

UK Housing Market Update



Activity improves as mortgage rates continue to fall

House prices fell by -0.2% in August, taking annual growth to 2.4%, according to Nationwide. Despite the slight month on month fall, this represents the strongest annual house price growth since December 2022 and the fourth month of consecutive annual house price growth.

Mortgage approvals in July were the highest since September 2022.

Greater certainty post-election is allowing pent up demand from potential buyers to unwind. The number of mortgage approvals was 26% higher in July 2024 compared to July 2023, but is still 7% lower than the July 2017-19 average.

Leading indicators suggest that both demand and supply remain positive as we approach the end of summer. New sales instructions were up 7% in August compared to the 2017-19 average for the month, while sales agreed were up 4%, according to TwentyCi. This combination of rising demand metrics points to greater levels of activity in future.

Activity has been supported by falling mortgage rates. Lending rates had been trending down in the lead-up to the much anticipated cut to the base rate that occurred at the start of August. These falling rates have helped support activity, and are likely the starting pistol for the beginning

of a new interest rate cycle. Oxford Economics expect a 25bps rate cut in November. Strong GDP growth and consumer demand mean it is not a foregone conclusion that rates will fall quickly, however, as core inflation remains stubbornly above target. The Budget in October will help provide further clarity on fiscal policy and longer-term expectations in the economy.

Falling mortgage rates will support the market by boosting confidence and easing affordability. The reduction in interest rates is expected to be slower than the increases that occurred in 2022/23. This means that rate cuts may drive confidence more quickly than materially changing household purchasing power. The extent of affordability stress in different parts of the country will continue to influence value growth and activity.

The more lagged Land Registry data highlights regional market differences in the last year. The biggest falls were in the south east of England, including Canterbury (-9.3%), Dover (-8.7%) and Thanet (-7.2%). Lower value markets in the north of England and Scotland saw the highest annual growth, including Inverclyde (12.1%), North Ayrshire (6.5%), and Hartlepool (5.5%).

