

## Midlands Forges Ahead while London Prices Slide

### Headlines

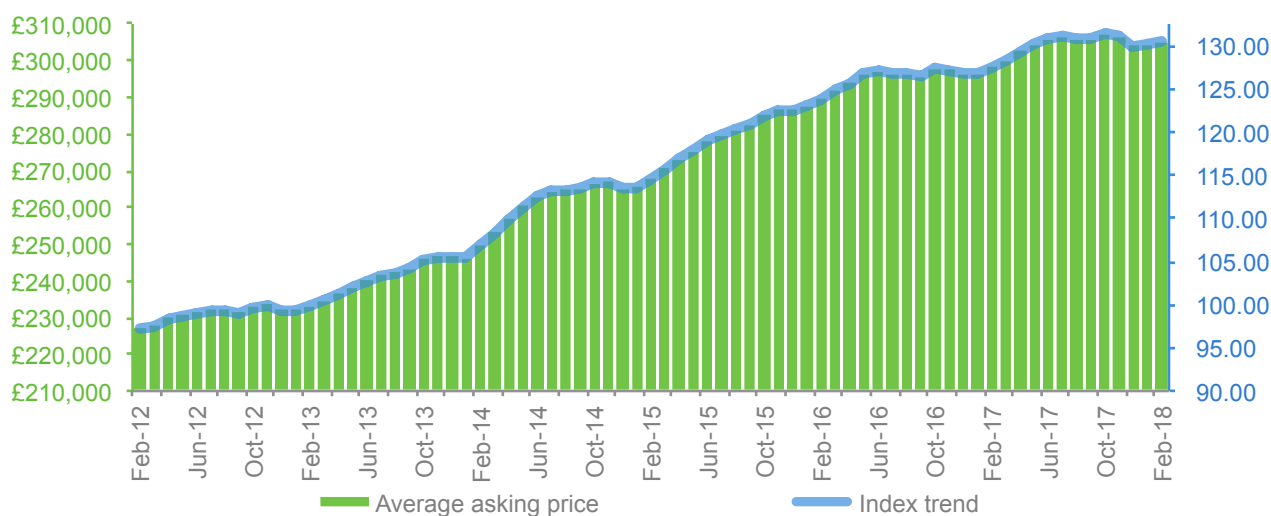
- Strong price growth in the Midlands and Yorkshire keeps national average positive despite London falls.
- No signs of recovery for London as the downward, now 21-month slide continues.
- Supply surges in the East, South East and South West of England.
- Typical Time on Market rises even further in London (+7.5%), the South East (+10.0%) and East (+7.7%) but year-on-year improvements are apparent in all other regions.
- Home prices tick up by 0.2% this month, taking the mix-adjusted average for England and Wales up 2.3% year-on-year (YoY).
- Asking prices in the capital region have now fallen 3.7% since their peak in May 2016, which equates to an average price reduction of £20,500.
- Prices have risen in all English regions, Scotland and Wales since last month, with the exception of London and the South West.
- Typical Time on Market for England and Wales has increased to 106 days, three days less than in Feb 2017.
- The total stock of properties on the market in England and Wales nudges up again to give a rise of 2.7% YoY.

### Summary

As we head towards spring and the corresponding rise in housing market activity, two opposing trends dominate the UK home market. London's post-boom malaise continues with the number of properties on the market increasing as prices deflate. The East and South East of England are also suffering the same post-boom hangover with overly high valuations weighing heavily on prices and lengthening marketing times. For the time being these two regions still show year-on-year price gains but, going forward, the trend is towards zero and then slow deflation, perhaps towards the end of the year.

Counter to this, the Midlands and the northern markets are in great shape and, indeed, gaining momentum. In these regions the established growth trends continue and marketing times are significantly lower year-on-year. Unlike the frenzied pace of price rises observed previously in London and the Home Counties, the growth observed in the North and Midlands is, for the time being, more moderate and therefore appears more sustainable. Moreover, if we look back over the last ten years we can see that prices in the

### Home Asking Price Trend for England & Wales



Source: Home.co.uk Asking Price Index, February 2018

North East have yet to recover their 2008 values, and homes in Yorkshire and the North West have only just recently recovered those valuations. In stark contrast London prices are 50.5% higher than in 2008 thus highlighting both the room for growth in the North and the need for a price correction in and around the capital.

