

UK Housing Market Update



House prices continue to rise while falling mortgage interest rates drive activity back towards pre-Covid norms

House prices rose by 0.7% in September, taking annual growth to 3.2%, according to Nationwide. This represents the strongest annual house price growth figure since November 2022. Growth has typically been stronger in the north of the country, with annual growth in North West, Scotland and Yorks & Humber of 4.9%, 4.4% and 4.3% respectively. Price growth was lower in the south, but London outperformed with annual growth of 2.0%.

This value growth comes alongside a marked improvement in activity, with mortgage approvals in August almost back to pre-Covid levels, just 3% below the 2017-19 average. New sales agreed and new instructions in September are even more positive, 8% and 9% above the 2017-19 average for the month. Demand and supply seem to be rising together, meaning that there is little pressure on prices.

Rising activity comes on the back of falling mortgage rates, with the average rate for a 2-year fix (75% LTV) now down to 4.8% in August, compared to 6.2% the year before. While affordability has been improving, average housing costs are still far higher than they were before the pandemic, which will limit price growth over coming months.

Market conditions over the next few months will continue to be reliant on mortgage interest rates. Bank of England Governor, Andrew Bailey, has hinted that interest rates could fall more quickly than economists are expecting, which would be a boost for the housing market. But this relies on inflation remaining close to the 2% target. The situation in the Middle East is a key risk factor and the price of crude oil has already increased, which could in turn push up inflation and limit rate cuts.

The Budget on 30th October is also a factor for the market. Anticipated changes to capital taxation have already caused some Buy to Let landlords and second homeowners to sell, reducing the supply of homes to rent. And the prime markets are wary of any change to the treatment of 'non-doms'. Support for new homes, particularly social housing, is also expected.

Coastal markets in the South and East have experienced the largest price falls, according to more lagged Land Registry data, in a reverse of the lockdown induced 'Race for Space' trend where they were among the strongest performers. In turn this may be driving the stronger growth the commuter markets of outer London and parts of the Home Counties.

