EMBARGOED UNTIL 12/01/22

Asking Price Index

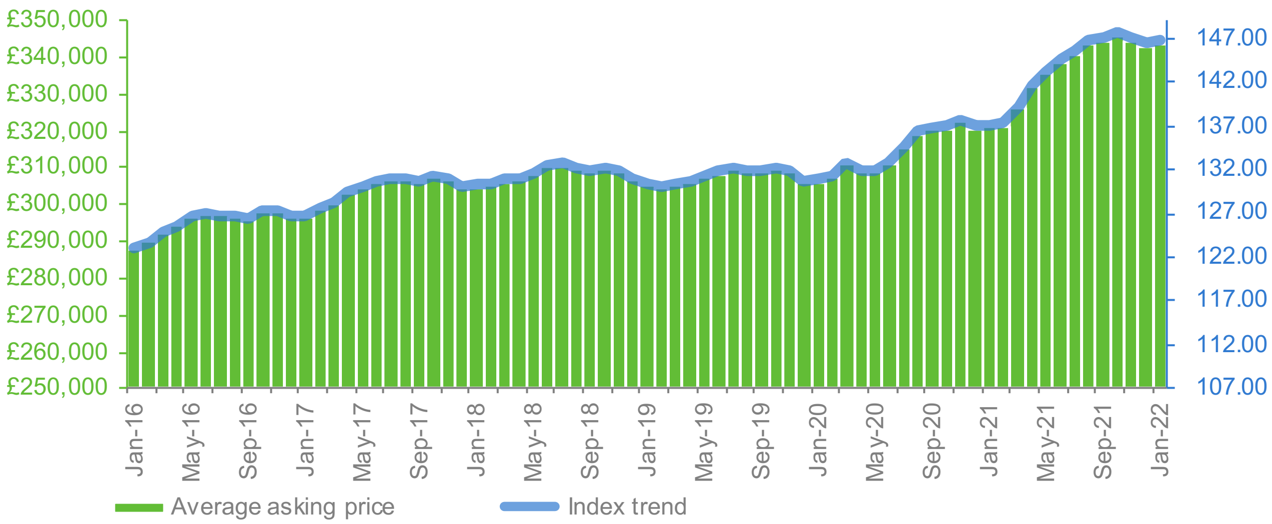
Released 12/01/22 January 2022

London Accelerates While Inflation Destroys Real Growth

Headlines

- The Greater London market performance looks set to break out this year. Supply is down a massive 33% year-on-year, sales stock is down 25% and prices are already up 1.3% over the last six months, making it one of the top four performing English regions.
- Rampant inflation already makes real home price growth negative overall and likely to be increasingly so over the coming months.
- The total stock of property for sale in England and Wales continues to fall as demand outstrips supply, hitting a new record low of 222,050, 40.9% lower than in January 2021 and 50.1% less than in January 2019.
- Monthly supply of new sales listings remains comparatively low across the UK, down 18% compared to the month of December 2020. Greater London shows the greatest contraction again this month.
- Asking prices across England and Wales show a small rise this month, up 0.2% since December, while the nominal annualised average growth remains unchanged at 6.9%. Prices in the West Midlands show an exceptionally bullish rise of 1.5%. The greatest price correction was in the South East (-0.8%).
- The market retains considerable momentum with the Typical Time on Market for unsold property in England and Wales at 92 days (median), nine days less than in January 2021.
- The East Midlands property market now heads up the 12-month regional price growth table with an inflation-beating annualised gain of 10.7%, putting the former leader, the East of England, into second place (+10.4%).
- Rents in Greater London are up an annualised 25%, while the stock of properties to let is down by 41% over the same period.
- Rents in central London continue to skyrocket. The greatest rises in asking rents over the last year are in the City (+98%), Westminster (+53%), Kensington and Chelsea (+50%) and Hammersmith and Fulham (+49%), as vast demand returns for upmarket city living.
- Supply of rental properties is low or falling in all English regions, Scotland and Wales (down 24% since December 2020) and this is creating significant upward price pressure. Rents are up an annualised 7.2% across the UK since January last year, and the pace appears to be picking up with 5.8% of this rise occurring in just the last three months.
- The largest annualised average rent hikes outside of London are in the East of England (+7.0%) and the South East (+6.1%).