Overall supply of property for sale in the UK is up 12% YoY. The largest contributions over the month of January were from the East (+22%), South East (+18%) and South West (+20%). These large jumps in new instructions in the East and South East will serve to slow these markets further and depress prices. By contrast, supply contracted in Wales (-4%) and rose only 5% in the Yorkshire and Humber region.

According to the Office of National Statistics (ONS), non-housing inflation (RPI ex-housing) rose to 4.6% in December. This is the most recent figure but it may well be higher by now. This means that in all but three English regions and Wales prices are actually falling in real terms. In fact, national average growth has been outpaced by this measure of inflation for a full year. In

London the real rate of depreciation in capital value is around 6%.

Rising monetary inflation, of course, often prompts interest rate rises and we come to the possibility of that and the effect it would have on the property market later in this report.

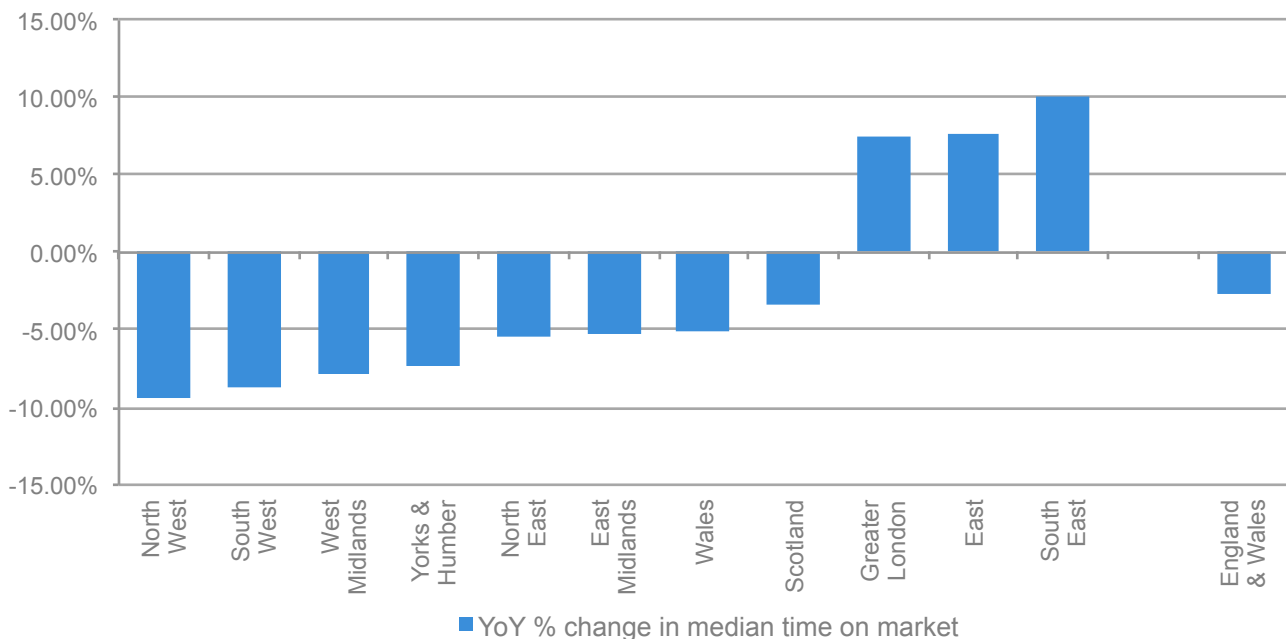
In Feb 2017 the annualised rate of increase of home prices was 3.0%; today the same measure is 2.3%.

## Regional Round-up

Analysis of the Typical Time on Market of unsold property across the English regions, Scotland and Wales shows which regional markets are speeding up and which are slowing down. Moreover, this median measure of the market momentum is also a vital gauge in predicting price growth or decline, since changes in the Typical Time on Market (TToM) normally become apparent several months before pricing reacts to a shift in sentiment.

