

Calm Before the Storm: A Property Market in Crisis

Headlines

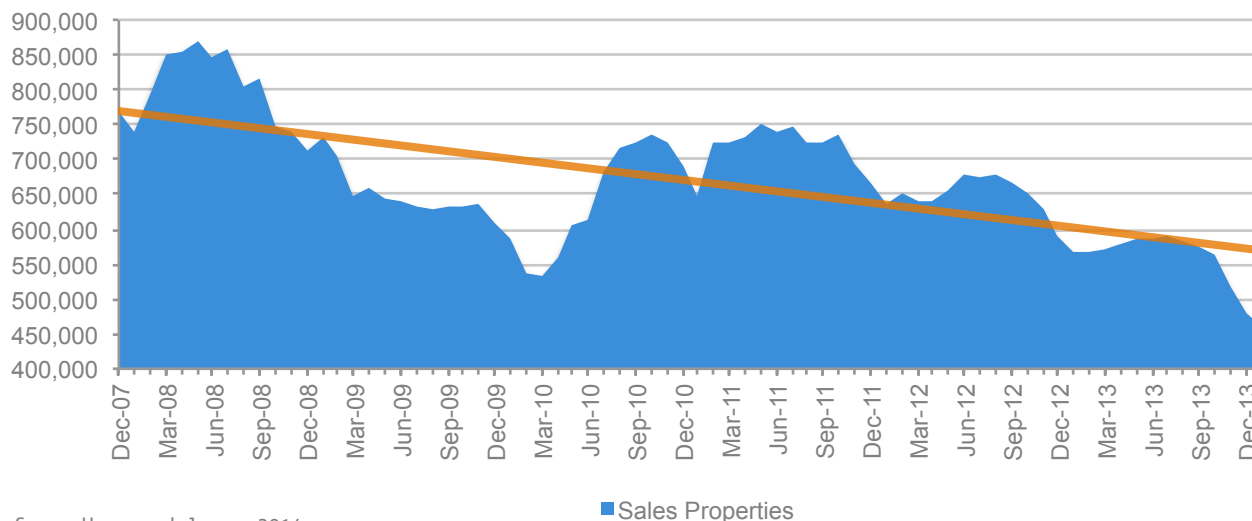
- Supply of property for sale being placed on the market tumbles to the lowest level ever recorded by this index
- Correspondingly, the overall total of property for sale has plunged to another all-time low and now stands 38% lower than in January 2008
- Average asking price for England and Wales shows no change from last month but is up 6.2% on January 2013, a new post-crisis high
- Further pressure is being placed on prices in the North of England and Scotland which are recording an average monthly drop of 0.3%
- London again defies the wider market trends, posting a month-on-month price rise of 0.4%. Annual price inflation in the capital now stands at a staggering 14.7%

Summary

Given the seasonal downturn, it is usual for prices to slip month-on-month. When prices hold firm at this time of the year, it is a strong signal that demand is strong and vendors are confident overall. However, a serious threat continues to haunt the market which makes the start of 2014 both daunting and unique. The stock drought not only continues but has worsened again to hit another record low as vendors still hold back from entering the market. The average buyer's choice of property for sale is severely restricted (especially in London and the South East) and is now 38% less than in January 2008. In turn, this severe property drought continues to erode affordability, with annual rises across England and Wales now running at 6.2%, the highest house price inflation seen since the financial crisis. Compare that figure to the current average public sector wage growth of -0.3% per annum.

The Greater London property market continues to be the major force driving average prices upwards, recording inflation of 21.2% over the past five years, with 14.7% in the last twelve months alone. This is welcome news for property owners, but affordability issues are forcing increasing numbers of buyers to remain in the rental market. Elsewhere in the UK, prices were unchanged or fell back marginally in December 2013. Annual price changes in most regions of England and Wales remain positive, although in the North of England and Scotland, house prices are still in decline, reflecting the poorer economic outlook in these areas.

Total Number of Properties for Sale (England & Wales)



Source: Home.co.uk, January 2014

■ Sales Properties

UK's Housing Supply Crisis

The drought of sales stock continues to dominate the UK property market overall, but the degree of shortage and the effect on prices varies considerably from region to region. In sought-after locations, good quality properties are being snapped up by eager buyers within days of reaching the market, and this is reflected in the reduced marketing times. The typical time on market across the UK has fallen by 9% in the last two years and can be as low as 82 days in a very active market like London. Moreover, hotspots within the Greater London market, such as Kennington, have seen the typical time on market drop to 69 days or less over the last year.