Home Asking Price Trend for England & Wales



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

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The Home.co.uk Asking Price Index was originally devised in association with Calnea Analytics Ltd

Summary

Supply shortfalls remain evident across all the English regions, Scotland and Wales, worsening the already severe property drought. Consequently, the total count of unsold property dropped again to a further record low this month. Demand, fuelled by artificially low mortgage interest rates, has demolished 41% of agents' inventories over the last twelve months alone.

Of course, such an imbalance of supply and demand has meant that prices have been pushed up across the entire country. Low supply and seemingly indefatigable demand look set to persist into 2022, continuing the upward price pressure. Even the Greater London market, which suffered the most during the lockdowns, now looks very bullish with prices rising for a third consecutive month and supply falling.

Soaring inflation means that real home price growth is less than zero overall. Only four English regions and Wales show growth over and above the latest RPI* inflation figure of 7.7% for November. However, the current level of inflation is likely to be considerably higher meaning that, at best, some regions are treading water while others are suffering significant price falls in real terms.

Whilst the prospect of negative real growth will deter 100% cash investment, the huge spread between mortgage interest rates and inflation actually incentivises highly leveraged investment. As inflation heads towards 10% and a 7-year mortgage deal can currently be fixed at 2%, in real terms the debt will be eroded at a rapid rate. Hence, we expect buyer demand to remain high thanks to this perverse state of affairs, ensuring that home prices will rise again strongly this year even if real growth is negative.

Scarcity is also prevalent in the rental market. The lack of rental stock is alarming but perhaps not a surprise given the multi-year assault (through regulation and taxation) on buy-to-let landlords. Moreover, it's getting worse as the supply of rental properties falls further (overall 24% down on January 2021), making further rent hikes inevitable this year.

The greatest rent rises by far over the last year are to be found in the London lettings market. As the COVID exodus has gone into reverse, demand has returned and supply has plummeted. The result of this rapid recovery is that rents are back to pre-pandemic levels and therefore the fundamentals underpinning the value of property in the capital have been restored.

In fact, rents continue to rise in London, with every one of the 33 boroughs showing a hike in the mix-adjusted average during the last six months. Moreover, the greatest annualised rises are concentrated in the more central districts, namely the City, Westminster, Kensington & Chelsea, Hammersmith & Fulham, Camden, Tower Hamlets and Islington.

Home prices and rents will continue to rise overall in 2022 due to scarcity caused by the lax monetary policy and a disincentivised Private Rental Sector. Too much money is chasing too few properties and only a massive rise in interest rates could correct that situation and tame inflation. However, the government seems to have no appetite for curing the UK economy's addiction to cheap credit and instead are fiddling while Rome burns. (See Quote).

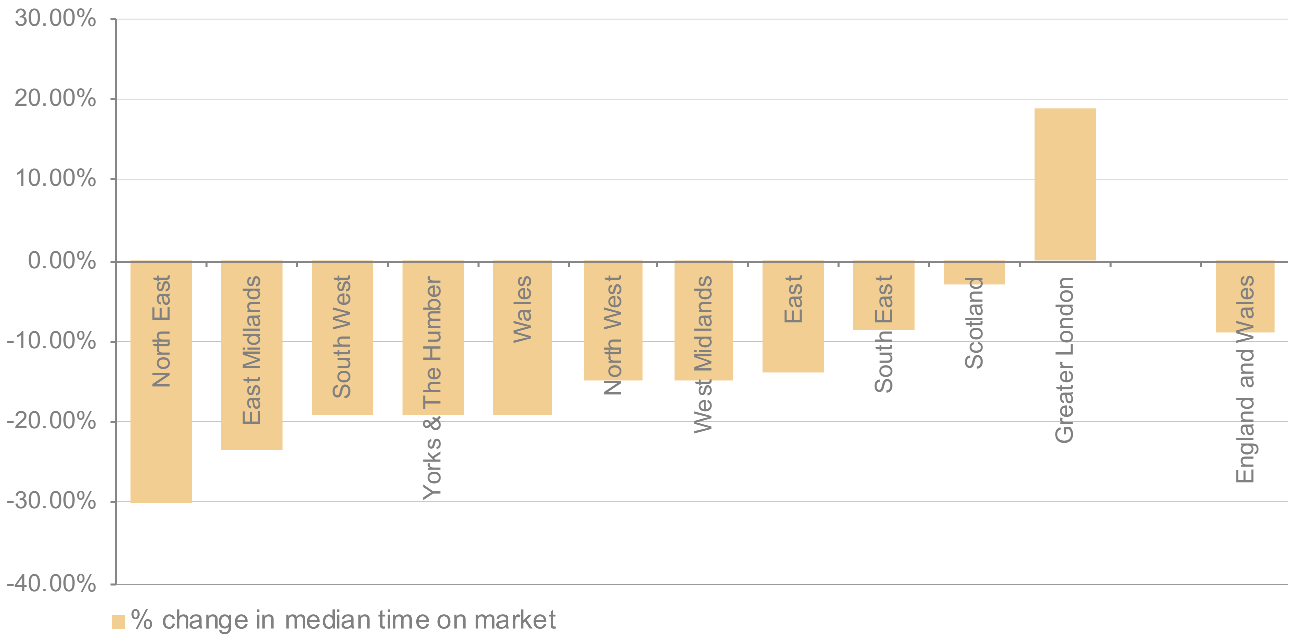
The annualised mix-adjusted average asking price growth across England and Wales remains unchanged at +6.9% this month; in January 2021, the annualised rate of increase of home prices was 4.9% and in a rising trend.

