

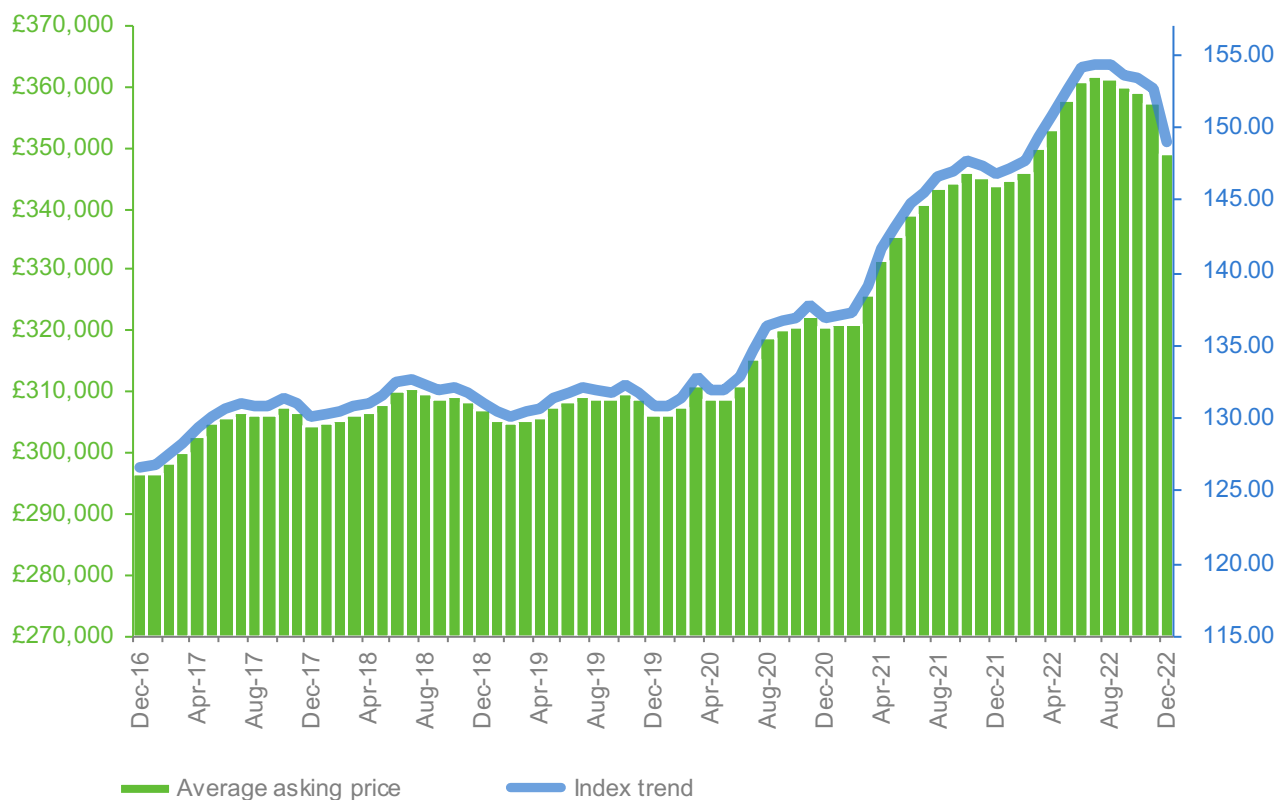
Market Turmoil as Vendors Quit and Prices Take a Haircut

Headlines

- Asking prices across England and Wales dropped suddenly by 2.4% during November. This fourth consecutive monthly fall brings year-on-year growth down to just 1.5%.
- Asking prices fell in every English region, Scotland and Wales during November.
- The number of properties withdrawn from the market soared in November, especially vendors of upmarket properties.
- Consequently, the total sales stock in England and Wales has increased only marginally (by 2.7%) since last month and remains 24% lower than the 10-year average.
- The supply of new instructions remains in the normal range: 9% higher last month compared to November 2021 and yet 12% less than in November 2020.
- The Typical Time on Market (median) for unsold property in England and Wales has risen an additional eight days to 78 days since last month, which is two days less than in December 2021.
- Only five English regions and Wales now show elevated median marketing times compared to December 2021.
- The Scottish property market now leads in annualised regional price growth (4.8%), just ahead of the North West and Wales (both at 4.7%).
- Monetary inflation pushes even higher to 16.4% (RPI ex. housing), making current real growth around -15% year-on-year or less. Additionally, despite rapidly rising mortgage costs, the real mortgage interest rate remains highly negative (around -10%)¹.
- London asking rents are still rising at an extraordinary pace. Overwhelming demand and dwindling supply are driving annualised rental growth to a breathtaking rate of 23%.
- The current new growth leaders in asking rents are the boroughs of Lambeth, Hounslow and Newham (+42%, +39% and +35% annualised respectively).

¹ ONS figure for October 2022 and Moneyfacts

Home Asking Price Trend for England & Wales



Source: Home.co.uk Asking Price Index, December 2022, Indexed to May 2004 (Value=100).

Summary

Turmoil persists as the UK property market adapts to rising interest rates. Supply and demand are both being reshaped in the face of costlier mortgages. Frothy prices, a result of the COVID boom, are being trimmed and many more vendors are withdrawing their properties from the market, especially the more costly ones, our research shows. New instructions are also being priced more conservatively and this, combined with the surge in withdrawals and price cutting, has hit hard. The national average asking price has dropped 2.4% in a single month by our measure, which is a greater fall than in any month following the 2008 financial crisis.