However, it is at this point in the cycle that the property market begins to struggle, as current home sales are not being replaced with equivalent numbers of fresh stock. There are fewer new properties entering the market in every region of England, Wales and Scotland, with overall volumes last month down 7.5% on last year, and a staggering 57.2% down on five years ago. London and the South East are most affected by the shortage crisis, with falls in new stock of 67.5% and 61.0% respectively over the last five years.

Market Turnover Weakens

With such low volumes of sales stock, the market turnover is being squeezed even further, with negative knock-on effects for many people and businesses. Home.co.uk tracks the flow rate of properties moving through the market by combining monthly data on overall stock levels and average marketing times. This Home Market Turnover Indicator (HMTI) has also dropped to a new low, with only an average 1,890 properties passing through the market on a daily basis. This is 21% down on January 2013 and a world away from the boom of 2007 when the HMTI was as high as 10,000 properties per day.

London's Swelling Bubble

Prices in the capital continue to defy both the wider UK market and seasonal trends. Another rise of 0.4% since December means that London has now recorded 13 consecutive months of monthly price growth. This translates into 14.7% annual price inflation, which places the Greater London area firmly in the property bubble category. Fuelled by relentless demand and dwindling new stock (down 67.5% compared to five years ago), London property values are set to rise much further (an average price increase of 20% during 2014 is likely).



Absolute demand has clearly not returned to pre-crisis levels across the UK. However, when we look at current demand relative to the current level of supply, the impact on affordability is probably worse.



Government policy to date has served to stimulate demand and has done relatively little to improve supply. Add to this scenario the increasingly polarised nature of the UK housing market and we have a very volatile situation. The record low volumes of stock and the consequent restriction in market turnover are really beginning to bite hard in a growing number of areas. What is increasingly clear is that the UK's housing shortage that has been brewing for the past thirty years is now reaching the point of crisis.

Housing is a basic human need. Boom-bust economics serve only speculators and ballot boxes, and are a wholly inappropriate modus operandi for this vital service sector. The supply issue must be addressed now in order to have a balanced and sustainable housing market. In order to do that, the UK requires more homes (built and brought back into use*), and for landlords to be taxed and scrutinised like any other business.

Until vendors return to the market in considerable volumes (and this may only happen when the seemingly inevitable bust recurs), prices will continue to be supported and home hunters will become increasingly frustrated and disheartened about their housing options.

Doug Shephard
Director at Home.co.uk

* Housing website EmptyHomes.com estimated, using government figures, that in 2012, there were 920,000 empty homes across the UK, 330,000 of which were long-term empty.



UK Asking Prices

Scotland	Jan-14
Average Asking Price	£156,356
Monthly % change	-0.4%
Annual % change	-1.4%

North East	Jan-14
Average Asking Price	£151,169
Monthly % change	-0.3%
Annual % change	-0.8%

Yorks & The Humber	Jan-14
Average Asking Price	£167,762
Monthly % change	-0.3%
Annual % change	0.6%

North West	Jan-14
Average Asking Price	£172,786
Monthly % change	0.0%
Annual % change	0.8%

West Midlands	Jan-14
Average Asking Price	£194,822
Monthly % change	-0.3%
Annual % change	3.3%

East Midlands	Jan-14
Average Asking Price	£182,906
Monthly % change	0.3%
Annual % change	5.4%

East	Jan-14
Average Asking Price	£258,390
Monthly % change	-0.2%
Annual % change	4.1%

