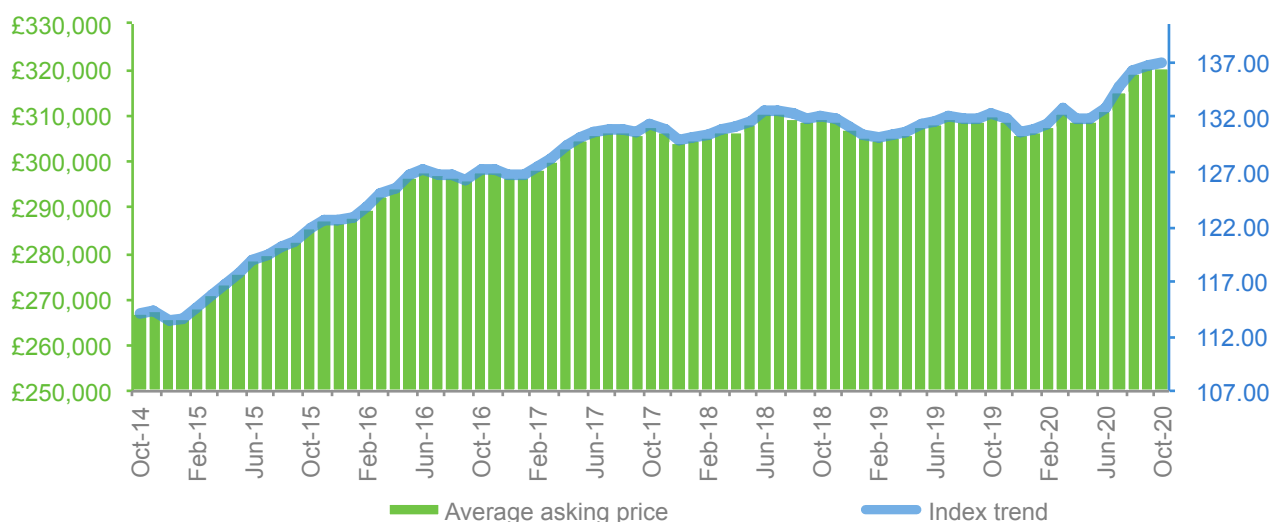


Oversupply Halts Price Rises

Headlines

- Asking prices go sideways as the market strains under the sheer volume of new stock.
- The mix-adjusted average asking price for England and Wales posts a mere 0.1% rise since the September reading, while the year-on-year rise slipped to 3.5%.
- Supply of new sales instructions for mainland UK is overwhelming (up 32% in September compared to September 2019).
- Excessive supply in Greater London continues and now risks a severe market correction (new listings up 87% in September compared to September 2019).
- Despite surging supply the current stock count for England and Wales remains lower than in October 2019 by 4.6%.
- Scottish vendors continue to show exceptional confidence (third month out of a prolonged lockdown) with a further massive hike in the average asking price of 1.8% since last month, making the annualised growth a heady 8.9%.
- The best-performing English region is Yorkshire, showing year-on-year price growth amounting to an annualised gain of 8.6%.
- Another cautious monthly rise of 0.3% takes the East of England (the UK's worst-performing region) firmly into positive growth year-on-year (+1.3%), while the first monthly falls post-lockdown are seen in the South East (0.5%) and South West (0.4%).
- 11.6% more properties on the market were reduced in price last month compared to September 2019, suggesting that vendors' confidence is waning and patience ebbing. Moreover, the average price cut is now 19.4% higher than a year ago.
- Overall supply in the UK rental sector is 5.5% down year-on-year. However, this figure obscures huge regional disparity. Severe shortages are to be found in most English regions and in Wales. Meanwhile, the Greater London area shows a vast increase in properties available to rent (+59% year-on-year).

Home Asking Price Trend for England & Wales



Source: Home.co.uk Asking Price Index, October 2020, Indexed to May 2004 (Value = 100).