The chart shows how the overinflated London, East and South East markets are still slowing down

## Change in Typical Time on Market Feb 2018 vs. Feb 2017



Source: Home.co.uk Asking Price Index, February 2018

and their market direction is out of step with the median ToM for England and Wales. These regions are now suffering the consequences of unsustainable price hikes in recent years, although London is much further down that road. Asking prices in the capital are already deflating and we expect the same fate to affect the South East and then the East. There, like London, prices leapt ahead of rents thereby reducing yields to the point of being unviable.

The Private Rented Sector (PRS) has grown enormously over recent years and now accounts for around 20% of properties. This key driver of the property market has meant that investors have increasingly looked towards the Midlands, South West and the North in search of better yields. Moreover, it is also apparent what effect this investment is having on those regional markets.

The chart shows that the most improved markets over the last 12 months are the North West, South West, West Midlands and Yorkshire. In these regions demand is outstripping supply and prices are rising. The North East has also gained more momentum but to a lesser extent. Prices there will be slow to rise while rents remain stagnant. The Welsh and Scottish markets are also improving albeit slowly. We expect these trends to continue through 2018, as long as there are no major shocks in the supply of mortgage credit.

The East Midlands, on the other hand, is a market approaching the top of the cycle. After several years of high demand and solid price growth, valuations are beginning to look optimistic. Over the last five years prices have risen by 30.1%. We anticipate that Time on Market in this region will bottom out in the summer months and then begin to rise towards the end of 2018 before stagnating in 2019. The West Midlands is likely to follow suit soon after and this will adversely affect the balance of the UK housing market.

## Regional Supply

Supply surges are always an ominous sign for housing as demand can rarely be suddenly increased so as to restore balance to the marketplace. Hence, the supply surges observed in the East of England, South West and the South East are cause for concern. The East of England market has been slowing down over the last 12 months and price rises have become muted. Such a large increase in supply, should it persist, is therefore likely to overwhelm demand and turn the market to the downside in 2018.

The same can be said for the South West and the South East, albeit the South West is not showing the same signs of slowing. One could pose the question: What might be the cause of a rapid increase in instructions in these regions? One possible answer is that landlords, prompted

## Change in Supply Jan 2018 vs. Jan 2017



Source: Home.co.uk Asking Price Index, February 2018

by higher taxation and regulation, are selling their least profitable properties. This would account for the East and South East of England, where capital gains look unlikely in the near term, but not so much for the South West where there appears to be room for further growth in home prices.

Supply is also rising in London and the Midlands. Not so much a problem for the Midlands where properties are selling well, but in the capital this will swell already growing stock levels and weigh heavily on prices.

As for Scotland, Wales and the northern regions, supply remains relatively tight and this bodes well for future price growth. In Wales, particularly, where supply has contracted, we expect scarcity to push YoY growth higher from the already significant current level of 4.8%.



**So, for the time being, the UK property market is in good shape overall.**

London's malaise continues as the froth settles but prices, thus far, appear to be correcting in an orderly way and, as long as interest rates remain low, we expect that trend to continue.

The Midlands look set to put in another good performance this year before slowing down. Likewise, the trend towards recovery and price growth in the North looks set to continue at least until 2020 as long as mortgage credit doesn't dry up.

Of course, there's the rub. The end of the Bank of England's (BoE) Term Funding Scheme is scheduled for the 28th February. This will most likely mean that lenders will once again need interbank loans and savers' deposits to fund further lending. So unless there is a last minute extension, mortgage rates will need to be raised sooner rather than later even if the Base Rate remains unchanged. Moreover, swap rates have already doubled recently and the BoE is hinting strongly at two rate rises this year.

So that's the theory: End to BoE 'funny money' and return to good old savers' deposits. But there's a problem: Where are the savers? One of the reasons Buy-to-Let was so popular was that it was a way of getting a decent return on your savings while deposit rates were a joke. Hence, much of Britain's hard-earned savings have been exchanged for bricks and mortar and are at record lows. In order to attract significant deposits, banks would need to offer upwards of 5% to compete with other returns on their cash and that would mean mortgage rates would be even higher.