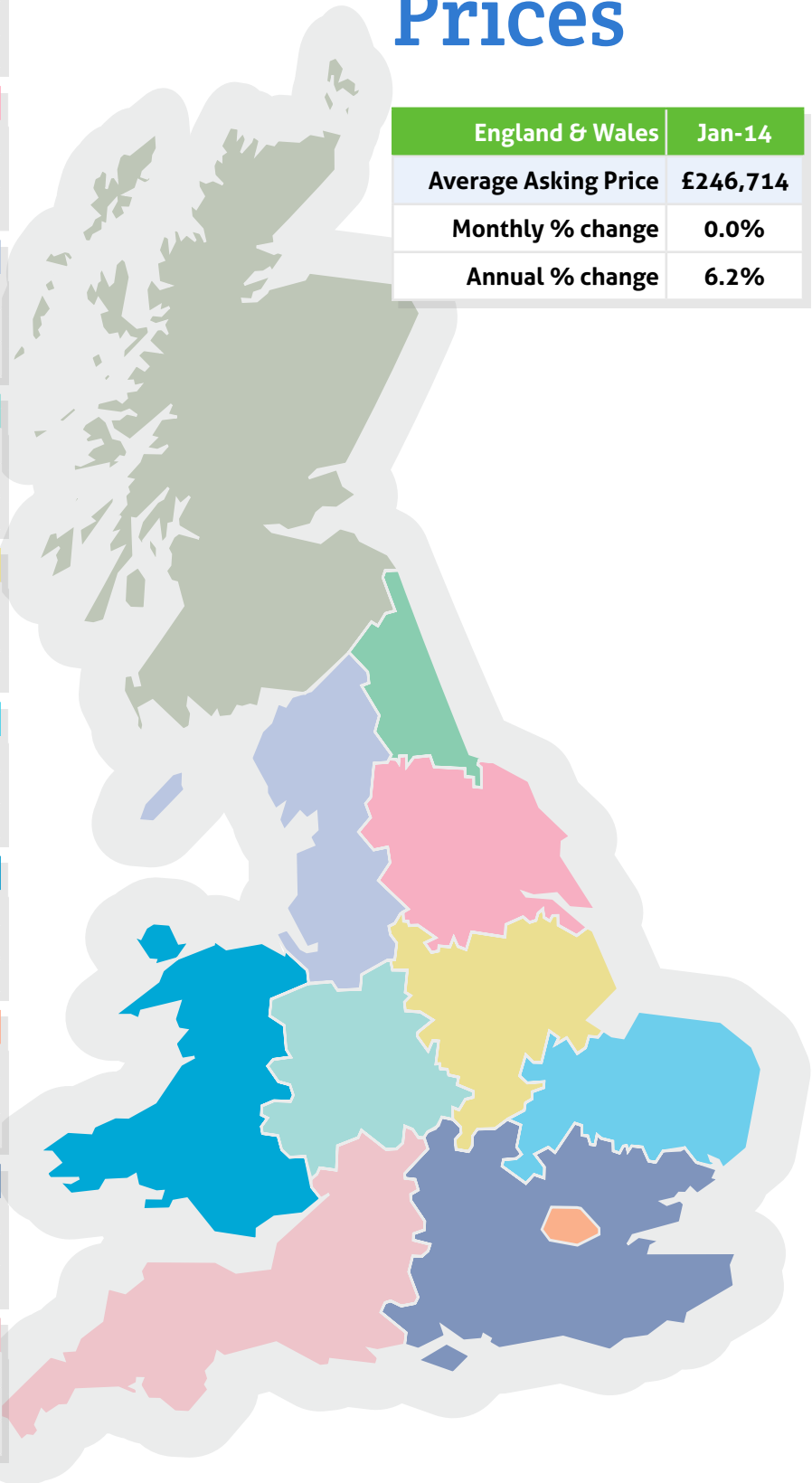
Wales	Jan-14
Average Asking Price	£177,030
Monthly % change	0.3%
Annual % change	1.2%

Greater London	Jan-14
Average Asking Price	£412,310
Monthly % change	0.4%
Annual % change	14.7%

South East	Jan-14
Average Asking Price	£316,712
Monthly % change	0.0%
Annual % change	7.1%

South West	Jan-14
Average Asking Price	£265,912
Monthly % change	-0.6%
Annual % change	4.9%

England & Wales	Jan-14
Average Asking Price	£246,714
Monthly % change	0.0%
Annual % change	6.2%



Source: Home.co.uk, January 2014

UK's Dwelling Tenure Transformation and the Stock Crisis

Government data indicates that there are approximately 22.8 million dwellings in the UK, however the net annual growth in stock in recent years has been as low as 165,000*. Without doubt, population growth and the rise of one-person households and second homes is outpacing the supply of newly constructed property. Moreover, the crisis is more than just geodemographic trends (moving to London and the SE). Another main contributor to the stock shortage in the UK's resale market is the transformation of the tenure of recent decades.