The supply of new instructions remains within the normal range, thus indicating that there is not a panic-

driven flood of sellers. The stock total of unsold property has been recovering over recent months from the all-time low set in February but remains a long way off the 10-year average.

Moreover, increasing numbers of vendor withdrawals have meant a more muted rise since last month. The fact that many sellers can simply choose not to sell at the present time suggests that there is considerable financial resilience among owners.

Despite much talk of a slowdown, both the median and mean time on market for unsold property in England and Wales are actually less than they were a year ago. There is some slowing, of course, but most of it can be ascribed to seasonal factors. After a period of wait and see, we expect demand to ramp back up once the dust has settled, bearing in mind the recently announced nil-rate stamp duty for properties under £250K.

In terms of momentum and stock levels, Greater London stands apart from other regions. While sales stock has increased 52.4% across mainland UK over the last twelve months, the total in London has risen a mere 9.9%.

Moreover, Typical Time on Market in London has fallen from 105 days to 85 days, making it the most improved market over the last twelve months by this measure. These indicators would normally portend a return to price growth, but that will also depend on further interest rate decisions by the Bank of England.

The continued rise in inflation adds to the risk of further hikes and a 0.5% rise is expected at a further MPC meeting this week. The reality is that mortgage rates are in fact negative when we take into account inflation. Moreover, inflation currently dwarfs house price growth and this means real house price growth is now around -15%, a fact little reported

by the property press. Clearly, this negative real growth in prices is rapidly correcting overinflated home prices without impacting banks' balance sheets and is another reason not to expect major house price falls in nominal terms.

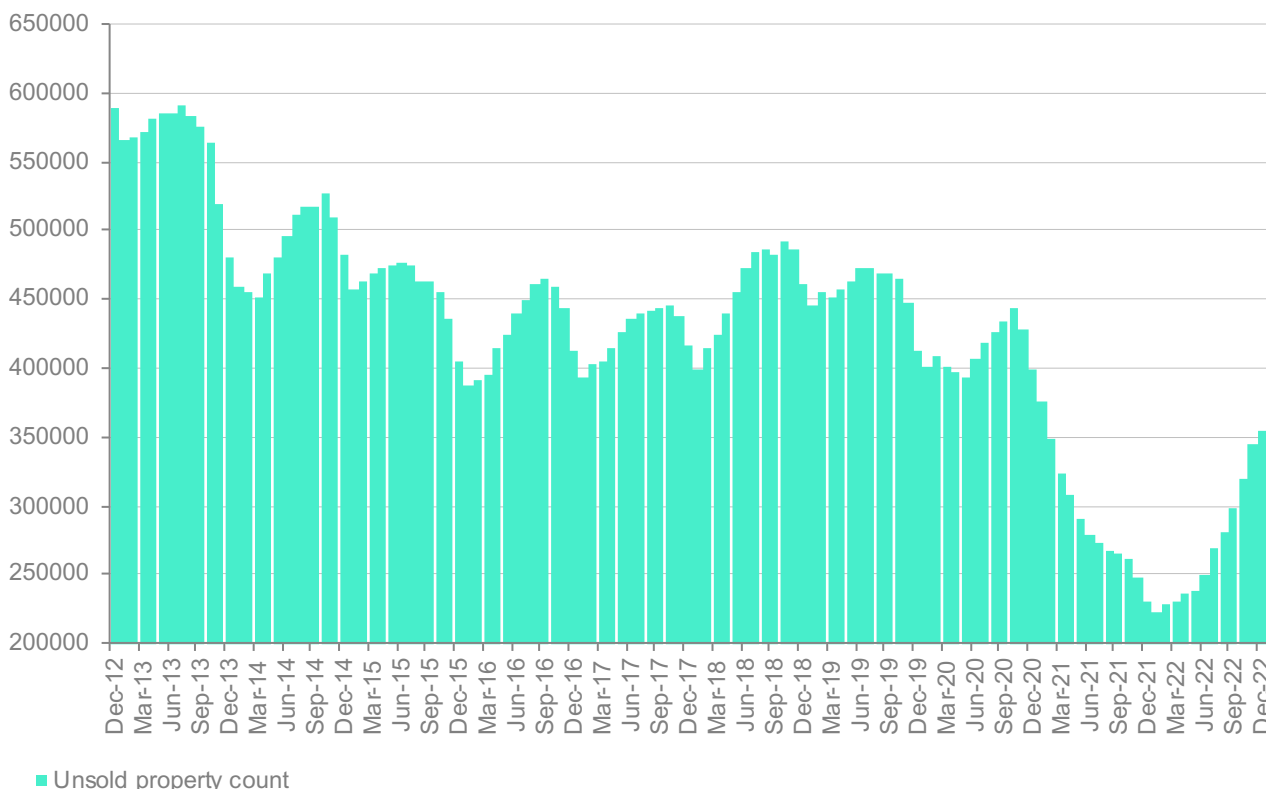
The rental market continues to show very high demand, as indicated by very short marketing times for properties available to let.

Scotland has the quickest market, with the Typical Time on Market a mere 13 days. There are currently less than half the number of properties available to let north of the border than there were in pre-pandemic December 2019.

Meanwhile, London is the slowest at 19 days which, of course, is still a very quick turnaround time for re-lets. The capital region has around 40% fewer properties available to let this month than it did in December 2019.

