

# UK Cities House Price Index

November 2019

- UK city house prices have grown by an annual average of +4.4% over the last decade.
- While the election result removes some uncertainty, market fundamentals set the context for city house price growth and market activity in 2020.
- We expect UK city house prices to grow by +3% in 2020 with continued above average growth in the most affordable regional cities while growth in London is expected to be +2%.

## UK city house price inflation ticks higher

UK city house price inflation has averaged 4.4% per annum over the last decade with average prices up by total of 54% since 2009. The headline rate of growth currently averages 3.4%, supported by price falls in the final months of 2018 dropping out of the annual growth rate and a further pick-up in growth in London. Price growth ranges from -0.7% in Aberdeen to +5.4% in Edinburgh (Table 2).

Table 1 - UK 20 city index summary, November 2019

Month	3 month change	% year on year	Average price
Jun-19	0.9%	0.6%	£251,600
Jul-19	0.9%	1.0%	£252,300
Aug-19	0.9%	1.2%	£252,900
Sep-19	0.9%	1.7%	£253,800
Oct-19	1.5%	2.8%	£256,000
Nov-19	1.7%	3.4%	£257,200

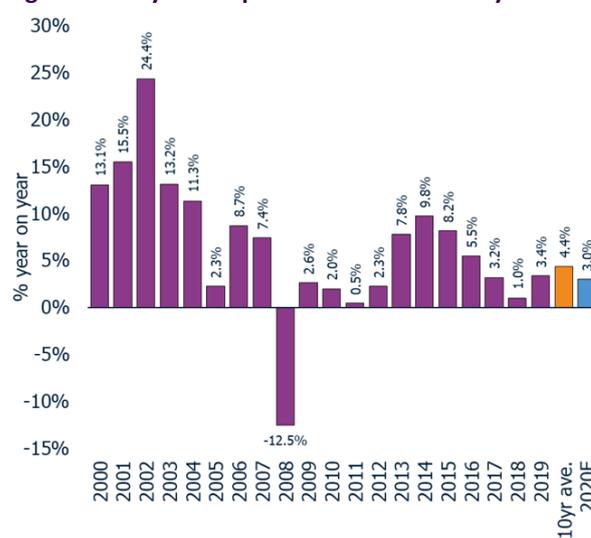
Source: Zoopla House Price Indices, powered by Hometrack

## Marked difference in current and long run growth

There is a marked difference between the current and 10-year growth rates across UK cities (Fig.2). Cities in southern England have registered a marked slowdown in price inflation over the last 1-3 years with current growth rates well below the 10-year average – Oxford, Southampton, Portsmouth London, Cambridge, Bristol.

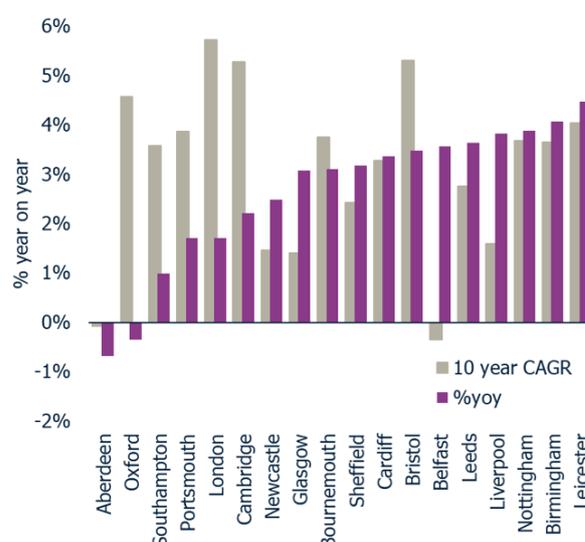
In contrast, cities that have been slow to see prices recover, registering some of the lowest price growth over the last decade, are those currently registering above average growth e.g. Belfast, Liverpool, Glasgow.

Fig.1 – UK city house price inflation over 20 years <sup>(2)</sup>



Source: Zoopla House Price Indices, powered by Hometrack <sup>(2)</sup> 2019 is 12 month growth to November 2019

Fig.2 – House price growth last 12m and last decade



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.