Figure 1 House price growth to Jun-24 since 07/08 peak

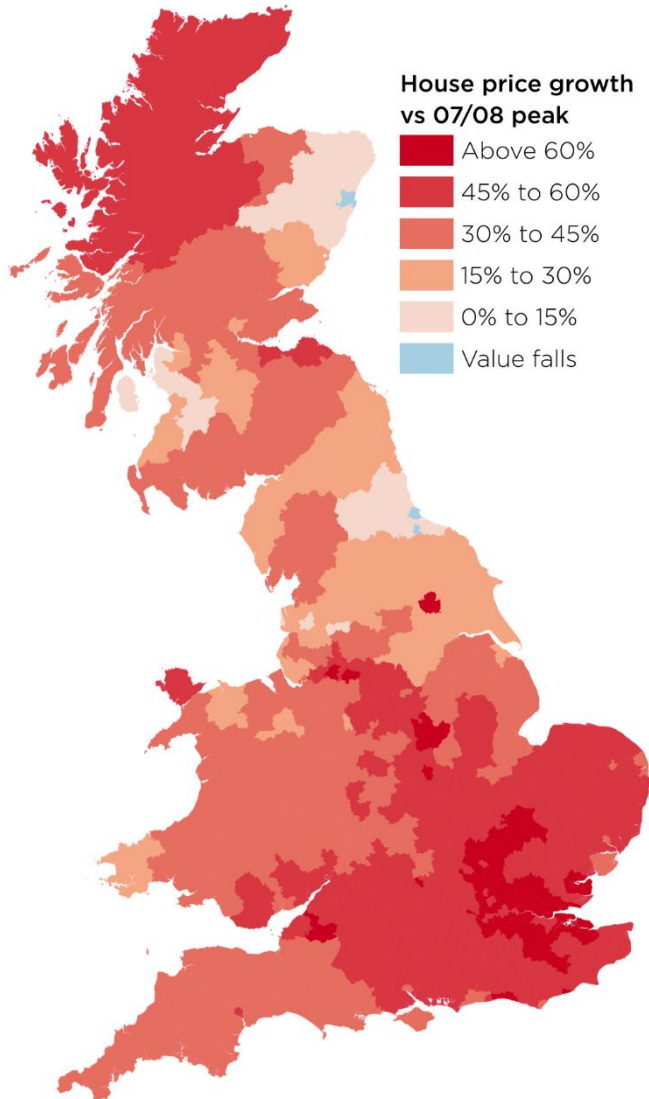
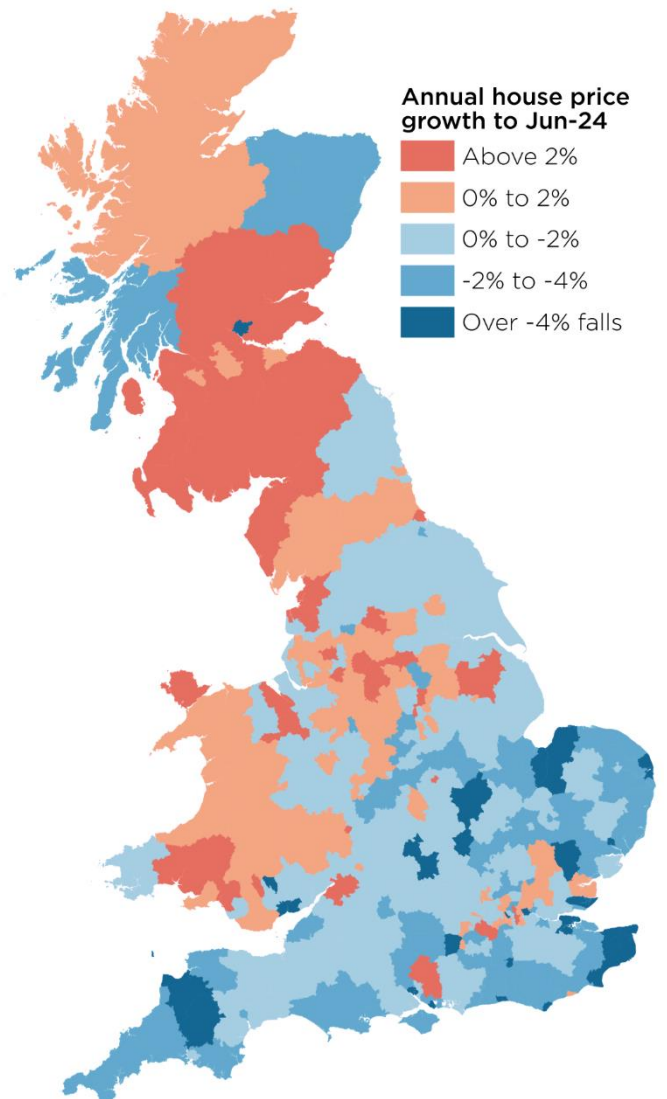


