

Recovery Spreads North and West as London's Bubble Expands

Headlines

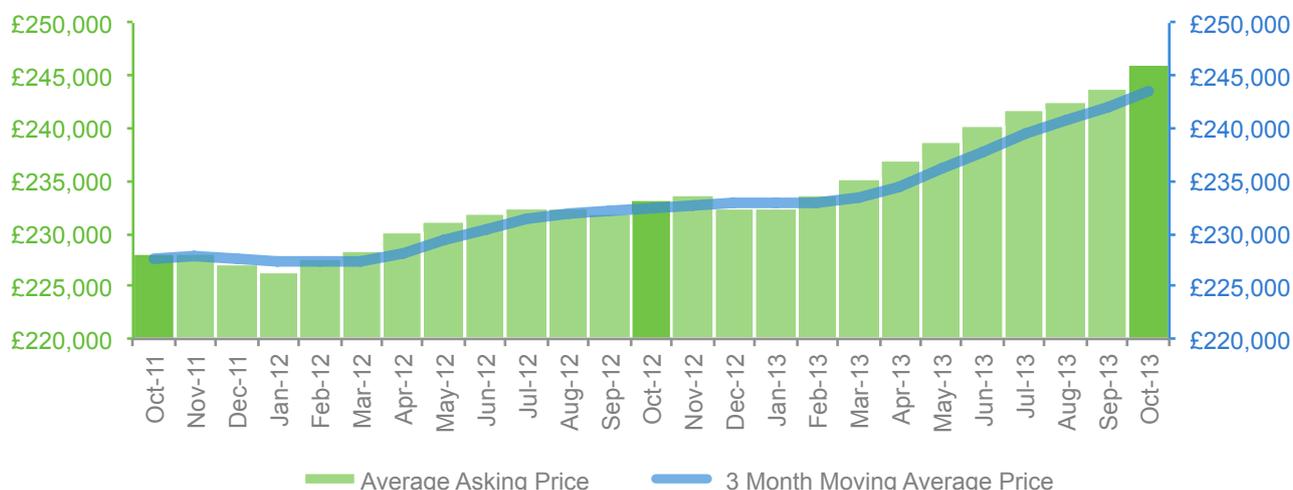
- London's burning: prices are up another 2% on last month and now stand a staggering 12% higher than 12 months ago
- Compared to October 2012, the typical time on market has fallen across every English region, Scotland and Wales
- House prices in England and Wales are now up 5.5% on last year, exceeding the current RPI (exc. housing) rate of 3.7%
- The North East, North West and Scotland were the only parts of the UK not to record price rises in the last month
- The supply of property for sale across England and Wales is down 18% on last year

Summary

As the market prepares for the Help to Buy [H2B] scheme, house prices have risen yet again contrary to seasonal expectations. In the last month, prices in England and Wales have risen a further 1%, the largest monthly rise since May 2011. London and the South East still continue to show strong growth and more areas of the UK are contributing to the recovery. Scotland is now the only area of the UK that is still recording house price deflation (-1.4%) over the last 12 months.

The imbalance between demand and supply continues to dominate the market dynamic. The supply of fresh property stock across England and Wales has contracted by a further 18%, and in London new stock is down by an alarming 31% compared to last year. Growing demand from buyers chasing ever fewer properties has driven down the typical time on market by an average of 8% over the last 12 months. However, the recent price rises being recorded across the majority of the UK still conceal the bipolar nature of the market. Over the last five years, prices across England and Wales have risen 3.4%, whereas four out of nine English regions, plus Scotland and Wales, have shown price falls over the same time period.

Trend in Year-on-Year Change in Average Asking Price (England and Wales)



Source: Home.co.uk, October 2013

The Price Recovery Spreads

Last month house prices rose across the vast majority of the UK. Across England and Wales, average prices jumped by 1.0% and now stand 5.5% higher than in October 2012. This growth is running ahead of the current RPI (exc. housing) rate of 3.7%, although this is largely driven by growth in London (+11.7%) and the South East (+7.0%). The South West is vying to become another high-performance region, with price rises of 4.6% over the last 12 months. Meanwhile, RPI rates are being met or bettered in more areas as the recovery spreads northwards and westwards. Annual house price rises of 4% in the East Midlands and 3.5% in the West Midlands means that capital invested in those regions is now keeping up with inflation.

