

House Price Growth Falls Further Behind Inflation

Headlines

- Home prices nudge up by 0.2% month-on-month and 3.3% year-on-year but fall by around 1.2% in real terms.
- Greater London prices edge up by 0.1% this month but average prices there remain unchanged since July 2016.
- Longer marketing times in the East of England, South East and Greater London reveal the slowdown occurring in these formerly vigorous property markets.
- Again, the West Midlands and East Midlands top the monthly price rises, joined by Scotland and Wales, with rises of 0.8%, 0.6%, 0.7%, 0.6% respectively.
- Typical Time on Market rises by four days to 82 days, the same as in July 2016 (England and Wales).
- The number of properties entering the UK market is up overall by 5% YoY.
- Supply has surged further in the East, London and South East, by 18%, 21% and 14% respectively compared to June 2016.

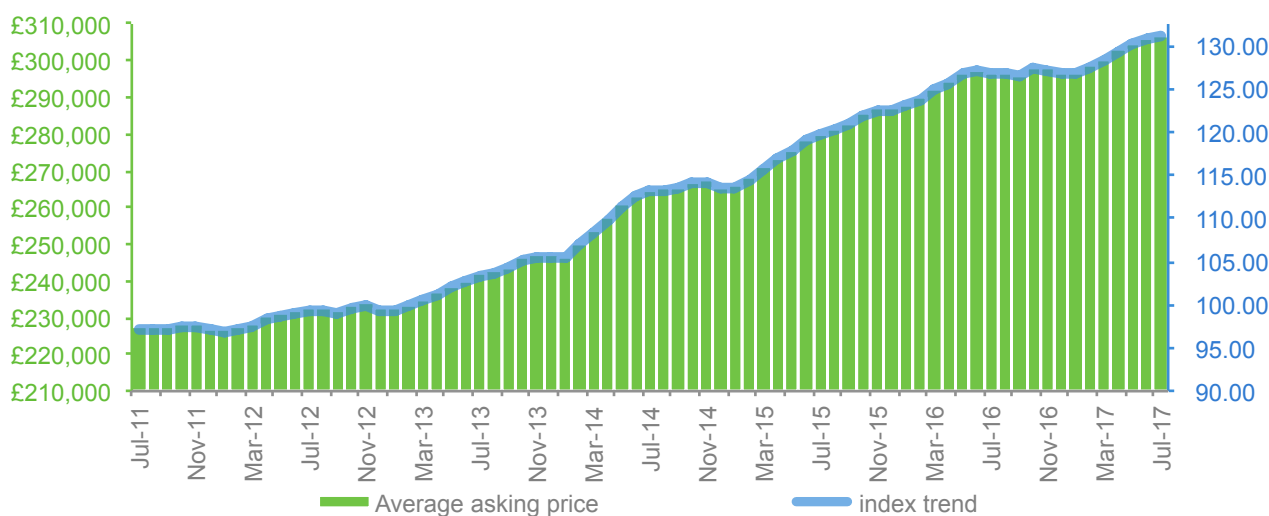
Summary

The UK property market has clearly entered a period of stagflation. Our data suggests that home price growth has been lower than inflation for six consecutive months. Whilst the average asking price is 3.3% more than in July 2016, the Retail Price Index (RPI) is rising faster (4.1% in May, according to the Office for National Statistics, and we estimate the current value to be around 4.5%) making home prices fall overall, in real terms, by around 1.2%.

At present, only four regions are showing genuine real rises in asset values, namely: the East of England, the East Midlands, the West Midlands and the South West. Forecasts are for the RPI to 'spike' and fall back to around 3% over the next few years. However, in the wake of the London boom, UK home prices look set to endure several years of low growth, hence this stagflationary period could be rather prolonged.