*RPI ex-housing for November 2021. ONS.

Regional Roundup

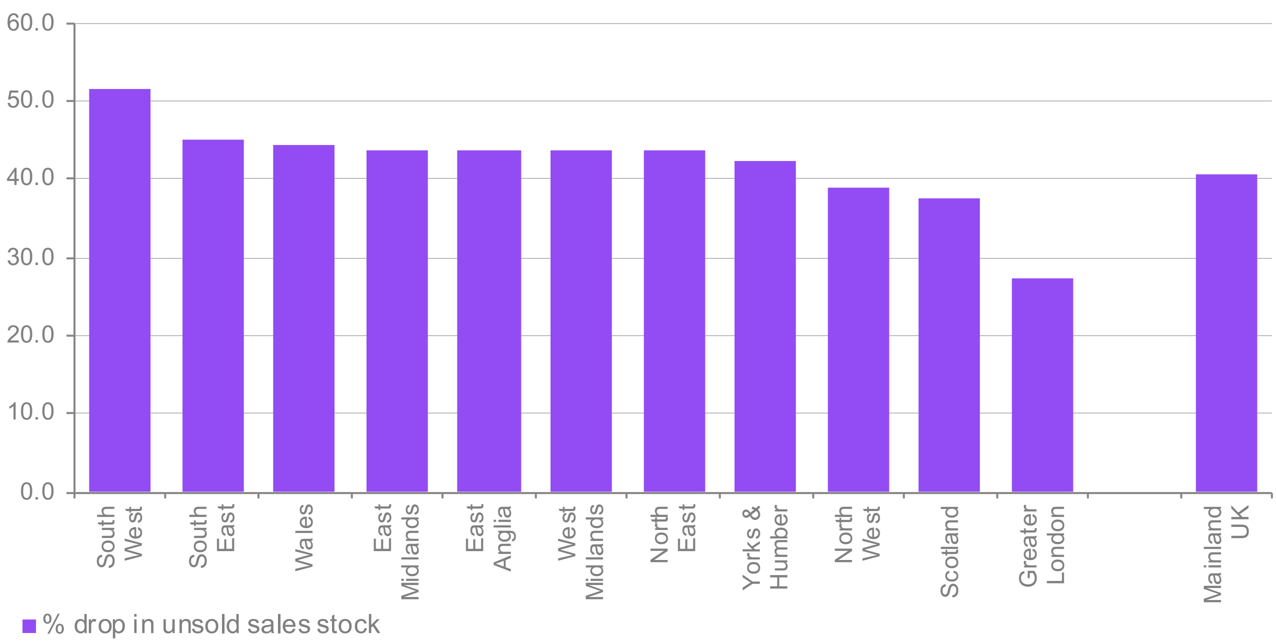
Behind the headline figures there are significant variations in market performance at the regional level. Only four English regions and Wales show growth above the latest inflation waterline of 7.7%. The worst of the sub-inflation performers is the North East with annualised growth a mere 2.3%. Yorkshire is next with only 3.0% growth despite huge stock shortages in each region and vast improvements in Typical Time on Market (see chart). These areas are indicating negative real growth relative to inflation but demand still has

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



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

Fall in Total Properties for Sale by Region, Jan 2022 vs. Jan 2021



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

the upper hand. The same can be said of Scotland, Greater London and the North West, while even the South East is merely treading water in terms of real growth.

