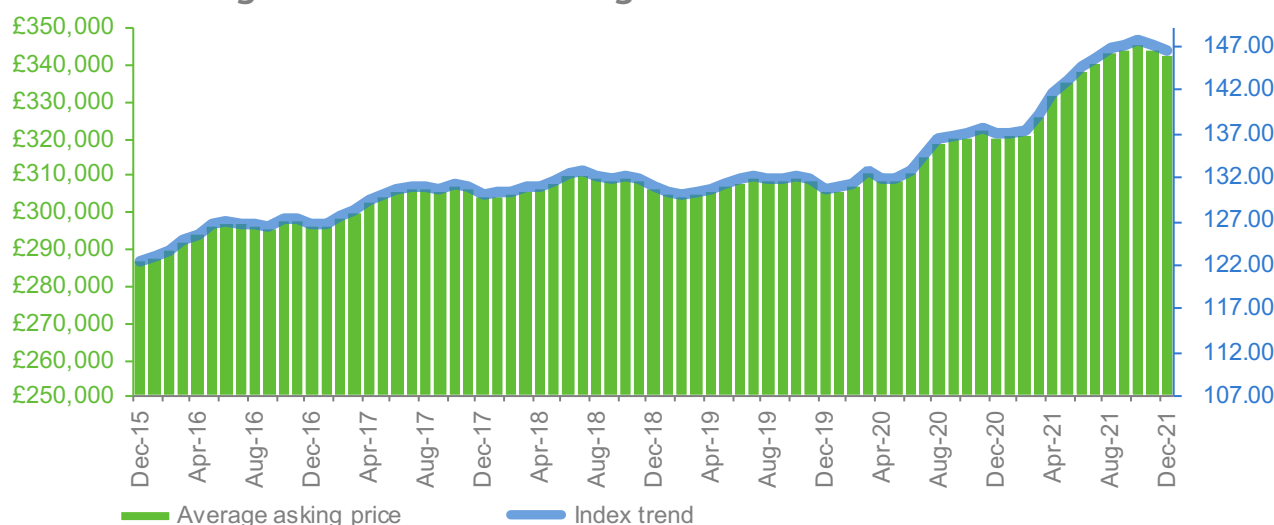


Half the Shelves are Empty

Headlines

- The total stock of property for sale in England and Wales continues to plummet as demand outweighs supply, hitting a new record low of 231,260, 42.0% lower than in December 2020 and 49.8% less than in December 2018.
- Monthly supply of new instructions remains relatively low across the UK (-19% compared to the month of November 2020). Again, Greater London and the South East show the greatest contractions (33% and 28% respectively).
- Asking prices across England and Wales show a seasonal correction this month, dipping 0.4% since November, although the annualised average growth is up slightly at 6.9%. The greatest price corrections were in the East (-1.1%) and North East of England (-1.5%).
- Rampant inflation already makes real home price growth effectively zero and it is likely to be negative over the coming months.
- The market shows exceptional momentum for the time of year with the Typical Time on Market for unsold property in England and Wales remaining at 80 days (median), contrary to seasonal expectations of a slowdown. Never in the history of this index has the typical property spent so little time on the market in December.
- Low supply and growing demand continue to create upward price pressure despite this month's seasonal correction. Prices in Greater London, the South West and Wales are unchanged since last month.
- The East of England property market continues to lead the 12-month regional price growth chart with an inflation-beating gain of 10.7%, closely followed by the East Midlands (+10.3%).
- The Greater London market performance improves further and now indicates 4.1% annualised growth, ahead of Scotland, the North East (now the worst performer) and Yorkshire.
- Rents in Greater London are up an annualised 23%, while the stock of properties being advertised to let is down by 63% over the same period.
- Rents in central London are going ballistic. The greatest rises in asking rents over the last twelve months are in the City (+107%), Kensington and Chelsea (+51.6%) and Tower Hamlets (+46.3%), indicating huge demand for upmarket city living.
- Supply of rental properties is diminishing in all English regions, Scotland and Wales (down 36% since December 2020). Rents are up an annualised 5.8% across the UK. However, rents are correcting in several regions following the reversal of the COVID-related London exodus although, due to scarcity, this is likely to be transitory.
- The largest annualised average rent hikes outside of London are in the East of England (+7.1%) and the South East (+5.0%).

Home Asking Price Trend for England & Wales



Source: Home.co.uk Asking Price Index, December 2021, Indexed to May 2004 (Value=100).

