

UK Housing Market Update



House prices rise but falls set to return as demand remains weak

House prices grew by 0.9% in October, putting the annual change at -3.3% nationally, according to Nationwide. While this uptick will be welcome news to some, monthly data can be volatile, and we expect the general downward trend in values to continue to trickle into next year. Our updated market forecasts will be published on the 8th November, with greater depth on our outlook on values and activity.

The stronger than expected value growth was accompanied by a surprisingly robust, albeit still low, number of completions. 92,600 transactions completed in September, according to HMRC. While there was a slight fall in the absolute number, it was an increase relative to pre-Covid averages for the month, at just -8.9% below the 2017-19 average. This was the strongest result since March this year.

Completions will likely remain weaker, however, due to a fall in new mortgage approvals. Just 43,000 new mortgages were approved in September, which was -34% below the pre-Covid average for the month. This implies the number of completions will also fall in due course.

Both supply and stock remain muted, as a majority of surveyors continued to report both falling supply and demand, according to the

September RICS survey. Demand was still falling faster than supply which will limit transaction numbers and suppress values.

The unchanged base rate supports a more stable economic backdrop. Inflation fell to 6.1% in September, down from 6.2% in August, according to the ONS, and in line with economists' expectations. In response to this and wider economic indicators, the Bank of England held the base rate at 5.25% on 2nd November. Oxford Economics suggests we are now at the base rate peak, with the first cut still forecast for Q3 2024.

Mortgage rates saw little change in October, suggesting lenders are reaching their limit of how much they can squeeze their margins before they need the base rate to fall to bring them down further. The comparatively high rates are likely to remain at current levels for some time, limiting buyer activity and restricting their purchasing power. This will continue to restrict the capacity for price growth.

Local variation in price falls has become increasingly apparent in the more lagged Land Registry data. Annual falls have been most apparent in Wales and the South East including Brent (-5.7%) and the Isle of Anglesey (-5.5%). In contrast, Nottingham saw growth of 9.4%.

Figure 1 House price growth to Jul-23 since 07/08 peak

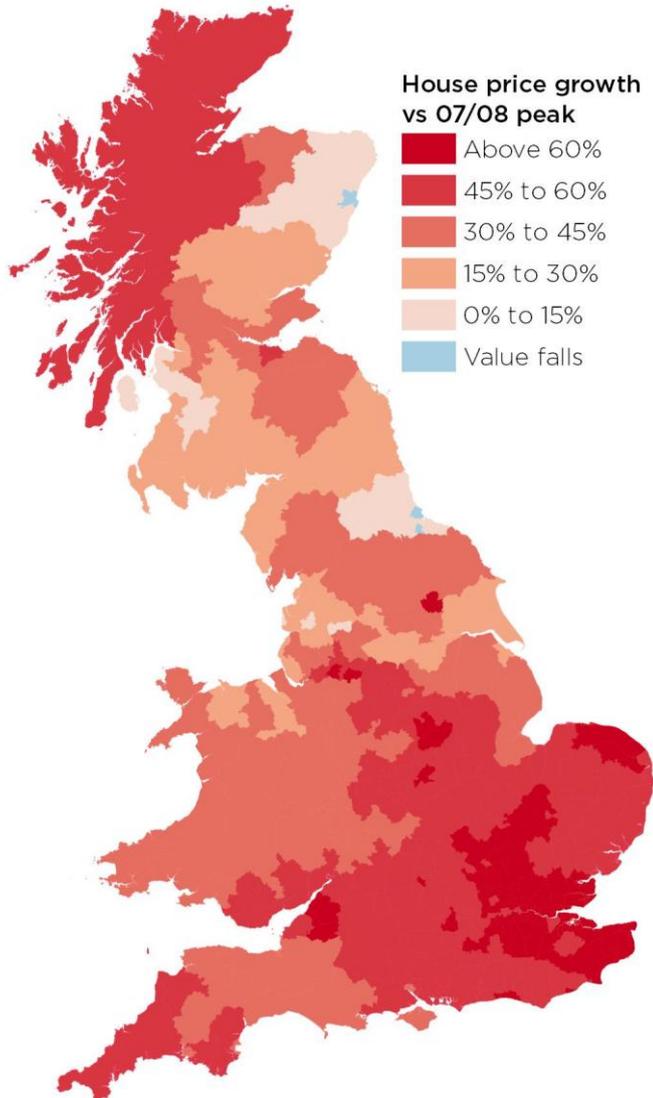
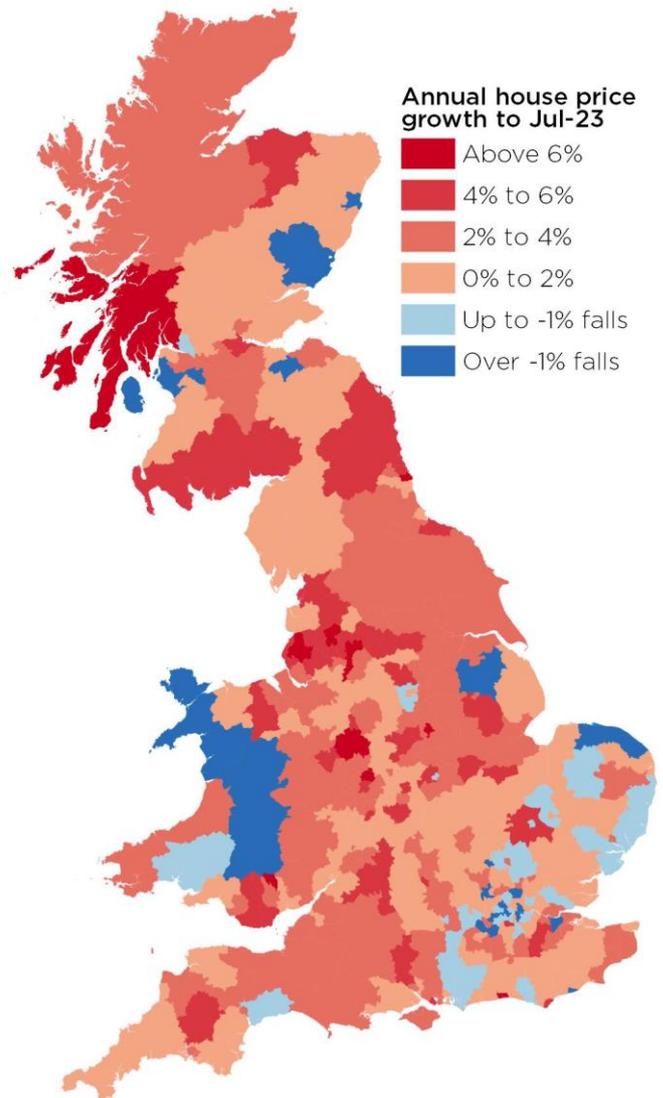