The regions that have achieved growth in excess of inflation over the last year are the East of England, East and West Midlands, the South West and Wales. But even the best performer, the East Midlands, shows real growth of a mere 3.0% (or probably worse depending on the actual inflation figure for this month), and this goes to show that the COVID property boom has turned out to be a zero-sum game.

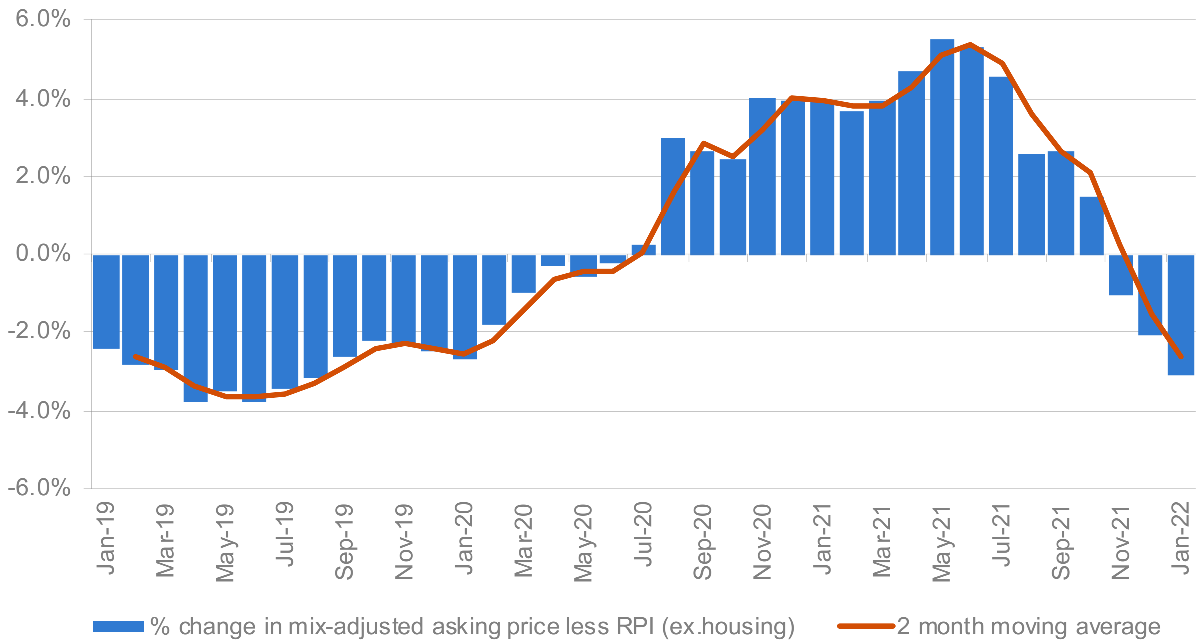
The charts make it increasingly obvious that sub-inflation growth will be prevalent in most (if not all) regions through 2022. Inflation has not yet peaked and is likely to persist as the Bank of England seems unwilling to tackle the problem head on.

The region with the most potential for growth in 2022 is Greater London. Prices have risen a mere 2.8% in the capital over the last five years, but momentum is picking up as this formerly hamstrung market gets back on its feet. We should remember that this market was ready to return to growth, post price correction, when the pandemic hit. Hence, we expect much pent-up demand to return as uncertainty fades away. Three consecutive months of price rises are a very bullish indicator and we expect the Time on Market figures to radically improve now that most of the backlog of unsold property has cleared from agents' portfolios. Moreover, with 33% fewer instructions during last month compared to December 2020, growing demand will outpace supply this year.

Real Home Asking Prices

Monetary inflation continues to surge higher. The chart shows that real home price growth is already in negative territory. In order to illustrate the trend to negative real growth, we suggest conservative estimates for December and January of 9% and 10% respectively. Should these prove to be correct, price growth in seven English regions, Scotland

Real Asking Price Growth



Source: ONS and Home.co.uk Asking Price Index, January 2022 (RPI ex. housing for December 2021 and January 2022 are our estimates).

and Wales is currently less than inflation, hence price falls in real terms.

