Research and Insight
July 2020 index
(published 27 August 2020)

UK House Price Index

Time to sell falls more than a quarter as homeowners shrug off recession fears

+2.5%
UK house price growth
% year on year

-31%
Time to sell a home since the lockdown lifted v 2019

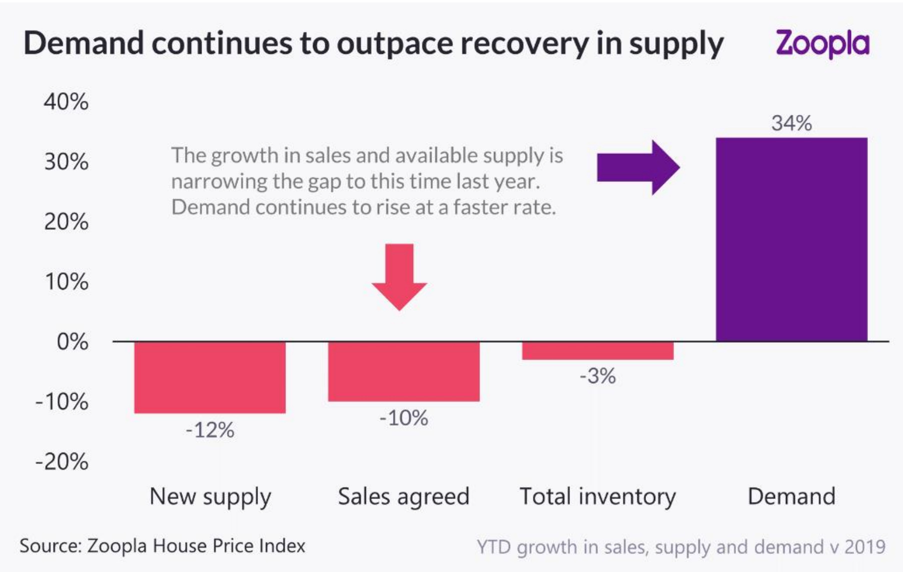
16 /20
Cities with house price growth over 2% per annum

Executive summary

- Housing market conditions remain unseasonably strong.
- Supply/demand imbalance supporting headline rate of growth and has resulted in the time to sell a home falling 31% since the lockdown.
- Changing buyer requirements see 4/5 bed homes selling faster than flats.
- More new supply coming from wealthier demographics.
- House price growth of 2-3% by end of 2020.
- A major decline in UK house prices is unlikely despite onset of UK recession.

"The 'once in a lifetime' re-evaluation of housing requirements on the back of the lockdown is a counter-weight to the impact of the recession on the UK housing market."

Richard Donnell
Research and Insight Director, Zoopla



▲2.5%

Annual UK house price growth

Annual UK house price inflation +2.5%

Housing market activity continues to run at its strongest level for over 5 years on most measures. The number of new sales agreed per agent in August is 76% above the 5-year average with a similar trend in demand while average sales periods decline.

This is not just pent-up demand returning to the market. It also reflects the impact of a once in a lifetime reassessment of the nation's housing needs in the wake of the 50+ day lockdown. Homeowners and renters are reconsidering their housing requirements, characterised by a search for more space and changing expectations for work and commuting patterns.

The strength of demand and sales is supporting the headline rate of UK house price inflation which slowed to +2.5% in July from +2.7% in June. The 3-month growth rate peaked at +1.1% in April on sales agreed before the lockdown and has now almost halved to +0.6%.

UK house price index summary, July 2020

	3-month change	% year on year	Average price
Feb-2020	0.6%	2.2%	£250,100
Mar-2020	0.8%	2.4%	£251,000
Apr-2020	1.1%	2.7%	£252,000
May-2020	1.0%	2.7%	£252,700
Jun-2020	0.9%	2.7%	£253,400
Jul-2020	0.6%	2.5%	£253,600