Figure 2 Annual house price growth to Jun-24



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

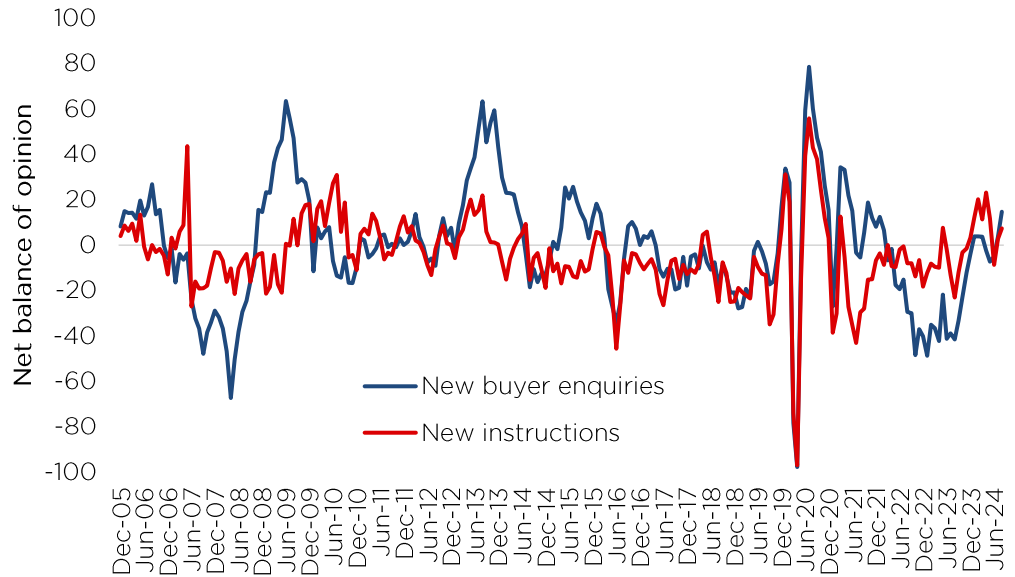
Source Savills using HM Land Registry and Registers of Scotland (6 month smoothed)*

A small majority of surveyors reported rising levels of demand in August, an increase on the prior month, according to the latest RICS survey.

The number of surveyors reporting increased supply increased during August, also a continuation on July's results.

Some surveyors highlighted that potential tax changes in the forthcoming Budget had spurred on sellers, and that the lowering of the Bank Rate and mortgage interest rates have brought buyers back into the market.

Figure 3 Demand and supply both improve



Source RICS (seasonally adjusted)

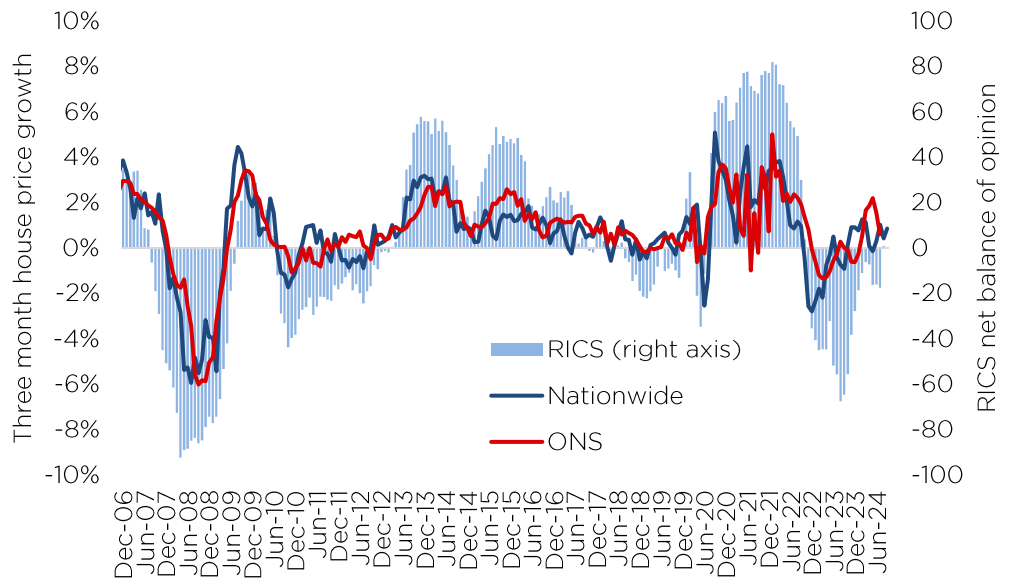
The RICS survey can be a good early indicator of house price movements which are later picked up by other indices.

The number of surveyors reporting price rises in August exceeded those reporting falls. This is the first time price sentiment has been positive since October 2022.

Nationwide data shows that house prices rose by 0.9% in the three months to September, a return to levels of growth seen towards the start of the year.

House prices grew by 0.6% during the three months to July, according to the more lagged ONS index.