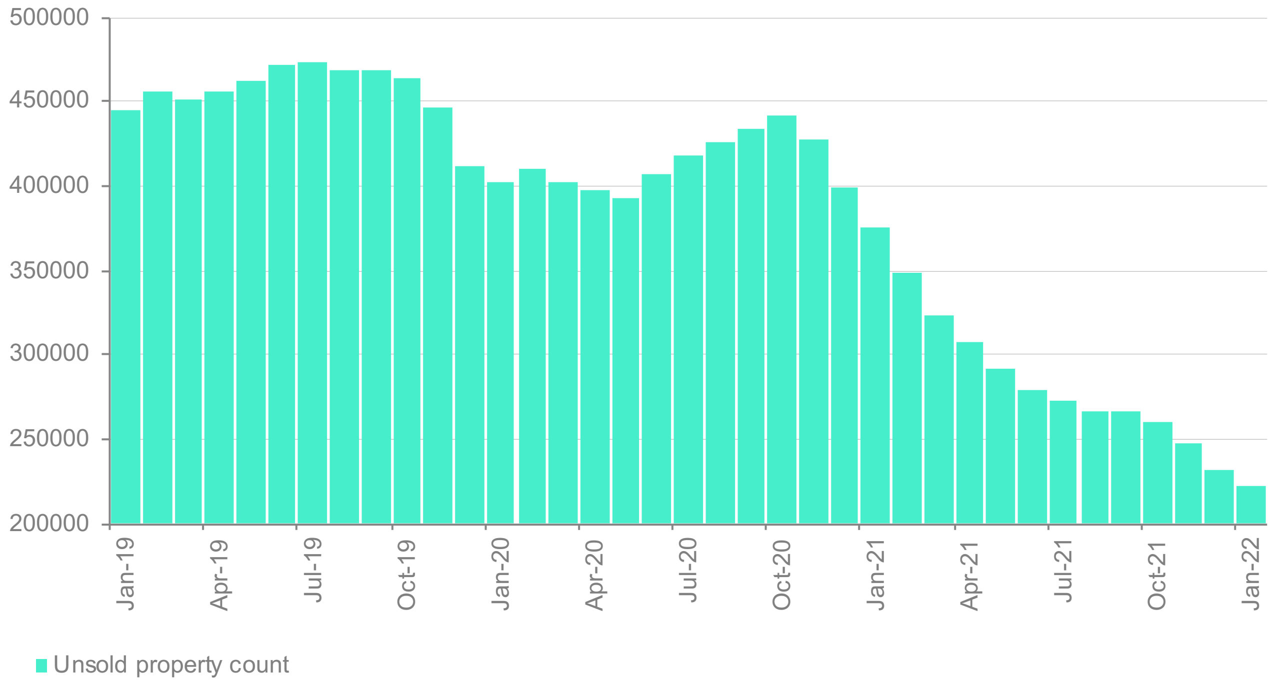
By extrapolation, last month we correctly estimated that in November we had already entered a period of negative real growth for England and Wales overall. However, inflation caused by the massive expansion in credit is still rising and accounts for pretty much all the nominal growth of the COVID property boom. The reality is that all the much-hyped price growth was merely an illusion reflecting the loss of purchasing power of sterling.

Stock Total

The sales stock total chart by month illustrates the current unprecedented and relentless downward trend. We have seen nothing like this in the history of this Index. High demand and low supply of new instructions has meant that the number of properties on the UK market has hit yet another record low this month. Only 222,050 unsold properties are currently on the market in England and Wales, making an astonishing contraction of 41% since Jan 2021 and 50% since Jan 2019.

Last month we asked: When will this downward trend bottom out? Given the level of artificially pumped-up demand and the lack of both forced and willing vendors, the total stock looks set to continue its downward trajectory into mid-2022. Only if the gap between mortgage interest rates and inflation is closed can we envisage a turnaround that would make inventories rise to more normal levels. With a government debt-to-GDP ratio now north of 100%, it is doubtful that the UK electorate has the stomach for such remedial action. Queen Elizabeth I did (according to the words of Shakespeare) and, under the guidance of Gresham, unburdened the country of debt and avoided England becoming a vassal state.

Total Stock of Property for Sale, England and Wales



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

Inflation is the wolf at the door of western economies.

Prices of fuel, gas, timber, food, transport and metals are all on the rise and the hungry beast is now gobbling up any real gains or profits across the entire economy. We have the choice to either pretend it will go away or deal with it. However, as it has materialised due to the perpetual financial folly that ensued in the wake of the financial crisis of 2008, we may be in for a long wait if we don't change and shore up the value of our currency. Let lending rates be higher than inflation and savings rates higher still, as occurs in non-interventionist and unmanipulated money markets.