Such a scenario would likely kill the property market stone dead. Turning the stimulus money taps off and expecting the market to revert to 'normal' simply won't work. Hopefully the BoE has a better plan that they haven't shared with us yet.



**Doug Shephard**  
Director at Home.co.uk



# UK Asking Prices

Scotland	Feb-18
<b>Average Asking Price</b>	<b>£181,396</b>
Monthly % change	0.8%
Annual % change	2.5%

North East	Feb-18
<b>Average Asking Price</b>	<b>£157,006</b>
Monthly % change	0.2%
Annual % change	1.8%

Yorks & The Humber	Feb-18
<b>Average Asking Price</b>	<b>£189,483</b>
Monthly % change	0.6%
Annual % change	5.3%

North West	Feb-18
<b>Average Asking Price</b>	<b>£194,893</b>
Monthly % change	0.3%
Annual % change	3.8%

West Midlands	Feb-18
<b>Average Asking Price</b>	<b>£238,569</b>
Monthly % change	0.3%
Annual % change	5.9%

East Midlands	Feb-18
<b>Average Asking Price</b>	<b>£226,819</b>
Monthly % change	0.4%
Annual % change	6.5%

East	Feb-18
<b>Average Asking Price</b>	<b>£357,151</b>
Monthly % change	0.8%
Annual % change	2.4%

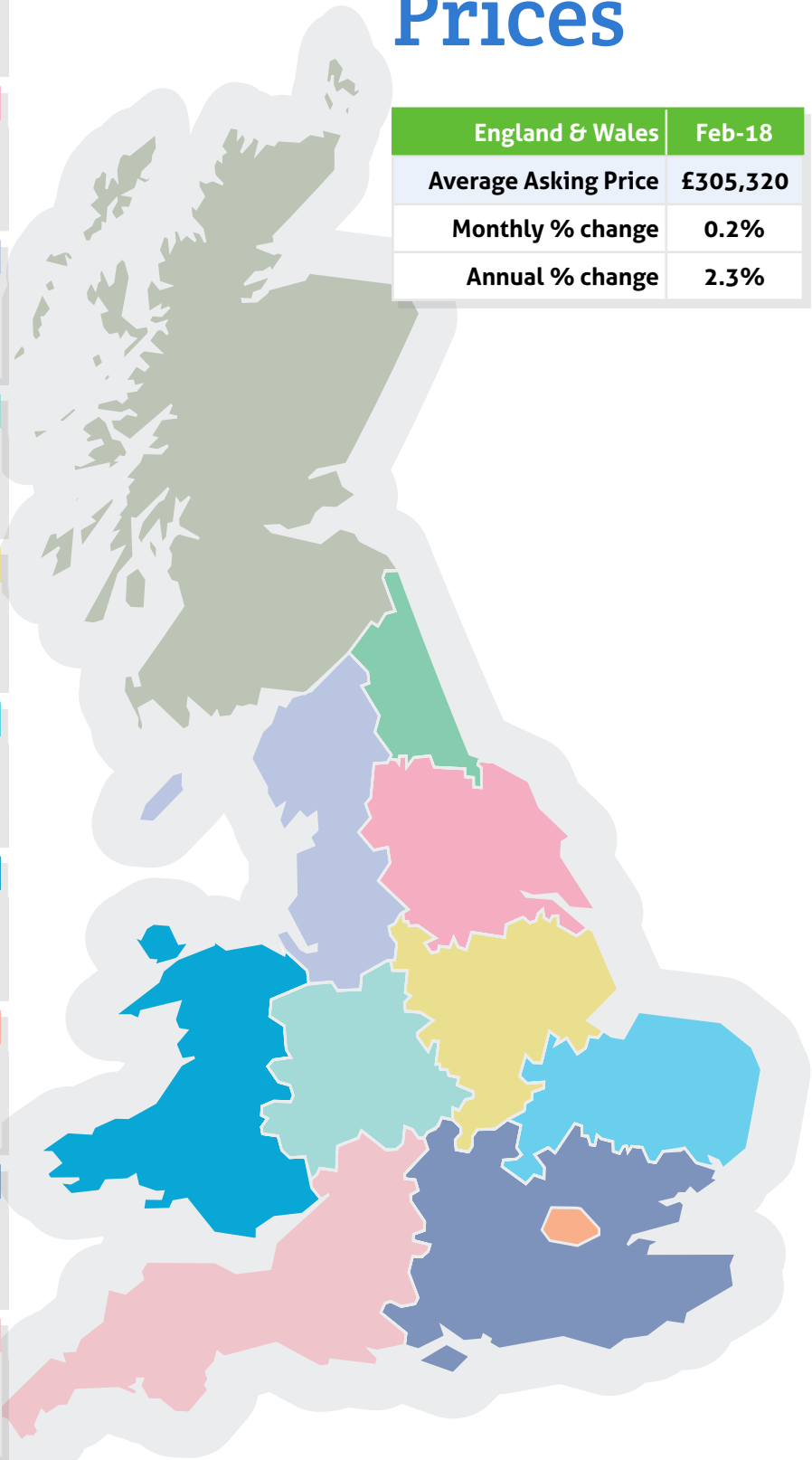
Wales	Feb-18
<b>Average Asking Price</b>	<b>£193,407</b>
Monthly % change	0.3%
Annual % change	4.8%

