

UK Cities House Price Index

February 2020 (published 25 March 2020)

- UK city house price growth is +1.6%, higher than the +1.2% a year ago.
- The COVID-19 virus has had a rapid impact on housing demand which is 40% lower in the last week.
- Transaction volumes are set to decline swiftly in the coming months by an estimated 60% in the next quarter with a further fall in sales volumes over Q3 2020. The impact on pricing levels will be slower to feed through and depend upon the scale of the direct economic impact.

UK city house price inflation +1.6% yoy

A rebound in consumer confidence saw the housing market register the strongest start for 5 years in early 2020, after a weaker period of growth over 2019. A rebound in consumer confidence resulted in the headline rate increase to +1.6%, compared to +1.2% a year ago (see note at end of report on one-off index enhancements launched this month).

At a city level, annual growth ranges from +3.8% in Nottingham to -2.2% in Aberdeen (Table 2). In London, the annual growth rate is +0.5%, up from -1.1% a year ago. Quarterly house price growth was declining in the year to May 2019 and has since turned positive, taking the annual growth rate higher (Fig.1).

Table 1 - UK 20 city index summary, February 2020

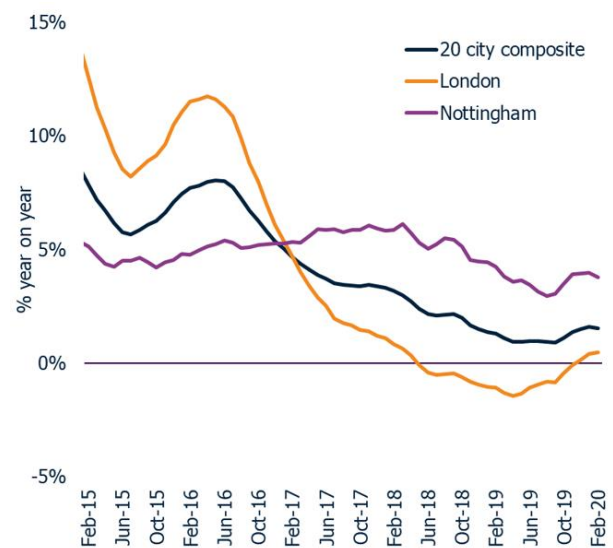
Month	3 month change	% year on year	Average price
Sep-2019	0.3%	0.9%	£253,800
Oct-2019	0.4%	1.1%	£254,300
Nov-2019	0.4%	1.4%	£254,600
Dec-2019	0.4%	1.5%	£254,900
Jan-2020	0.4%	1.6%	£255,300
Feb-2020	0.3%	1.6%	£255,400

Source: Zoopla House Price Indices, powered by Hometrack

COVID-19 has immediate impact on demand

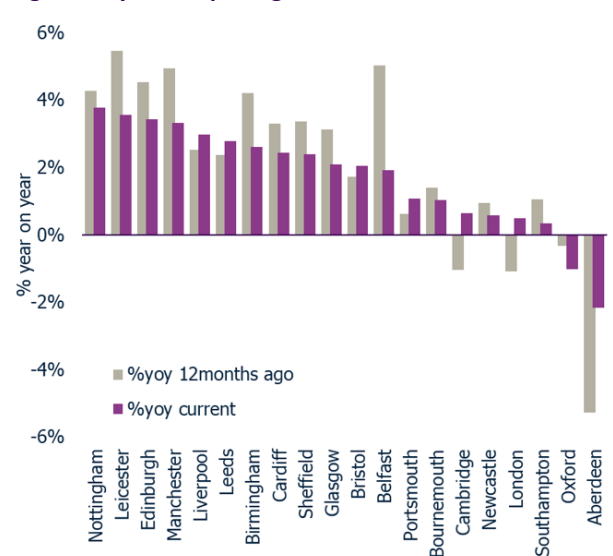
Despite the strong start to the year, the arrival of COVID-19 has totally changed the dynamics of the market and the outlook for 2020. Over the last week we have seen new buyer demand fall 40% as households self-isolate and put major decisions on hold (Fig. 3). Demand is set to fall further now the UK is moving into a 3+ week period of partial lockdown.