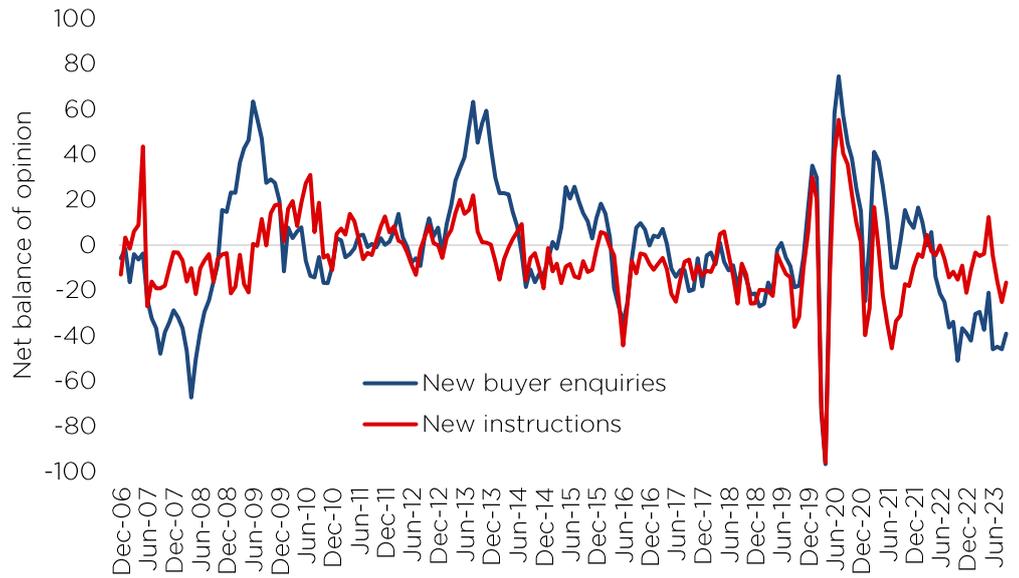
Figure 2 Annual house price growth to Jul-23



Source Savills using HM Land Registry and Registers of Scotland (6 month smoothed)*

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Figure 3 New buyer enquiries negative for 17th consecutive month