Greater London	Feb-18
<b>Average Asking Price</b>	<b>£532,334</b>
Monthly % change	-0.2%
Annual % change	-1.1%

South East	Feb-18
<b>Average Asking Price</b>	<b>£401,212</b>
Monthly % change	0.1%
Annual % change	1.5%

South West	Feb-18
<b>Average Asking Price</b>	<b>£319,954</b>
Monthly % change	-0.2%
Annual % change	3.5%

England & Wales	Feb-18
<b>Average Asking Price</b>	<b>£305,320</b>
<b>Monthly % change</b>	<b>0.2%</b>
<b>Annual % change</b>	<b>2.3%</b>



Source: Home.co.uk Asking Price Index, February 2018

# UK Time on Market

Scotland	Feb-18
<b>Average Time on Market</b>	<b>261</b>
Typical Time on Market	145
Annual % supply change	7%

North East	Feb-18
<b>Average Time on Market</b>	<b>248</b>
Typical Time on Market	140
Annual % supply change	6%

Yorks & The Humber	Feb-18
<b>Average Time on Market</b>	<b>189</b>
Typical Time on Market	115
Annual % supply change	5%

North West	Feb-18
<b>Average Time on Market</b>	<b>187</b>
Typical Time on Market	115
Annual % supply change	7%

West Midlands	Feb-18
<b>Average Time on Market</b>	<b>150</b>
Typical Time on Market	93
Annual % supply change	11%

East Midlands	Feb-18
<b>Average Time on Market</b>	<b>142</b>
Typical Time on Market	90
Annual % supply change	9%

East	Feb-18
<b>Average Time on Market</b>	<b>122</b>
Typical Time on Market	84
Annual % supply change	22%