### Prices unchanged over last decade in two cities

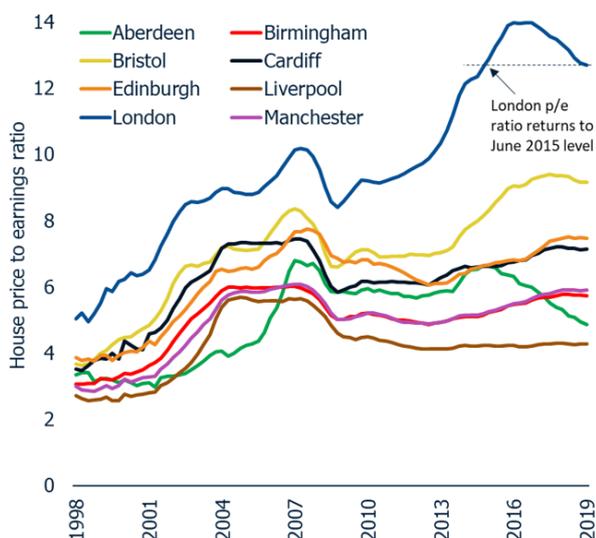
Average prices are virtually unchanged between 2009 and 2019 in Aberdeen and Belfast. These two cities have recorded very different experiences over this time with prices falling for seven years until 2013 and then recovering steadily in Belfast. In contrast, house price growth accelerated between 2012 and 2015 in Aberdeen and have subsequently fallen by 21% as the oil price decline impacted demand for housing.

### London over the last decade – a tale of two halves

The performance of the London market over the last decade falls into two distinct phases, pre- and post-2016. Prices in London have increased by 74% since 2009, an annual average of 5.4%. Most of the price gains in London came in the years running up to 2016 when unsustainable growth stretched affordability levels which were compounded by multiple tax changes and weaker sentiment.

The rate of price inflation has picked up recently as available supply falls and sales increase off a low base. Despite this, growth is still running at a third of the 10-year average. While there has been a 3-year repricing process, against the backdrop of lower sales, we expect affordability constraints to limit price growth in London over 2020.

**Fig. 3 – Affordability - house price to earnings ratio**



Source: Zoopla Research

### Affordability fundamentals a key driver looking ahead

We have analysed the drivers of UK house price growth since 2009. The annual increase in prices is largely explained by the fundamentals of lower mortgage rates and rising incomes. There is little evidence that prices have been pushed higher by households increasing the amount of income spent on housing, as was the case in the years running up to 2007. This reflects greater caution on the part of buyers and new mortgage regulations testing affordability for new purchases.

Looking ahead, the outlook for the UK and city housing markets in 2020 will continue to be dictated by market fundamentals – primarily housing affordability.

### Change of Government doesn't shift fundamentals

While a new Government, and the prospect of a Brexit withdrawal deal becoming law in early 2020 will reduce uncertainty, neither of these will change market fundamentals in our view. While we expect a return of some pent-up demand in 2020 Q1 across all cities, affordability pressures will remain a constraint to demand and the scale of growth in 2020.

### The development of housing affordability across cities

Housing affordability, as measured by the price to earnings (p/e) ratio, has remained broadly stable across most cities with house price growth running in line with – or slightly below – the recent growth in average earnings (Fig.3). Notable exceptions include Aberdeen where the price to earnings ratio has fallen 30% since 2015.

### Affordability in London improves by 10% since 2017

Modest house price falls in London has resulted in the p/e ratio declining from a high of 14x in 2017 to 12.7x today. This 10% decline takes the p/e ratio back to a level last seen in June 2015 but it is still well ahead of the 20 year average (9.2). A similar trend has been registered in Cambridge and Oxford.

While there are signs of firmer pricing in cities across southern England, we expect affordability pressures to limit the scale of price growth over 2020 across southern cities. We believe the headline, annual price growth in London will be 2% on the back of constrained supply and more realistic pricing.