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

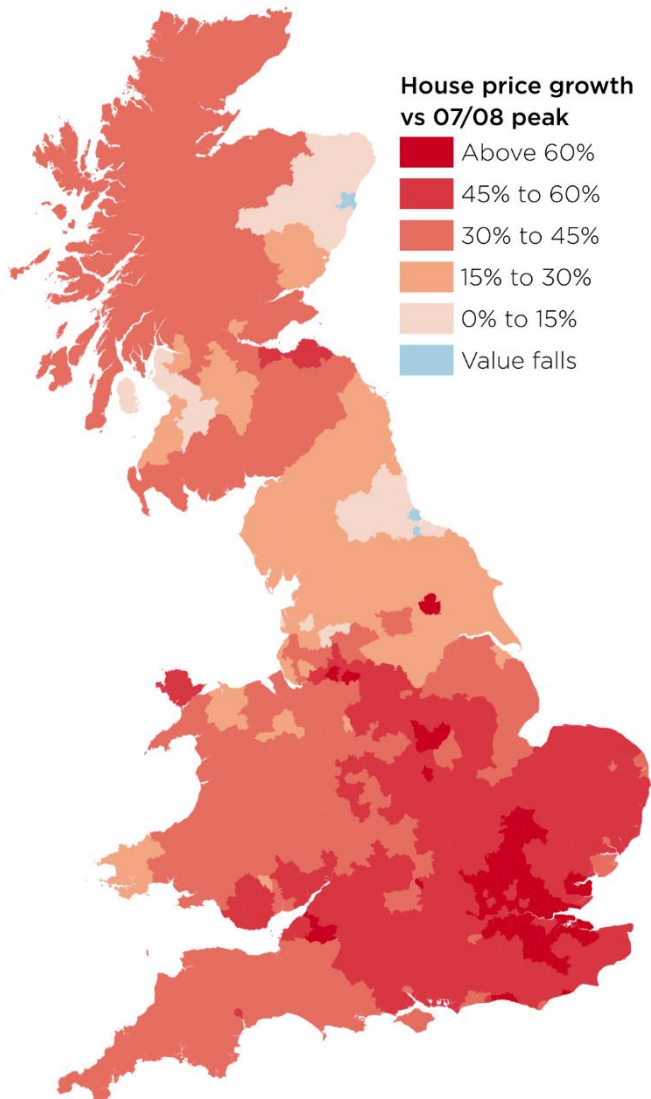
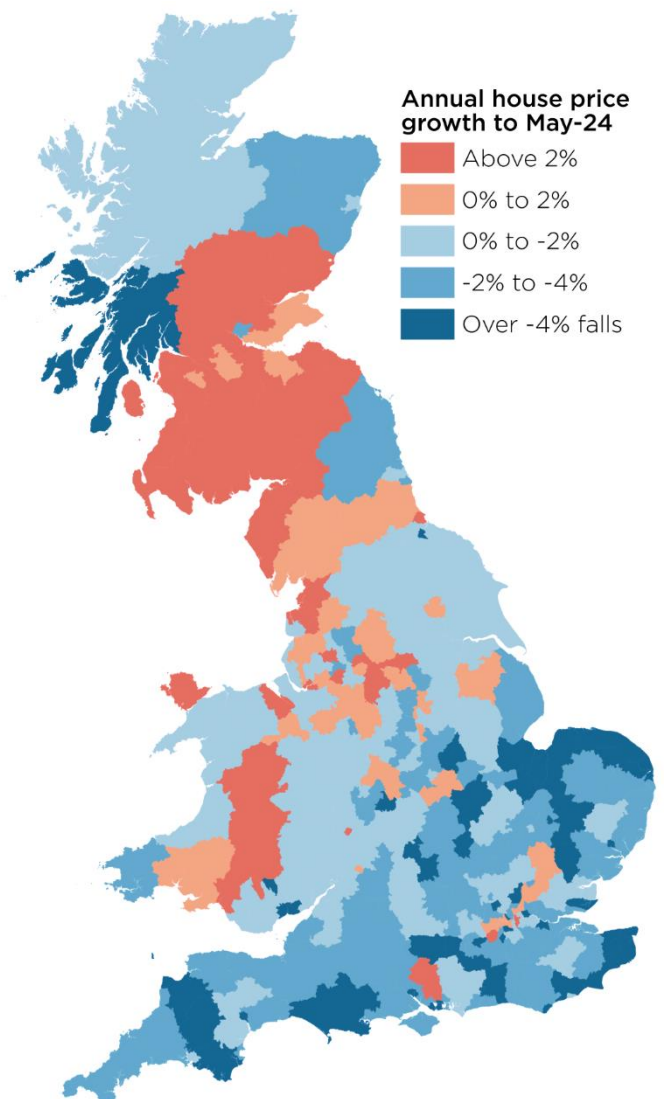


Figure 2 Annual house price growth to May-24



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

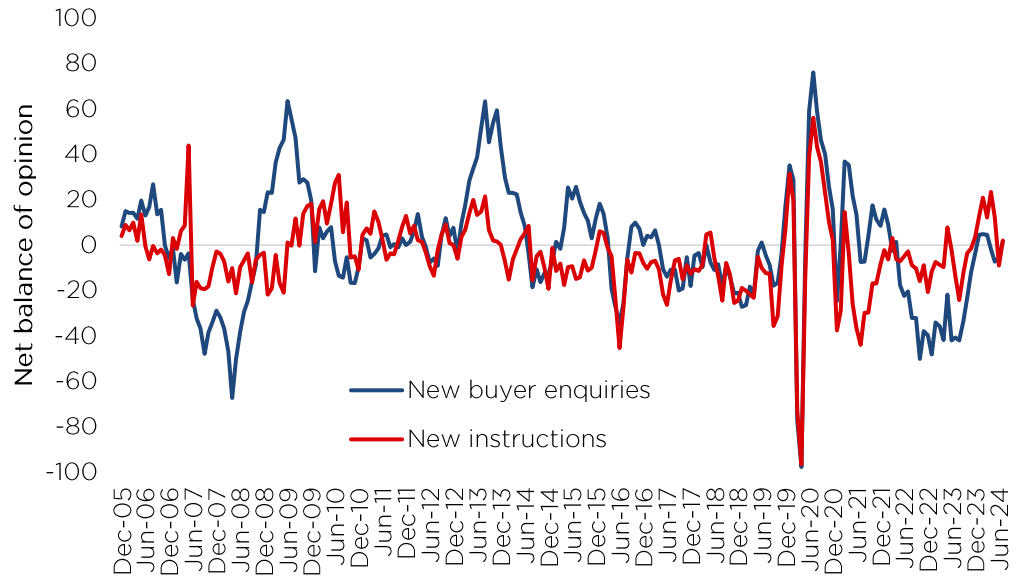
Source Savills using HM Land Registry and Registers of Scotland (6 month smoothed)*

Figure 3 Demand and supply are balanced

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

The number of surveyors reporting increased supply increased during July, a sharp reversal on June's results.