These low stock levels are driving rents up and setting new records in each

Total Stock of Property for Sale, England and Wales



■ Unsold property count

Source: Home.co.uk Asking Price Index, December 2022



region just about every month. Overall, asking rents have risen by 20% during the last 12 months.

Meanwhile, mortgage rates may well nudge up again next week following the MPC decision on the BoE base rate. Of course, this will also increase the risk of a long and deep recession and prolong the current correction in the housing market.

The annualised mix-adjusted average asking price growth across England and Wales is now at 1.5%; in December 2021, the annualised rate of increase of home prices was 7.2%. This radical change serves to show the extraordinary change in market sentiment during 2022.

Asking prices corrected steeply this month due to a number of factors: the mix-adjusted average fell due to more cautious pricing on the part of vendors; discounting of on-market properties; and a significant number of properties with higher than average asking prices were withdrawn.

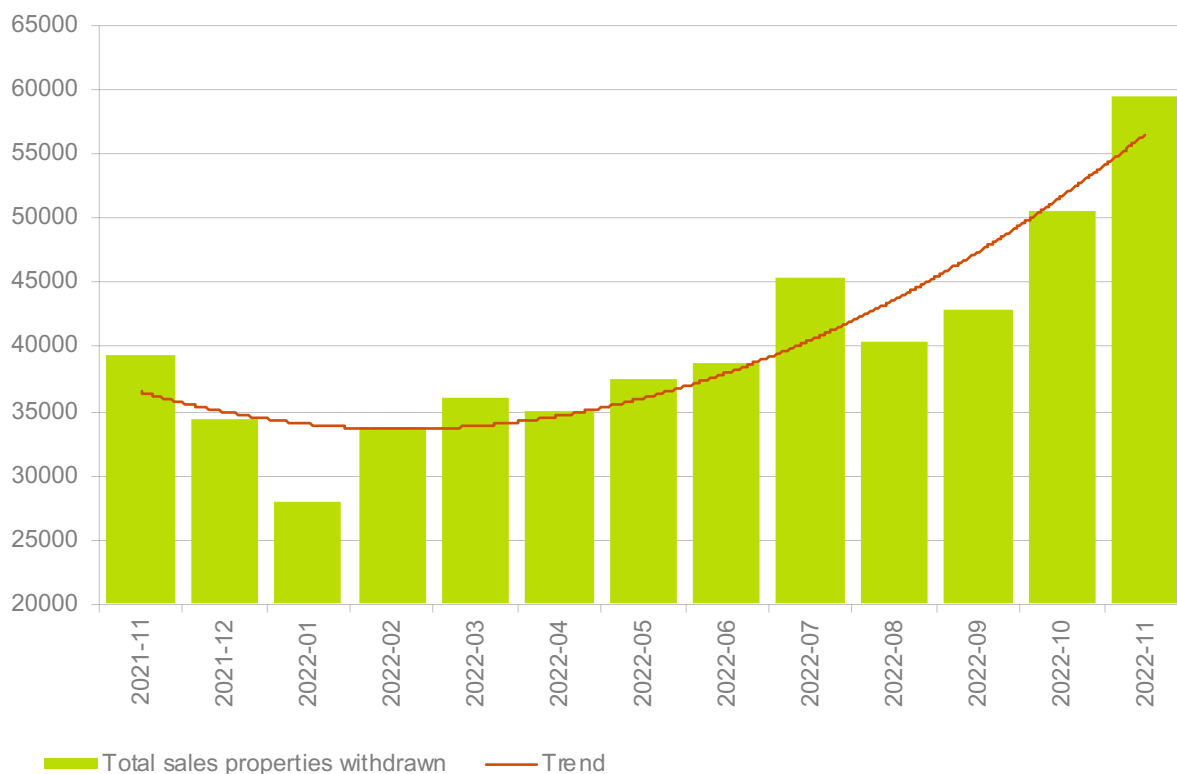
Stock Levels

The total of unsold sales properties grew less in November than it did in October and remains considerably below that of the 10-year average of 438,000. Given also that the supply of new instructions in November was within the normal range, it is clear that there is no panic-induced flood of properties entering the market.

On the contrary, a significant rise in the number of withdrawn properties last month shows that vendors are exercising caution and choosing not to sell in what is clearly a more challenging economic environment. Moreover, the average value of these properties was 1.9% higher than the average for on-market properties, thus indicating that it was predominantly top-end properties being withdrawn by vendors.

The relatively low stock total level suggests that prices will not fall far. The

Properties Withdrawn from the Market, Mainland UK



Source: Home.co.uk Asking Price Index, December 2022

current situation is in stark contrast to the last major correction that began in 2008 when there were over 800,000 properties on the market. While repossessions are on the rise, it is from a very low base. More importantly, the housing crisis has not gone away and demand for housing will not diminish as the UK population continues to increase due to immigration.

Regional Roundup

Stock levels are recovering at remarkably different rates across the regions. This updated chart gives an indication as to where the balance between supply and demand lies in the regional markets and therefore hints at where price corrections will be most severe.