With Greater London, the worst performing area, showing zero price growth year-on-year, it is the regions that are supporting the current overall growth figure. The main contributors are the East of England, the East Midlands, the West Midlands

Home Asking Price Trend for England & Wales



Source: Home.co.uk, July 2017

and the South West, all with year-on-year price rises above 4%. However, an unseasonal price dip in the East of England suggests that mounting supply (up 18% in the region) coupled with record high pricing is taking its toll on demand. Hence, looking forward, this region may not contribute to the overall growth figures as before.

Market conditions in the North continue to improve. The Time on Market of unsold property has reduced by 5% since July 2016 in both the North East and the North West, although the Typical Time on Market remains much higher than in the South. Prices are also rising in the North with home values increasing at a greater rate than in recent years. Annualised growth in the North West is now outpacing London and the South East, but still remains lower than the national average in Yorkshire and the North East. Wales and Scotland have also shown some moderate growth over the last six months but the Typical Time on Market is not improving in either country. In fact, in Scotland the median is now 5% longer than in July 2016, although falling supply (-15%) will help support prices going forward.

For the time being, the East of England continues to head the regional league table for price growth, closely followed (and perhaps soon to be overtaken by) the East Midlands. However, the national figures continue to reflect a stagflationary housing market, where price rises are no longer keeping pace with inflation. We note that the asking rents in the Greater London region are falling (5.6% YoY or around 10% when adjusted for inflation) and this in turn is producing downward pressure on asking prices. Hence, we expect significant price falls in the capital region

over the autumn and winter months ahead. In July 2016 the annualised rate of increase of home prices was 6.1%; today the same measure is 3.3%.