This leaves both supply and demand in positive territory with no imbalance, and some surveyors referencing the reduction in interest rates as a factor.



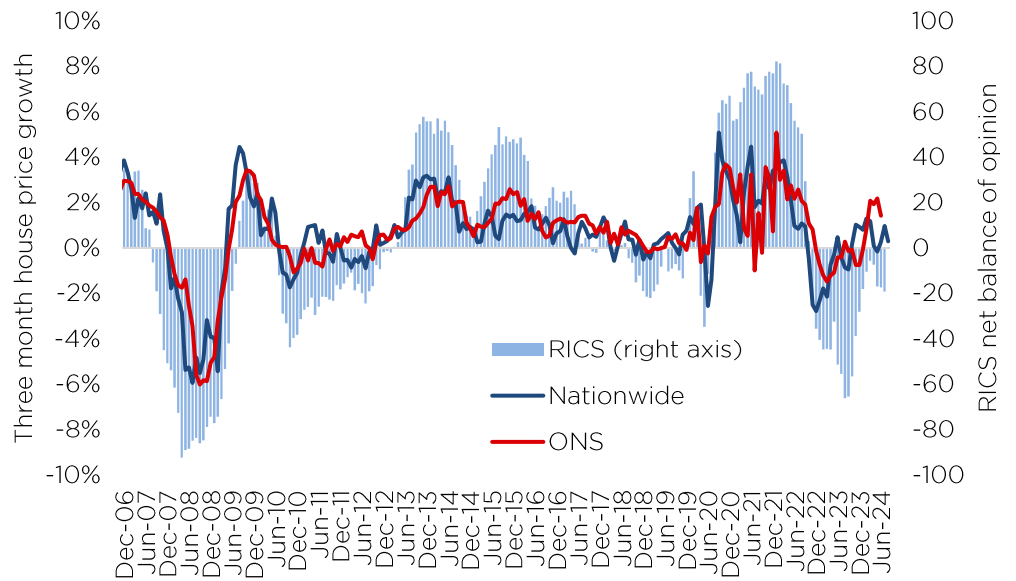
Source RICS (seasonally adjusted)

Figure 4 House prices growth slows amidst continued negative surveyor sentiment

The number of surveyors reporting price falls in July exceeded that of June. This represents six months of falling price sentiment amongst surveyors. This suggests that many areas are still seeing price falls, even if the national average house price is increasing.

Nationwide data shows that house prices rose by 0.3% in the three months to August, a return to levels of growth seen earlier in the year.

House prices grew by 1.4% during the three months to June, according to the more lagged ONS index.

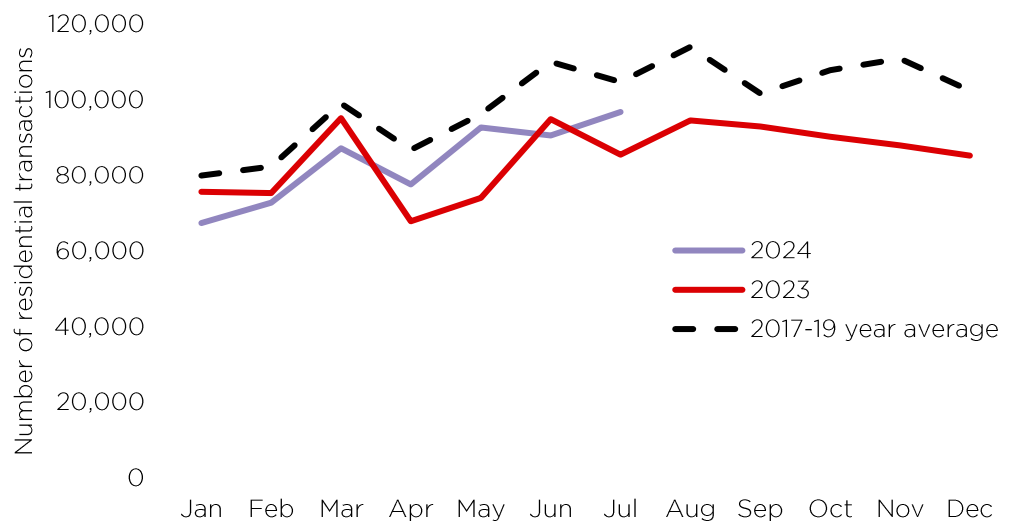


Source RICS, Nationwide (seasonally adjusted), ONS (seasonally adjusted)

