

UK Cities House Price Index

August 2019

- UK city house price inflation is +1.9%, ranging from +4.8% in Leicester to -4.0% in Aberdeen
- Price growth has slowed to more sustainable levels as the market adapts to a changing profile of demand, resulting from tax and policy changes and increased mortgage regulation.
- Demand from mortgaged home-owners is holding up at a national level but has reduced in high value cities since 2016. The number of cash buyers has declined materially since 2016, particularly in cities across southern England as investor demand falls which has compounded the slowdown.

UK city house price inflation +1.9%

The annual rate of house price inflation has moderated to +1.9%. Twelve cities have a lower rate of price inflation than a year ago, markedly so in Edinburgh, Bournemouth, Portsmouth and Oxford (see Figure 1).

Leicester is the fastest growing city with prices rising at +4.8%. This is the first time since 2012 that the fastest growth city has a rate of price inflation below 5%.

House price growth is currently lowest in Aberdeen (-4.0%), followed by Oxford (-0.4%) and Portsmouth (0%). Other cities across southern England are registering flat to falling house prices (Table 2).

Table 1 - UK 20 city index summary, August 2019

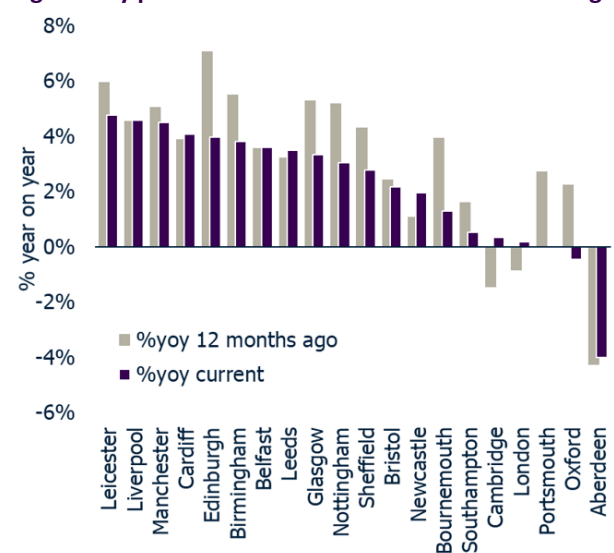
| Month | 3 month change | %yoy | Average price |
|--------|----------------|------|---------------|
| Mar-19 | 0.2% | 0.5% | £251,800 |
| Apr-19 | 0.5% | 0.6% | £252,800 |
| May-19 | 0.8% | 0.8% | £253,800 |
| Jun-19 | 1.4% | 1.0% | £255,400 |
| Jul-19 | 1.6% | 1.6% | £256,900 |
| Aug-19 | 1.6% | 1.9% | £257,900 |

Source: Zoopla House Price Indices, powered by Hometrack

Slowdown in growth to more sustainable levels

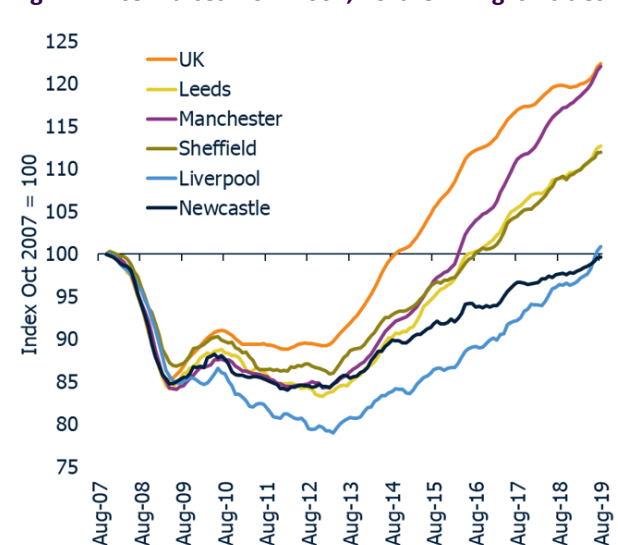
The acceleration in house price inflation since 2013, reaching almost 20% in London in 2014, and the subsequent slowdown since 2016 are part of the unfolding house price cycle. We believe that the recent slowdown represents a return to a more sustainable pace of price growth rather than an impending re-correction in house prices.