Fig.1 – City house price inflation over the last 5 years



Source: Zoopla House Price Indices, powered by Hometrack

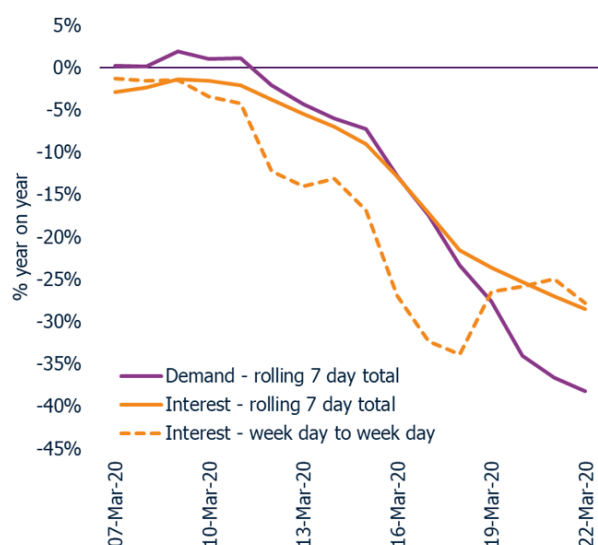
Fig.2 – City house price growth – Feb-20 and Feb-19



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.

Fig.3 – Interest in housing down 40% in the last week



Source: Zoopla Research

Sales still being agreed over last week

While interest from new buyers has fallen dramatically, housing market activity has not ground to a total standstill. We are still recording new sales agreed 'subject to contract' on property listings. These are down 15% over the last week and have fallen back to levels that are 4% lower than a year ago.

Fall throughs rising fast off a low base

In normal times it takes 2-3 months for sales that are 'sold subject to contract' to reach completion. We expect a reasonable proportion of recent purchases agreed in the last six to eight weeks to complete. However, there has been a rapid increase in the number of sales being marked as fallen through as uncertainty over COVID-19 leads to buyers pulling out of sales. Fall throughs last week were 60% higher than the previous week but new sales agreed currently remain higher than fall-through's by a ratio of 4 to 1.

No mass withdrawal of homes from the market

On the supply side there is no evidence of major withdrawal of homes from the market. Indeed, new stock has continued to be listed, albeit at a slowing rate. For those with homes for sale there is no immediate rush to make rapid decisions and agents will be engaging their clients about the market outlook and how best to respond. The partial lockdown means the ability to market homes is now largely curtailed. Some agents will offer virtual viewings and a change in marketing, but many vendors will want to pause or withdraw their homes for a period.

External shocks hit sales more than prices initially

Fifty years of history shows that external shocks and global events tend to impact levels of housing market activity more than prices in the short term. The impact on agreed sales prices tends to be more closely linked to direct shocks to the UK economy. It is too early to tell the scale of the direct economic impact of COVID-19, especially considering the unprecedented Government response to support the economy.

What is clear is that housing transactions will decline very rapidly over the second quarter of 2020 and, given the time lag from a property being first marketed to becoming a transacted sale sold this will further reduce housing sales into 2020 Q3.

Sales volumes to fall by 60% in Q2 and into Q3 2020

Our modelling points to completed housing transaction volumes in 2020 Q2 being 60% lower than the same period last year. We expect low transaction volumes to continue into the third quarter. Individual months over the spring may see newly agreed sales down by as much as 80% on last year.

Building a pipeline of new business will take time

The timing of any rebound in housing market activity depends upon when new restrictions are lifted and the extent to which households and businesses can start returning towards a normal way of life. In the worst affected parts of China, the lockdown has lasted up to 2 months with restrictions now being lifted. While demand in property may rebound quickly it will take several months for agents to build a pipeline of sales dependent on their ability to transition to virtual activity during the period of lockdown.