Summary

An unprecedented level of scarcity continues to dominate the UK sales market. The total property count of unsold property plunged to a new record low this month. Demand, fuelled by ultra-low mortgage interest rates, has eaten away 42% of agents' inventories over just the last twelve months. In fact, property investment is seen by many as a no-brainer when interest rates are so much lower than inflation. The resulting 'free money' is available to anyone with a deposit.

Such is the aberrant state of affairs in the world of mortgage finance that the property drought will persist and worsen thanks to this artificial incentivisation, ensuring that home prices will rise again strongly next year. Effectively negative interest rates for borrowers (% mortgage interest less inflation, which may well be woefully under-reported) will mean buyers (private and institutional) are chasing ever fewer properties. Indeed, as inflation increases, the better the deal for borrowers and therefore a further incentive to buy. Overall, home prices dipped 0.4% since last month, in line with seasonal expectations, but this merely sets the scene for whiplash-style price hikes next spring, given the fundamentals.

Too much stimulus has greatly distorted the entire UK economy, including both the home sales and rental markets. The lack of sales stock alone is alarming but concomitantly the rental market also appears to be wildly out of whack. A severe lack of available rental stock in all regions (overall 36% down on December 2020) makes further rent hikes inevitable next year.

In particular, the London lettings market has undergone a dramatic transformation over the last year as the COVID exodus has reversed. The capital's rental market now offers 63% fewer

properties available to let compared to a year ago and central London rents are seemingly going berserk. Asking rents in the borough of Kensington and Chelsea, for example, have risen just over 50% in the last twelve months.

Surging rents (and yields) in central London, coupled with 'free money' for borrowers, has triggered greater demand in the London sales market. Increasing demand has already reduced the total sales stock total in London by 28% since Dec 2020 and supply has nosedived compared to last year. For the time being, home price growth in Greater London is a sub-inflation 4.1% but this could change radically next year and may even catch up with the official rate of inflation.

Our forecast for 2022 is that prices and rents will continue to rise overall due to scarcity caused by the current easy money policies. Only a significant rise in interest rates could trigger a loosening of sales supply but any such move would be catastrophic given the indebtedness of government and the private sector alike (See Quote).

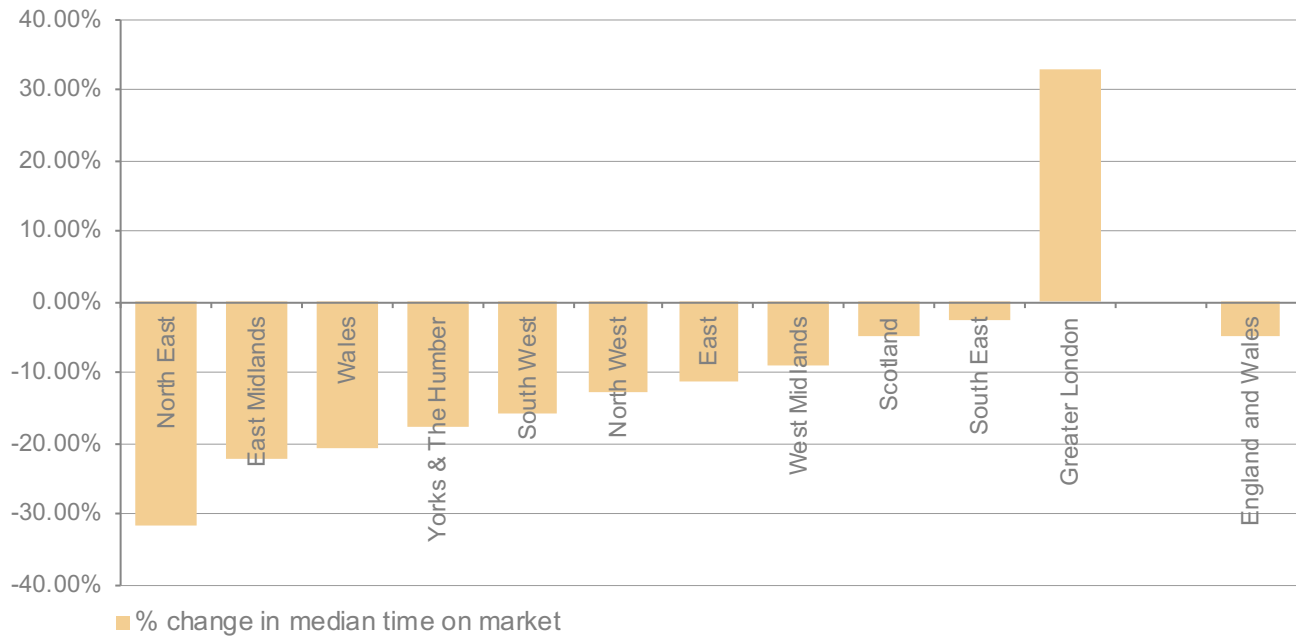
The annualised mix-adjusted average asking price growth across England and Wales edged up slightly to +6.9% this month; in December 2020, the annualised rate of increase of home prices was 4.7% and in a rising trend.