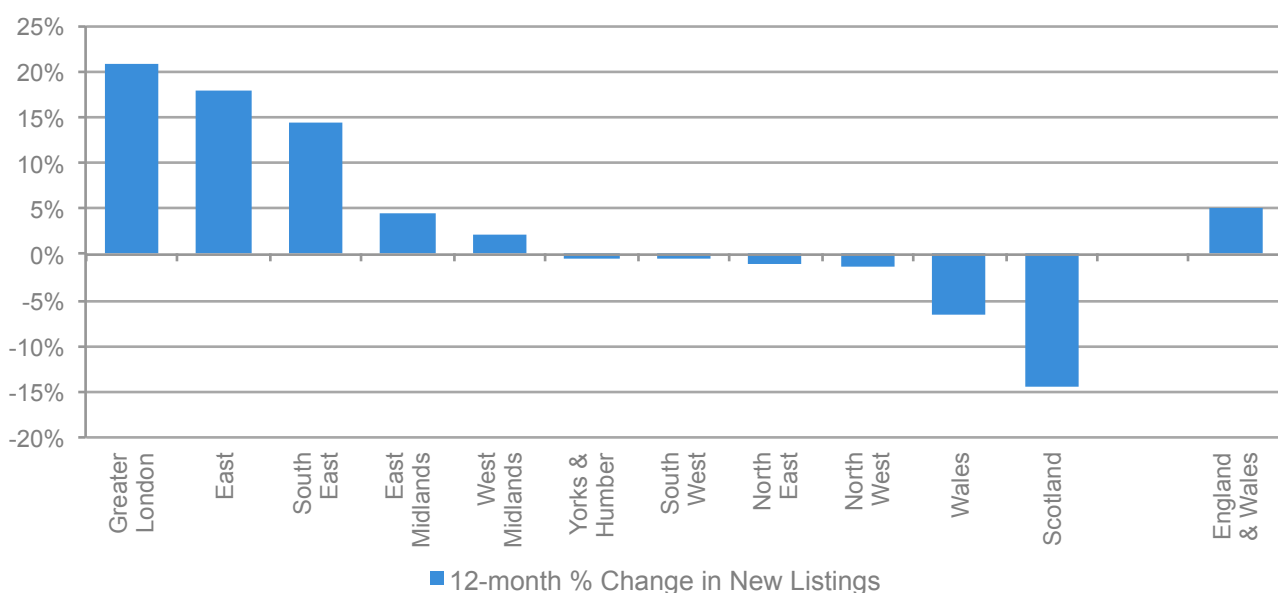
Regional Round-up

Rising supply of property for sale is almost always a sign of poorer future performance. London was the first to show increased supply and then poorer marketing times. Prices there remain below their high point in May 2016. The South East market subsequently suffered a supply-led slowdown and price growth has dropped from around 11% in 2015 to 3.3% at present, the same as the national average. Similarly, as predicted, the East is almost being overtaken by the East Midlands as the leader in terms of price growth, as supply continues to overwhelm demand in the former property hotspot.

Home owners, of course, cite a multitude of reasons for putting their property on the market but it is clear that buy-to-let investment is not as lucrative as it once was, especially in London and the South East. Yields have become poor compared to many other regions and falling rents (-5.6% and -0.9% YoY respectively) are simply compounding matters for many investors. Added to this, recent punitive tax changes introduced by the government mean that many landlords are choosing to sell some, if not all, of their portfolios.

By contrast, supply remains relatively stable in all other English regions and is actually falling considerably in Wales and Scotland. This is, of course, good news for these markets, and will serve to support current prices and allow for further recovery in the North. The initial signs of

12-month Change in Supply by Region

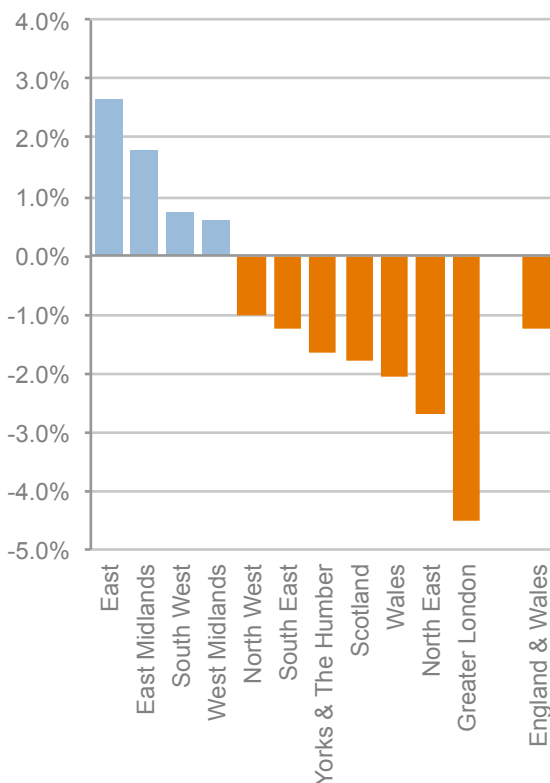


Source: Home.co.uk, July 2017

a supply increase are evident in the Midlands but Time on Market figures show that demand is still outpacing supply for the time being.

Inflation was once referred to by former US President Ronald Reagan as the 'thief in the night'. Inflation erodes the purchasing power of money, and investors typically look to property and gold to protect themselves against its ravaging effect. Looking back across the last year, we can see that slower growth and rising inflation due to a weak pound has radically affected the fortunes of the UK's regional property markets. With the exception of the four best performing English regions, property no longer appears to be a safe-haven investment. London is by far the worst affected, with the triple whammy of flat prices, falling rents and rising inflation severely hurting the fortunes of buy-to-let investors.

Real Capital Growth by Region (July 2017 vs. July 2016, corrected for inflation)



Source: Home.co.uk. ONS. Estimated RPI (ex. housing) = 4.5%



When property prices are rising more slowly than inflation, bricks and mortar becomes a much less attractive proposition for investors.



Even with the promise of rental yield, investors in most parts of Greater London will be lucky not to be losing money in the current environment. How times have changed.