House prices unchanged in short term

We do not expect any sudden changes in house prices in the short term. A proportion of sales agreed over the last two months will continue to completion and the rate of city level house price growth is unlikely to change in the next one to two months.

Most of today's sellers do not need to sell, and they can withdraw their homes off the market until the outlook becomes clearer. Double digit house price falls tend to occur in times of economic stress where there is a jump in the number of forced sellers – typically a result of rising unemployment, a lack of credit or higher borrowing costs.

Economic impact will dictate the house price impact

Government and lender action to supporting mortgage payments for homeowners and landlords will limit the number of forced seller numbers in the next quarter. This will support landlords where rental income falls should renters delay or defer payments.

Beyond the next few months, the outlook for prices is largely dependent on the outlook for unemployment. Low mortgage rates mean forbearance will remain the preferred choice and further Government support in these unique times cannot be ruled out. However, the greater the economic shock and rise in unemployment the greater the potential impact on house prices over the spring and into the summer months.

Sign up for regular updates

In these unprecedented times we will be publishing market updates more frequently so please sign up to receive information from the Zoopla Research team at <https://advantage.zpg.co.uk/insights/cities-index-report/>

Table 2 - City level summary, February 2020

City	Current price	%yoy Feb-20	%yoy Feb-19
Nottingham	£158,500	3.8%	4.3%
Leicester	£181,600	3.6%	5.4%
Edinburgh	£239,100	3.4%	4.5%
Manchester	£173,400	3.3%	4.9%
Liverpool	£122,400	3.0%	2.5%
Leeds	£168,300	2.8%	2.4%
Birmingham	£168,100	2.6%	4.2%
Cardiff	£211,900	2.4%	3.3%
Sheffield	£139,300	2.4%	3.4%
Glasgow	£124,100	2.1%	3.1%
Bristol	£284,200	2.1%	1.7%
Belfast	£139,000	1.9%	5.0%
Portsmouth	£238,600	1.1%	0.6%
Bournemouth	£289,700	1.0%	1.4%
Cambridge	£413,200	0.6%	-1.0%
Newcastle	£128,800	0.6%	0.9%
London	£477,600	0.5%	-1.1%
Southampton	£226,800	0.3%	1.1%
Oxford	£411,400	-1.0%	-0.3%
Aberdeen	£155,000	-2.2%	-5.3%
20 city index	£255,400	1.6%	1.3%
UK	£216,900	1.1%	1.2%

Source: Zoopla House Price Index, powered by Hometrack

Note: One-off enhancements to the House Price Indices (HPI) in February 2020

The UK City house price indices have been published since 2014. Over the last 5 years the input data and methodology have remained unchanged and the index remains revisionary from month to month as new data becomes available.

The index series have been designed to ensure they are closely representative of changes in the achieved sales price of residential property over time - the accuracy and performance of the indices is regularly tested and benchmarked to ensure market leading levels of accuracy when benchmarked against actual sales prices in a 'match-pairs' testing framework.

As part of Zoopla, and with access to a wider range of market data on property characteristics and pricing levels, we have implemented a one-off series of enhancements to the index methodology from February 2020. The most notable is to increase the volume of property attribute and pricing data at the leading edge i.e. the latest 3 months. None of these changes impact any other Hometrack products and relate solely to the house price indices.

The enhancements to the index have had minimal impact across the 20-year index series. The main change is to enhance the stability of the index at the leading edge. This month we have seen a one-off reduction in the stated annual growth rate over the most recent period which is a one-off change as the enhancements are deployed.

We have also taken the opportunity to simplify the methodology for the 20-city index to a stock weighted roll-up of the constituent city index series. All series remain non-seasonally adjusted and revisionary.