Regional Roundup

Insatiable demand and low supply have created sales stock shortages across all regions. However, the severity of the shortfalls and the buyer competition both vary between regions. Of course, it is these two key factors that will determine price growth in the regions going forward into 2022.

Changes in the Typical Time on Market are a key indicator regarding the relative pace of the regional property markets. Accelerating markets show the greatest price growth further down the line. History shows the converse is also true.

% Change in Regional Typical Time on Market, Dec 2021 vs. Dec 2020



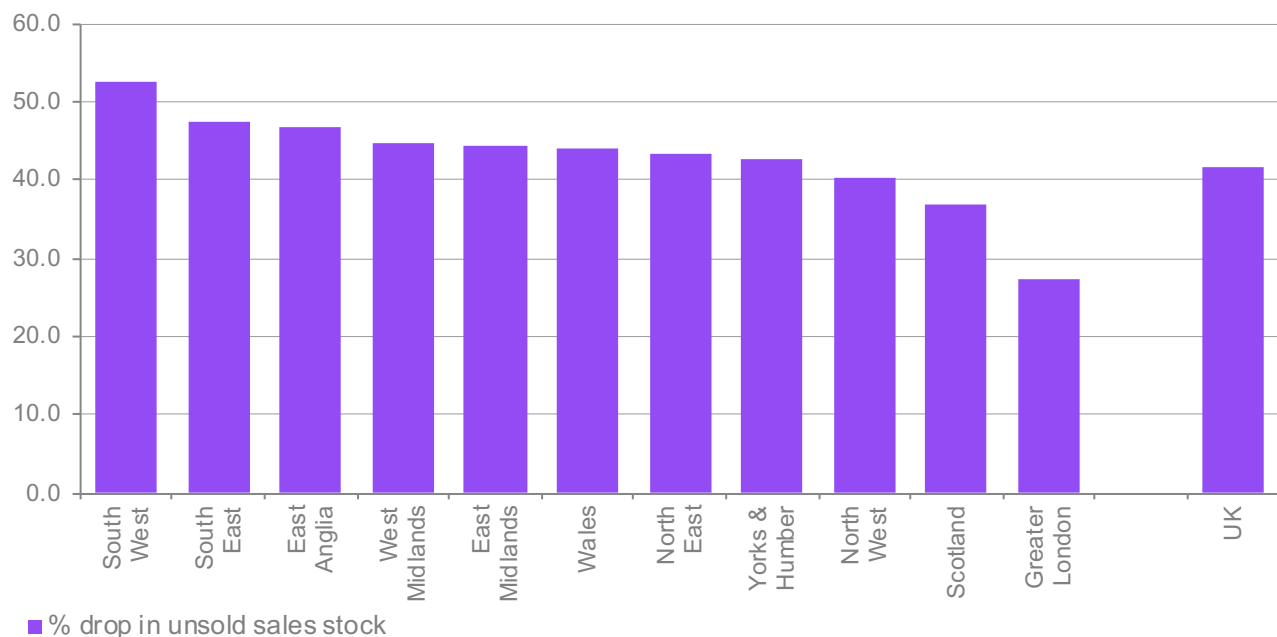
Source: Home.co.uk Asking Price Index, December 2021

The chart indicates that the regional market that has accelerated the most over the last year is the North East. Not since the heady days of the property boom in 2007 have properties spent so little time on the market in this region and this portends significant price growth in 2022. Such is the vigour of this market

that this month saw a further drop in the Typical Time on Market, contrary to seasonal expectations of a slowdown. Moreover, this is highly significant for the UK's worst-performing region (in terms of annualised price growth).

The East Midlands, Wales, Yorkshire, the South West and the North West

Fall in Total Properties for Sale by Region, Dec 2021 vs. Dec 2020



Source: Home.co.uk Asking Price Index, December 2021



have also accelerated over the last year and this will translate into further price growth next year. The current seasonal price corrections are just that and will simply prime these markets for the annual spring rush of buyers.

Meanwhile, the East of England and West Midlands have accelerated a little over the last year, but these markets were already at pace a year ago which translated into significant price growth, over and above the rate of inflation. The South East shows only a minor acceleration but this market was also pretty much up to cruising speed by December last year, post-lockdown.