Summary

Home prices are looking increasingly fragile in the southern regions due to the deluge of new listings over recent months. Persistent oversupply post-lockdown has triggered asking price corrections in the South West and the South East this month. Perhaps surprisingly, London prices managed to nudge up 0.1% since last month despite an overwhelming flood of new inventory (up 87%, Sept vs. Sept 2019). This suggests that, for the time being, most vendors are hopeful rather than realistic. However, not all sellers are in denial about the current state of oversupply as indicated by the number of properties on the market with slashed prices; this has risen to a 16-month high during the month of September.

While estate agents have been busier than is usual for September in all other English regions and in Scotland and Wales, it is important to note that the increase in supply is much less pronounced in the northern regions, with the North East indicating a mere 7% increase year-on-year. Correspondingly, vendors' asking prices remain much more bullish. The North West notched up a further 0.7% since last month's

reading and significant growth is also evident in Yorkshire and the North East. However, it's Wales and Scotland that are really ramping up their home market values with month-on-month rises of 1.6% and 1.8% respectively.

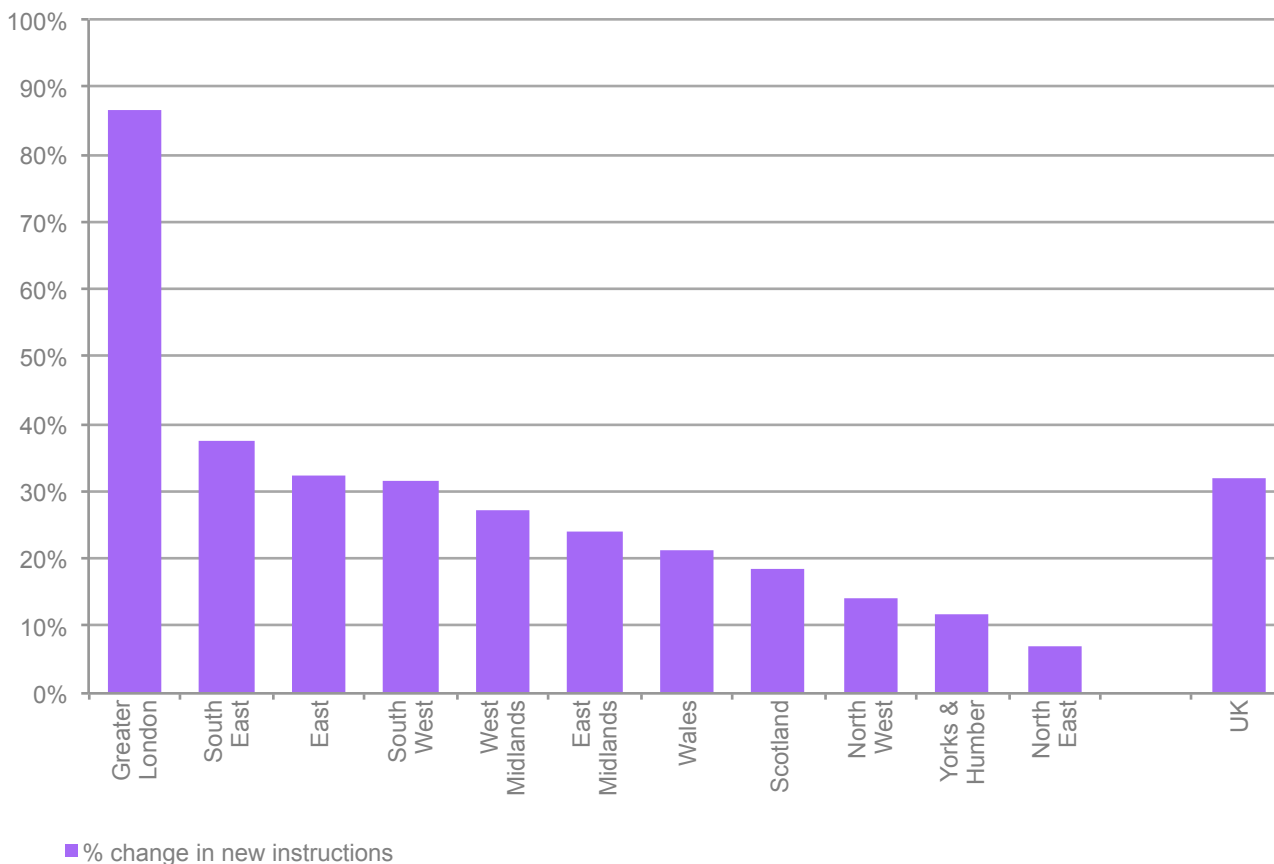
The recently announced record levels of mortgage approvals will keep pace with supply in most parts of the UK in the near term but not where oversupply is greatest. London's stock levels have been inflated by 50% since April and, thanks to September's record number of new listings, the sum total of new listings from April to September inclusive is around 10% more than for the same period in 2019. The September total of new instructions in Greater London is the largest we have seen since June 2008.

