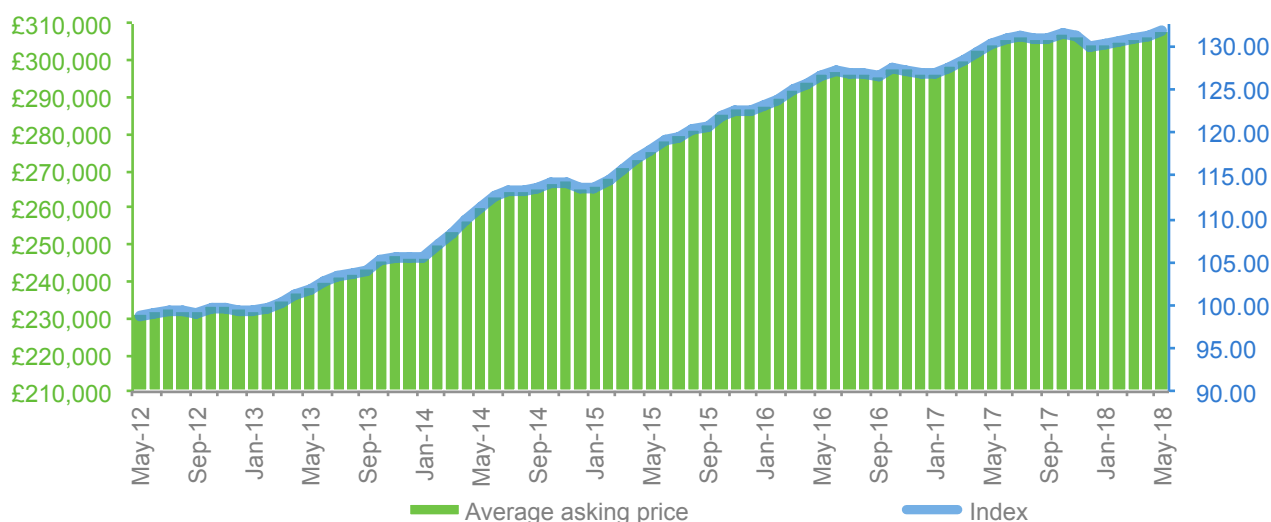


Summer Optimism Masks Market Melancholy

Headlines

- Home prices rose by 0.5% this month, reflecting seasonal optimism more than fundamentals.
- The mix-adjusted average growth for England and Wales is only 1.1% year-on-year, well below the rate of inflation by any measure.
- London prices slide again extending 12-month losses to -2.5%.
- Largest monthly increases detected in Wales, the South West, West Midlands and East Midlands.
- Typical Time on Market continues to rise in London (+11%), the South East (+14%) and East (+16%) year-on-year (YoY).
- First evidence of rising Time on Market in East Midlands and the South West suggests that these regions may be entering a cooling phase.
- Prices have risen in all English regions, Scotland and Wales since last month, with the exception of London and the North East.
- Typical Time on Market for England and Wales remains at 78 days, one day more than in May 2017.
- Supply changes were more muted this month: the biggest increase was in the East of England (+5%) and most severe reduction was in Wales (-12%) YoY.
- The total stock of properties on the market in England and Wales continues to rise (7.0%) YoY.

Home Asking Price Trend for England & Wales



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

Summary

Asking prices have risen this month across England and Wales but, for the most part, this may be explained by seasonal optimism and not by firm market fundamentals. The reality is that London prices continue to slide and the slowdown that began there now seems to have spread beyond the South East and East to engulf the East Midlands and the South West. Median Time on Market figures are now up year-on-year for all five of these regions. Prices are slowly correcting in London and the South East and we expect the same process to occur in the East of England towards the end of the year.

On the other hand, the Welsh property market is showing extraordinary vigour and the Typical Time on Market there, albeit still high by London standards, has fallen 16% year-on-year. Consequently, prices are surging as the Principality's property market gains momentum. In fact, Wales now leads the regional year-on-year growth chart. Scotland is also showing increased momentum (median Time on Market down 8% year-on-year) and prices are rising.

Alongside Wales and Scotland, the North West and Yorkshire property markets continue to thrive and, judging by their price performance over the last five years, there remains plenty of room for further growth.

However, the East and West Midlands appear to be hitting the affordability buffers with the 5-year growth figures close to 30% in both

regions. First signs of a market slowdown have been observed in the East Midlands.