Figure 5 Completed transactions improve post-election

96,800 transactions completed in July, according to HMRC. This high level of activity in July, following a weaker June, is unusual. It suggests that buyers may have been waiting for the election result on 4th July before completing.

Sales completions were still 8% below the 2017-19 average, but 13% higher than July last year.



Source HMRC

Annual rental growth across the UK in July was 5.4% according to Zoopla, a slight deceleration from June's annual growth figure of 5.5%. The North East remained the region with the strongest annual growth (9.1%), followed by Scotland (7.8%). No regions saw an acceleration in rental growth on an annual basis. The South West saw the largest deceleration on an annual basis with growth of 6.5% in the year to July compared to 7.2% the month prior.

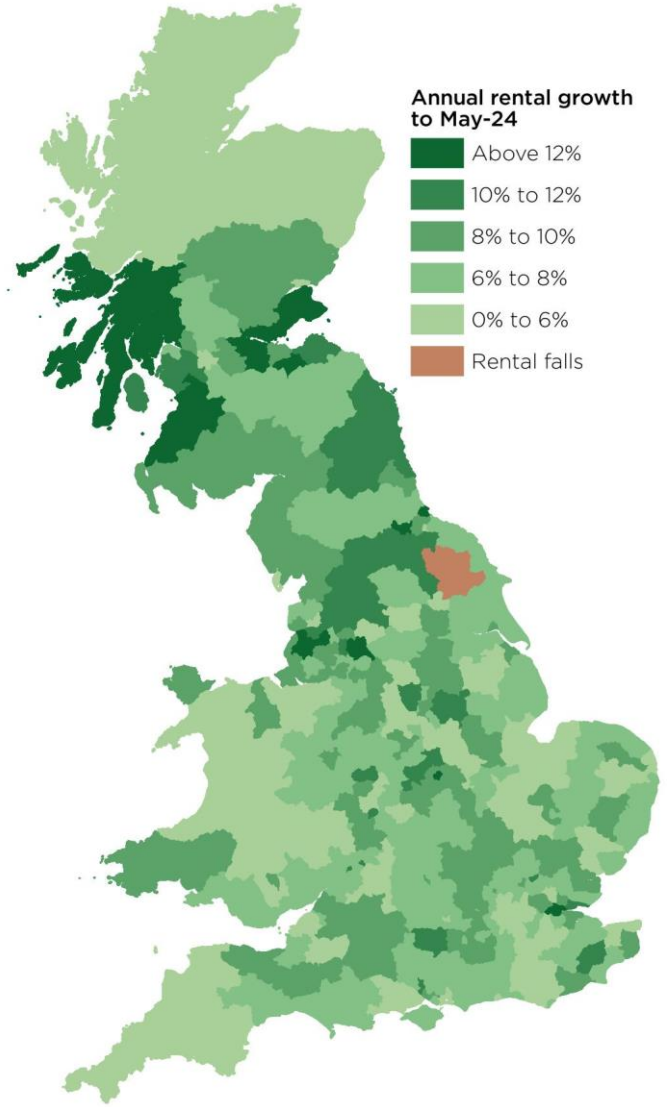
In London, rental growth continued to slow on an annual basis, falling to 2.5% as affordability pressures have continued. But both monthly and quarterly rental growth accelerated in London and the UK.