Figure 4 House price growth shown by all metrics for first time since 2022

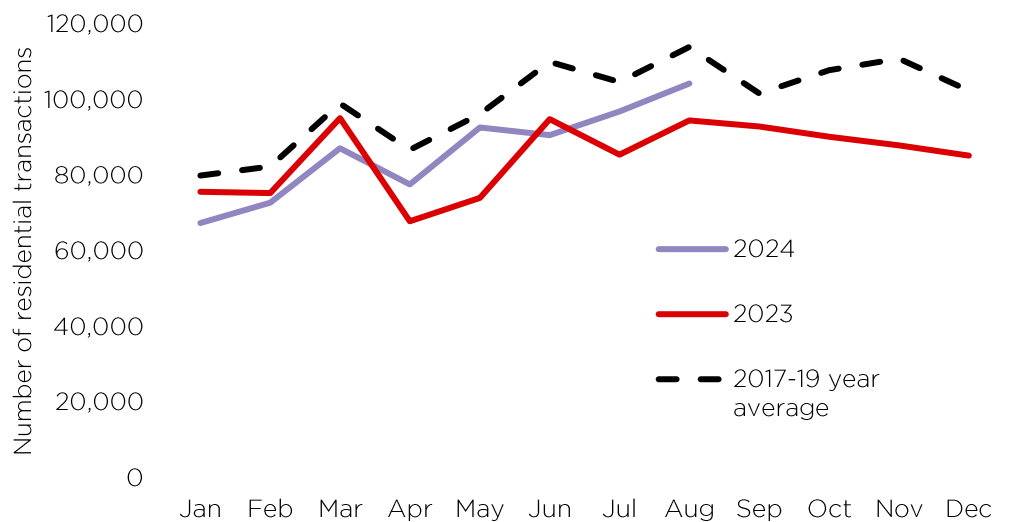


Source RICS, Nationwide (seasonally adjusted), ONS (seasonally adjusted)

104,330 transactions completed in August, according to HMRC. August is typically one of the busiest months and this year was no different. There was no slowdown after July's unusual growth on June, indicating that the election did indeed play a role in delaying completion dates.

Sales completions were still 8% below the 2017-19 average, but 10% higher than August last year. This gap against pre-Covid norms is likely to close over coming months with higher levels of sales agreed and mortgage approvals.

Figure 5 Completed transactions continue to rise



Source HMRC

Annual rental growth across the UK in August was 4.8% according to Zoopla, a further deceleration from July's annual growth figure of 5.4%. With falls in rental supply persisting according to the RICS survey, this suggests rents are reaching an affordability ceiling across large parts of the country. This is most acute in London (2.1% annual growth) where rental values are highest nationally. More affordable markets such as the North East and North West are less affected by this with annual rental growth of 8.6% and 6.7%.