Despite the positive growth in the neighbouring regions of the North West and Yorkshire, the recovery that began in the North East last year seems to be faltering. Marketing times there are not decreasing sufficiently so as to sustain price increases. A drop of 0.5% over the last month makes the 5-year growth figure a mere 2.2% for this beleaguered regional property market.

Overall, supply of property for sale in the UK dipped slightly by 4% but the total stock for sale has increased by 7% year-on-year.

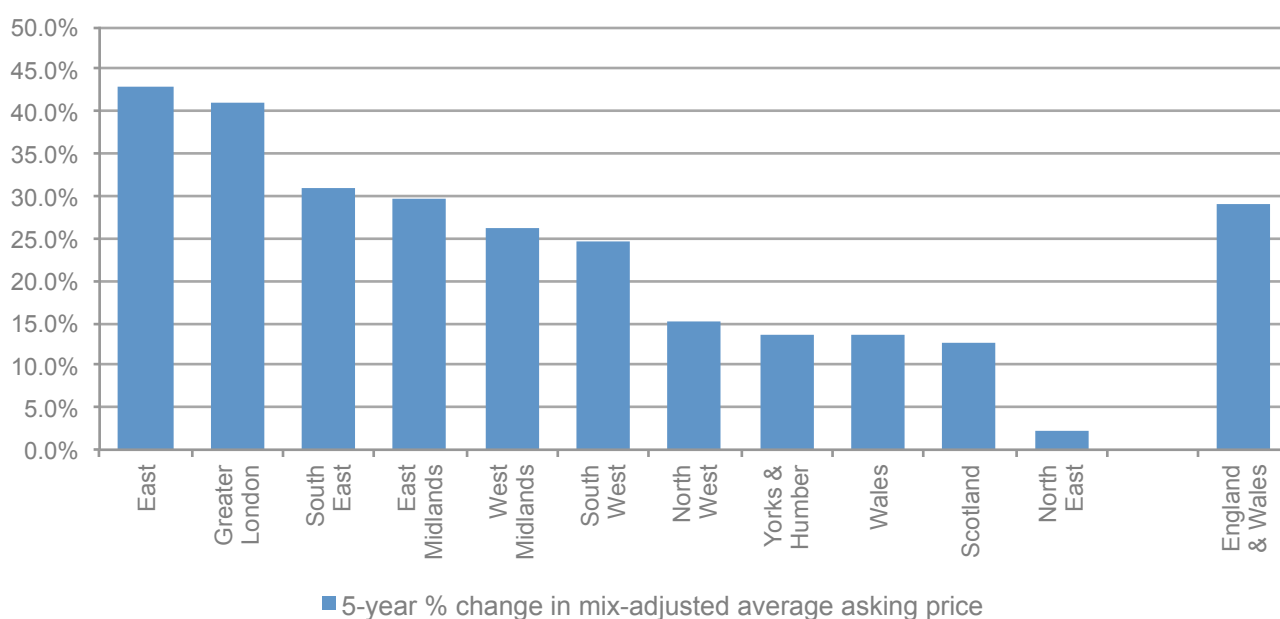
In May 2017 the annualised rate of increase of home prices was 2.8%; today the same measure is a mere 1.1%.

Regional Round-up

Analysis of the UK property market at the regional level offers a much more detailed picture of the current market dynamic. As always, activity is far from homogeneous. While the post-boom regions of Greater London and the South East are in a phase of backwardation, the North East has yet to see a significant recovery in prices post-crisis never mind a property boom. Over the last five years, prices in the North East have risen a mere 2.2%.

Between these extremes lie the rest of the UK's regional property markets. The East Midlands has been knocked off the top spot for regional price growth over the last 12 months by

Five year regional price changes, May 2018 vs. May 2013



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

Wales. Indeed, the East Midlands, having notched up average house price gains of 29.7% over the last 60 months, is now beginning to look like a maturing market with lower price gains and a rising Typical Time on Market year-on-year. The West Midlands is trailing just behind in the price growth cycle and we expect marketing times to lengthen there later in the year.

Wales, by contrast, has much more room for price growth with prices up only 13.5% over the last 60 months. Supply there is falling and this will help drive price gains even higher (currently 5.6% YoY).

The 5-year regional price changes chart serves to illustrate the disparities across the regions. Moreover, it clearly indicates the regions where there is significant further room for price growth. The North West and Yorkshire markets are currently in their growth phases, with trends indicating that capital gains are to be expected and rental yields will remain attractive to investors. These regions together with Wales, Scotland and the North East offer the best opportunities for property investment in the near term.