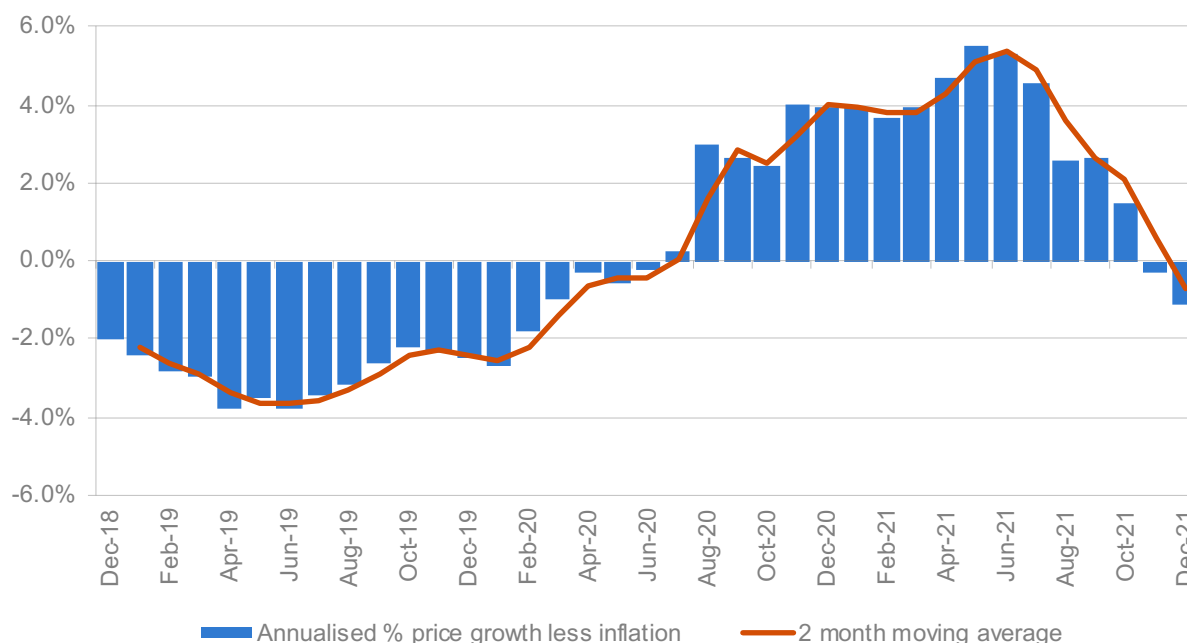
Scotland, by contrast, has lost some momentum over recent months (despite showing a slightly greater momentum than a year ago) and price growth there will likely be slower to arrive than further south. The threat of rent controls will be deterring some buy-to-let investment. The chart also suggests Greater London appears to have lost significant momentum but this is misleading and serves to show that this indicator is not entirely foolproof. In this particular case,

the huge flood of new sales properties added onto London agents' inventories post-lockdown severely distorted the median Time on Market. The fact is that the London market, whilst currently the slowest of all the regions, is steadily gaining momentum, having shed 28% of the sales stock over the last twelve months. Moreover, with 33% fewer instructions last month compared to November 2020, growing demand looks set to outpace supply in 2022.

Real Home Asking Prices

Of course, price growth in the regions and overall must be measured relative to monetary inflation, which is currently surging to levels not seen since the 1980s. The chart shows that real home price growth is probably already in negative territory. Moreover, a total of five regions now show growth lower than the latest ONS figure (6.3%, RPI ex-housing for October) which may well be an underestimate. In order to illustrate the current state of affairs, we suggest conservative estimates for November and December of 7% and

Real Asking Price Growth



Source: ONS and Home.co.uk Asking Price Index, December 2021 (RPI ex. housing for November and December 2021 are our estimates).

8% respectively. Should these prove to be correct, price growth in eight regions is currently less than inflation, hence price falls in real terms (i.e. only the East of England, East Midlands and the South West are showing positive real growth). By extrapolation, we estimate that we have already entered a period of negative real growth for England and Wales overall. Rising inflation, caused by a massive expansion in credit, is effectively undermining all the gains of the COVID property boom. In fact, most of the heavily reported price growth was merely an illusion caused by the loss of purchasing power of sterling.