The Right to Buy scheme, passed in the Housing Act 1980, kick-started a transformation of tenure in the UK that is still evolving today. Even in the last 20 years, the subsequent swing towards private rented sector to the detriment of both public sector housing and the first-time buyer is clear. In 1991, 23% of stock was public sector dwellings and just 12% of homes were rented privately. Jump forward to 2011, and the private rented sector has grown to 27% whilst public housing stock accounts for just 8% of dwellings.

With councils unable to replace the homes they sold, fewer homes being built by the private construction sector, cuts in central government funding for housing associations, a rise in single occupancy households** and the subsequent rise in the private rented sector, a substantial squeeze on the resale market was inevitable: a recipe for the perfect storm. In the past three years, the relationship between sales stock and house prices has been inversely correlated (classical economics), creating intense misery for home hunters, especially those on lower incomes like first-time buyers. Since the beginning of 2011, the total volume of properties for sale has fallen by 29% and, subsequently, average asking prices have risen by 9.5%.

At the start of the credit crisis in 2008, the number of first-time buyers fell sharply to 192,000, a drop of 46.6 per cent on the previous year. By 2010, the figure had recovered slightly and stood at 200,000. This figure is still down by more than two thirds from the historic peak of 613,000 seen in 1986. Non-first time buyer figures showed a similar fall followed by a slight recovery. In 2008, there were 334,000 such buyers, a fall of more than half (51.0 per cent) from the previous year, and decline of 61.3 per cent from the historic peak of 887,000 seen in 2004. By 2010, the figure stood at 343,000.

Extract from *Measuring National Well-being – Households and Families, 2012* by Ian Macrory: Office for National Statistics

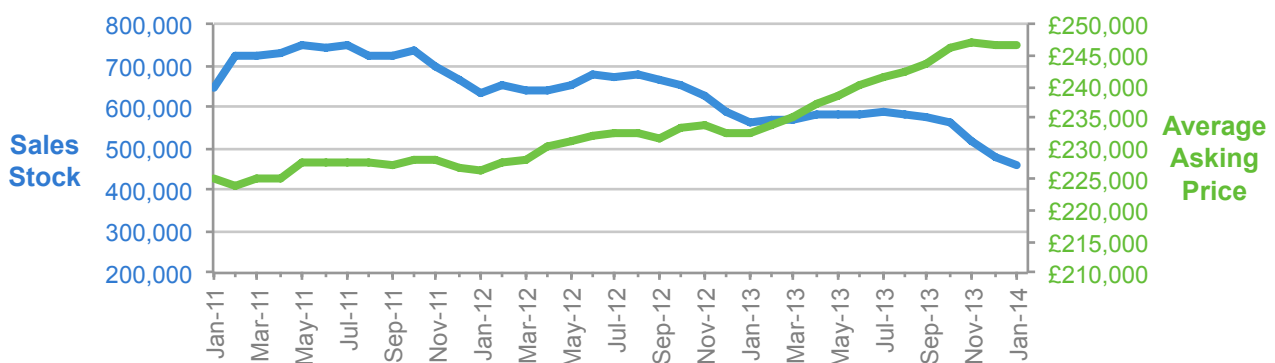
Doug Shephard, director at Home.co.uk, commented:

"Once the UK's public investment in housing had been largely privatised, the writing was on the wall. Landlords, almost always more creditworthy than first-time buyers, effectively remove the stock from the resale market and, in turn, bloat the private rental market. Whilst the aspiration to own a home remains commonplace, it has clearly been dampened by the financial crisis, the rise of the private rental sector, job insecurity and the unforgiving reality of finding a suitable property for lifestyle and budget."

* Gov.uk Live Tables: Dwelling stock by tenure

** According to National Well-being – Households and Families, 2012 by Ian Macrory: Office for National Statistics: Single person occupancy in 45 to 64-year olds has shown the strongest growth since 2001, with a 36.2 per cent increase to 2.4 million.

Chart 1: Total Volume of Sale Properties and Average Asking Prices (England & Wales)



Source: Home.co.uk, January 2014

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 700,000 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:
<http://www.home.co.uk/company/about.htm>
- 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
- To learn more about Home.co.uk data services please visit:
<http://www.home.co.uk/company/data/>

Future release dates:

- Thursday 13th February
- Thursday 13th March
- Tuesday 15th April