House prices to increase over 2020 despite recession

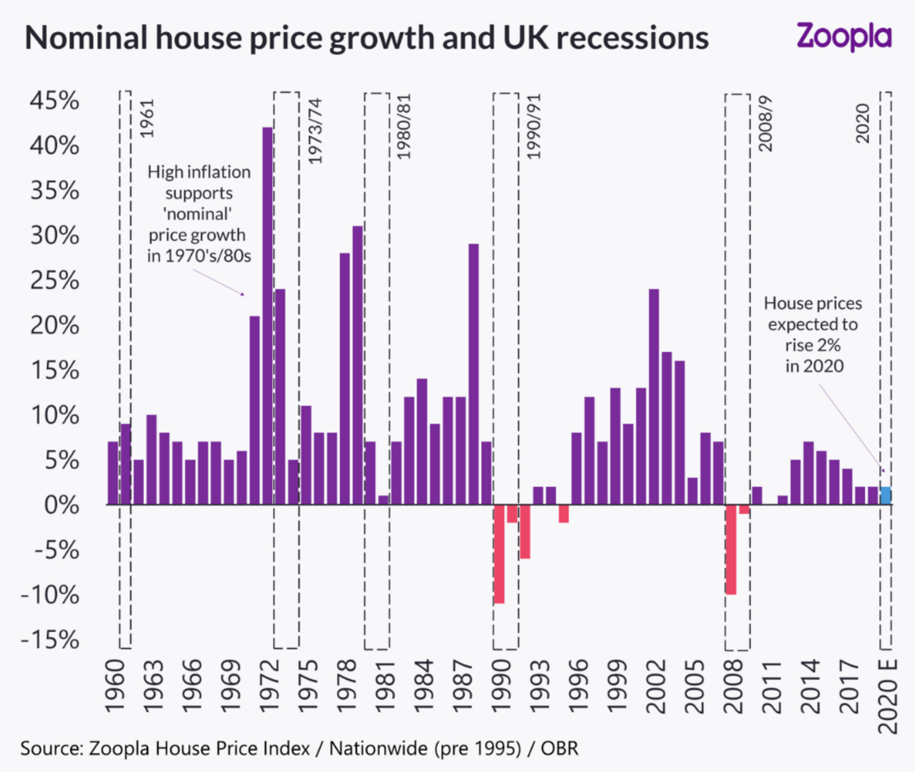
At a city level growth rates are holding steady with average prices rising at over 4% per annum in Nottingham and Manchester and 16 of the 20 cities recording growth of 2% or more. There is no sign of any immediate deterioration in price growth despite the onset of economic recession. Government support for the economy has been vital in supporting business and consumer confidence.

Looking back over the last 60 years there have been 5 recessions with nominal house price falls recorded over the last two (1990/91 and 2008/9). These more recent recessions were deeper and lasted longer than those before. Every recession has different underlying drivers and the current one is no different. The most important aspects for UK housing is the impact on household incomes, credit availability, mortgage rates and unemployment.

While the economy has contracted sharply and unemployment is rising, consumer spending has rebounded and purchasing manager indices are pointing to a wider rebound in the economy. This is positive but the unwinding of the furlough scheme and other Government support is the next challenge that will test the strength of economic recovery. In the short term we still believe that house prices will end the year 2% to 3% higher than at the start.

-31%

Fall in the average time to sell a home over the 90 days since lockdown



Market shows little sign of losing momentum

The post lockdown rebound in the housing market shows little signs of slowing. The cumulative increase in buyer demand since the start of the year is +34% higher than over the same period in 2019. The growth in housing demand has moderated noticeably over August as the holiday season starts, but with many people staying in the UK housing market conditions remain strong.

More demand brings increased numbers of sellers and more homes to the market. Over the last month the flow of new supply has been 50% faster than last year but the closure of the market means available inventory per agent remains 3% lower than a year ago. The supply/demand gap is slowly closing.

Time to sell a home falls 31% post lockdown

Homes are selling at a faster rate across all regions and countries. We calculate the time to sell from the date first marketed for sale to going under offer or 'sold subject to contract'. It takes a further 3 months for a sale to complete and the buyer to finally move in.

Our standard time to sell measure looks at the average days for homes selling over a rolling 180-day period. To allow for the market closure we have analysed the time to sell for homes that have sold over the last 3 months, since the lockdown lifted.

At a UK level we find that homes are selling in 27 days. This is 31% lower than the same 3-month period last year, reflects the strength of demand. Homes are currently selling in less than a month across all regions and countries.