The annualised mix-adjusted average price growth across England and Wales is currently +3.5%; in Sept 2019, the annualised rate of increase of home prices was -0.1%.

Regional Roundup

As we continue our analysis of the post-lockdown rebalancing of supply and demand, both nationally and regionally, it is becoming blatantly clear that there is a north/south divide. Vigorous, reasonably balanced northern markets

New Sales Listings, September 2020 vs. September 2019



Source: Home.co.uk Asking Price Index, October 2020

are showing significant price growth while the southern regions are typified by oversupply, reduced demand in urban areas and much lower growth. Supply disparities at the regional level are vast.

Any hopes that sales supply in London might moderate have been dashed. September saw 18,568 new listings hit the market, an 87% increase on September 2019, exceeding any of the monthly totals post-lockdown. COVID has seemingly turned this market on its head. Back in February, all market indicators suggested the long price correction was over and that the capital's property market was returning to growth. Rents were rising rapidly in the more central boroughs and improving yields looked set to entice landlords back into the London market.

Now the picture couldn't be much more different. Supply is soaring in both the sales and lettings markets. Rents are already collapsing in most of the more central London boroughs, driven down by ballooning supply and asking prices look set to follow in all but the leafiest suburbs. COVID has changed the nature of demand for accommodation and new trends in the fast-moving rental market provide an early indication of what might be in store for the sales market.

Overall, the Greater London rental sector has transitioned from scarcity to overabundance. Supply has leapt 65% compared to a year ago and most of this newly available letting stock is located in the most central boroughs. Supply shocks are being most keenly felt in Islington (+205%), Southwark (+176%) and Tower Hamlets (+176%) and asking rents have reacted quickly in these boroughs, falling by an annualised 21.2%, 14.5% and 15.2% respectively. Such is the magnitude of this wave of new stock that landlords will struggle to find tenants even at these discounted rent levels, and we anticipate that rents will continue to slide in the near term.

Thus far, the average rental value for Greater London has lost around 10% of its pre-COVID value overall. In the worst hit boroughs, landlords have slashed their rents by more than double that figure: the City of London (-33.0%), Kensington and Chelsea (-24.7%), Hammersmith and Fulham (-22.7%) and the City of Westminster (-21.4%). Meanwhile, at the other end of the spectrum, peripheral boroughs Bromley, Havering and Croydon are still enjoying moderate growth in rents (+3.8%, +5.1% and 6.8% respectively) and supply remains limited in these locations.

This radical transformation of the Greater London rental sector is clear evidence of a new tendency to move to less urban areas post-lockdown. We expect a similar rebalancing to be mapped out in the capital's sales sector over time. Home prices must decline to allow yields, the fundamental underpinning of property value, to recover. A protracted and painful price correction in London's most expensive locations appears inevitable, as supply rises and demand heads for the countryside.

