UK Cities House Price Index

April 2020 (published 27 May 2020)

- The reopening of the market has led to a temporary surge of pent-up demand across English cities.
- The market outlook depends upon what proportion of the 373,000 stalled sales complete and how much the pick-up in demand translates into sales. 60% of movers say they are planning to continue.
- Continued Government support for the economy and availability of 90% LTV mortgages will shape the outlook for the market but we expect pricing to come under downward pressure in 2020H2.

House price inflation +1.9%

The latest index results show annual price growth of +1.9%. This is a small reduction in the annual growth rate, from +2% in March. We expect this decline to become more marked in the months ahead as new pricing evidence emerges in the coming weeks. Price growth was flat over the month of April. At a city level, current growth rates are below the average for the last 5 years a gap we expect to widen in 2002H2 (Fig 1).

Table 1 - UK 20 city index summary, April 2020

Month	3 month change	% year on year	Average price
Nov-2019	0.2%	1.4%	£251,400
Dec-2019	0.3%	1.6%	£251,800
Jan-2020	0.5%	1.8%	£252,500
Feb-2020	0.7%	1.9%	£253,100
Mar-2020	0.8%	2.0%	£253,800
Apr-2020	0.6%	1.9%	£253,900

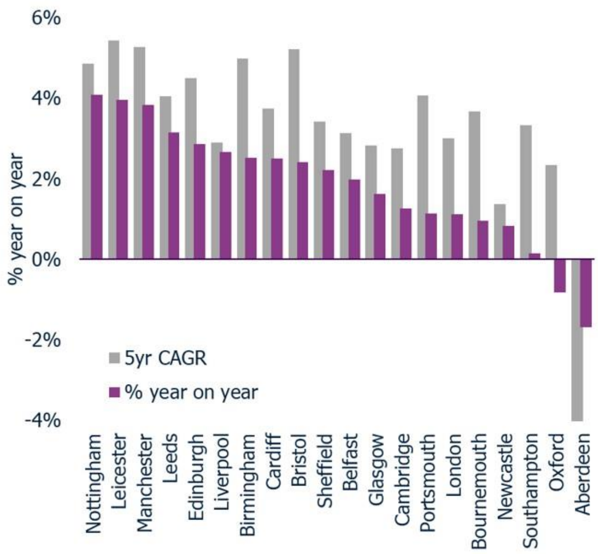
Source: Zoopla House Price Indices, powered by Hometrack

Pent-up demand returns as market reopens

The reopening of the English housing market on 13th May led to a surge of pent-up demand returning to the sales market. In the week after the market reopened, demand jumped by 88% and is currently 20% higher than at the start of March (Fig 2).

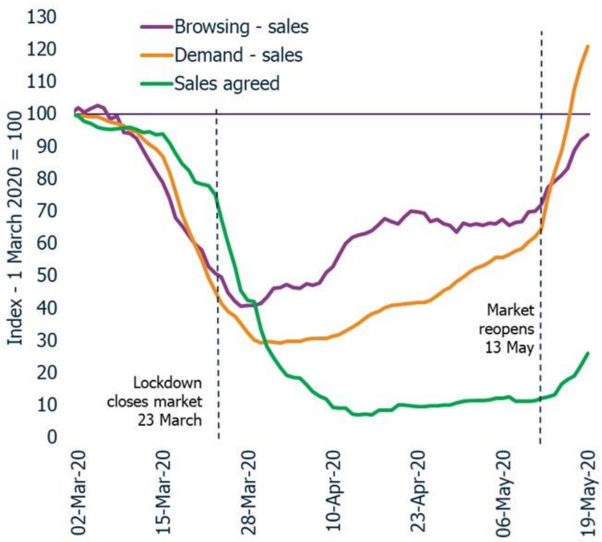
A short-term rebound in demand was to be expected, especially given how strongly the market started the year. While the scale of the recent increase in demand is high, it reflects the fact that the market has been closed for 50 days (15% of the year), at one of the busiest times for market activity.

Fig.1 – City house price inflation %yoy and 5 yr. CAGR



Source: Zoopla House Price Indices, powered by Hometrack

Fig.2 – Demand, browsing, sales index (rolling 7 day)



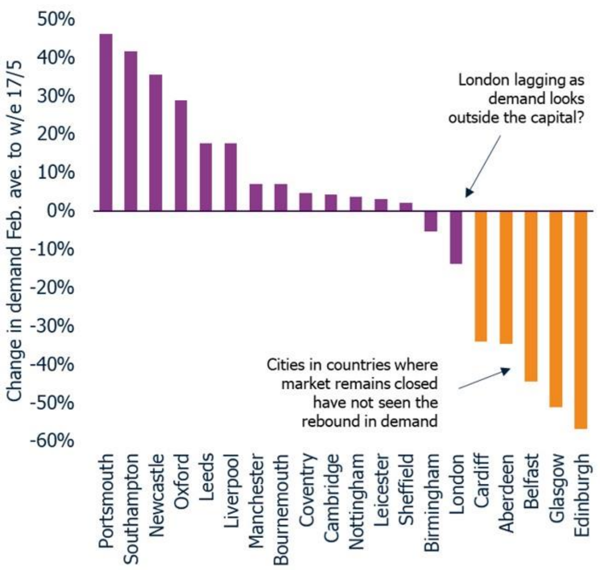
Source: Zoopla Research

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

A one-off COVID boost to housing demand?
It is also important to acknowledge that millions of UK households have spent a considerable amount of time in their homes over the last 50 days. Many are likely to have re-evaluated what they want from their home and are looking for change. This could well explain the scale and speed of the demand returning to the market.