Growth Trending to Zero?

Looking back across the last five years, we can see that house price growth in the UK has been quite the roller coaster ride. It was the roaring home price boom in London that rocketed the average year-on-year growth to almost 10% back in 2014. Why didn't the Bank of England raise rates then?

Later, the Stamp Duty surcharge coincided with a flurry of further house price growth in early 2016. Marketing times dropped to record lows in this period and there is evidence to suggest that many investors got burnt in the mad rush to buy. Since then London prices have floundered. Prices in the South East began to slide in 2017 and now prices have come to a near halt in the East of England. Without the 'lift effect' of these large and relatively wealthy property markets the national average for England and Wales has suffered a massive downward turn and the trend is clearly towards zero and perhaps below.

Asking price growth trend



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



No surprise to find that the Bank of England's talk of raising interest rates this month was just that.

A somewhat humiliating U-turn from the Old Lady of Threadneedle Street, seemingly surprised by the latest batch of poor economic data, means that rates will stay the same. Relief for the UK housing market though, which is already in enough trouble as overall growth trends to zero. Relief too for the banks, with a spokesperson for Barclays commenting that "Delaying the next hike will eventually lead to not being able to deliver it at all."

We stated back in 2008 that by slashing the base lending rate the Bank of England's Monetary Policy Committee (MPC) were 'painting themselves into a corner.' Of course, it bought time in the short term, made the banks' balance sheets look good and precipitated an awesome, unprecedented property boom over the years that followed. What it didn't do was fix the real economy by reinvestment in productive industries. Instead of retooling, manufacturers used the cheap money to buy back their shares and other such nonsense befitting an 'Alice

in Wonderland' economic landscape where the answer to the debt problem is even more debt.



Where to now, then? London prices are sliding under their own weight and, to a lesser degree, so are those in the South East. The East of England looks set to follow suit. The house market crash and then zero interest-rate policy (ZIRP) led to the 'lost decade' in Japan (actually they are still not out of the woods). Where are Bank of Japan interest rates now? The current base rate is -0.1% and it's been around zero since the mid-1990s. Moreover, Japan keeps building despite an unoccupancy rate of 13.5% of all residences and a shrinking population.

So don't hold your breath. We could be in for a very long period of near-zero growth and ultra-low interest rates seem here to stay for the foreseeable future. Sure, there are some UK regions that still have vibrant markets, but the fat lady has sung as far as the cheap debt-fuelled growth part of the property cycle is concerned.

Doug Shephard
Director at Home.co.uk



UK Asking Prices

Scotland	May-18
Average Asking Price	£182,681
Monthly % change	0.5%
Annual % change	0.8%

North East	May-18
Average Asking Price	£156,444
Monthly % change	-0.5%
Annual % change	0.6%

Yorks & The Humber	May-18
Average Asking Price	£192,930
Monthly % change	0.5%
Annual % change	4.0%

North West	May-18
Average Asking Price	£199,262
Monthly % change	0.6%
Annual % change	4.3%

West Midlands	May-18
Average Asking Price	£242,190
Monthly % change	0.8%
Annual % change	4.4%

East Midlands	May-18
Average Asking Price	£230,877
Monthly % change	0.8%
Annual % change	5.2%

East	May-18
Average Asking Price	£362,748
Monthly % change	0.6%
Annual % change	1.3%

