

UK House Price Index

Lockdown distorts housing market supply/demand dynamics

+2.7%

UK house price growth
% year on year

-20%

Year to date sales agreed
v same period 2019

124k

Lost sales in 2020 as
a result of lockdown

Executive summary

- Momentum from start of year and post lockdown continues to support headline rate of house price growth.
- Activity levels have rebounded strongly post lockdown but year to date volume of sales agreed are 20% lower than in 2019.
- We expect sales volumes for 2020 to be 15% lower than 2019, a much improved outlook than a few months ago.
- Stamp duty changes have delivered an immediate boost to sales in London.
- UK house price growth rate set to remain positive for 2020, house price falls will come in 2021 with scale dependent upon economic impact.

“The staggered reopening of housing markets and the added impetus from the stamp duty holiday means we expect levels of demand and new sales to remain above pre lockdown levels over the next 1-2 months.”

Richard Donnell
Research and Insight
Director, Zoopla

Lockdown creates supply/demand mis-match



Source: Zoopla Research

YTD growth in sales, supply and demand v 2019

▲ 2.7%

Annual UK house price growth

House price growth edges higher

UK house price inflation in the 12 months to June 2020 edged higher to +2.7%, the highest level of annual growth for almost 2 years. The post election rebound boosted sales and activity over Q1 which is still feeding into the headline index.

The monthly UK growth rate has halved to +0.2% and city price indices are registering slower annual growth as a result of the lockdown (Fig.1).

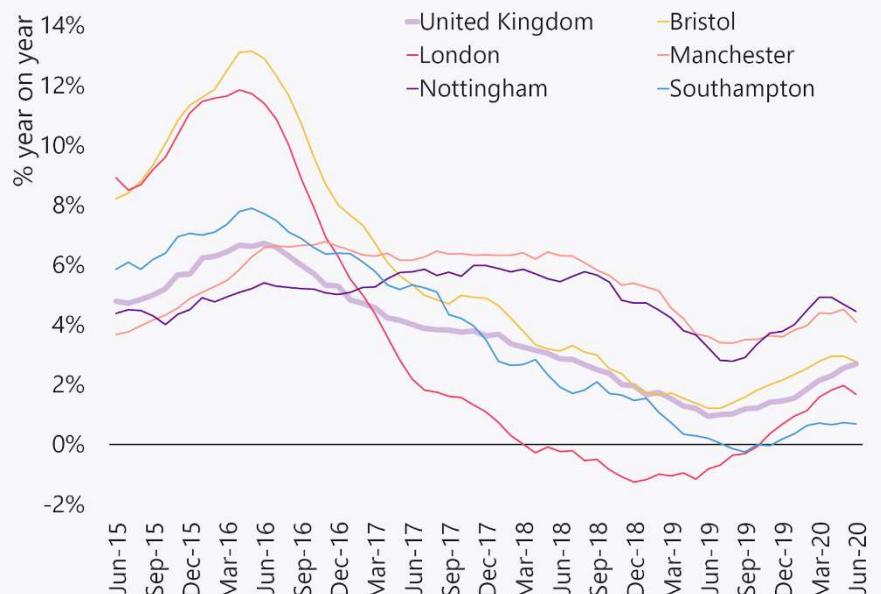
There is no evidence of any material, localised price falls across the index series at regional or city level. A small proportion of local areas are registering small month on month price falls of up to -0.2%.

Given current trends we do not expect the headline rate of annual growth to move into negative territory over 2020. A growing imbalance of supply and demand is set to support prices over 2020 and sales agreed today will be completing up until November. Any price falls in the headline UK Index are more likely in 2021 H1.