24 days

Average time to sell a 3 bed house since lockdown restrictions lifted

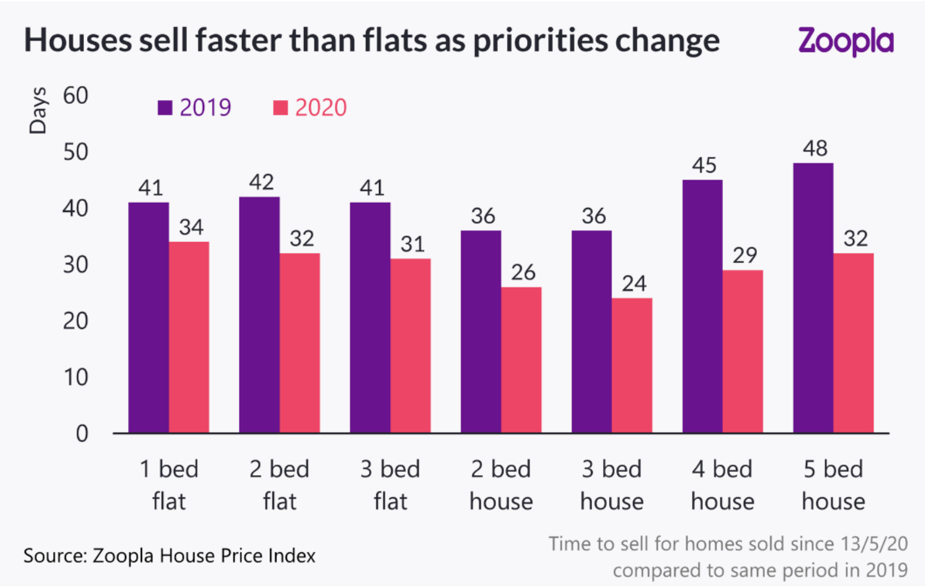
Changing buyer priorities see houses selling faster than flats

The COVID crisis has shifted buyer expectations and requirements and this is reflected in the time to sell between different types and size of home - again focusing on homes sold over the last 90 days.

The three-bed house is the mainstay of the UK housing market, accounting for just under half of all housing supply. Three-bed houses remain the fastest selling properties with an average time to sell of just 24 days.

Zoopla's tracking of supply and demand shows the greatest mis-match is for 3 bed houses. These are the most in-demand property type, but the proportion of available supply falls short of demand across all parts of the UK.

At a regional level there has been noticeable jump in demand for 3 beds in London and the S East of England as households seek out more space. Those looking to buy in London may need to look outside the city to meet their needs. In the West Midlands 60% of all applicant demand is for 3 bed houses.



Changing buyer requirements - as households prioritise more space and widen their search criteria to find a home - has resulted in the time to sell 4 and 5 bed houses falling by over a third compared to last year. Four bed houses are now selling faster than the average flat.

Flats make up a quarter of homes for sale at present. Sales periods have also declined but less than average resulting in flats having the longest time to sell at an average of 32 days - still quick by historic standards.

While housing sales are running 76% ahead of the 5-year average not all homes are flying off the shelves. The health warning with this analysis is that it tells us about the homes that are selling i.e. where the property is well presented and priced in line with demand in the local market. Even with strong market conditions it is important that serious sellers do their research and talk to their agent about pricing their home at the right level in order to achieve a sale.

60%

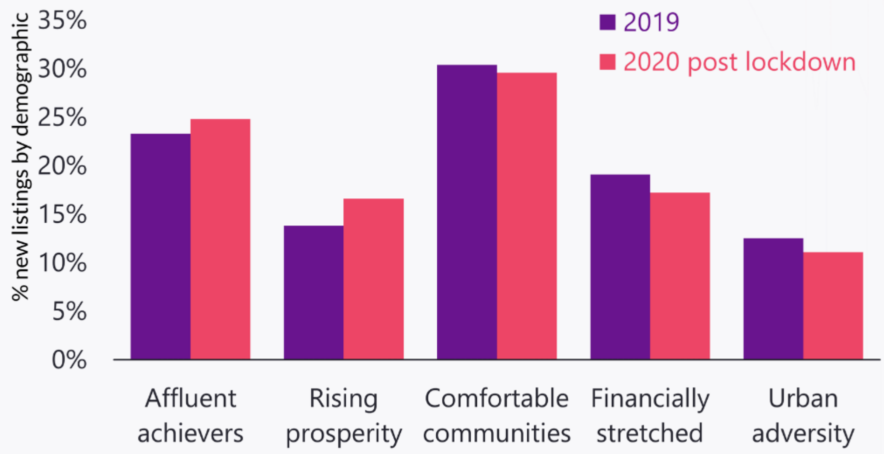
Buyers in the West Midlands want a 3 bed home

More new supply from wealthier demographics

The flow of supply onto the market is an important factor – most sellers are also buyers although many buyers have nothing to sell e.g. first-time buyers.

We have segmented new supply by the headline demographics for the immediate locality of the property using CACI's ACORN classification. This reveals an increase in sellers in wealthier demographics, compared to 2019. The share of new supply in other demographics has declined slightly. The relative changes may appear small, but they are important in our view.

New supply demographics - more wealthier sellers



Source: Zoopla House Price Index/CACI ACORN

At its simplest level the analysis goes some way to explaining the strength of the housing market at a time of recession and rising unemployment. With half of all homeowners having no mortgage and a large portion of the remainder having considerable equity in their homes, the constraints of affordability and mortgage availability are not spread equally across buyers and sellers.