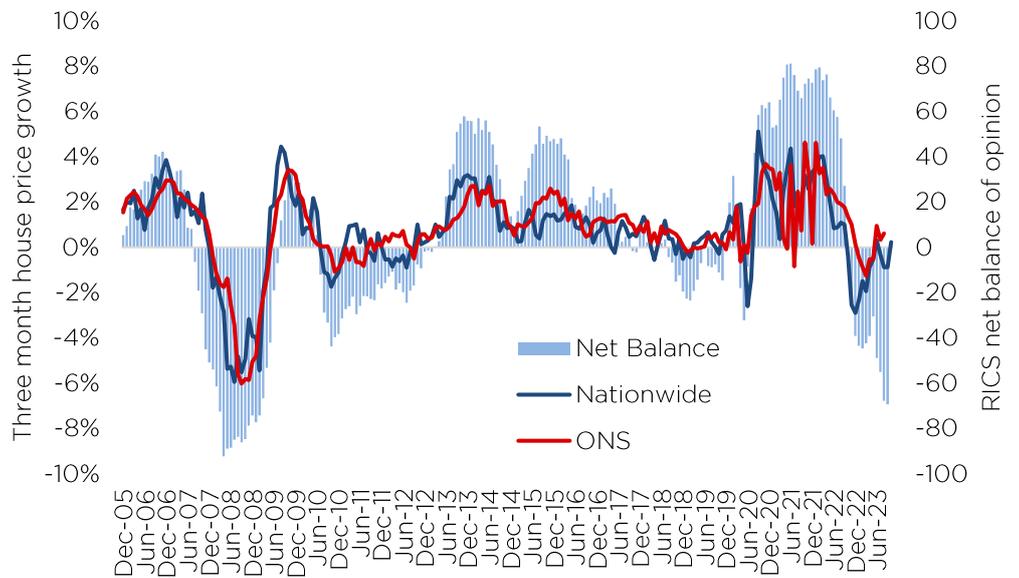


Source RICS (seasonally adjusted)

Fewer surveyors reported both falling supply and demand in September than in August, according to the latest RICS survey. While this suggests a slight recovery, the majority of surveyors continued to report both metrics falling.

The large gap between supply and demand remained the same, so the excess of supply relative to demand persists. This will maintain downward pressure on house prices.

Figure 4 House price growth stayed flat on a 3-month basis as sentiment worsened



Source RICS, Nationwide, ONS (seasonally adjusted)

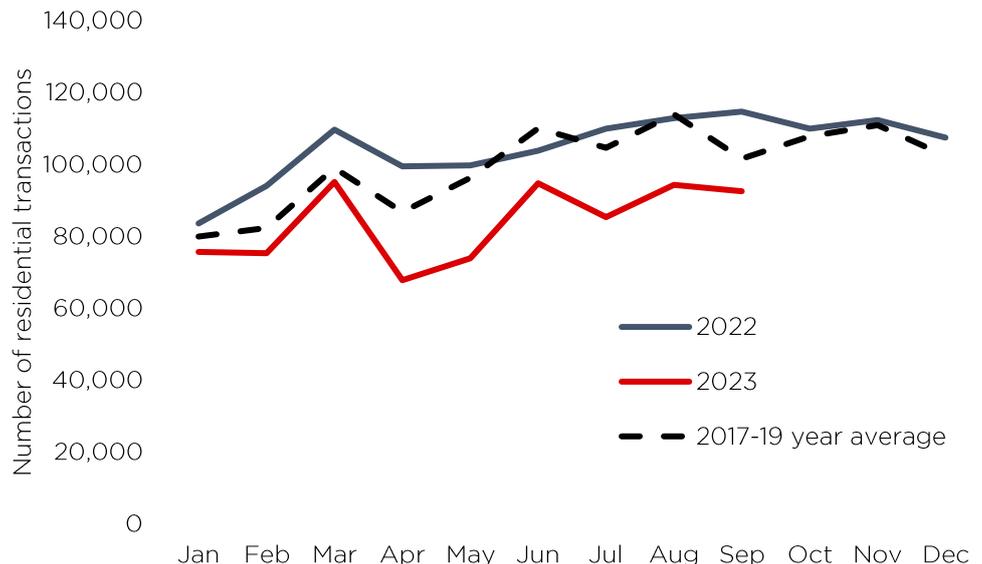
The RICS survey can be a good early indicator of house price movements, which are later picked up by other indices.

The number of surveyors reporting price falls increased again, to levels not seen since 2009.

On a three-month basis house prices rose by 0.2% in October, according to Nationwide, up from the -0.9% falls in September, but this does not alter the general downward trajectory in values expected in the coming months.

House prices rose by 0.6% according to the more lagged ONS index.