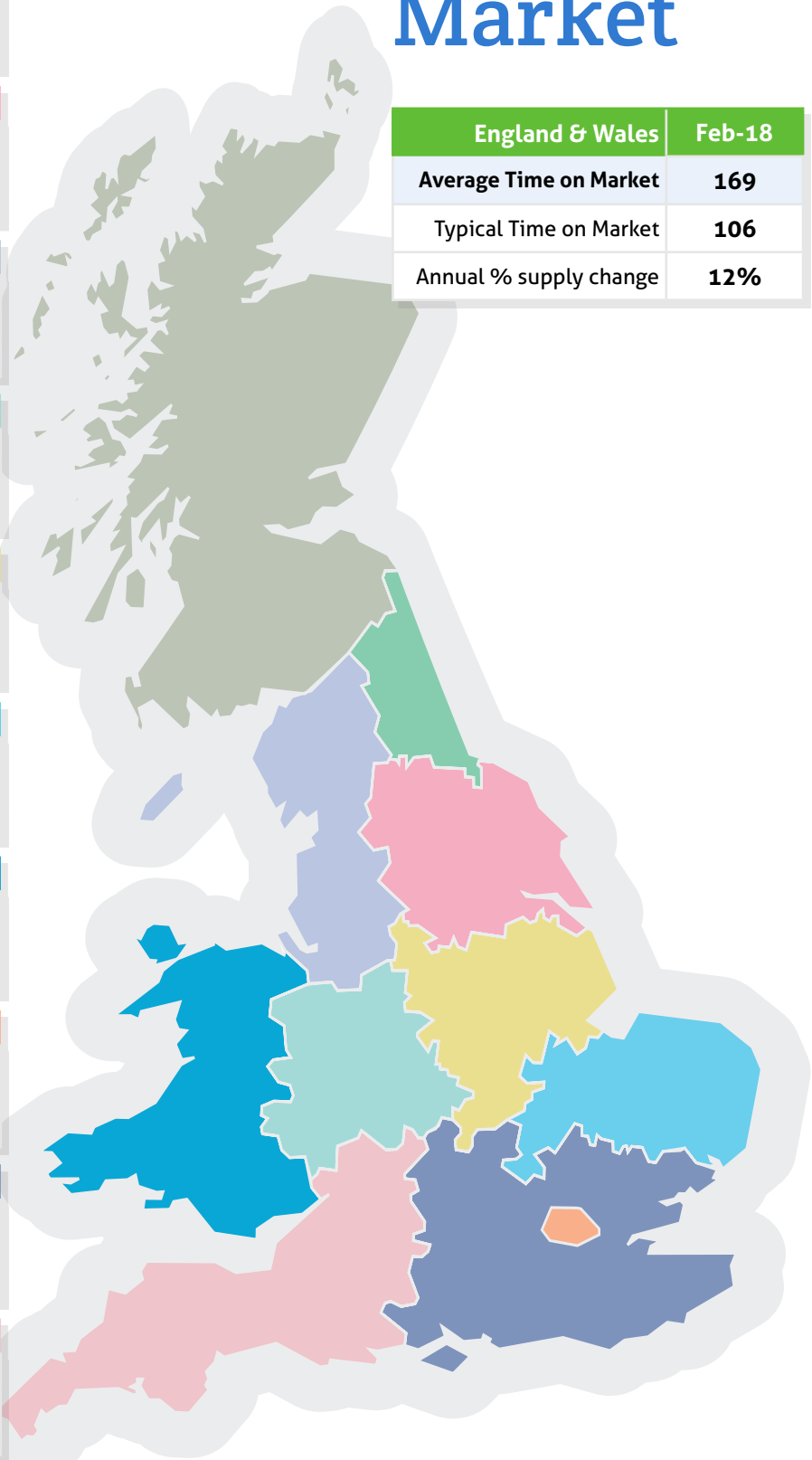
Wales	Feb-18
<b>Average Time on Market</b>	<b>248</b>
Typical Time on Market	147
Annual % supply change	-4%

Greater London	Feb-18
<b>Average Time on Market</b>	<b>154</b>
Typical Time on Market	100
Annual % supply change	12%

South East	Feb-18
<b>Average Time on Market</b>	<b>128</b>
Typical Time on Market	88
Annual % supply change	18%

South West	Feb-18
<b>Average Time on Market</b>	<b>149</b>
Typical Time on Market	95
Annual % supply change	20%

England & Wales	Feb-18
<b>Average Time on Market</b>	<b>169</b>
Typical Time on Market	<b>106</b>
Annual % supply change	<b>12%</b>



Source: Home.co.uk Asking Price Index, February 2018. Note: 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:  
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- For further details on the methodology used in the calculation of the HAPI please visit:  
[http://www.home.co.uk/asking\\_price\\_index/Mix-Adj\\_Methodology.pdf](http://www.home.co.uk/asking_price_index/Mix-Adj_Methodology.pdf)
- To learn more about Home.co.uk data services please visit:  
<http://www.home.co.uk/company/data/>

## Future release dates:

- Tuesday 13<sup>th</sup> March
- Thursday 12<sup>th</sup> April
- Friday 11<sup>th</sup> May