Of course, it's not all doom and gloom. Several regions are performing very well indeed. The Midlands in particular are vigorous and upbeat markets. There are also continued signs of genuine recovery in the North. Moreover, Wales and Scotland are seeing supply cut back and this will shore up prices going forward.

However, the fear remains that the sickness that has overtaken the London property market spreads to the rest of the country. Thus far, the South East seems to be following a similar path and the East of England looks poised to follow. Should this kind of domino effect take place (and history tells us this is the classic pattern), the UK is going to have a lousy loss-making property market.

Realistically, interest rates can't go down any further. In fact, the contrary is likely at some point in the not too distant future, especially since the pound is so weak, and raising the cost of borrowing has, historically, always been the remedy of choice. Clearly this would not bode well for the property market but it is plain to see that the huge boom across most of the UK, precipitated by record low interest rates, appears to be coming to an end. Markets are cyclical and Gordon Brown's once proud assertion that modern fiscal policy meant 'no more boom and bust' remains as true then as it is now.

Doug Shephard
Director at Home.co.uk



UK Asking Prices

Scotland	Jul-17
Average Asking Price	£183,585
Monthly % change	0.7%
Annual % change	2.7%

North East	Jul-17
Average Asking Price	£157,230
Monthly % change	0.4%
Annual % change	1.8%

Yorks & The Humber	Jul-17
Average Asking Price	£187,016
Monthly % change	0.2%
Annual % change	2.8%

North West	Jul-17
Average Asking Price	£192,351
Monthly % change	0.2%
Annual % change	3.5%

West Midlands	Jul-17
Average Asking Price	£235,148
Monthly % change	0.6%
Annual % change	5.1%

East Midlands	Jul-17
Average Asking Price	£222,912
Monthly % change	0.8%
Annual % change	6.3%

East	Jul-17
Average Asking Price	£358,945
Monthly % change	-0.2%
Annual % change	6.7%

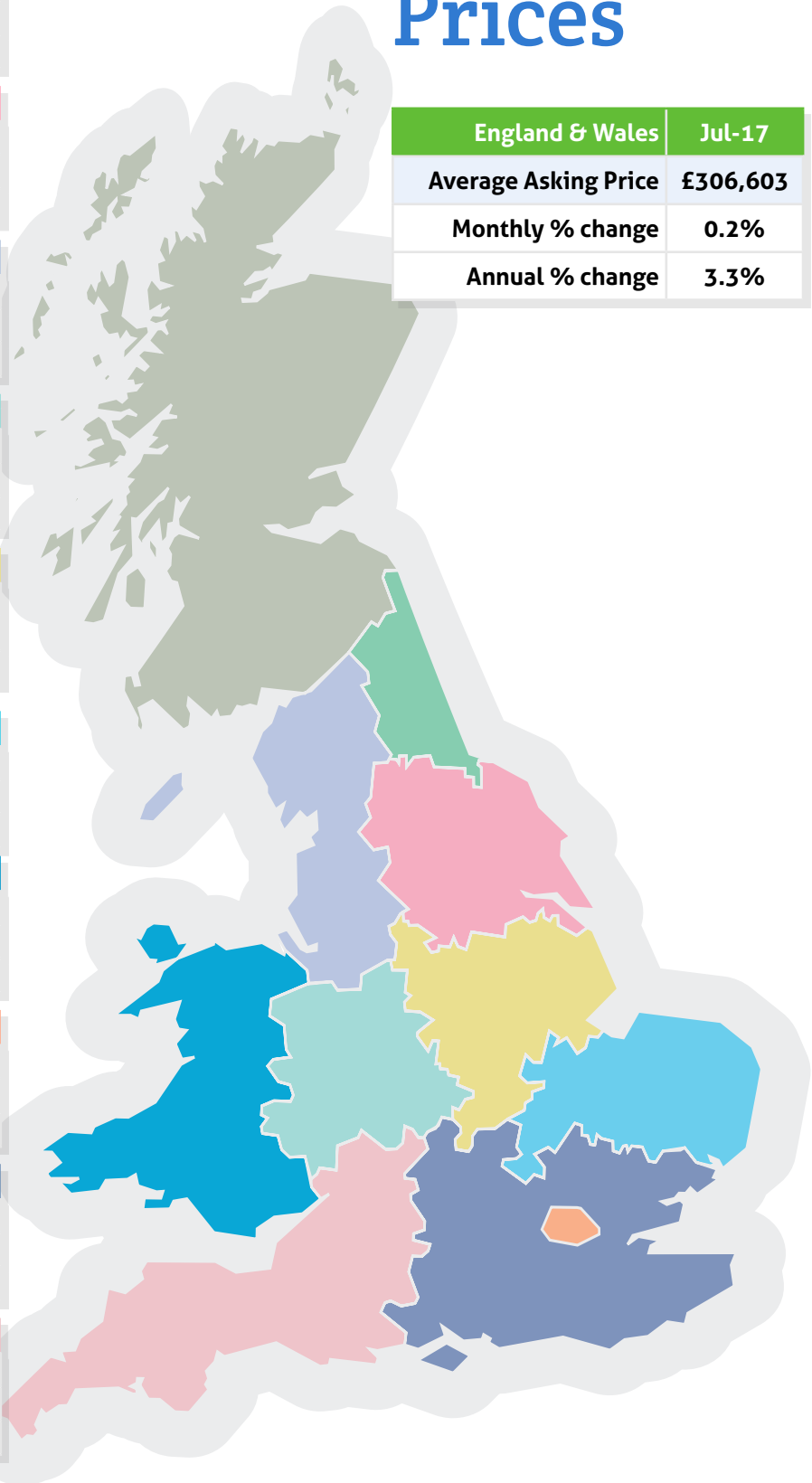
Wales	Jul-17
Average Asking Price	£190,158
Monthly % change	0.6%
Annual % change	2.4%