Table 1 - UK house price index summary, June 2020

	3-month change	% year on year	Average price
Jan-2020	0.2%	1.6%	£215,400
Feb-2020	0.7%	1.8%	£216,500
Mar-2020	1.0%	2.1%	£217,400
Apr-2020	1.2%	2.3%	£218,100
May-2020	1.2%	2.6%	£219,100
Jun-2020	1.0%	2.7%	£219,500

Fig. 1 House price inflation - UK and selected cities



Source: Zoopla Research

-20%

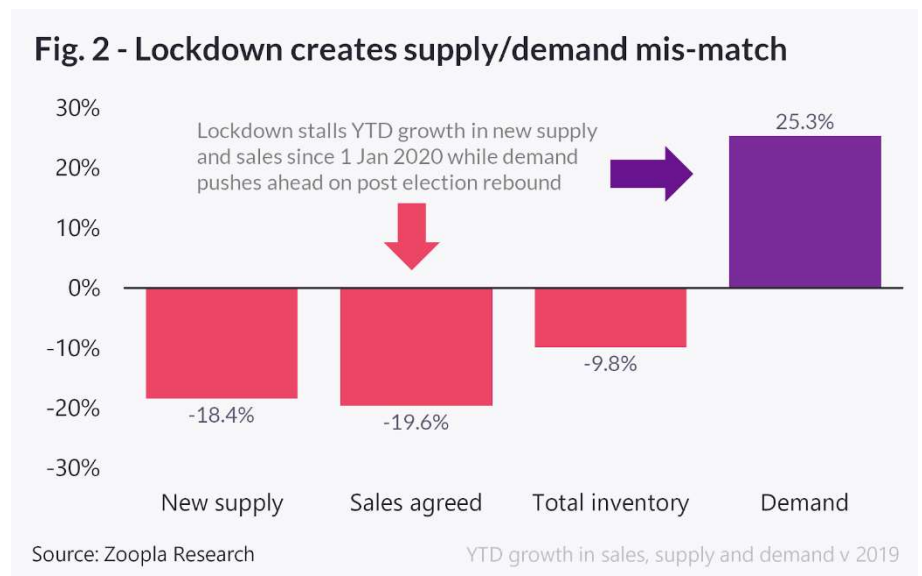
Year to date sales agreed compared to 2019

Lockdown drives a supply/demand imbalance

The lockdown and 2-month closure of the housing market has impacted the dynamics of supply and demand which influence the near-term direction of pricing. The strong rebound in market activity since the market reopened in May has been well documented, but it is important to put this into a longer-run context; specifically, comparing how key market metrics have developed year to date from January 2020 and comparing this to the same period in 2019.

The closure of estate agents over the lockdown reduced the flow of new supply and agreed sales by 90%. Both have now recovered to pre-lockdown levels. However, the cumulative growth in sales and new supply over 2020 (1 January to 19 July) remains almost 20% lower than the same period of 2019. Overall levels of sales inventory are 10% lower than this time a year ago (Fig.2).

In contrast, demand for housing is running ahead of last year. Over the last month the level of applicant demand to agents is double the same period last year. On a cumulative basis since January 2020, demand is still 25% higher than the same period in 2019 (Fig. 2). A result of 2019 being weighed down by BREXIT uncertainty, the strong start to 2020 ahead of the lockdown and the rebound in buyer demand.



Demand increases most in Northern cities

Figure 3 provides a city level picture of the cumulative growth in new supply and demand over 2020 and 2019. The increase in demand compared to 2019 has been stronger in regional cities across northern England. The flow of new supply has been impacted across all areas as a result of the market closure.

The greatest short-term support for prices will be in cities where demand has grown the most over the first 7 months of 2020 compared to 2019.