Well, that's the remedy the Austrian School of Economics would prescribe, but we are so far down the rabbit hole of this Keynesianism experiment which now threatens our economy's very existence that we may have passed the point of no return. A kind of debt event horizon beyond which monetary inflation devours everything in its path, just like a black hole. Of course, our financial wizards have navigated so far off the yellow brick road of financial integrity that the absurd is the new normal. Home buyers are now having their mortgages paid off for them at a rate equal to the difference between their mortgage rate and the real rate of inflation. Great if you can afford to put up a deposit but not everyone can cash in. Renters, on the other hand, are going to find things increasingly tough.

Not that our financial wizards will 'fess up and say they were wrong all along, either. There are still too many snouts in the trough for that. No, they will blame greedy landlords or greedy farmers or maybe even the Russians. Their vote-winning yet disastrous remedial policies will centre around price fixing, with rent controls being one example.

It's a hot topic in Scotland and Sadiq Khan has proposed the same for London.

Moreover, it's happened several times before. During both world wars and also in 1972, when the Counter Inflation (Temporary Provisions) Act came into being and all rents were frozen irrespective of property value. History shows that it was, in fact, far from temporary and various sorts of rent controls administered by a small army of rent officers persisted right up to 1989.

The official rate of inflation finally peaked at 27.2% in July 1975. It was only around 6% when the rents were actually frozen. The real income losses for landlords were catastrophic in real terms. No one in their right mind would enter into the PRS at this time and many wanted to exit but could not (except via bankruptcy). The only major additional accommodation for rent were blocks of council flats like the notorious and tragic Grenfell Tower.

In fact, inflation didn't go away (or become benign) until after a further peak in 1980. According to D. Rhodes learned article*, "Census data show that it about halved in size numerically between 1971 and 1981, from about 3.6 million to about 1.9 million households. It also halved in size proportionately, from housing 22.6 per cent to 11.2 per cent of all households."

The lesson from history is clear. Rent controls destroy the PRS. What the UK government needed to do was sort out inflation (the cause of the problem) but, by treating the symptom (rising rents) and not the cause, they made matters much worse for tenants, especially the 1.7 million tenants who lost their homes during that 10-year period.

Doug Shephard
Director at Home.co.uk

*(2015), 'The fall and rise of the private rented sector in England' Built Environment, vol 41, no. 2, pp. 258-270.

UK Asking Prices

England & Wales	Jan-22
Average Asking Price	£343,301
Monthly % change	0.2%
Annual % change	6.9%

Scotland	Jan-22
Average Asking Price	£205,598
Monthly % change	-0.5%
Annual % change	3.6%

North East	Jan-22
Average Asking Price	£175,754
Monthly % change	0.8%
Annual % change	2.3%

Yorks & The Humber	Jan-22
Average Asking Price	£227,503
Monthly % change	0.1%
Annual % change	3.0%

North West	Jan-22
Average Asking Price	£239,028
Monthly % change	-0.1%
Annual % change	5.7%

West Midlands	Jan-22
Average Asking Price	£288,410
Monthly % change	1.5%
Annual % change	8.7%

East Midlands	Jan-22
Average Asking Price	£276,357
Monthly % change	0.9%
Annual % change	10.7%