Stock Total

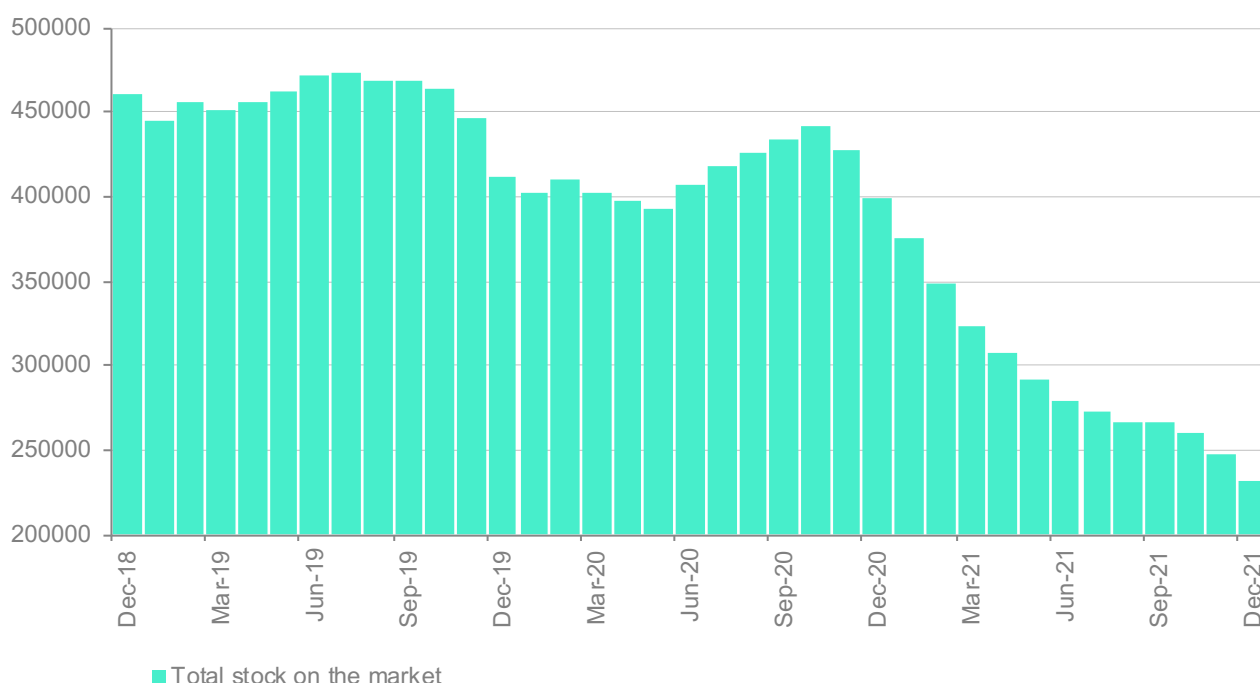
Owing to the unprecedented downward trend, we present the sales stock total chart by month again. High (and growing) demand coupled with low supply of new instructions has meant that the number of properties on the UK

market this month has hit yet another new low in the history of this index. Only 231,260 unsold properties are currently on the market in England and Wales, marking a contraction of 42% since Dec 2020 and 50% since Dec 2018.

At some point, of course, this downward trend must bottom out, but when? 'Presumably sometime before we hit zero!' would be the facetious answer. More seriously, given the current demand, how far the total inventory will fall is hard to forecast.

Only a sharp rise in interest rates could quell demand and tame inflation but the central banks of the western world seem to have no appetite for this painful remedial action, which would inevitably shrink the economy and crash the housing market. Hence, for the time being, demand has the upper hand and therefore the total stock looks set to continue its downward trajectory into mid-2022.

Fall in Total Properties for Sale by Region, Dec 2021 vs. Dec 2020



Source: Home.co.uk Asking Price Index, December 2021

“ Look through a prism (or a looking glass) and everything appears upside down.

Alice's adventures in Wonderland evoke a similar suspension of reality. "How funny it'll seem to come out among the people that walk with their heads downwards!" she said. Lewis Carroll might as well have been describing a journey through the modern world of economics aka Keynesianism on LSD.

Banks also seem to view the world through a point of inversion. It's been long established that loans for them are assets and liabilities for the rest of us. However, more recently, we have gone further down the rabbit hole to find, amongst the many peculiar occurrences of our time, that loans can be offered with interest rates way below the rate of inflation. The real rate of interest is negative and the upshot of that surreal fact is that borrowers are being paid to borrow.

Most people find inflation itself hard to grasp, while the real negative interest rate marvel is likely to cause cerebral shutdown. But if you can run with it, you must then contemplate the notion that the central bank is partly subsidising house purchases with their newly printed pounds. As the Cheshire cat said, "How queer everything is today! And yesterday, things went on just as usual."

Not content with this extraordinary modern marvel of financial incentivisation, the Bank of England is now considering easing the lending criteria for mortgages, thereby increasing buyer demand for housing (and risky lending). The Old Lady of Threadneedle Street may as well be the Cheshire cat: "We're all mad here. I'm mad. You're mad."