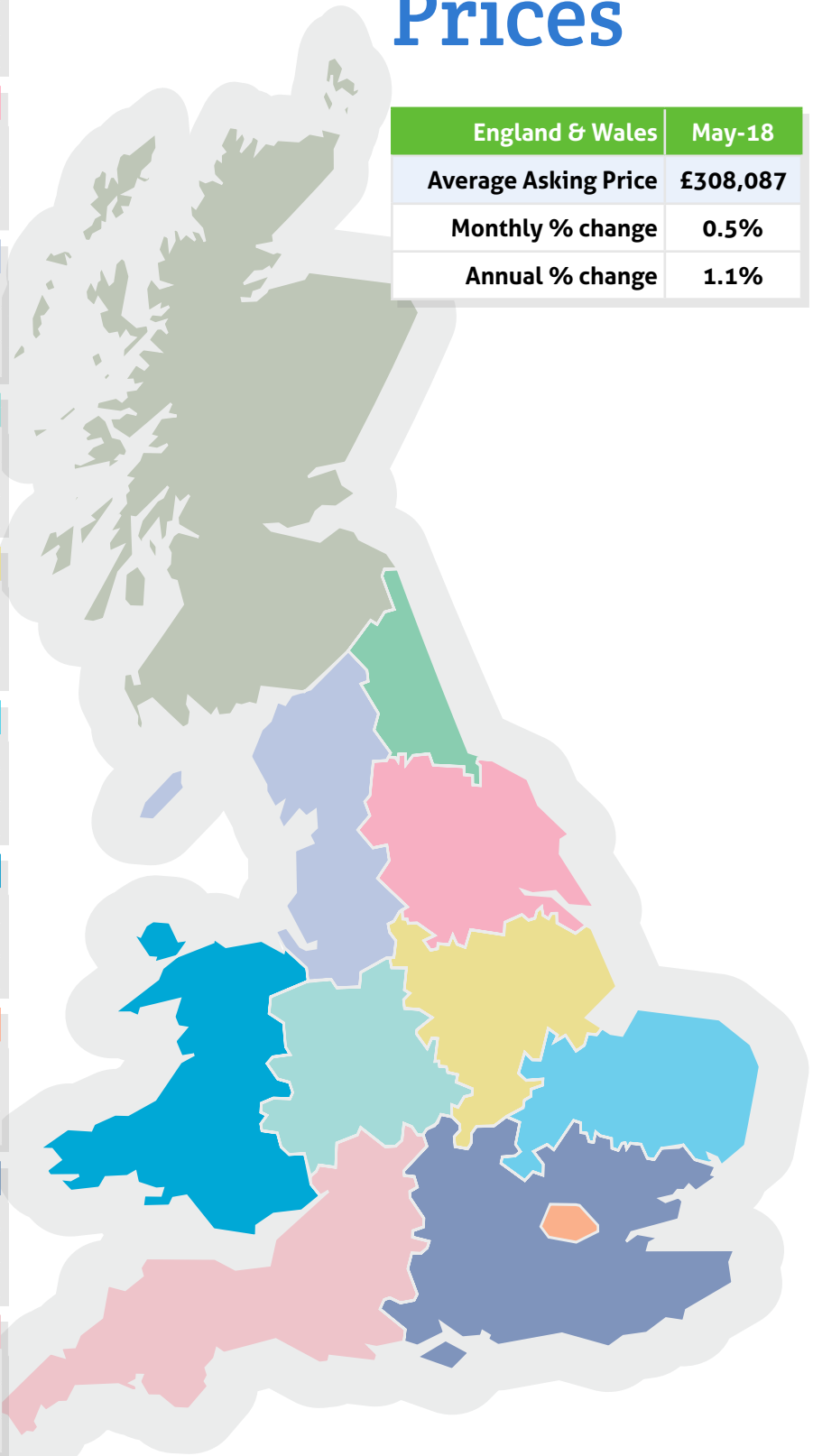
Wales	May-18
Average Asking Price	£198,926
Monthly % change	1.2%
Annual % change	5.6%

Greater London	May-18
Average Asking Price	£530,730
Monthly % change	-0.1%
Annual % change	-2.5%

South East	May-18
Average Asking Price	£401,205
Monthly % change	0.5%
Annual % change	-0.7%

South West	May-18
Average Asking Price	£325,574
Monthly % change	0.8%
Annual % change	2.4%

England & Wales	May-18
Average Asking Price	£308,087
Monthly % change	0.5%
Annual % change	1.1%



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

UK Time on Market

Scotland	May-18
Average Time on Market	230
Typical Time on Market	90
Annual % supply change	-9%

North East	May-18
Average Time on Market	229
Typical Time on Market	105
Annual % supply change	-7%

Yorks & The Humber	May-18
Average Time on Market	171
Typical Time on Market	83
Annual % supply change	-8%

North West	May-18
Average Time on Market	174
Typical Time on Market	88
Annual % supply change	-9%

West Midlands	May-18
Average Time on Market	142
Typical Time on Market	68
Annual % supply change	-7%

East Midlands	May-18
Average Time on Market	132
Typical Time on Market	68
Annual % supply change	-9%

East	May-18
Average Time on Market	116
Typical Time on Market	64
Annual % supply change	5%