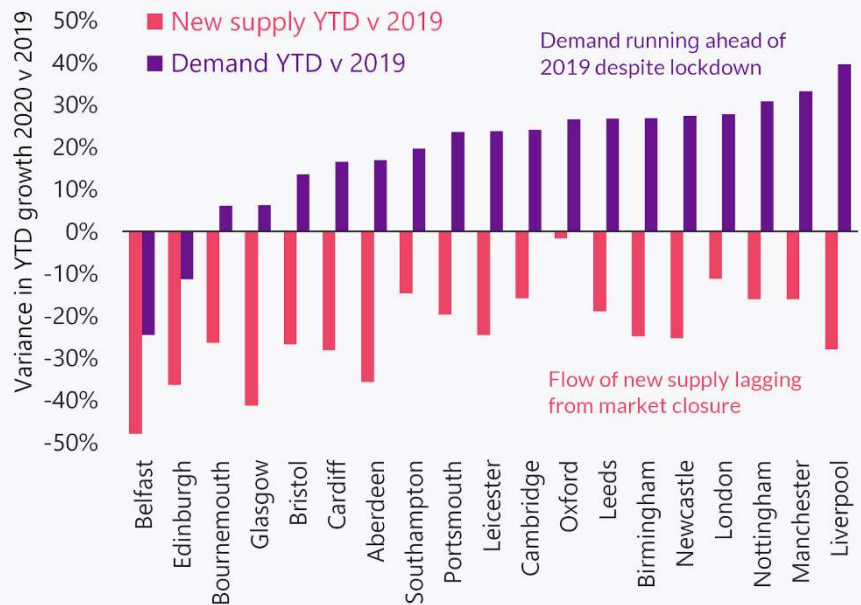
Manchester, Liverpool and Nottingham have registered the highest growth in demand, and it is notable that they are also in the top 5 cities for annual house price growth (Table 1).

55%

of commuters expect to commute less often as a result of COVID

Zoopla consumer survey June 2020

Fig. 3 Growth in demand and new supply YTD 2020 v 2019



Source: Zoopla Research

Talk of ‘flight from cities’ is overstated

There has been much speculation about the long-term outlook for housing demand in cities. COVID has boosted demand outside the major cities but we believe this is more a one-off factor than a long-term ‘seismic shift’ in home buyer attitudes.

London ranks 4th for the growth in demand since the start of 2020 (Fig. 3) but our ‘London city’ definition includes the most important adjacent commuter areas. When we split London into inner, outer and commuter areas we can see that the share of housing demand has shifted to outer and commuter areas while slipping back in inner areas since the lockdown.

A recent Zoopla consumer survey of 2000 households found 55% of those who commute expect to do so less often, while the top change in priority was to have a garden or outside space. If households increase the prioritisation of more space, a garden and less commuting, then housing demand will increase where this supply of this type of housing is more readily available, which is outside inner-city locations.

COVID has impacted household decisions but we would characterize this as a shift in priorities rather than a structural change in market fundamentals. As cities start to re-open, we expect some rebalancing in between demand for homes in higher density areas of cities and their suburbs and commuter hinterlands.

+27%

Stamp duty boost to housing sales in London

124,000 'lost' sales in 2020

While there has been a lot of focus on the impact of COVID on house prices, the greatest impact will be felt in sales volumes which we expect to be 15% lower than in 2019. This is a much better outcome than many, including us, expected in mid-March. We estimate 124,000 sales will be lost over 2020 as a result of the market closure.

Immediate stamp duty boost for London sales

The stamp duty changes in England and Northern Ireland have delivered an immediate boost to sales in London. Our data shows new sales agreed have increased by over a quarter (27%) in London where the greatest benefits of the changes are to be found (Fig.4).

This trend has not been replicated in other regions where average prices are lower and less responsive to changes in stamp duty. The stamp duty changes will continue to support demand in higher value markets across southern England in the months ahead.