Moreover, it appears that our financial masterminds are waking up to the fact that inflation is here to stay and this bizarre (and highly unjust) situation will persist. Only last week, Janet Yellen, US Treasury Secretary and former Chairman of the US Federal Reserve, was reported in the New York Times as saying that we should no longer regard inflation as 'transitory' after previously asserting that it was just some

sort of 'supply-chain blip'. "Curiouser and curiouser!" said Alice.

So, inflation is here to stay as the central banks seem unwilling to bite the bullet and raise interest rates to put out the fire. What they are in fact achieving is a concerted devaluation of the major currencies. Home values therefore appear to be increasing, when the reality is that we are simply witnessing a fall in the purchasing power of sterling. For those that don't understand the effects of inflation, it must feel great to be a homeowner. For those that do, getting a mortgage is a no-brainer as not only are their loans being partly subsidised via negative real interest rates but the outstanding balance is being eroded at an estimated rate of about 8% per annum.

The background to this Wonderland economics, in case you missed it, is that the Titanic financial system of the developed world was holed below the waterline in 2008 (like the fog, the futures markets were wrong then too!). Since then we have witnessed looting on a grand scale ('Moral hazard', according to the then BoE chairman Mervyn King, now Baron King of Lothbury and Professor of Economics at the London School of Economics) passed off as fiscal stimulus, as most of the newly printed money has gone to line the pockets of the already rich. If you are uncertain about that, ask someone on the minimum wage who is renting a home.

"When you've understood this scripture, throw it away. If you can't understand this scripture, throw it away. I insist on your freedom," said the Cheshire Cat. And I insist on you enjoying the festive season as best you can. Cheers! Best wishes for 2022.

Doug Shephard
Director at Home.co.uk



UK Asking Prices

Scotland	Dec-21
Average Asking Price	£206,593
Monthly % change	-1.0%
Annual % change	3.0%

North East	Dec-21
Average Asking Price	£174,316
Monthly % change	-1.5%
Annual % change	2.5%

Yorks & The Humber	Dec-21
Average Asking Price	£227,247
Monthly % change	-0.5%
Annual % change	2.7%

North West	Dec-21
Average Asking Price	£239,256
Monthly % change	-0.4%
Annual % change	5.8%

West Midlands	Dec-21
Average Asking Price	£284,224
Monthly % change	-0.2%
Annual % change	7.3%

East Midlands	Dec-21
Average Asking Price	£273,996
Monthly % change	-0.2%
Annual % change	10.3%

East	Dec-21
Average Asking Price	£394,237
Monthly % change	-1.1%
Annual % change	10.7%

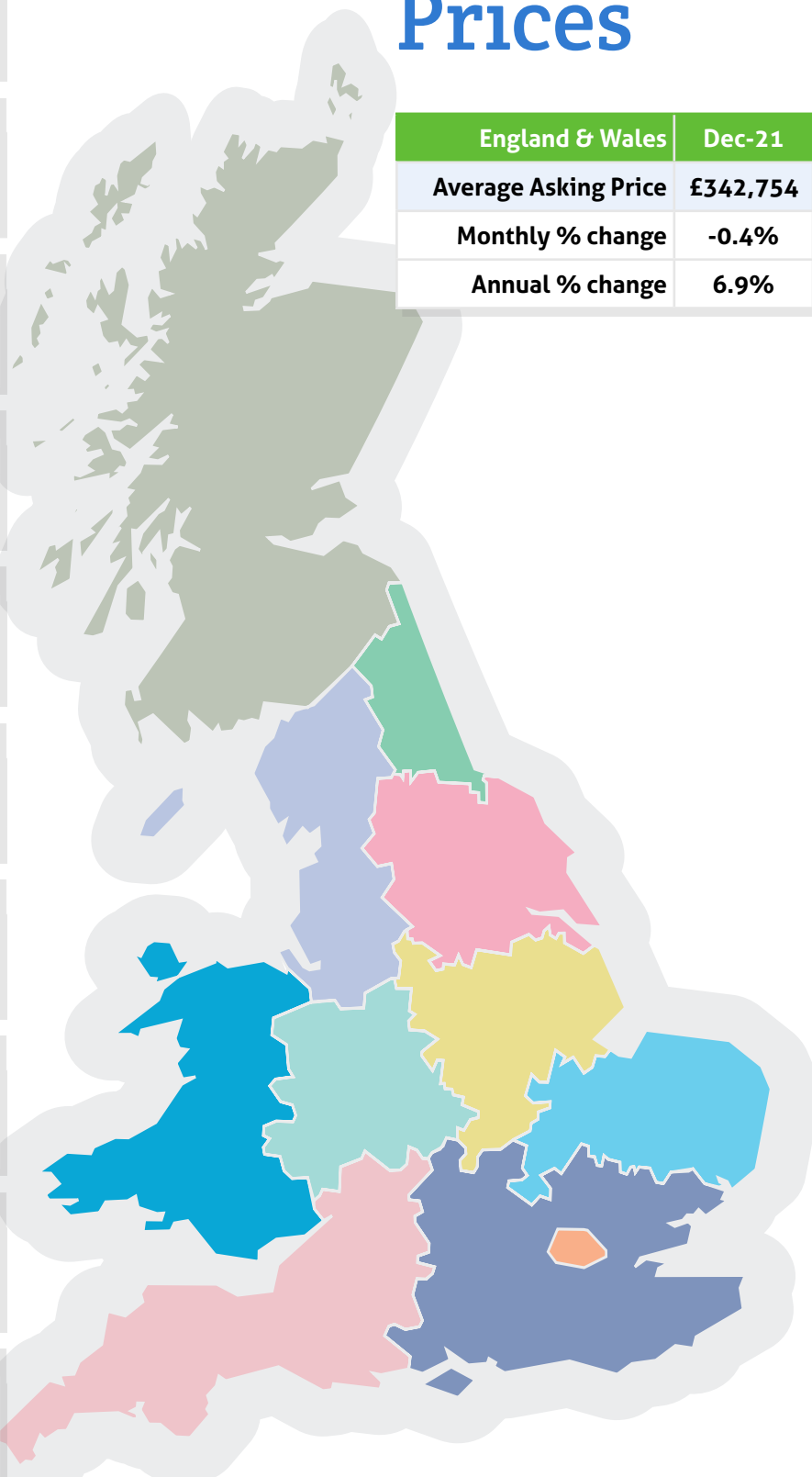
Wales	Dec-21
Average Asking Price	£243,401
Monthly % change	0.0%
Annual % change	7.5%