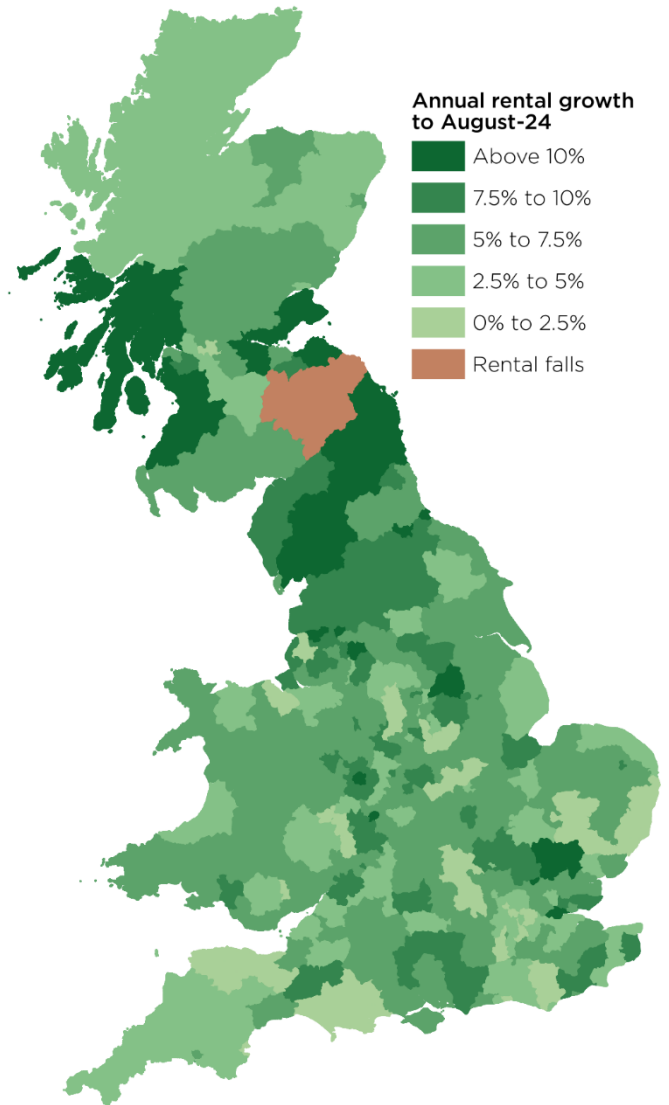
Supply remains a key factor in core city markets. Rental growth has slowed most in Nottingham, where there is more supply, but remains strong in supply-constrained Newcastle.

Table 1 Regional rental growth to August-24

	m/m	q/q	y/y
UK	0.5%	1.6%	4.8%
London	0.7%	1.7%	2.1%
South East	0.3%	1.4%	5.4%
East of England	0.5%	1.5%	6.2%
South West	0.3%	1.5%	5.6%
East Midlands	0.1%	1.0%	4.9%
West Midlands	0.6%	1.8%	6.1%
North East	0.3%	1.2%	8.6%
Yorks & Humber	0.8%	1.8%	5.7%
North West	0.7%	2.6%	6.7%
Wales	0.4%	1.7%	5.6%
Scotland	0.5%	1.6%	6.9%

Source Zoopla Rental Index powered by Hometrack

Figure 6 Annual rental growth to August-24

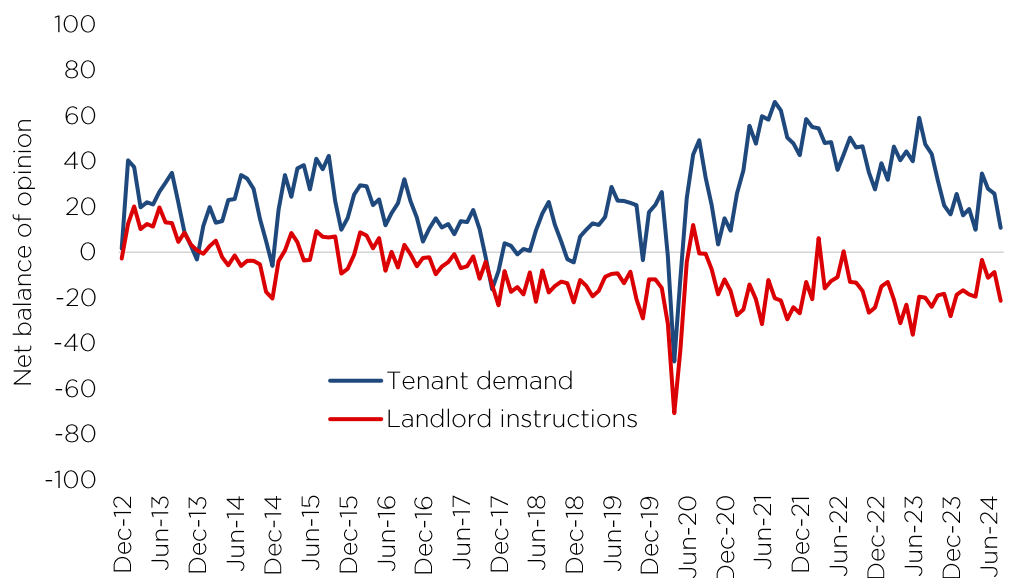


Source Zoopla Rental Index powered by Hometrack

After the higher levels of demand and moderation of the supply shortage over the three months to July, the August RICS survey were more in line with those earlier in the year. There is no sign of demand falling or supply increasing.