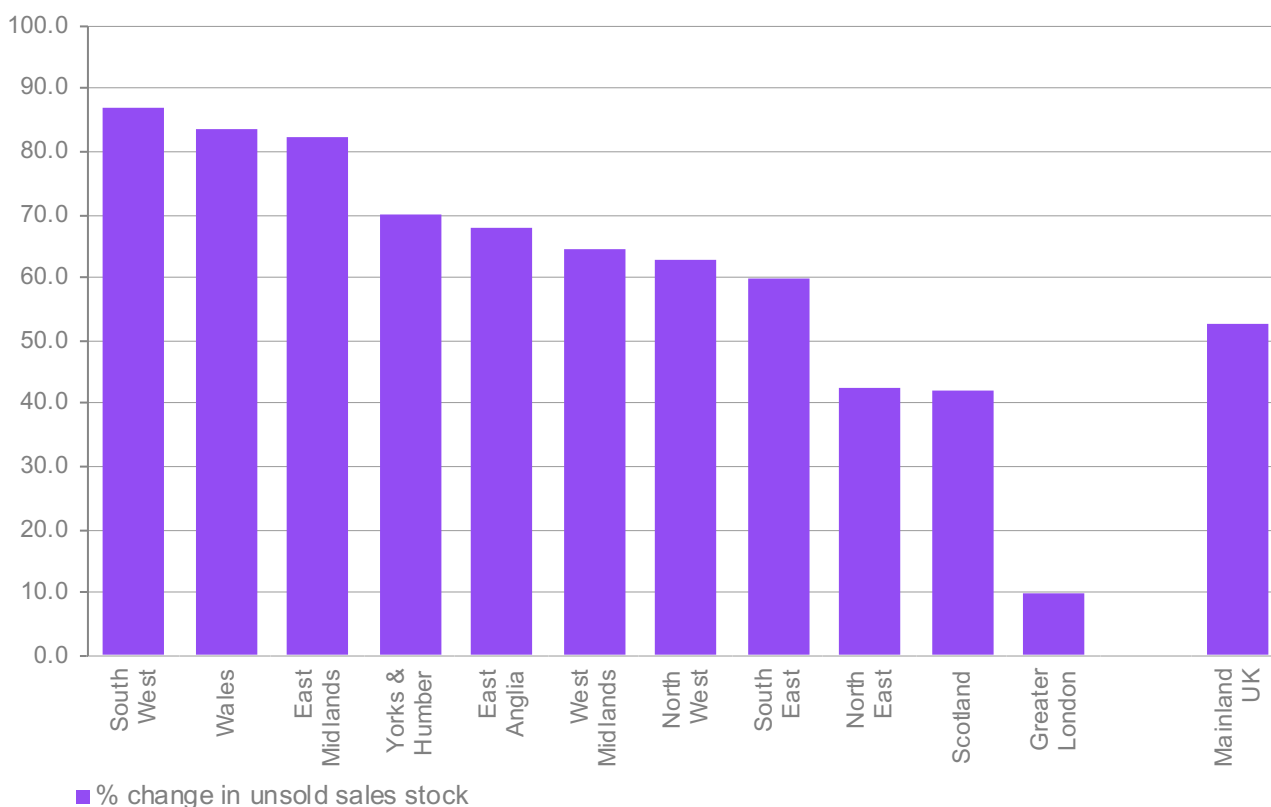
Stock numbers in Wales and the South West continue to show the greatest % increase over the last twelve months. Of course, these rises come following

deeply depleted stock levels caused by overwhelming demand during the COVID boom, induced by tax cuts and ultralow mortgage rates. The stocks were so low that we are yet to see an excess of inventory. Should certain regional sales markets eventually begin to stagnate, some vendors will have the option of turning to the rental market instead, where demand remains very strong, thus limiting the scope of price falls.

In direct contrast, Greater London has only around 10% more properties for sale than in December 2021. Clearly, this is the consequence of a very different market dynamic wherein supply remains restrained and demand is significant. In fact, the capital's property market is the most improved in terms of marketing times; Typical Time on Market is 20 days less than it was a year ago.

Our chart also shows that the regions are slowing at different rates. East Midlands and Yorkshire have cooled

Rise in Total Properties for Sale by Region, Dec. 2022 vs. Dec. 2021



Source: Home.co.uk Asking Price Index, December 2022

the most over the last twelve months although, in absolute terms, these regions still show more momentum than they have for most of the post-financial crisis period.

There is still no solid evidence of a major slowdown. Indeed, most regions are simply returning to a more normal pace.

Asking prices fell in all the English regions, Scotland and Wales during November (see map). The biggest drop was in the North East, where the average dropped an unprecedented 3.8%. Vendors in the South West also exercised radical price revisionism, dropping the average price by 3.1%.

Such falls in a single month are truly remarkable and serve to indicate how quickly the market is adapting to the new lending environment, through a combination of price cutting, more realistic new pricing and withdrawal of pricier properties.