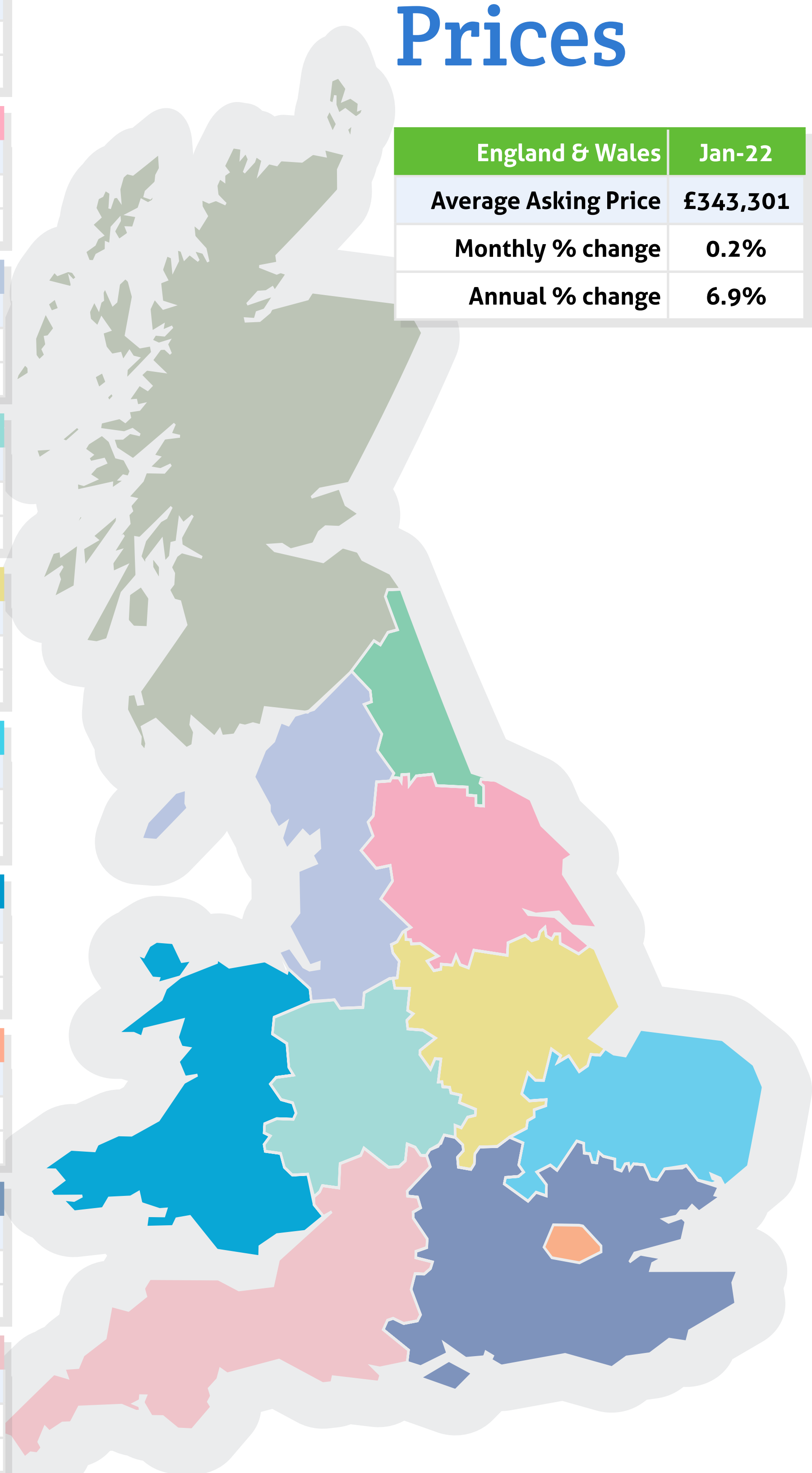
East	Jan-22
Average Asking Price	£393,164
Monthly % change	-0.3%
Annual % change	10.4%

Wales	Jan-22
Average Asking Price	£245,796
Monthly % change	1.0%
Annual % change	8.3%

Greater London	Jan-22
Average Asking Price	£553,010
Monthly % change	0.5%
Annual % change	4.0%

South East	Jan-22
Average Asking Price	£435,449
Monthly % change	-0.8%
Annual % change	7.3%

South West	Jan-22
Average Asking Price	£361,977
Monthly % change	-0.1%
Annual % change	9.5%



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

UK Time on Market

Scotland	Jan-22
Average Time on Market	**269**
Typical Time on Market	103
2 year % supply change	16%

North East	Jan-22
Average Time on Market	**200**
Typical Time on Market	84
2 year % supply change	3%

Yorks & The Humber	Jan-22
Average Time on Market	**155**
Typical Time on Market	76
2 year % supply change	4%

North West	Jan-22
Average Time on Market	**175**
Typical Time on Market	86
2 year % supply change	3%

West Midlands	Jan-22
Average Time on Market	**172**
Typical Time on Market	81
2 year % supply change	0%

East Midlands	Jan-22
Average Time on Market	**140**
Typical Time on Market	69
2 year % supply change	2%

East	Jan-22
Average Time on Market	**165**
Typical Time on Market	81
2 year % supply change	-3%