The surges in supply in the South East, South West and East of England appear relatively minor compared to London's tidal wave. However, an imbalance of supply and demand has already been reached as evidenced by price falls in both the South West (-0.4%) and South East (-0.5%) since last month. Rising supply soon put an end to the post-lockdown asking price hikes and we expect prices to slide until supply moderates. A second consecutive monthly fall for the South West is a further indication that financial distress induced by the pandemic may be triggering disposals in this region that is traditionally popular with second homeowners.

Further afield, smaller but still significant surges in supply are to be found in the West Midlands (+27%) and the East Midlands (+24%). Here too, despite the considerable pent-up demand, increased supply has halted large price hikes for the time being. Average asking prices in the West Midlands are unchanged from last month while in the East Midlands they nudged up a mere 0.2%.

By way of contrast, northern England, Scotland and Wales all continue to indicate more moderate increases in supply. These regions are clearly in the growth phase of the property cycle and sellers are not as impatient as in the South. Yorkshire, England's best-performing region in terms of price growth, has registered a moderate rise in supply of 12% (September vs. September 2019) while the neighbouring regions of the North West and North East have indicated increases in supply of just +14% and +7% respectively (again compared to September 2019). While supply increases have notched up in Wales (+21%) and Scotland (+18%), they remain well below the UK figure of 32%. Moreover, large asking price hikes of 1.8% and 1.6% respectively since last month clearly suggests that supply has not yet met the level of demand.

“ We are witnessing an unprecedented rebalancing of the UK property market.

During the fourteen years I've been studying and reporting on the UK housing market, I've not seen anything remotely like the current level of disparity between London and the regions.

Mortgage approvals may have soared to record levels but even that may not be enough to save the London sales market from a severe correction. Over the last six months, London sales stock levels have increased by 50%. In a normal market this would be disquieting but not a huge concern as vendors could take their properties off the market and rent them out instead. However, the bad news for sellers is that the London rental market is already plagued by oversupply and rents are falling, especially in the central boroughs. Until February this year, rising rents supported residential property values in the capital: now they are dragging them down.

The anti-COVID measures have made the prospect of urban living unbearable for many. This situation is unlikely to change in the short term, with each new reported case seemingly triggering threats of another dreaded lockdown. Enough is enough, and renters who could work remotely were first to lead the exodus. Their departure (and the collapse in short-term Airbnb-style lets) meant that the stock of available properties to let soared

from around 25,000 in early March to around 46,000 today. No wonder central London rents are in freefall. Many homeowners also want to up sticks and leave but finding a buyer is going to be increasingly difficult, especially for a city centre high-rise flat at the right price. As if to make matters worse, falling rents will likely prompt landlords to off-load properties thereby worsening the property glut.

Meanwhile, it's almost business as usual up north. Unlike London, northern regions have pretty much picked up where they left off pre-pandemic, reverting to their price growth trends with supply remaining moderate. Most importantly, rents are rising due to scarcity and this fact both encourages investment and fundamentally supports sales values. In fact, the good news for the UK property market as a whole is that rents are rising in all regions except Greater London. In some instances, such as Wales, the North West, Yorkshire and Scotland the annualised rises are in double figures.

The extraordinary diversity of the UK's property market will no doubt help to buffer the negative effects of the impending disaster in the urban London sales market.

Doug Shephard
Director at Home.co.uk



UK Asking Prices

| Scotland | Oct-20 |
|-----------------------------|-----------------|
| Average Asking Price | £205,730 |
| Monthly % change | 1.8% |
| Annual % change | 8.9% |

| North East | Oct-20 |
|-----------------------------|-----------------|
| Average Asking Price | £169,795 |
| Monthly % change | 0.5% |
| Annual % change | 5.6% |

| Yorks & The Humber | Oct-20 |
|-----------------------------|-----------------|
| Average Asking Price | £221,136 |
| Monthly % change | 0.5% |
| Annual % change | 8.6% |