Home Price Inflation Fuelled by Restricted Supply

A growing concern is that regional house price bubbles are beginning to emerge where demand for housing continues to far outstrip supply. A lack of attractive non-property investment opportunities coupled with the widely reported surge in home prices is making potential vendors hold back. As a consequence, the flow of new property stock across England and Wales is down -18% on this time last year. Three of the nine English regions are recording even tighter supply figures. Sales stock entering the market is now down 21% in the East and South East, and may well approach the 31% drop seen in Greater London. The flow of new supply in Wales and Yorkshire is relatively strong, with only a 5% fall in stock. Subsequently, average prices in these regions are being kept in check, with rises of 1.5% and 0.6% respectively over the last 12 months.

The Growing London Price Bubble

London's property investment bubble continues to expand at an alarming rate. A 2% jump in average prices in the last month alone is simply astonishing, and the increasingly severe shortage of new stock is fuelling the accelerating rate of growth. The average price of a house in London has broken through the £400k barrier for the first time (15.3% higher than five years ago). The growth is not showing any signs of slowing down (quite the contrary) and even the South East, with annual price growth of 7%, doesn't come close the capital's astounding performance. Currently, only 60% of the properties for sale within a 10-mile radius of the centre of London are priced below the H2B scheme threshold of £600K.



House price growth is now sweeping north and west from the capital. Welcome news for homeowners, but troubling for potential buyers whose salaries are not increasing anywhere near as fast (just 1%, according to the ONS).



Price rises in London and its surrounding regions have now established a solid 2-year trend, and one may well conclude that these property markets have fully recovered. However, a true recovery cannot be complete without considerable improvement in the underlying economy, which is currently looking like a one horse race. Until real wage growth matches house price inflation, housing affordability will become increasingly difficult and a distant dream for many.

The ongoing availability of government-backed cheap lending is already encouraging overall price rises over and above RPI. A key concern is that the impending Help to Buy scheme will only exacerbate affordability problems. The UK property market as a whole is already functioning well, albeit as if on steroids. Further market stimulus may be justified in selected areas (mainly the North) but certainly not across the whole UK, as that would significantly raise the risk of another property crash. Given the current economic climate and government debt levels, we struggle to see where the next bailout could come from.

Doug Shephard
Director at Home.co.uk



UK Asking Prices

Scotland	Oct-13
Average Asking Price	£159,591
Monthly % change	-0.7%
Annual % change	-1.4%

North East	Oct-13
Average Asking Price	£153,207
Monthly % change	0.0%
Annual % change	0.4%

Yorks & The Humber	Oct-13
Average Asking Price	£169,527
Monthly % change	0.0%
Annual % change	0.6%

North West	Oct-13
Average Asking Price	£173,227
Monthly % change	-0.2%
Annual % change	1.2%

West Midlands	Oct-13
Average Asking Price	£196,474
Monthly % change	0.8%
Annual % change	3.5%

East Midlands	Oct-13
Average Asking Price	£182,263
Monthly % change	0.6%
Annual % change	4.0%

East	Oct-13
Average Asking Price	£260,833
Monthly % change	0.9%
Annual % change	4.3%