Table 1 Regional rental growth to July-24

	m/m	q/q	y/y
UK	0.8%	1.5%	5.4%
London	0.7%	0.9%	2.5%
South East	0.8%	1.7%	6.4%
East of England	0.7%	1.5%	6.6%
South West	0.8%	1.8%	6.5%
East Midlands	0.3%	1.0%	5.6%
West Midlands	0.9%	1.6%	6.6%
North East	0.8%	1.5%	9.1%
Yorks & Humber	0.5%	1.4%	5.6%
North West	1.2%	2.5%	7.4%
Wales	1.1%	2.0%	6.6%
Scotland	0.8%	1.4%	7.8%

Source Zoopla Rental Index powered by Hometrack

Figure 6 Annual rental growth to May-24

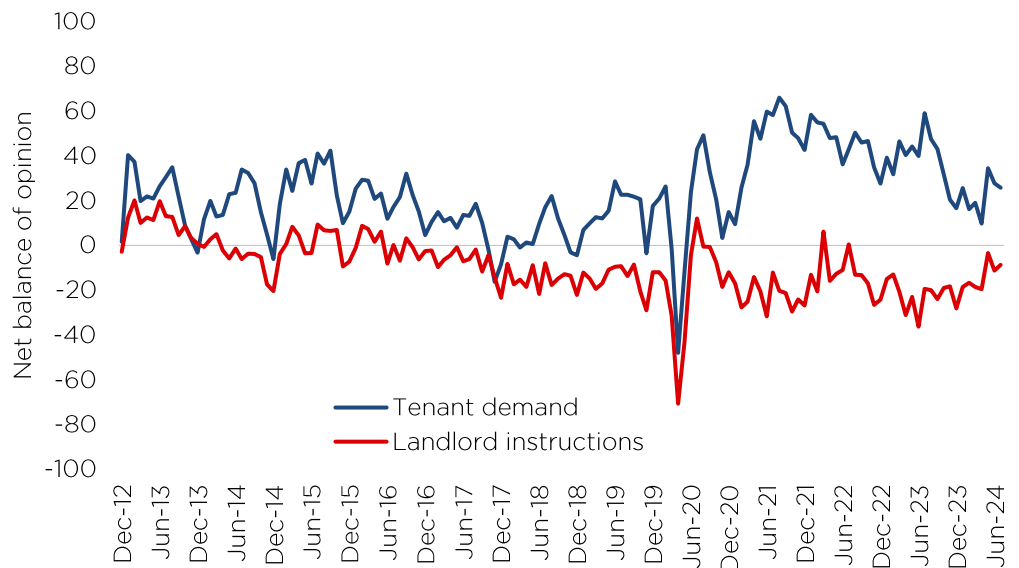


Source Zoopla Rental Index powered by Hometrack

Figure 7 Demand and supply imbalance narrows, but remains significant

The July RICS survey for the lettings market has shown a slight narrowing of the demand and supply gap, with demand falling and supply rising.

The imbalance is still significant with little evidence that this will close in the short-term, which will continue to drive rental growth.



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 Q2 2024, UK to August 2024)			ONS (to June 2024)			Savills* (to May 2024)		
	m/m	q/q	y/y	m/m	q/q	y/y	m/m	q/q	y/y
UK	-0.2%	0.3%	2.5%	0.0%	1.5%	2.7%	-0.1%	-1.0%	-1.6%
London	-	-0.7%	1.6%	-0.4%	1.7%	0.7%	0.0%	-1.0%	-1.6%
South East	-	-0.6%	-1.1%	0.5%	2.4%	2.0%	-0.1%	-1.1%	-3.1%
East of England	-	-0.7%	-1.8%	0.0%	1.2%	1.2%	-0.1%	-1.0%	-2.9%
South West	-	-0.8%	-1.5%	-1.1%	1.4%	2.0%	-0.4%	-2.0%	-2.9%
East Midlands	-	-0.5%	-0.3%	-1.2%	0.7%	1.7%	0.1%	-0.6%	-2.1%
West Midlands	-	0.9%	1.4%	0.4%	3.0%	3.1%	-0.1%	-1.1%	-1.5%
North East	-	-0.9%	2.9%	0.9%	4.5%	4.2%	-0.3%	-0.8%	-0.6%
Yorks & Humber	-	1.2%	3.7%	1.9%	3.9%	4.6%	0.0%	-0.8%	-0.4%
North West	-	0.6%	4.1%	0.1%	1.9%	3.7%	0.0%	-0.4%	-0.4%
Wales	-	0.7%	1.3%	-0.1%	0.4%	1.9%	0.4%	-0.5%	-0.6%
Scotland	-	-0.3%	1.4%	-0.5%	0.1%	4.3%	0.0%	0.0%	2.5%

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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