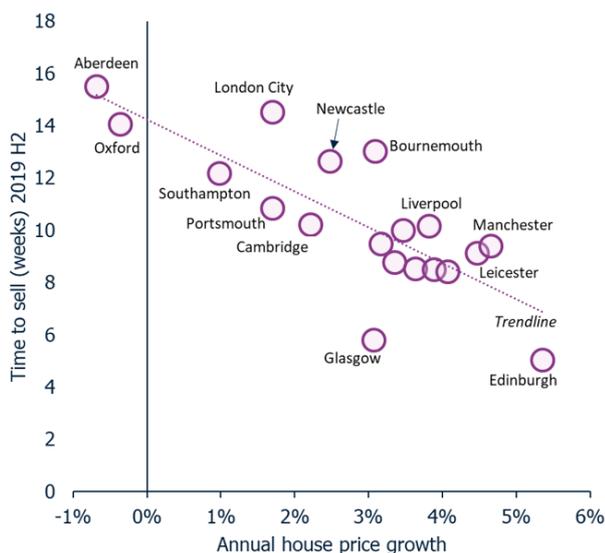
## Price growth to outperform in most affordable cities

In contrast, we expect cities with below average affordability levels, typically those with p/e ratios of less than 6x, to register above average house price growth over 2020. Annual growth of up to 4% is realistic, so long as mortgage rates remain low and employment remains high.

## Time to sell points to cities with strongest markets

Figure 4 shows the relationship between the time to sell against annual house price growth. Lower sales periods correlate to markets with above average house price growth. There are early signs of shorter sales periods in cities across southern England, but not enough to suggest materially faster price growth.

**Fig. 4 – Time to sell correlated to house price growth**



Source: Zoopla Research and Hometrack UK City HPI

## What is the outlook for 2020?

Looking ahead to 2020, we believe that UK city house price growth will hold at +3% over 2020 with prices in the most affordable regional cities rising by up to +4%.

The outturn could be higher and largely depends upon the level of pent up demand that returns to the market in Q1 and the impetus for higher prices given the recent reduction in available supply. The new Government was silent on any changes to stamp duty during the election campaign. Any changes that reduce stamp duty would provide a short-term boost to market activity and prices, especially if the changes were aimed at the top rates of stamp duty and lowered moving costs across south eastern England. Keeping the housing market liquid must be a top priority, although stamp duty is a large tax generator.

## Sales matter more than prices for businesses

For estate agents, developers and businesses operating in housing, sales volumes are more important than house price growth. At a national level, housing sales have drifted lower over the last 3 years but remain just over 1m a year. A 25% drop in sales in London since 2014 has created scarcity and is supporting the increase in price growth. We expect volumes to increase in London while house price rises remain muted. At a national level we expect housing sales to remain at 1m over 2020.

**Table 2 - City level summary, November 2019**

City	Current price	%yoy Nov-19	10 year CAGR
Edinburgh	£240,500	5.4%	3.0%
Manchester	£173,400	4.7%	3.7%
Leicester	£180,200	4.5%	4.0%
Birmingham	£167,700	4.1%	3.7%
Nottingham	£157,800	3.9%	3.7%
Liverpool	£121,900	3.8%	1.6%
Leeds	£168,600	3.6%	2.8%
Belfast	£138,000	3.6%	-0.3%
Bristol	£285,600	3.5%	5.3%
Cardiff	£211,100	3.4%	3.3%
Sheffield	£139,400	3.2%	2.4%
Bournemouth	£291,100	3.1%	3.7%
Glasgow	£123,600	3.1%	1.4%
Newcastle	£129,700	2.5%	1.5%
Cambridge	£417,000	2.2%	5.3%
London	£479,000	1.7%	5.7%
Portsmouth	£239,700	1.7%	3.9%
Southampton	£228,000	1.0%	3.6%
Oxford	£411,500	-0.4%	4.6%
Aberdeen	£159,000	-0.7%	-0.1%
20 city index	£257,200	3.4%	4.4%
UK	£220,000	2.8%	3.4%

Source: Zoopla House Price Index, powered by Hometrack