Greater London	Dec-21
Average Asking Price	£550,263
Monthly % change	0.0%
Annual % change	4.1%

South East	Dec-21
Average Asking Price	£438,830
Monthly % change	-0.6%
Annual % change	7.8%

South West	Dec-21
Average Asking Price	£362,247
Monthly % change	0.0%
Annual % change	9.5%

England & Wales	Dec-21
Average Asking Price	£342,754
Monthly % change	-0.4%
Annual % change	6.9%



Source: Home.co.uk Asking Price Index, November 2021

UK Time on Market

Scotland	Dec-21
Average Time on Market	244
Typical Time on Market	80
2 year % supply change	3%

North East	Dec-21
Average Time on Market	194
Typical Time on Market	71
2 year % supply change	3%

Yorks & The Humber	Dec-21
Average Time on Market	152
Typical Time on Market	65
2 year % supply change	1%

North West	Dec-21
Average Time on Market	166
Typical Time on Market	74
2 year % supply change	0%

West Midlands	Dec-21
Average Time on Market	165
Typical Time on Market	72
2 year % supply change	-5%

East Midlands	Dec-21
Average Time on Market	134
Typical Time on Market	59
2 year % supply change	1%

East	Dec-21
Average Time on Market	158
Typical Time on Market	70
2 year % supply change	-5%