Greater London	Jul-17
Average Asking Price	£544,402
Monthly % change	0.1%
Annual % change	0.0%

South East	Jul-17
Average Asking Price	£405,705
Monthly % change	0.1%
Annual % change	3.3%

South West	Jul-17
Average Asking Price	£321,638
Monthly % change	0.4%
Annual % change	5.2%

England & Wales	Jul-17
Average Asking Price	£306,603
Monthly % change	0.2%
Annual % change	3.3%



Source: Home.co.uk, July 2017

UK Time on Market

Scotland	Jul-17
Average Time on Market	226
Typical Time on Market	93
Annual % supply change	-15%

North East	Jul-17
Average Time on Market	231
Typical Time on Market	111
Annual % supply change	-1%

Yorks & The Humber	Jul-17
Average Time on Market	175
Typical Time on Market	88
Annual % supply change	0%

North West	Jul-17
Average Time on Market	178
Typical Time on Market	94
Annual % supply change	-1%

West Midlands	Jul-17
Average Time on Market	138
Typical Time on Market	70
Annual % supply change	2%

East Midlands	Jul-17
Average Time on Market	132
Typical Time on Market	69
Annual % supply change	4%

East	Jul-17
Average Time on Market	105
Typical Time on Market	60
Annual % supply change	18%