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



Source: Zoopla House Price Indices, powered by Hometrack

Fig.2 – Price indices from 2007, northern English cities



Source: Zoopla House Price Indices, powered by Hometrack

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

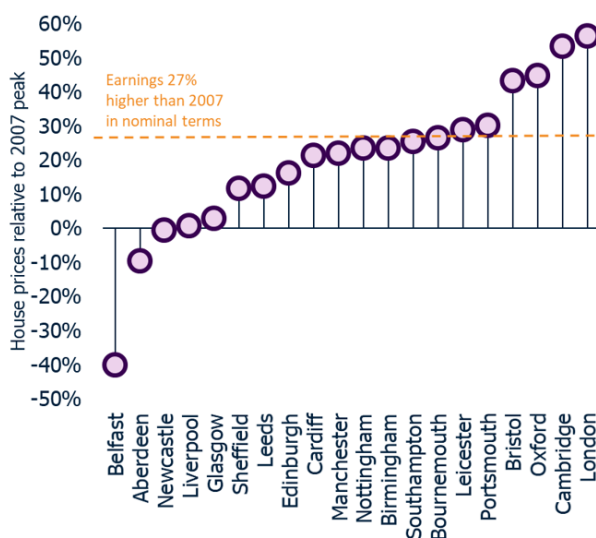
Housing market adapting to changing dynamics

All cities have seen house prices develop at different rates over the last decade. This reflects the relative strength of local economy and the demand for, and affordability of housing in each city. At the same time, the market is adapting to a raft of policy changes since 2014 and a more regulated mortgage market. The interaction of these factors can generate mixed signals that can present conflicting view of market activity.

Varied performance across northern regions

Taking cities in northern England as an example, figure 2 shows the development of prices since the last housing market peak of 2007. House prices in Manchester have grown the most and are 22% higher than in 2007, the same performance as the UK. Prices are 11% higher in Leeds and Sheffield. These two cities have seen prices track closely over the last decade. Price growth in Liverpool has accelerated recently and they have now surpassed their 2007 levels.

Fig. 3 – Prices relative to the previous 2007 peak



Source: Zoopla House Price Indices, powered by Hometrack

Three cities with prices still below 2007 levels

Newcastle is one of three cities where average prices are still below peak levels. Aberdeen and Belfast are the others. Aberdeen prices have fallen since 2015 in the wake of the oil price collapse and Belfast prices were excessively over-valued in 2007 and are now more sustainably priced. Putting this into wider context, figure 3 shows where house prices are today relative to 2007, highlighting the variation in house price appreciation and the growth in wages over the same period.

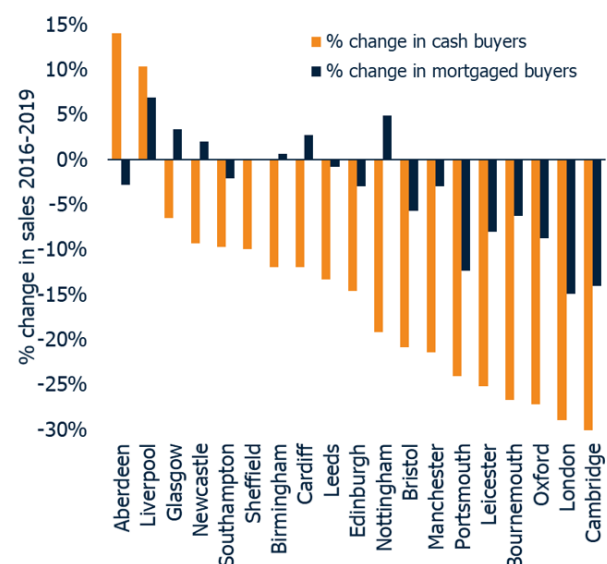
House price stagnate in London and southern England

While prices in southern cities are up to 56% higher than their 2007 peak, the reality is that values have stagnated, tracking sideways for much of the last 4 years and drifting lower more recently.