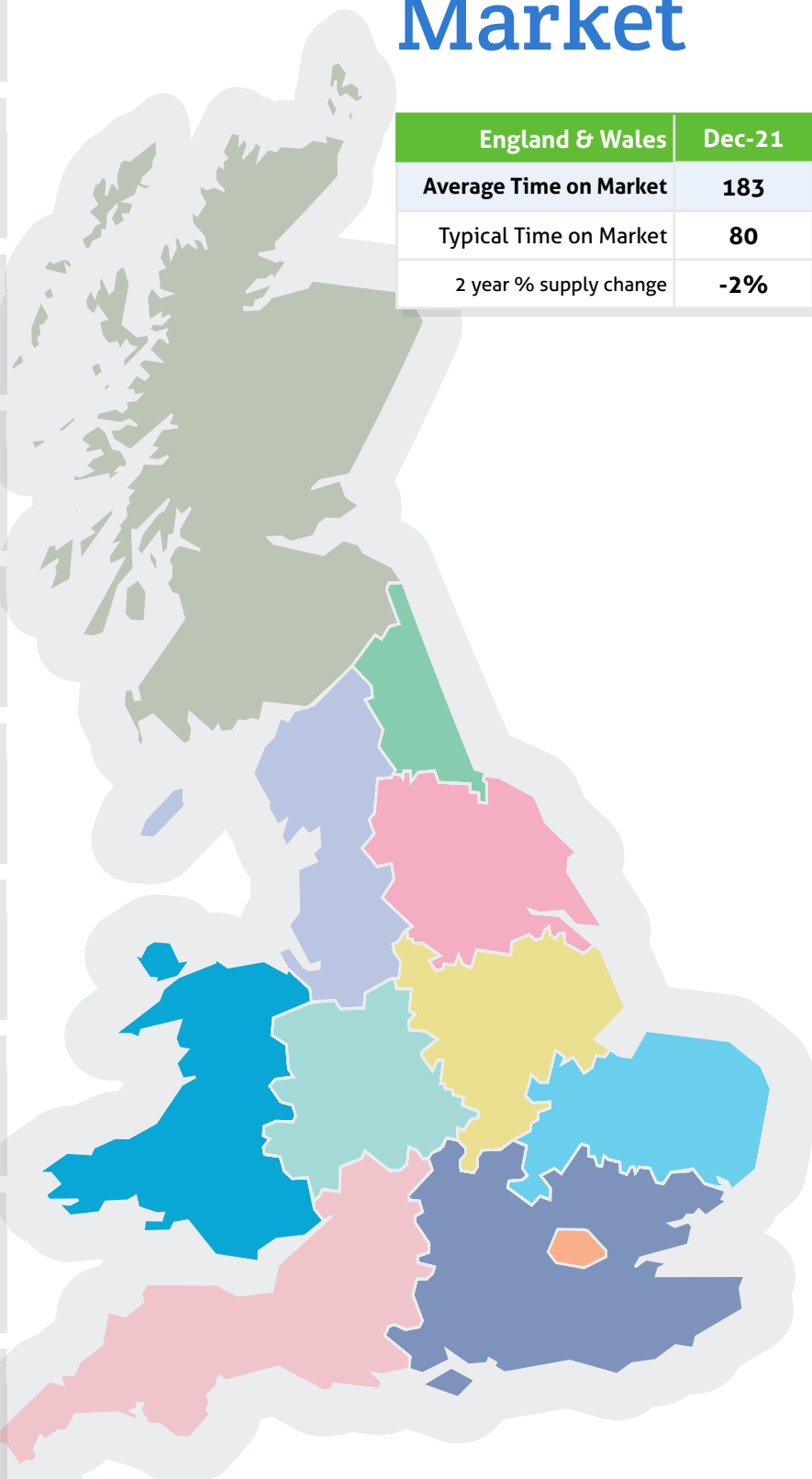
Wales	Dec-21
Average Time on Market	180
Typical Time on Market	76
2 year % supply change	-3%

Greater London	Dec-21
Average Time on Market	207
Typical Time on Market	105
2 year % supply change	8%

South East	Dec-21
Average Time on Market	175
Typical Time on Market	76
2 year % supply change	-9%

South West	Dec-21
Average Time on Market	166
Typical Time on Market	69
2 year % supply change	-5%

England & Wales	Dec-21
Average Time on Market	183
Typical Time on Market	80
2 year % supply change	-2%



Source: Home.co.uk Asking Price Index, November 2021. Average = Mean (days), Typical = Median (days).
Supply change % has been calculated over 2 years rather than 12 months due to first lockdown distortion.

About the Home.co.uk Asking Price Index

- The Home.co.uk Asking Price Index was originally devised in association with Calnea Analytics: the statistical consultancy responsible for the production of the official Land Registry House Price Index.
- The Home.co.uk Asking Price Index (HAPI) is calculated using a weighting system based on the DCLG (formerly ODPM) Survey of English Housing Stock (published March 2006). This allows for enhanced regional delineation and conforms to the current geographical orthodoxy as set out by the Office of National Statistics.
- The HAPI is the UK's only independent forward market indicator. The published figures reflect current and historic confidence of buyers and sellers of UK property on the open market. The HAPI is calculated every month using around 500,000 UK property house prices found in the Home.co.uk Property Search Index. This figure represents the majority of the property for sale on the open market in the UK at any given time.
- The HAPI is based on asking price data which means the index can provide insights into price movements around 5 months ahead of mortgage completion and actual sales data – thus making it the most forward looking of all house price indices. Properties above £1m and below £20k are excluded from the calculations.

Contact details and further information

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- To learn more about Home.co.uk please visit:
<https://www.home.co.uk/company/about.htm>
- For further details on the methodology used in the calculation of the HAPI please visit:
https://www.home.co.uk/asking_price_index/Mix-Adj_Methodology.pdf
- To learn more about Home.co.uk data services please visit:
<https://www.home.co.uk/company/data/>

Future release dates:

- Wednesday 12th January
- Tuesday 15th February
- Wednesday 16th March