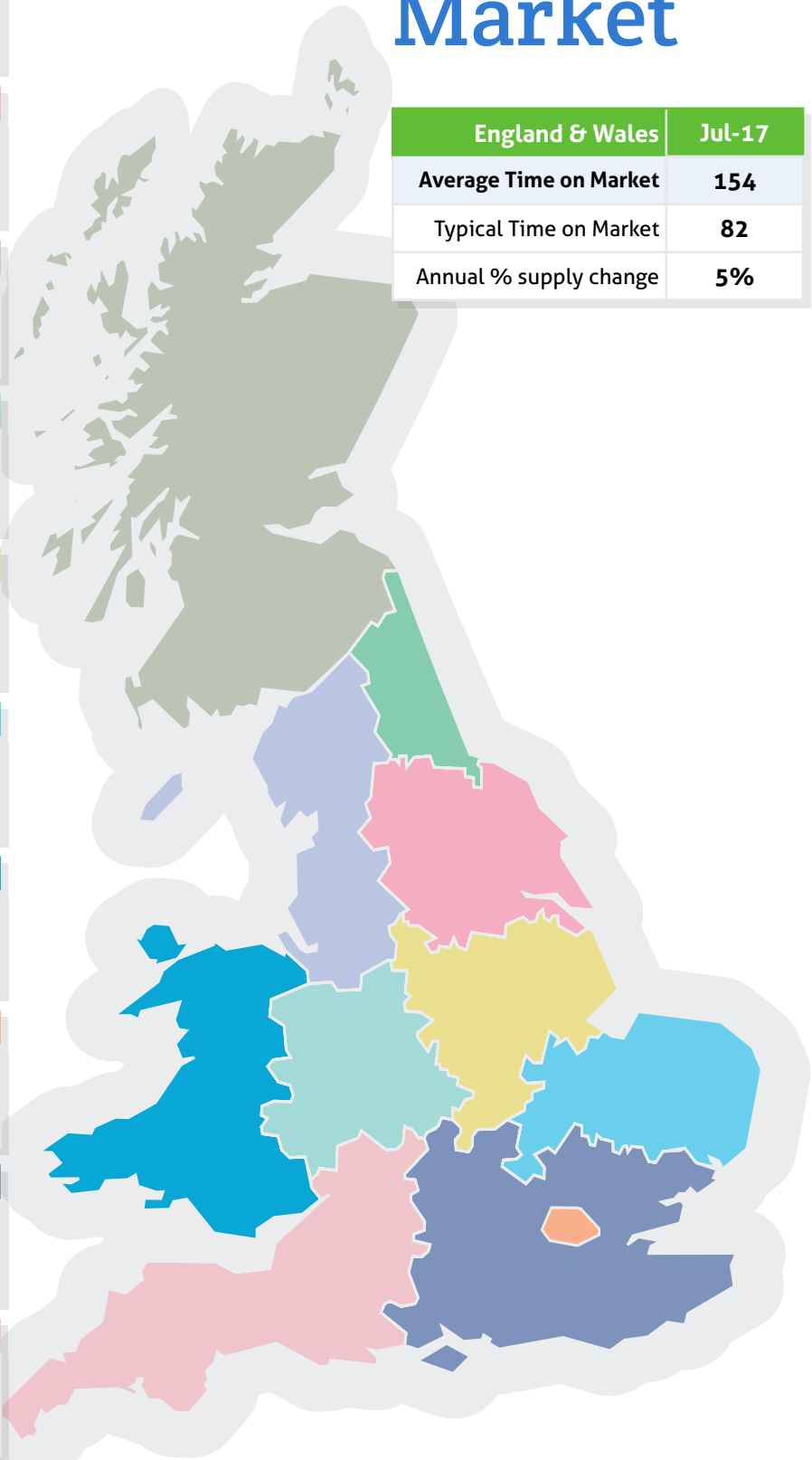
Wales	Jul-17
Average Time on Market	231
Typical Time on Market	116
Annual % supply change	-7%

Greater London	Jul-17
Average Time on Market	128
Typical Time on Market	73
Annual % supply change	21%

South East	Jul-17
Average Time on Market	109
Typical Time on Market	65
Annual % supply change	14%

South West	Jul-17
Average Time on Market	142
Typical Time on Market	75
Annual % supply change	-1%

England & Wales	Jul-17
Average Time on Market	154
Typical Time on Market	82
Annual % supply change	5%



Source: Home.co.uk, July 2017. 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:
<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:

- Tuesday 15th August
- Tuesday 12th September
- Thursday 12th October