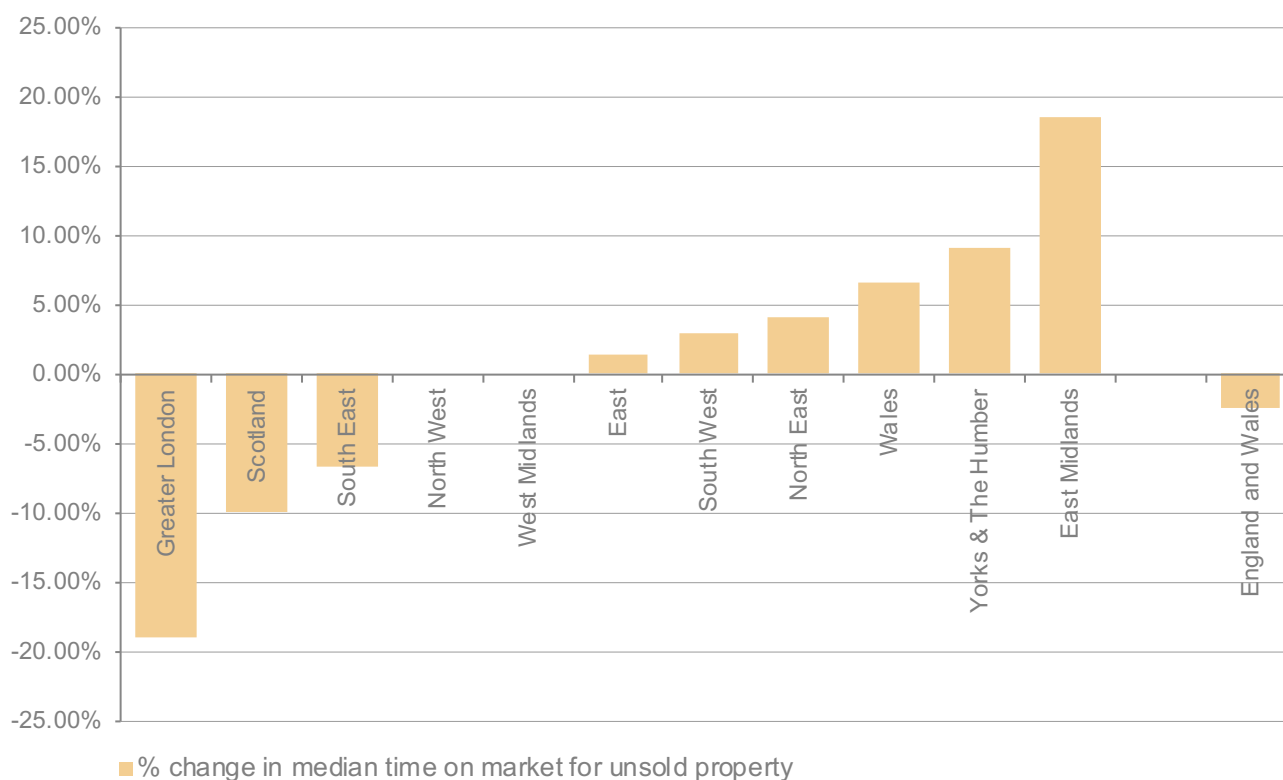
The smallest drop was in Scotland. The average there dipped a mere 0.1% during November but we expect larger reductions over the next few months. The next smallest drop was in London where 1.4% was knocked off the average asking price.

Concomitantly, there is clearly no slowdown in this market; in fact, quite the opposite when compared to December 2021. The continued pace of this market suggests that a period of price growth may well arrive soon. Given also that the median price of a flat in the Greater London area is now 15% lower than it was in 2015 and now yields around 4.5% on the rental market, the market seems ripe for recovery.

Real Home Price Growth

The effects of monetary inflation on the housing market cannot be overstated. History tells us that, like many assets, property is a go-to investment in times

% Change in Typical Time on Market, Dec. 2022 vs. Dec. 2021



Source: Home.co.uk Asking Price Index, December 2022

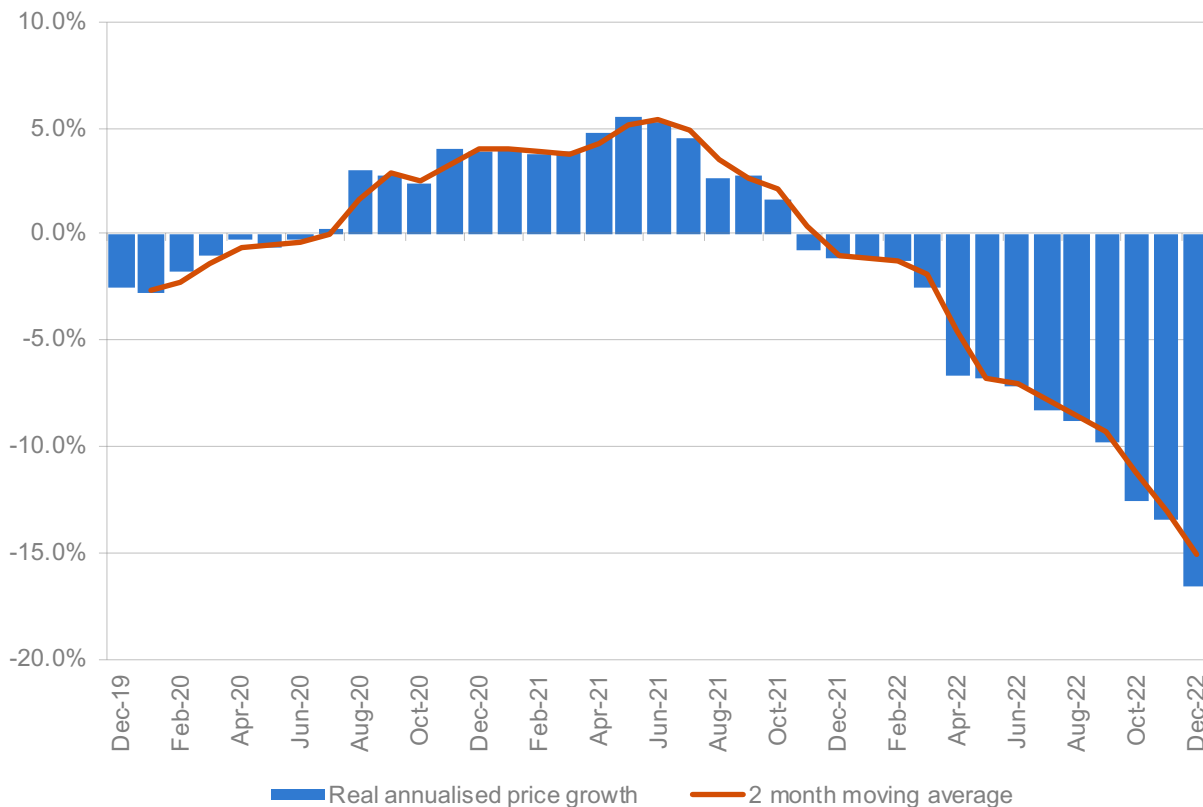
of high inflation. The rub, of course, is that interest rates are normally ratcheted up sky high during these periods. This time around, however, interest rates are remarkably low compared to the headline rate of inflation, so much so that the real mortgage rate is negative by quite a margin.