Mortgaged demand holding up

Against this varied performance in price growth, UK Finance data shows that new mortgages for home purchase are at their highest level since 2008, with 723,000 new loans completed in the 12 months to July 2019. Despite weaker price growth and BREXIT uncertainty, the underlying demand for housing from home-owners using a mortgage is holding up. This should not be a surprise given record low mortgage rates and levels of employment.

Fig. 4 – Change in cash and mortgage sales 2016-19



Source: Zoopla analysis of ONS sales data – 2019 is data for the 12 months to April 2019

Decline in cash buyers

Not all demand comes from home-owners. Strong investor demand played a key part in pushing property prices ahead between 2013 and 2016, ahead of tax changes that dampened demand. New investor purchases using a mortgage are down 30% across the UK since 2016. Investors also buy with cash. While there is limited data on cash investors, 1 in 4 housing sales across UK cities are purchased by cash buyers.

The number of cash buyers has declined the most in cities with the highest capital values since 2016 – see figure 4. The decline in cash sales has certainly outpaced changes in demand from mortgaged buyers and is a key reason for weaker price growth recently.

London market bottoms out, smaller price reductions

The latest UK Finance data also shows that mortgages for home purchase in London have been increasing slowly following lower volumes since late 2014. This supports our view that the decline in London housing sales has bottomed out with a small increase in market activity resulting from greater realism over pricing after 3 years of modest price falls.

Zoopla listings data for property advertised in London shows that price reductions for live listings – 9.7% of listings have had their price reduced - have fallen to their lowest level for 3 years providing further evidence that the repricing process is close to running its course.

We do not expect house price growth to increase but builders and agents in London will welcome any improvement in market activity.

Near term outlook

Looking ahead we expect current trends to continue. There is no sign of any sudden weakening in market conditions as the Brexit debate returns to centre stage. Market trends are being dictated by the fundamentals of local economies and the affordability of housing across cities. A change in the macro economic environment remains the greatest risk but households aren't changing their behaviours yet.

Table 2 - City level summary, August 2019

| City | Current price | %yoy Aug-19 | %yoy Aug-18 |
|---------------|---------------|-------------|-------------|
| Leicester | £182,900 | 4.8% | 6.0% |
| Liverpool | £124,700 | 4.6% | 4.6% |
| Manchester | £173,000 | 4.5% | 5.0% |
| Cardiff | £211,800 | 4.1% | 3.9% |
| Edinburgh | £235,400 | 4.0% | 7.1% |
| Birmingham | £168,300 | 3.8% | 5.5% |
| Belfast | £136,400 | 3.6% | 3.6% |
| Leeds | £168,900 | 3.5% | 3.2% |
| Glasgow | £127,000 | 3.3% | 5.3% |
| Nottingham | £155,300 | 3.1% | 5.2% |
| Sheffield | £139,600 | 2.8% | 4.3% |
| Bristol | £283,000 | 2.2% | 2.4% |
| Newcastle | £128,900 | 2.0% | 1.1% |
| Bournemouth | £293,600 | 1.3% | 3.9% |
| Southampton | £228,300 | 0.5% | 1.6% |
| Cambridge | £429,500 | 0.3% | -1.5% |
| London | £483,800 | 0.2% | -0.8% |
| Portsmouth | £237,800 | 0.0% | 2.7% |
| Oxford | £409,100 | -0.4% | 2.3% |
| Aberdeen | £158,800 | -4.0% | -4.3% |
| 20 city index | £257,900 | 1.9% | 1.6% |
| UK | £220,700 | 2.1% | 2.5% |

Source: Zoopla House Price Index, powered by Hometrack