| North West | Oct-20 |
|-----------------------------|-----------------|
| Average Asking Price | £224,549 |
| Monthly % change | 0.7% |
| Annual % change | 7.5% |

| West Midlands | Oct-20 |
|-----------------------------|-----------------|
| Average Asking Price | £266,362 |
| Monthly % change | 0.0% |
| Annual % change | 4.0% |

| East Midlands | Oct-20 |
|-----------------------------|-----------------|
| Average Asking Price | £248,739 |
| Monthly % change | 0.2% |
| Annual % change | 3.8% |

| East | Oct-20 |
|-----------------------------|-----------------|
| Average Asking Price | £355,846 |
| Monthly % change | 0.3% |
| Annual % change | 1.3% |

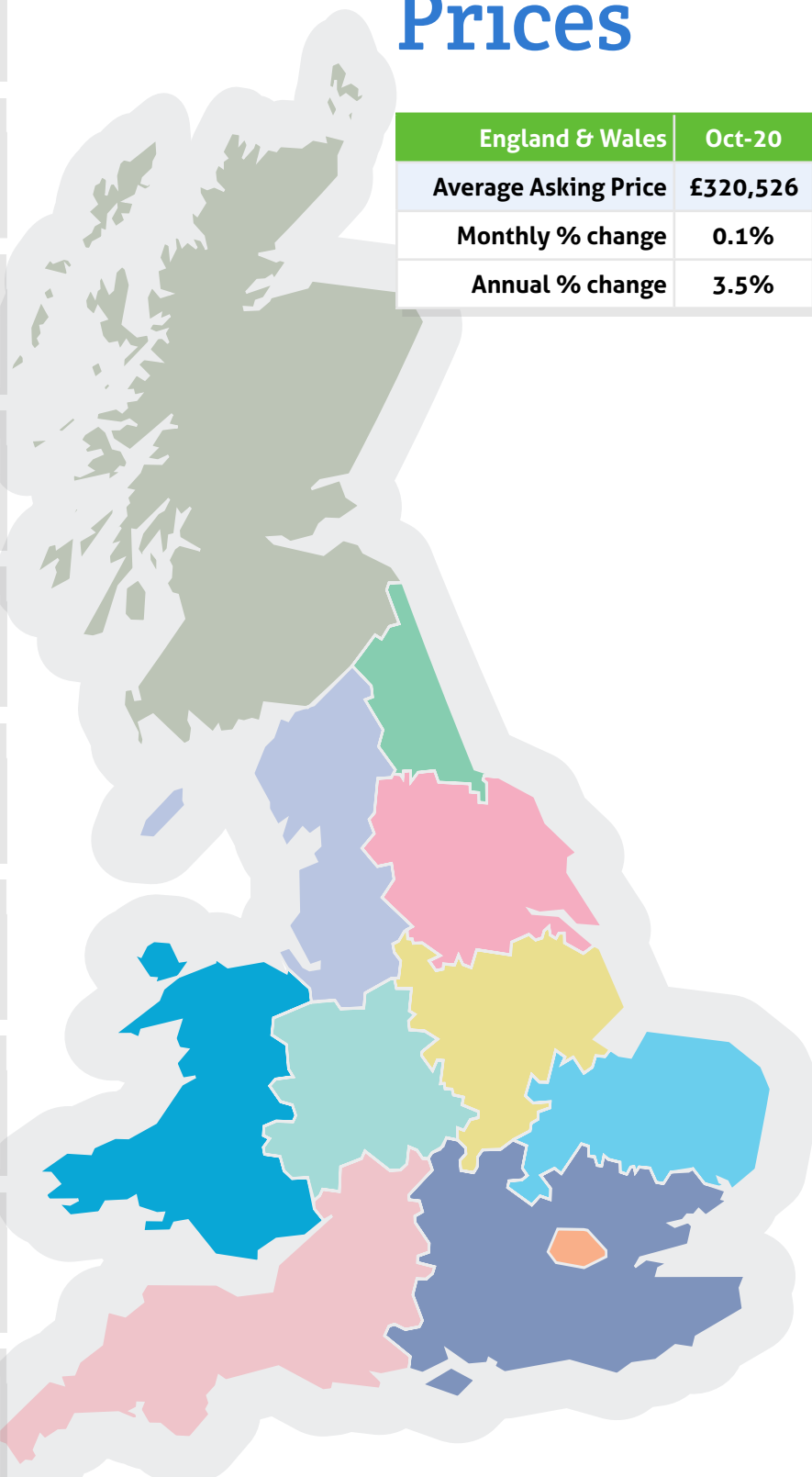
| Wales | Oct-20 |
|-----------------------------|-----------------|
| Average Asking Price | £226,653 |
| Monthly % change | 1.6% |
| Annual % change | 6.3% |