In addition, the demographic profile of households is not uniformly distributed by geography. We believe part of this shift reflects an increase in activity in London and south east England where housing sales volumes in 2019 were up to 20% lower than in 2015. A soft repricing of the housing in these regions over the last 5 years has improved affordability while the recent stamp duty changes will have contributed to more homes coming to the market for sale.

Any changes to property taxation will shape market dynamics

The COVID crisis has pushed Government debt to an all time high of £2 trillion and tax increases are on the horizon. It is too early to say to what extent the Government consultation on Capital Gains Tax may be encouraging some wealthier home owners to bring forward decisions to sell. Housing accounts for a large part of household wealth and tax policy related to property is set to be the subject of increasing debate over the next decade. This will have knock on impacts for the functioning of the wider market.

+2-3%

Annual house price growth by the end of 2020

Outlook – slow return to normality

The next important milestone for the housing market comes in September when schools fully re-open and the UK starts to get back towards a full reopening of the economy.

The near-term economic outlook is important in the context of housing market activity but the impact of the lockdown on households and their housing requirements presents a sizable counter-weight to a weakening economy. This is especially true given the level of equity in the housing market and how many households are mortgage free.

Mortgage reliant borrowers will be squeezed out at the margins by some tightening in credit availability but there is a good chance that these buyers are likely to be replaced by older, more-equity rich households who bring forward decisions to move in response to the lockdown.

While demand has softened over August, we expect the current momentum in market activity to continue into 2020Q4.

Recessions tend to hit sales volume more than prices

The impact on housing and house prices from recessions tends to be felt more on housing sales than levels of pricing. The 1990/91 and 2008/09 recessions resulted in sales volumes falling by more than 50%. Housing market volumes are already low by historic standards and we expect sales to be 20% lower in 2020 as a result of the market being closed for almost 2 months.

A COVID recession but without the full bite for housing?

At present we do not foresee any major decline in UK house prices as a result of the COVID induced recession. There are a range of factors underpinning this view, including:

1. House prices are rising at low rates by historic standards and a major spike in forced sellers seems unlikely currently as mortgage payment deferrals and forbearance support mortgaged households. Credit remains available for new borrowers not seeking high loan to value mortgages.
2. A portion of households has and will be adversely impacted by the economic downturn. Unemployment is rising and appears more concentrated in the younger age bands who tend to be renting rather than homeowners.
3. The last two recessions have seen house prices bid up excessively ahead of the downturn. While housing in parts of the country remains expensive, mortgage regulations introduced from 2004 have restricted the ability of borrowers to bid up the price of housing in the run up to this latest crisis. This limits the downside for house prices in our view.

House Price Index – Country, region and city summary

Note: The Zoopla house price index is repeat sales-based price index using sold prices, mortgage valuations and data for agreed sales. The index uses more input data than any other and is designed to accurately track the change in pricing for UK housing.

