,900	0.2%	-0.9%
London	£483,100	0.0%	-0.4%
Oxford	£405,600	-0.4%	0.5%
Aberdeen	£160,100	-4.8%	-2.9%
20 city index	£258,000	2.3%	1.2%
UK	£220,500	2.1%	2.7%

Source: Zoopla House Price Index, powered by Hometrack