So too is price growth for the time being (as indicated by our chart) but this will change and, when it does, those who bought and hung on to property during this period will benefit enormously

when the countertrend finally arrives. Unfortunately, however, most people don't understand inflation.

In this chart, we present a further update with the addition of our conservative estimates for current inflation (Nov and Dec). Using RPI ex. housing, we can see that real asking price growth first went negative in November 2021. Since then, real growth in UK property has fallen to around -15%. This, effectively, represents a clandestine property crash.

Real Asking Price Growth, England and Wales



Source: ONS and Home.co.uk Asking Price Index, December 2022. Figures for November and December include our estimates of RPI (ex. housing) of 17% and 18% respectively.



Season's Greetings!

The UK housing market has cooled rapidly, seemingly in line with the frosty weather. On Thursday, the Bank of England is expected to throw another bucket of icy water on the markets in the form of a further 0.5% rise in the base rate. Surely only Bad Santa would deliver such a gift at this time.

Looking back, it was only 18 months ago that the Bank of England said that surging inflation was transitory and the Monetary Policy Committee voted to keep interest rates at 0.1%. At this point the clowns at Threadneedle Street had the chance to nip it in the bud, but they utterly failed us yet again and made inflation rampant by keeping their foot on the stimulus pedal. This reckless policy overheated the property market to such an extent that unprecedented demand gobbled up half of all the stock. The resulting scarcity drove prices through the roof.

The BoE's own survey showed that 35% of the UK population are unhappy with how they are handling inflation and, with only 23% satisfied with the BoE's performance, net satisfaction dropped to minus 12%, the lowest since records began, reported Pedro Gonçalves, Finance Reporter for Yahoo Finance UK, last week. Hardly surprising, is it? Moreover, the Bank even had the temerity to demand that workers

not ask for wage rises, simply to cope with the rapid rise in the cost of living that they themselves created.



The people are clearly very unhappy about the situation. The 2% inflation target now just looks like a joke and political discontent will challenge the Bank's independence in setting rates. Many are beginning to realise that inflation is baked in the cake and that the current rate hikes are doing nothing useful for the economy. (Fundamentally, higher interest rates cannot bring down the cost of imported energy). Indeed, the current strategy has about the same likelihood of success as the Charge of the Light Brigade.

A second line of attack on the economy is via taxation. The Sunak-Hunt tax grab looks set to impoverish many more Britons and businesses. A corporation tax hike from 19% to 25% is to be reinstated from the 1st April 2023. It raises the windfall profits tax on domestic oil and gas producers and imposes a new tax on electricity generation which will drive up the cost of energy, prompting the government to promise more spending on energy grants to consumers. Inflation-related wage and pension increases will be allowed to raise taxes faster than

inflation by pushing incomes deeper into the tax rate bands, reducing real after-tax incomes. These are stealth taxes. Until recently, Britain adjusted key elements of the income tax for inflation. However, an earlier budget froze the adjustments through 2026 for the personal allowance, the income thresholds between the tax bands, the income at which the personal allowance begins to be phased out and the threshold for payment of NICs. The Sunak-Hunt tax plan would extend the freeze through 2028. The UK Office of Budget Responsibility estimates another six million workers will be pushed onto the tax rolls due to the freezes.

Sarah Coles, a British personal finance analyst, sums up the tax freeze situation beautifully: "The stealth taxes came thick and fast... The government favours stealth taxes like this, because not only can they avoid announcing a rise, but they tend to affect money we haven't yet earned, so we're less likely to notice the change. Unfortunately, over time, inflation will mean the government takes a larger and larger share of our cash, and the sheer length of these freezes means that six years after the fuss of the Autumn statement dies down, the taxman will be quietly picking your pocket."

Stephen J. Entin then follows up with this excellent analogy published by the Tax Foundation : "The initial

freeze in the inflation adjustments as inflation rose through single digits was akin to drilling holes in the lifeboats when the ship sighted ice floes ahead. Extending the freeze two more years with inflation now at a double-digit rate is like jettisoning the pegs and mallets that could repair the leaks after the ship has hit a berg and is starting to sink."

The same is happening with Capital Gains Tax. Last year, the Annual Exempt Amount was frozen at £12,300. In April next year, this will be reduced to £6000 and then £3000 in 2024. Given the current inflation, these allowances should be rapidly heading in the other direction. Moreover, since the demise of indexation, most of the CGT to be paid is not a real capital gain but merely a consequence of a loose monetary policy and therefore deeply unjust.

I'll leave the final word to Mr Entin: "The path back to non-inflationary growth and higher employment is through spending reduction, reinstatement of the income tax's inflation adjustment, and retention of Britain's highly competitive 19 per cent corporation tax rate and allowances for capital investments."