Figure 5 Completed transactions in September edged towards 2017-19 average levels



Source HMRC

92,600 transactions were completed in September, according to HMRC. This was a slight decrease on August's figure of 94,330 but was the closest to pre-covid levels of transactions since March 2023, at just -8.9% below the 2017-19 average for September. This is likely due to the slight recovery in mortgage rates seen in spring 2023.

Nevertheless, activity is expected to remain subdued over coming months while mortgage rates remain high.

Annual rental growth across the UK stayed high at 10.1% in September, only 0.1% lower than August, according to Zoopla. Rental growth accelerated across all regions except the South East and West Midlands on a three-month basis, as competition for limited stock continues to bolster growth.

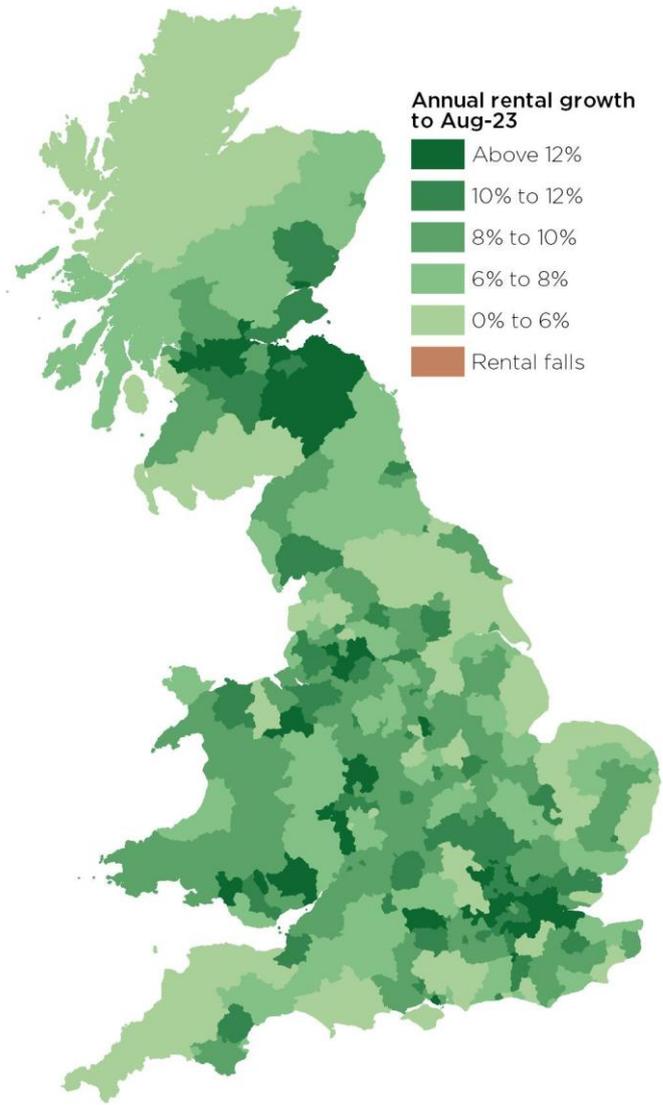
Scotland remained the region with highest annual rental growth, at 12.8% in September. The North West had the second strongest annual growth at 11.7%, while growth in London slowed to 10.3%. Rents in Yorkshire and the Humber grew the least compared to last year, up 8.6%, but has experienced higher-than-average growth of 28.0% since the pandemic. Wales had the most growth since March 2020, at 33.4%.

Table 1 Regional rental growth to Sep-23

	m/m	q/q	y/y
UK	1.1%	2.9%	10.1%
London	0.9%	2.6%	10.3%
South East	1.1%	3.2%	9.8%
East of England	1.0%	2.8%	9.9%
South West	1.4%	3.7%	8.7%
East Midlands	1.2%	3.0%	10.1%
West Midlands	0.8%	2.7%	9.6%
North East	0.8%	2.0%	9.0%
Yorks & Humber	1.1%	2.6%	8.6%
North West	1.5%	4.0%	11.7%
Wales	1.2%	3.4%	10.4%
Scotland	1.0%	2.8%	12.8%