Zoopla

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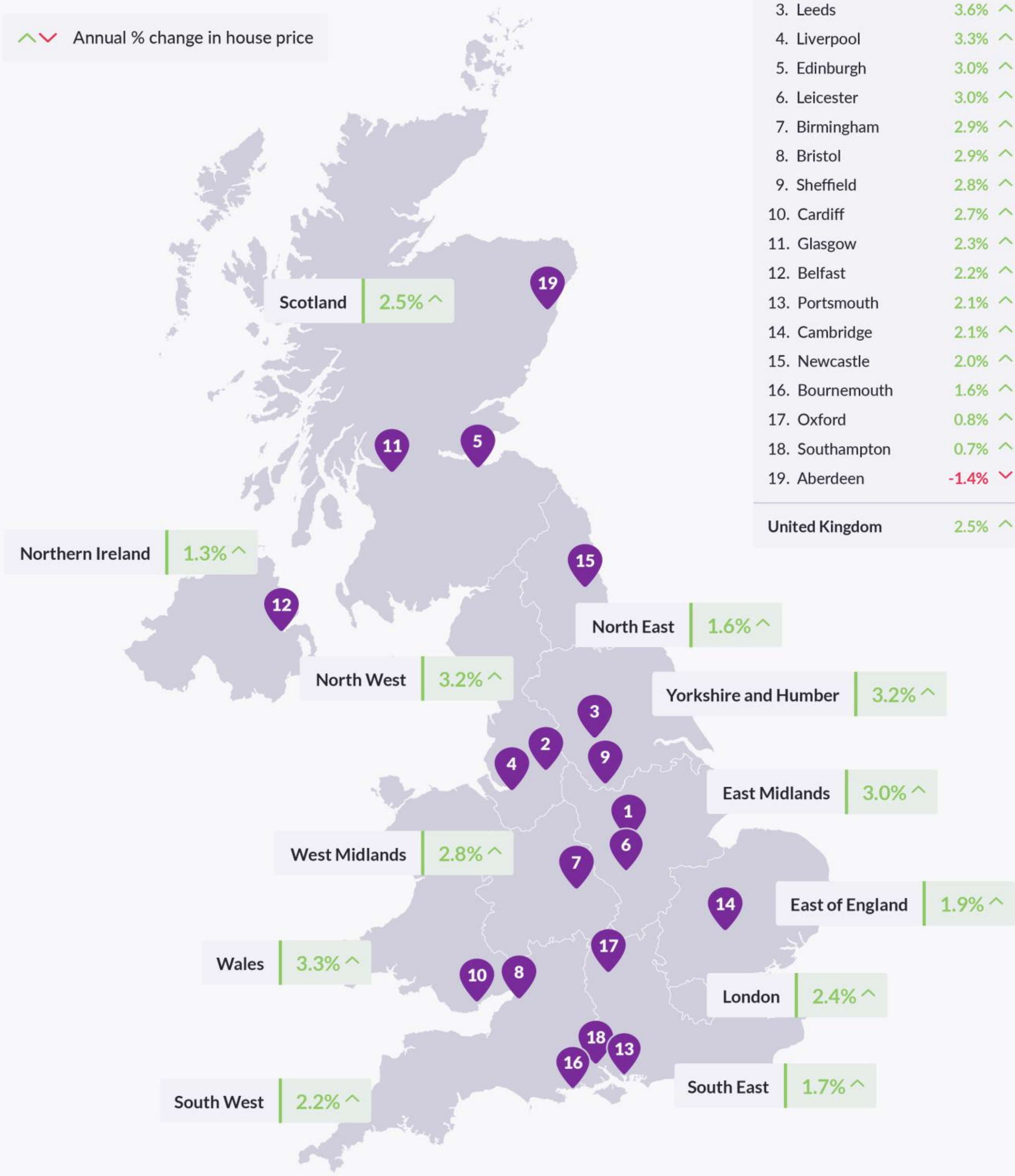
Source: Zoopla House Price Index

Annual % change in house price

City	Annual % change in house price
1. Nottingham	4.4%
2. Manchester	4.0%
3. Leeds	3.6%
4. Liverpool	3.3%
5. Edinburgh	3.0%
6. Leicester	3.0%
7. Birmingham	2.9%
8. Bristol	2.9%
9. Sheffield	2.8%
10. Cardiff	2.7%
11. Glasgow	2.3%
12. Belfast	2.2%
13. Portsmouth	2.1%
14. Cambridge	2.1%
15. Newcastle	2.0%
16. Bournemouth	1.6%
17. Oxford	0.8%
18. Southampton	0.7%
19. Aberdeen	-1.4%
United Kingdom	2.5%



Zoopla UK house price index and 20-city summary – July 2020

	Average price	%yoy Jul-20	%yoy Jul-19	Monthly trend	Annual trend
UK	**£217,600**	**2.6%**	**0.9%**		
20 city index	**£253,600**	**2.5%**	**1.0%**		
Nottingham	£158,500	4.4%	3.2%		
Manchester	£174,100	4.0%	3.6%		
Leeds	£169,900	3.6%	2.5%		
Liverpool	£122,900	3.3%	2.8%		
Edinburgh	£229,100	3.0%	4.4%		
Leicester	£183,300	3.0%	4.9%		
Birmingham	£167,700	2.9%	3.1%		
Bristol	£279,900	2.9%	1.3%		
Sheffield	£139,000	2.8%	2.3%		
Cardiff	£207,900	2.7%	2.8%		
Glasgow	£119,200	2.3%	2.4%		
Belfast	£137,000	2.2%	2.8%		
Portsmouth	£235,400	2.1%	0.4%		
London	£475,100	2.1%	-0.9%		
Cambridge	£415,400	2.1%	-0.9%		
Newcastle	£126,700	2.0%	0.3%		
Bournemouth	£289,500	1.6%	0.3%		
Oxford	£398,700	0.8%	-0.3%		
Southampton	£224,900	0.7%	0.2%		
Aberdeen	£145,100	-1.4%	-3.9%		

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 providing a more granular view on price development

Contact

If you have any questions about our research please do get in touch.

Richard Donnell
Director of Research & Insight
richard.donnell@zoopla.co.uk

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