The imbalance between supply and demand has been relatively consistent over the last six months as rental growth has slowed. This indicates that affordability is currently the key factor affecting rental growth at a macro level, with differences in supply and demand having an impact locally.

Figure 7 Demand and supply both fall, with demand still outweighing supply



Source RICS

Table 2 Rental forecasts (published November 2023)

Region	2024	2025	2026	2027	2028	5 years to 2028
UK	6.0%	3.5%	3.0%	2.5%	2.0%	18.1%
London	5.5%	3.5%	3.0%	2.5%	2.5%	18.2%

Source Savills

Table 3 Recent house price growth

	Nationwide (Regions to Q3 2024, UK to September 2024)			ONS (to July 2024)			Savills* (to June 2024)		
	m/m	q/q	y/y	m/m	q/q	y/y	m/m	q/q	y/y
UK	0.7%	0.7%	2.5%	-0.4%	0.6%	2.2%	0.2%	-0.2%	-0.7%
London	-	0.7%	2.0%	-0.6%	0.0%	-0.6%	0.3%	-0.1%	-0.6%
South East	-	0.8%	0.6%	-0.8%	0.8%	0.6%	0.3%	-0.2%	-2.3%
East of England	-	0.1%	-0.8%	0.0%	0.5%	0.3%	0.0%	-0.5%	-2.3%
South West	-	0.8%	0.7%	-0.5%	0.7%	0.9%	0.1%	-0.9%	-2.0%
East Midlands	-	0.2%	1.8%	0.7%	1.3%	2.4%	0.2%	0.0%	-1.3%
West Midlands	-	0.0%	0.9%	-0.8%	0.8%	2.1%	0.2%	-0.4%	-0.5%
North East	-	1.3%	3.2%	-0.1%	2.6%	3.8%	0.0%	-0.4%	-0.1%
Yorks & Humber	-	0.1%	4.3%	-1.0%	2.3%	3.6%	0.3%	0.0%	0.6%
North West	-	1.4%	4.9%	-0.5%	0.2%	2.8%	0.4%	0.3%	0.6%
Wales	-	0.1%	2.5%	0.3%	1.1%	1.9%	0.2%	0.3%	0.1%
Scotland	-	1.3%	4.4%	1.6%	2.1%	6.0%	0.2%	0.3%	2.6%

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 (published May 2024)

Region	2024	2025	2026	2027	2028	5 years to 2028
UK	2.5%	3.5%	4.5%	5.0%	4.5%	21.6%
London	2.0%	2.5%	2.5%	3.5%	3.0%	14.2%
South East	1.5%	3.0%	4.5%	4.5%	3.5%	18.2%
East of England	1.0%	3.0%	4.5%	4.5%	4.0%	18.1%
South West	1.0%	3.5%	4.0%	4.5%	4.5%	18.7%
East Midlands	2.5%	4.0%	4.5%	5.5%	4.5%	22.8%
West Midlands	2.0%	4.0%	5.0%	6.0%	4.5%	23.4%
North East	4.5%	4.5%	4.5%	5.0%	4.5%	25.2%
Yorks & Humber	3.5%	4.5%	5.5%	6.5%	5.5%	28.2%
North West	4.0%	4.5%	5.5%	6.5%	5.5%	28.8%
Wales	4.5%	4.5%	5.0%	5.5%	4.5%	26.4%
Scotland	4.0%	4.0%	5.0%	5.5%	5.0%	25.8%

Source Savills

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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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