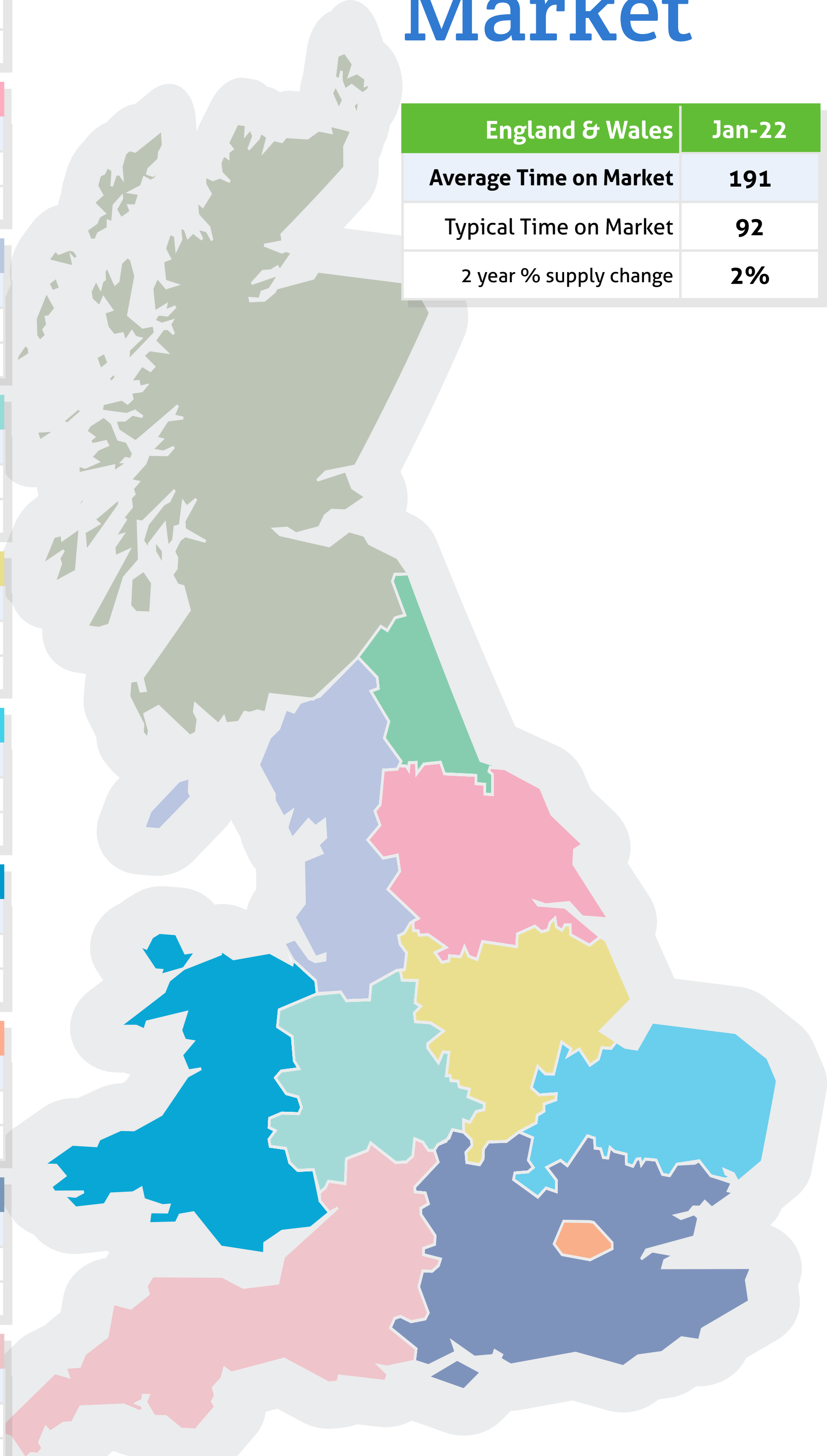
Wales	Jan-22
Average Time on Market	**190**
Typical Time on Market	89
2 year % supply change	1%

Greater London	Jan-22
Average Time on Market	**219**
Typical Time on Market	114
2 year % supply change	15%

South East	Jan-22
Average Time on Market	**179**
Typical Time on Market	86
2 year % supply change	-6%

South West	Jan-22
Average Time on Market	**169**
Typical Time on Market	80
2 year % supply change	-5%

England & Wales	Jan-22
Average Time on Market	**191**
Typical Time on Market	**92**
2 year % supply change	**2%**



Source: Home.co.uk Asking Price Index, January 2022. 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 16th February**
- **Wednesday 16th March**
- **Wednesday 13th April**