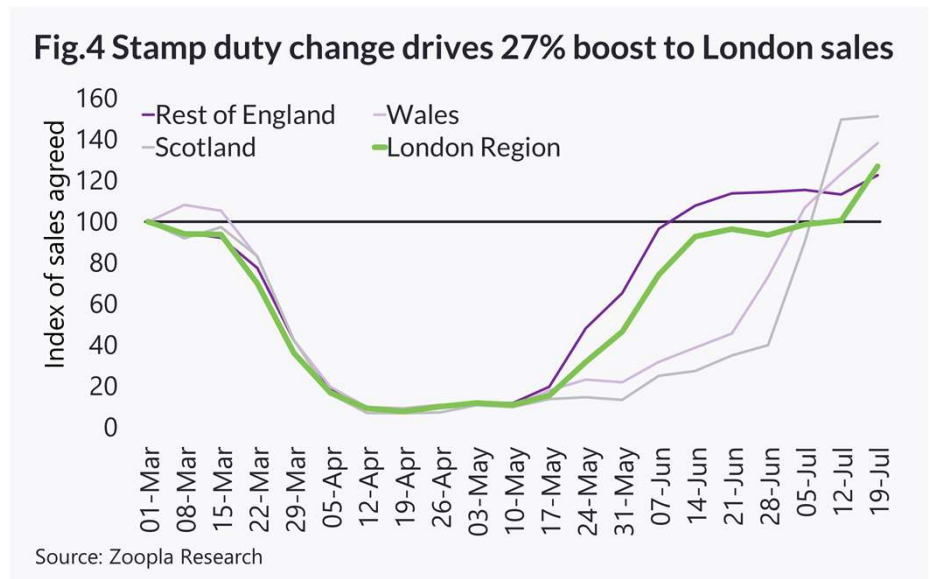


Figure 4 shows how the delayed reopening of the markets in Scotland and Wales has resulted in a faster rebound in sales activity where weekly sales volumes are 40-50% higher than pre COVID as the market catches up on lost sales over the lockdown.

+2-3%

Annual house price growth by the end of 2020

What next? More of the same in the short term

The staggered reopening of housing markets across countries and the added impetus from the stamp duty holiday means we expect levels of demand and new sales to remain above pre lockdown levels over the next 1-2 months.

The net result will be continued support for the headline rate of house price growth. We expect the headline UK house price index to remain in the 2-3% annual growth range for the remainder of the year. Sales agreed today will not complete for another 2-4 months so momentum today will feed into headline measures of pricing into the latter part of the year.

How to square current housing trends with economic outlook?

For those operating in the market, and others looking in, the latest forecasts for increased unemployment and a sharp economic contraction over the next 12-18 months certainly seem at odds with current levels of market activity.

We expect rising unemployment to weigh on market activity over the final quarter of 2020 and into the first half of 2021. While some have forecast annual house price falls by the end of 2020, the pricing impact is set to be delayed thanks to the £188bn of Government support for the economy and businesses.

Further support cannot be ruled out while forbearance by lenders, and the availability of the mortgage payment deferrals which can start up until the end of October and last for 3-6 months, is likely to limit the scale of downside for house prices.

The latest Office for Budget Responsibility (OBR) projections for 'peak to trough' house price falls are between -3% and -16%. We expect any price falls at a national level will be at the lower end of this range and will materialise during 2021 rather than 2020.

Table 2 - UK house price index and city summary

	Average price	%yoy Jun-20	%yoy Jun-19	Monthly trend	Annual trend
UK	£219,500	2.7%	1.0%		
20 city index	£255,300	2.3%	1.1%		
Nottingham	£158,800	4.5%	3.2%		
Manchester	£174,500	4.1%	3.6%		
Leeds	£170,300	3.6%	2.5%		
Leicester	£184,400	3.1%	4.9%		
Liverpool	£122,800	2.9%	3.1%		
Sheffield	£139,300	2.8%	2.3%		
Bristol	£282,400	2.8%	1.2%		
Birmingham	£168,100	2.8%	3.3%		
Edinburgh	£233,600	2.6%	4.6%		
Cardiff	£211,900	2.3%	3.1%		
Glasgow	£119,700	2.2%	2.7%		
London	£479,300	1.7%	-0.8%		
Portsmouth	£240,600	1.6%	0.7%		
Newcastle	£128,000	1.6%	0.5%		
Belfast	£138,300	1.5%	3.9%		
Cambridge	£413,500	1.5%	-0.4%		
Bournemouth	£289,600	1.0%	0.6%		
Oxford	£401,300	0.8%	-1.3%		
Southampton	£227,400	0.7%	0.2%		
Aberdeen	£143,300	-2.4%	-4.3%		

Source: Zoopla House Price Index
 Sparklines show last 12 months trend in annual and monthly growth rates – red bars are a negative value – each series has its own axis settings

Contact

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