| Greater London | Oct-20 |
|-----------------------------|-----------------|
| Average Asking Price | £529,442 |
| Monthly % change | 0.1% |
| Annual % change | 2.4% |

| South East | Oct-20 |
|-----------------------------|-----------------|
| Average Asking Price | £405,766 |
| Monthly % change | -0.5% |
| Annual % change | 2.4% |

| South West | Oct-20 |
|-----------------------------|-----------------|
| Average Asking Price | £331,217 |
| Monthly % change | -0.4% |
| Annual % change | 1.5% |

| England & Wales | Oct-20 |
|-----------------------------|-----------------|
| Average Asking Price | £320,526 |
| Monthly % change | 0.1% |
| Annual % change | 3.5% |



Source: Home.co.uk Asking Price Index, October 2020

UK Time on Market

| Scotland | Oct-20 |
|-------------------------------|------------|
| Average Time on Market | 254 |
| Typical Time on Market | 72 |
| Annual % supply change | 18% |

| North East | Oct-20 |
|-------------------------------|------------|
| Average Time on Market | 239 |
| Typical Time on Market | 95 |
| Annual % supply change | 7% |

| Yorks & The Humber | Oct-20 |
|-------------------------------|------------|
| Average Time on Market | 169 |
| Typical Time on Market | 67 |
| Annual % supply change | 12% |

| North West | Oct-20 |
|-------------------------------|------------|
| Average Time on Market | 186 |
| Typical Time on Market | 78 |
| Annual % supply change | 14% |

| West Midlands | Oct-20 |
|-------------------------------|------------|
| Average Time on Market | 151 |
| Typical Time on Market | 65 |
| Annual % supply change | 27% |

| East Midlands | Oct-20 |
|-------------------------------|------------|
| Average Time on Market | 150 |
| Typical Time on Market | 64 |
| Annual % supply change | 24% |

| East | Oct-20 |
|-------------------------------|------------|
| Average Time on Market | 151 |
| Typical Time on Market | 63 |
| Annual % supply change | 32% |