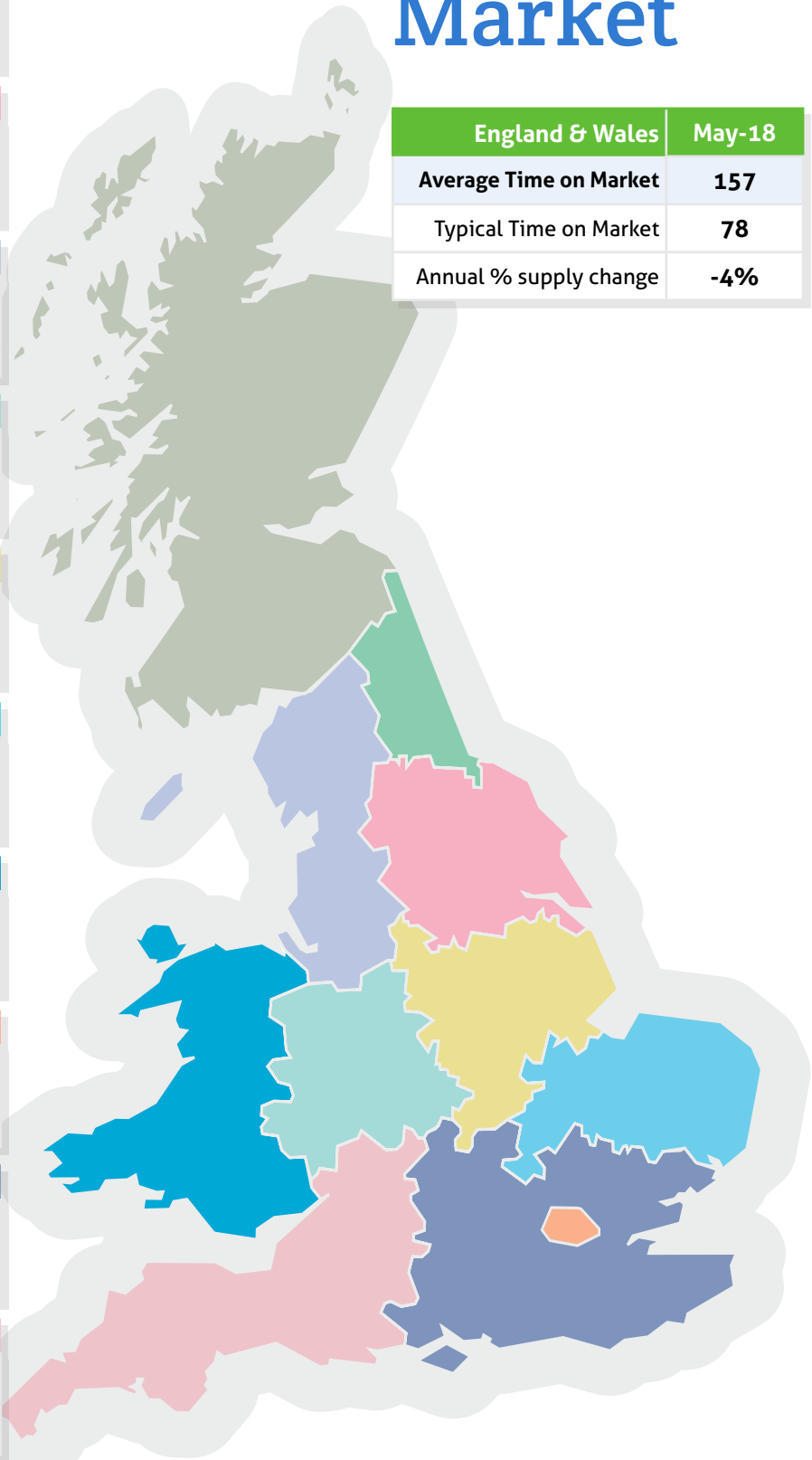
Wales	May-18
Average Time on Market	227
Typical Time on Market	107
Annual % supply change	-12%

Greater London	May-18
Average Time on Market	147
Typical Time on Market	78
Annual % supply change	0%

South East	May-18
Average Time on Market	121
Typical Time on Market	66
Annual % supply change	2%

South West	May-18
Average Time on Market	138
Typical Time on Market	71
Annual % supply change	1%

England & Wales	May-18
Average Time on Market	157
Typical Time on Market	78
Annual % supply change	-4%



Source: Home.co.uk Asking Price Index, May 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:
<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 12th June
- Thursday 12th July
- Tuesday 14th August