Source Zoopla Rental Index powered by Hometrack

Figure 6 Annual rental growth to Aug-23

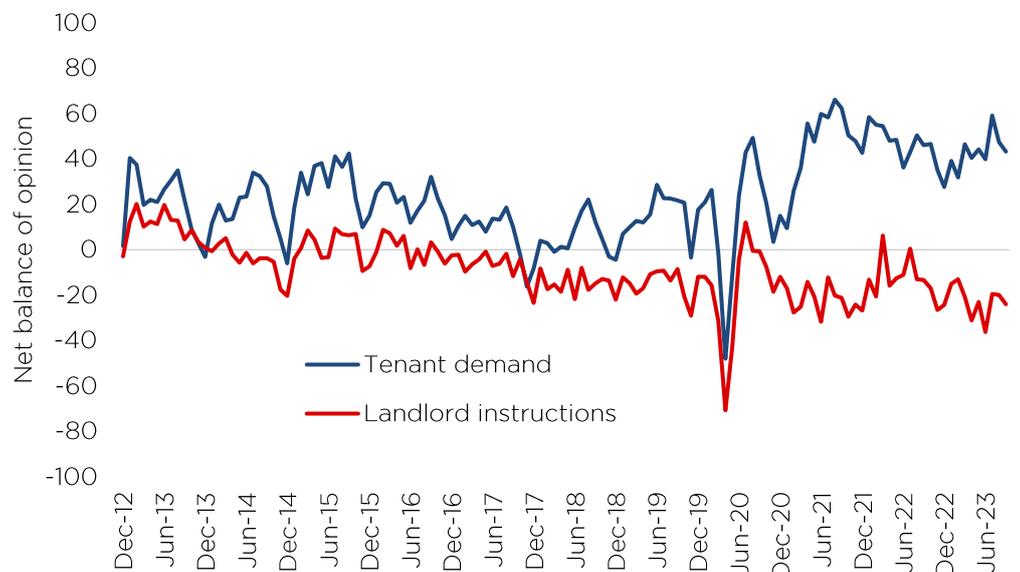


Source Zoopla Rental Index powered by Hometrack

The RICS survey for the lettings market showed the continued mismatch between rental supply and demand that has underpinned rental growth across the UK over the last two years.

The majority of surveyors reporting greater tenant demand decreased slightly but stayed at high levels. Meanwhile, the majority of surveyors reporting falling supply also increased. The gap between supply and demand remained very wide, which will drive further strong rental growth.

Figure 7 Gap between tenant demand and landlord instructions was still wide



Source RICS

Table 2 Rental forecasts

Region	2023	2024	2025	2026	2027	5 years to 2027
UK	New forecasts will be published on 8 th November 2023					
London						

Table 3 Recent house price growth

	Nationwide (Regions to Q3 2023, UK to October 2023)			ONS (to August 2023)			Savills* (to July 2023)		
	m/m	q/q	y/y	m/m	q/q	y/y	m/m	q/q	y/y
UK	0.9%	0.2%	-3.3%	0.2%	0.7%	0.1%	0.0%	-0.8%	1.9%
London	-	0.4%	-3.8%	-0.1%	-0.2%	-1.3%	-0.1%	-1.1%	0.0%
South East	-	-0.7%	-5.4%	-0.2%	0.9%	-0.6%	-0.2%	-1.1%	1.4%
East of England	-	-0.9%	-5.5%	-0.8%	0.8%	-1.6%	-0.2%	-1.1%	0.9%
South West	-	-1.3%	-6.3%	0.9%	0.1%	-1.1%	-0.1%	-1.0%	2.4%
East Midlands	-	-2.1%	-5.6%	0.0%	0.4%	0.6%	-0.1%	-0.7%	3.0%
West Midlands	-	0.6%	-2.5%	0.0%	0.6%	1.1%	0.1%	-0.7%	3.0%
North East	-	1.1%	-2.2%	0.8%	2.8%	3.6%	-0.1%	0.0%	3.6%
Yorks & Humber	-	-0.9%	-5.5%	0.4%	3.4%	2.1%	0.4%	-0.4%	3.1%
North West	-	0.7%	-3.5%	-0.1%	-0.1%	0.4%	0.2%	-0.3%	3.5%
Wales	-	-1.6%	-5.5%	-0.7%	0.1%	0.1%	0.0%	-0.7%	2.2%
Scotland	-	-1.4%	-4.3%	0.9%	0.3%	1.0%	0.3%	0.2%	2.1%

Source Savills using HM Land Registry and Registers of Scotland (6 month smoothed)*, Nationwide (seasonally adjusted), ONS (seasonally adjusted)

Table 4 Mainstream house price forecasts

Region	2023	2024	2025	2026	2027	5 years to 2027
UK	New forecasts will be published on 8 th November 2023					
London						
South East						
East of England						
South West						
East Midlands						
West Midlands						
North East						
Yorks & Humber						
North West						
Wales						
Scotland						

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*Savills index is an unadjusted repeat sales index based on HM Land Registry and Registers of Scotland price paid data. Note that Savills national index (labelled UK) is for Great Britain, not including Northern Ireland.

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