Wishing you all a Merry Christmas from the Home.co.uk team.

Doug Shephard
Director at Home.co.uk



UK Asking Prices

Scotland	Dec-22
Average Asking Price	£216,848
Monthly % change	-0.1%
Annual % change	4.8%

North East	Dec-22
Average Asking Price	£180,150
Monthly % change	-3.8%
Annual % change	3.2%

Yorks & The Humber	Dec-22
Average Asking Price	£237,995
Monthly % change	-2.1%
Annual % change	4.4%

North West	Dec-22
Average Asking Price	£251,138
Monthly % change	-2.6%
Annual % change	4.7%

West Midlands	Dec-22
Average Asking Price	£293,502
Monthly % change	-2.2%
Annual % change	3.1%

East Midlands	Dec-22
Average Asking Price	£282,736
Monthly % change	-2.8%
Annual % change	2.9%

East	Dec-22
Average Asking Price	£395,059
Monthly % change	-2.9%
Annual % change	-0.2%

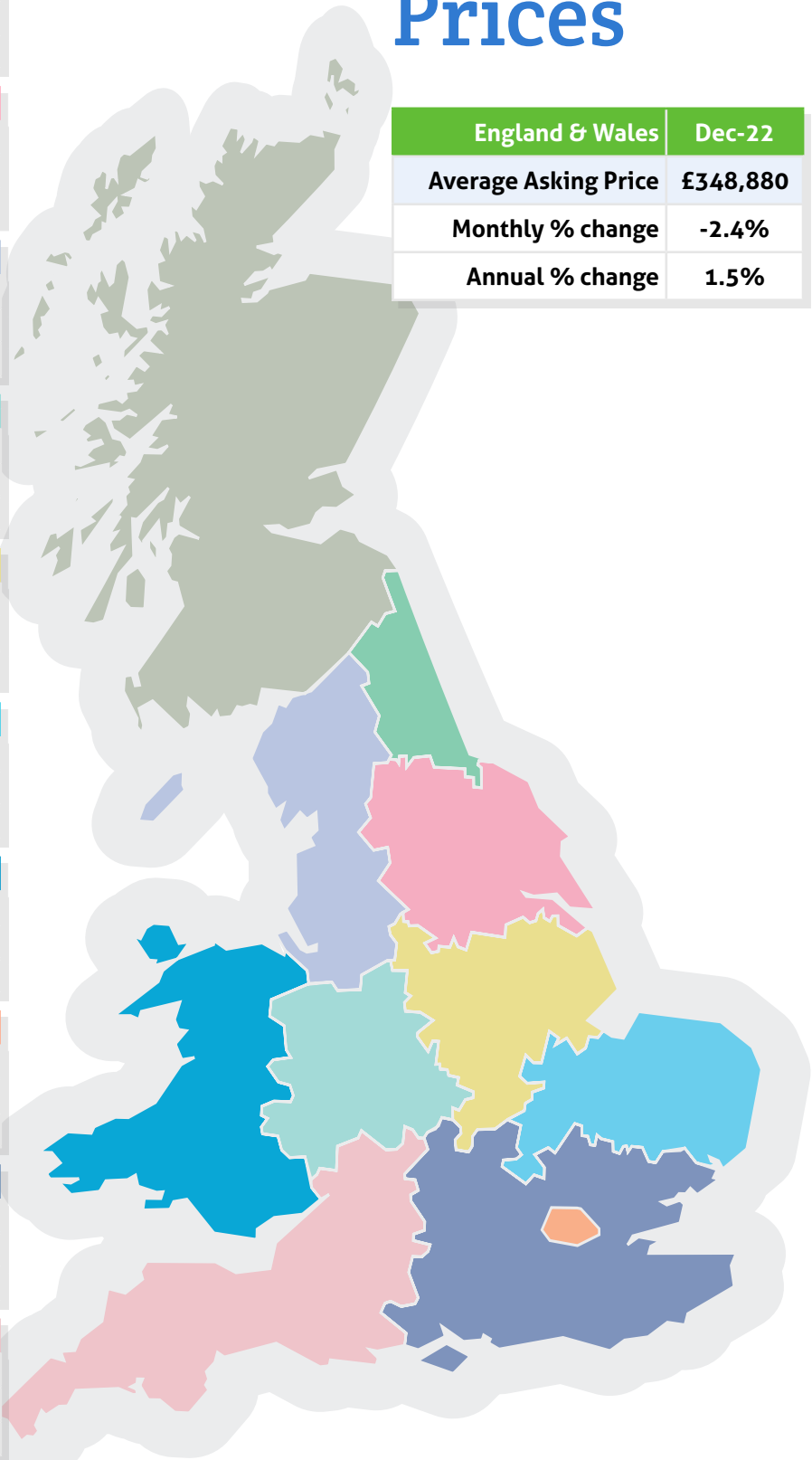
Wales	Dec-22
Average Asking Price	£255,661
Monthly % change	-2.0%
Annual % change	4.7%

Greater London	Dec-22
Average Asking Price	£547,601
Monthly % change	-1.4%
Annual % change	-0.5%

South East	Dec-22
Average Asking Price	£438,632
Monthly % change	-2.6%
Annual % change	-0.6%

South West	Dec-22
Average Asking Price	£375,118
Monthly % change	-3.1%
Annual % change	2.9%

England & Wales	Dec-22
Average Asking Price	£348,880
Monthly % change	-2.4%
Annual % change	1.5%