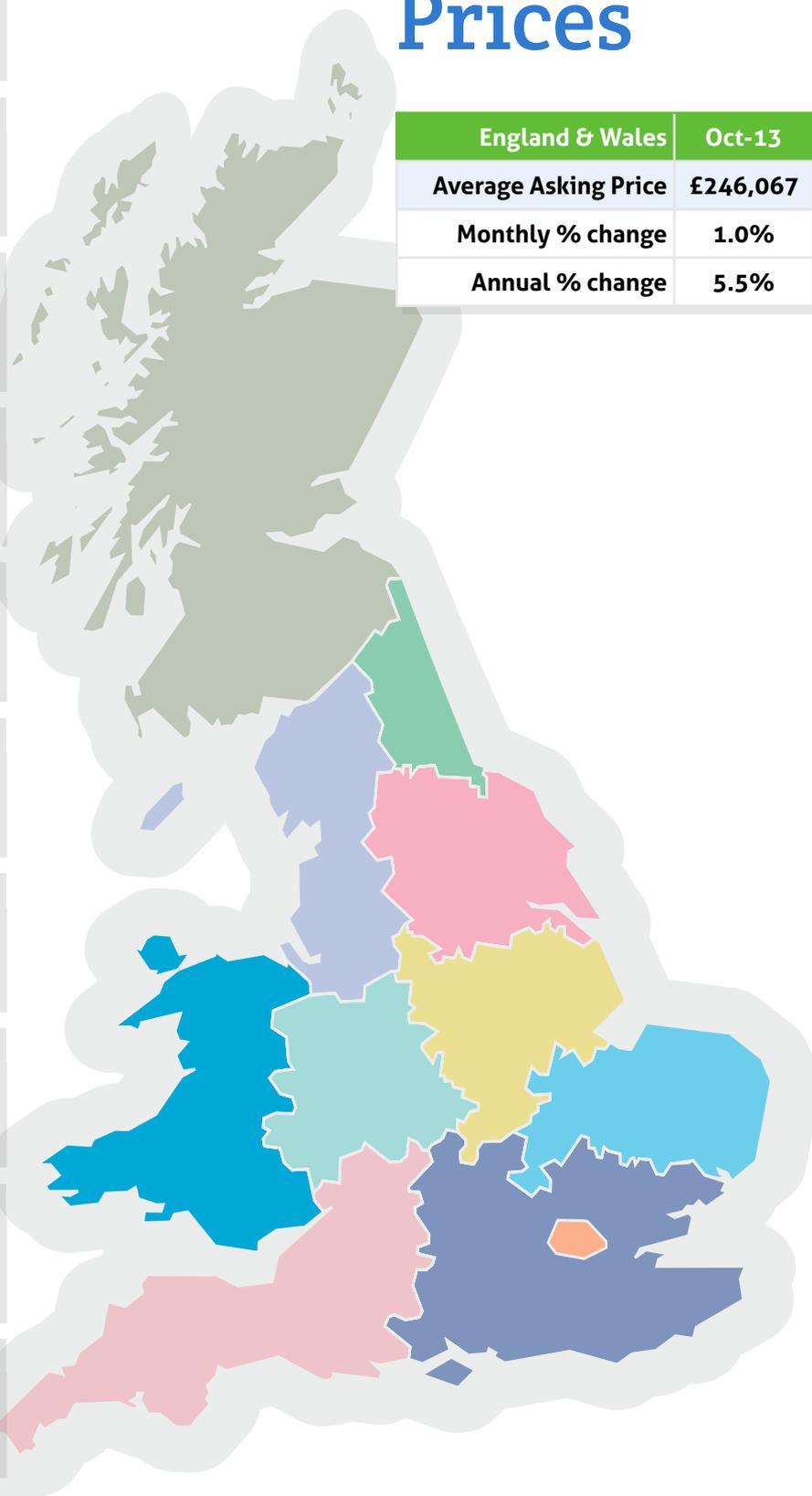
Wales	Oct-13
Average Asking Price	£176,808
Monthly % change	0.2%
Annual % change	1.5%

Greater London	Oct-13
Average Asking Price	£400,096
Monthly % change	2.0%
Annual % change	11.7%

South East	Oct-13
Average Asking Price	£317,566
Monthly % change	1.3%
Annual % change	7.0%

South West	Oct-13
Average Asking Price	£268,253
Monthly % change	0.8%
Annual % change	4.6%

England & Wales	Oct-13
Average Asking Price	£246,067
Monthly % change	1.0%
Annual % change	5.5%



Source: Home.co.uk, October 2013

How Should the Help to Buy Scheme be Applied? Rifle or Shotgun?

In property markets where prices are rising fast due to extremely restricted supply, will the government's Help to Buy scheme really assist people trying to get on the housing ladder? Or will it simply help push home prices out of reach?