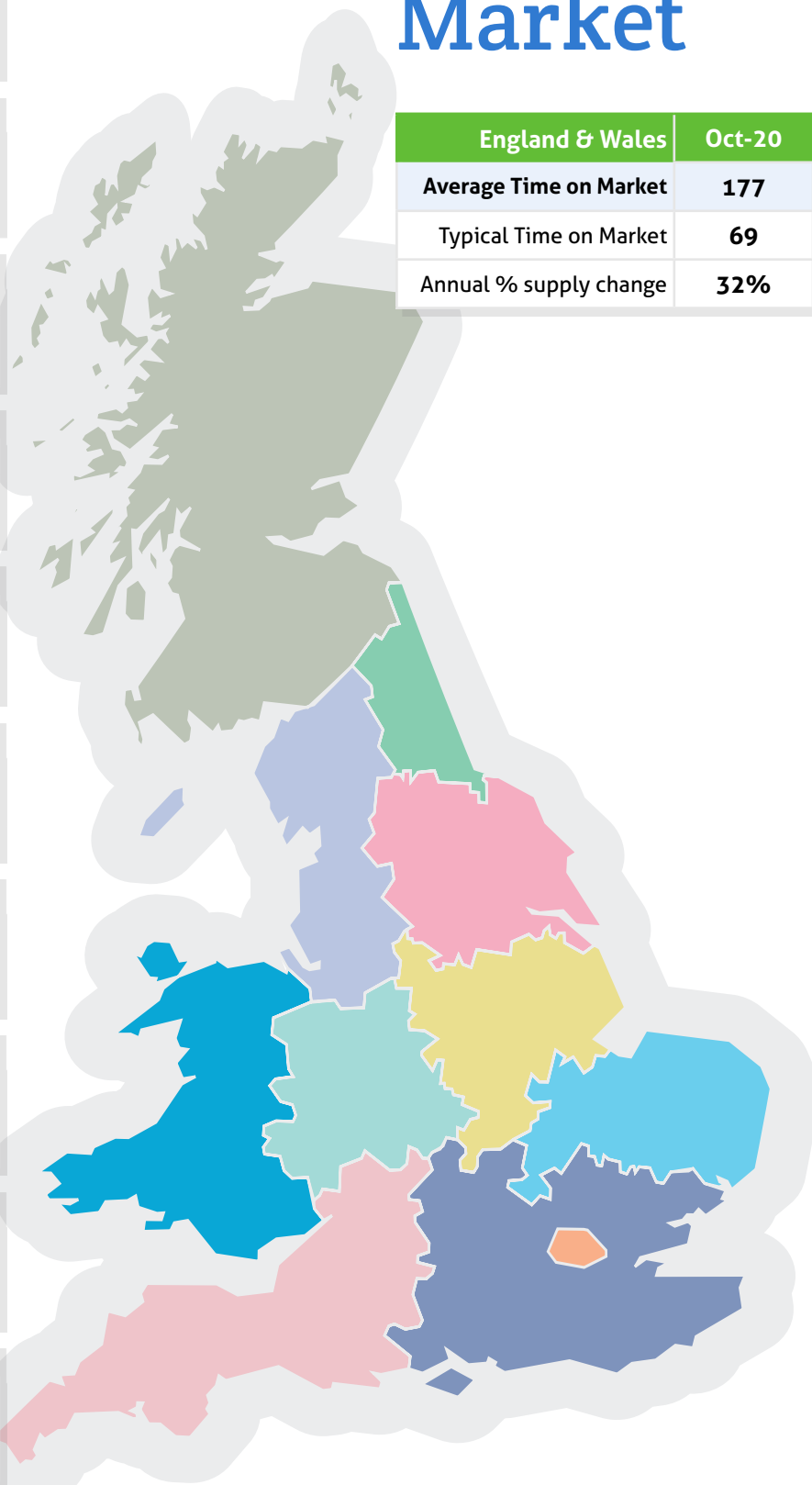
| Wales | Oct-20 |
|-------------------------------|------------|
| Average Time on Market | 225 |
| Typical Time on Market | 79 |
| Annual % supply change | 21% |

| Greater London | Oct-20 |
|-------------------------------|------------|
| Average Time on Market | 174 |
| Typical Time on Market | 64 |
| Annual % supply change | 87% |

| South East | Oct-20 |
|-------------------------------|------------|
| Average Time on Market | 158 |
| Typical Time on Market | 64 |
| Annual % supply change | 38% |

| South West | Oct-20 |
|-------------------------------|------------|
| Average Time on Market | 167 |
| Typical Time on Market | 67 |
| Annual % supply change | 32% |

| England & Wales | Oct-20 |
|-------------------------------|------------|
| Average Time on Market | 177 |
| Typical Time on Market | 69 |
| Annual % supply change | 32% |



Source: Home.co.uk Asking Price Index, October 2020. 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:
<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:

- Thursday 12th November
- Tuesday 15th December
- Tuesday 12th January