Source: Home.co.uk Asking Price Index, December 2022

UK Time on Market

Scotland	Dec-22
Average Time on Market	181
Typical Time on Market	72
Annual % supply change	4%

North East	Dec-22
Average Time on Market	142
Typical Time on Market	74
Annual % supply change	2%

Yorks & The Humber	Dec-22
Average Time on Market	121
Typical Time on Market	71
Annual % supply change	8%

North West	Dec-22
Average Time on Market	141
Typical Time on Market	74
Annual % supply change	10%

West Midlands	Dec-22
Average Time on Market	135
Typical Time on Market	72
Annual % supply change	9%

East Midlands	Dec-22
Average Time on Market	114
Typical Time on Market	70
Annual % supply change	6%

East	Dec-22
Average Time on Market	129
Typical Time on Market	71
Annual % supply change	11%

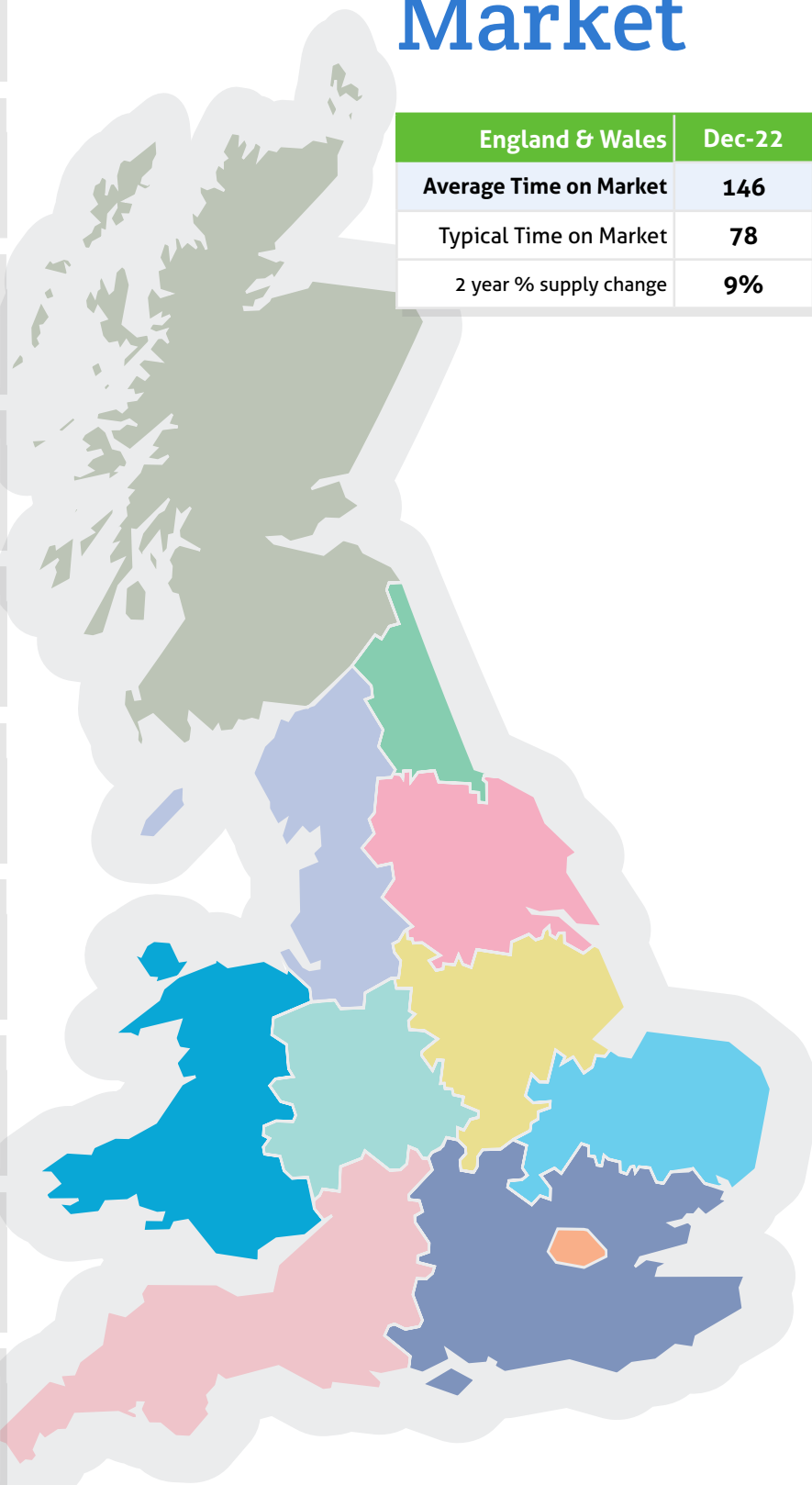
Wales	Dec-22
Average Time on Market	139
Typical Time on Market	81
Annual % supply change	10%

Greater London	Dec-22
Average Time on Market	183
Typical Time on Market	85
Annual % supply change	7%

South East	Dec-22
Average Time on Market	135
Typical Time on Market	71
Annual % supply change	14%

South West	Dec-22
Average Time on Market	130
Typical Time on Market	71
Annual % supply change	11%

England & Wales	Dec-22
Average Time on Market	146
Typical Time on Market	78
2 year % supply change	9%



Source: Home.co.uk Asking Price Index, December 2022. Average = Mean (days), Typical = Median (days).

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:

- Thursday 12th January
- Wednesday 15th February
- Wednesday 15th March