The bipolar nature of the UK's property market raises questions over the national application of the scheme. For example, in London, average asking prices are in excess of £400k and 2.6 times the average price in the North East. Prices in London are soaring, yet they are stagnant in the North East. Shouldn't H2B be focussed on the markets that really need the help?

H2B is clearly justifiable in areas such as the North East that so obviously need the stimulus. However, huge local disparities mean there is a severe danger that the Help to Buy scheme will push high-performing markets such as London further into bubble territory. If relatively well-off first-time buyers in London suddenly have easier access to lending, the already overheating market will be faced with more demand, and prices will go stratospheric.

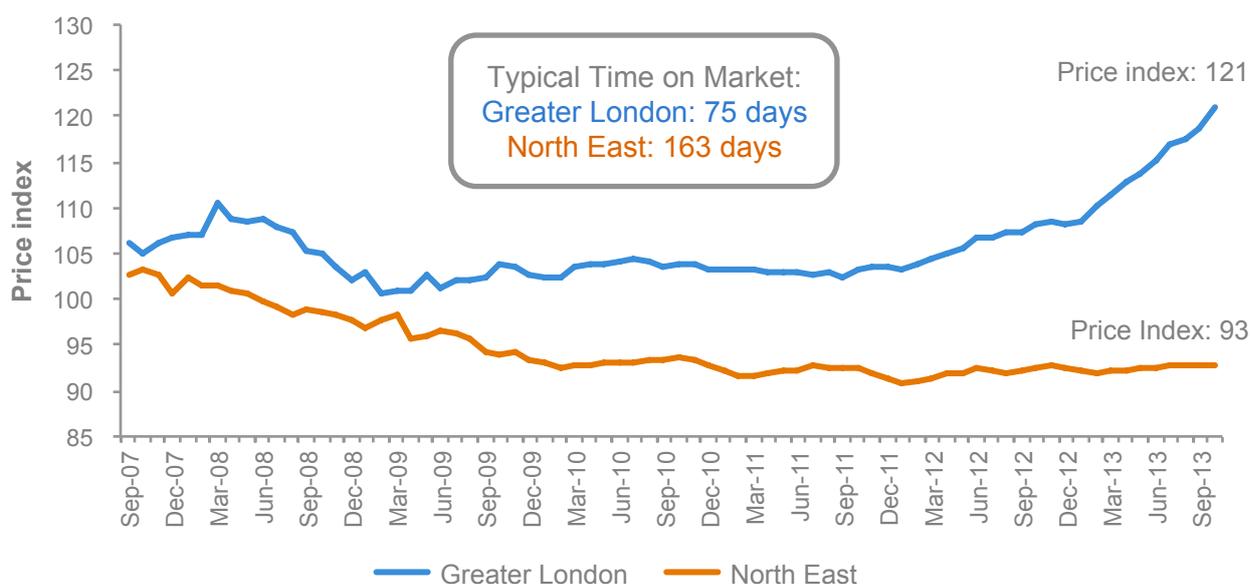
Some analysts have called for a downgrading of the value limit which, at first glance, is a logical step in their thinking. However, whilst this would stimulate the market as planned, it would

ultimately serve to push up the lower end of the market in richer areas, much to the chagrin of first-time buyers.

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

"Looking at the current market dynamics, demand is already outpacing the overall supply of properties for sale and pushing prices upwards. The growth in cheaper borrowing is feeding this demand and the Help to Buy scheme is likely to worsen the growing supply-demand imbalance. Hence, if applied at a national level, we would question the scheme's ability to address the diverse needs of the UK's property market. However, if the scheme was applied selectively, it could have real merit and provide longer lasting benefits for the market as a whole. An initiative that was focussed purely on poorly performing areas (e.g. selected postal districts) where the property market remains stagnant (cf. selling times that are in excess of the national median) would avoid the risk of overstimulating local markets that have already fully recovered post-crisis. Our recently published [Time-to-Sell Heat-map](#) should be food for thought for Mark Carney and the new housing minister, Kris Hopkins MP."

Asking Price Movements for Greater London and the North East



Source: Home.co.uk, October 2013

The HAPI for England and Wales now stands at 105 [May04 = 100].

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:

- Wednesday 13th November
- Thursday 12th December
- Tuesday 14th January