However, it is hard to square the rebound in demand against projections for a sharp rise in unemployment and a major downturn in economic growth in the second half of 2020 and into 2021. We expect the economic impact of COVID to feed through into market sentiment in the near term. We expect the recent spike in demand to be relatively short lived with demand likely to moderate over the coming weeks.

Fig.3 – Demand over w/e 17 May compared to Feb-20



Source: Zoopla Research

Demand rebounds in cities where market is 'open'
The rebound in demand since the week commencing 11 May (compared to the average over February), is not uniform across cities. In countries where the housing market remains closed the rebound in demand has been weaker compared to cities in England – Fig. 3.

The rebound in London has been less pronounced than other cities and could reflect a portion of new demand looking outside the city - which could be a result of the lockdown and people wanting to trade out into commuter towns, but it will also be a function of affordability. Demand has bounced back strongly in northern England and cities along the south coast.

Levels of market activity more subdued
While demand for homes has grown, harder measures of market activity are increasing more slowly. New sales agreed, sold subject to contract, were running at 10% of normal levels over the lockdown and have now started to increase off a low base – up 12% in the week after the lockdown (Fig. 2).

We expect sales volumes to increase further but at a more moderate pace given the typical 2-month lag between new demand entering the market and sales being agreed. If available supply does not increase, then not all this demand will be satisfied.

Market outlook for rest of 2020 depends on 2 factors
Looking ahead to the remainder of the year there are two distinct aspects to consider. First is how many of the 373,000 stalled sales make it to completion. Second is how new demand for housing holds up and how much of this translates into new sales. The pricing agreed on these new sales will give a clearer view on the outlook for house prices over the rest of the year.

Fall throughs increase off a low base
There is limited evidence on what proportion of the 373,000 stalled sales proceed. By reopening the market, the Government has improved the chances of a higher proportion completing than had the market stayed closed for longer.

Our latest data shows a small increase in fall throughs since 12th May. It is early days as many agents are yet to fully reopen. The level of fall throughs remains well below this time last year. We currently expect a significant proportion of agreed sales to continue but increased uncertainty over the economic outlook will see housing chains tested in the coming weeks.

Three fifths of movers currently planning to proceed
A recent consumer survey for Zoopla found that 41% of those searching for a home before COVID hit had now put their search on hold because of the crisis. The main reasons cited were 1) uncertainty over the outlook, 2) concerns over house price falls, and, 3) confidence over future finances. All typical factors when the general economic outlook looks likely to deteriorate.

The remaining 60% still plan to proceed - 22% report they have not been impacted by COVID directly. The remainder have been impacted by COVID but are looking to resume their search as soon as possible.

Availability of higher LTV finance important

One important factor for how many sales proceed, and how many new buyers can enter the market, is the availability of higher loan to value (LTV) mortgages. Data from the Bank of England late last year, revealed that a fifth of mortgaged buyers were taking a loan at 90% or higher.

Lenders reduced the availability of higher loan to value mortgages as they dealt with high volumes of requests for payment holidays. Product availability has since improved, but loans at 90% LTV or higher remain limited. Committed first time buyers may need to find more equity to put into purchases, or step back from the market. Many may look to the Help to Buy scheme to buy a new home using a 10% deposit.

Pricing picks up where it left off in March but tested

Despite the uncertain outlook, we believe that pricing levels for deals agreed pre-lockdown will resume close to where they left off in early March. Government support for the economy sends an important message for now. Some buyers may try to renegotiate and push for discounts, which could put downward pressure on prices. Sellers may accept some movement on pricing, but this will need to flow up and down the chain putting sales at risk.

As for new sales, our expectation of weakening demand, and greater caution on pricing, means the downward pressure on pricing is likely to increase over the second half of the year. How much there is will be a function of the absolute level of demand for housing on the one hand and the willingness of sellers to accept lower bids. If buyers expect sizable discounts that sellers will not accept then sales simply won't happen, and turnover will fall.

While a whole group of people may simply not move - and set pricing evidence - there will be those that do need to sell. Price falls tend to be driven 'at the margins' by those who need to move, often because of personal or financial reasons. Fewer sales mean this group account for a greater share of pricing evidence. How lenders respond will also be important - in 2008/10 low mortgage rates and Government pressure saw forbearance applied and this resulted in relatively low levels of repossessions compared to the previous downturn, limiting the scale of overall price reductions compared to previous downturns.

Table 2 - City level summary, April 2020

City	Current price	%yoy Apr-20	%yoy Apr-19
Nottingham	£158,000	4.1%	3.8%
Leicester	£183,700	4.0%	4.6%
Manchester	£173,200	3.8%	4.0%
Leeds	£169,200	3.1%	2.8%
Edinburgh	£232,500	2.9%	4.7%
Liverpool	£121,800	2.7%	2.9%
Birmingham	£167,100	2.5%	3.7%
Cardiff	£210,500	2.5%	2.7%
Bristol	£280,700	2.4%	1.6%
Sheffield	£138,700	2.2%	3.5%
Belfast	£137,800	2.0%	4.2%
Glasgow	£118,900	1.6%	3.0%
Cambridge	£411,500	1.3%	-1.3%
Portsmouth	£239,500	1.1%	0.5%
London	£476,900	1.1%	-1.0%
Bournemouth	£288,400	1.0%	0.9%
Newcastle	£127,100	0.8%	0.8%
Southampton	£226,800	0.2%	0.6%
Oxford	£399,600	-0.8%	-0.8%
Aberdeen	£143,200	-1.7%	-5.1%
20 city index	**£253,900**	**1.9%**	**1.2%**
UK	**£217,000**	**2.4%**	**0.9%**

Source: Zoopla House Price Index, powered by Hometrack