EMBARGOED UNTIL 13/10/21

Asking Price Index

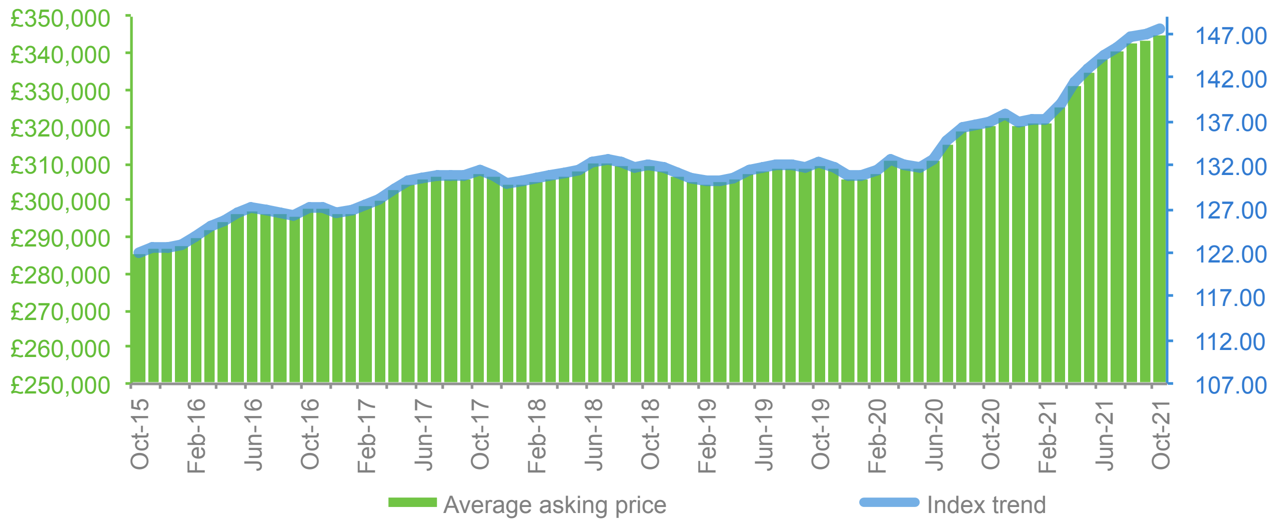
Released 13/10/21 October 2021

Inflation Rise Challenges Real Home Price Growth

Headlines

- Despite the end of the stamp duty tax break, asking prices across England and Wales moved up again thanks to low stock and low supply, adding 0.5% since last month and taking the annualised average growth up to 7.8%. However, surging monetary inflation at 5.0% (RPI ex-housing for August) accounts for most of this rise.
- The total stock of property for sale in England and Wales has been eroded further to a new record low of 260,590, 41.1% lower than in October 2020 and 47.1% less than in October 2018.
- Monthly supply of new instructions continues to come in below expectations across the UK (-35% compared to September 2020). The South East is worst hit (-43%) while Greater London, formerly plagued by vast oversupply, indicates a further drop in the number of new instructions (down 42% compared to September 2020).
- The market has gained momentum since our September report with the Typical Time on Market for unsold property in England and Wales falling slightly by two days since last month to 80 days, defying seasonal expectations.
- Low supply and considerable demand continue to push up prices in all English regions except Greater London, which indicates no change since last month. Scottish prices show a serious monthly drop of -1.1%. The largest monthly rise is in the North East of England (+1.4%).
- The East of England property market continues to lead the 12-month regional price growth chart with a staggering gain of 12.3%, followed closely by the East Midlands (+10.9%).
- Greater London is no longer the UK's worst-performing region with 3.8% annualised growth, having been replaced by Scotland where prices have risen only 1.7% over the last year. Yorkshire is now the next worst performer with annualised home price inflation of 3.9%.
- The sales market is now supported by soaring rents in Greater London. Annualised growth in asking rents has now firmly moved into positive territory following the COVID exodus (+11.5%). The greatest rises in asking rents over the last twelve months are in the City (+40.6%), Kensington and Chelsea (+28.7%), Tower Hamlets (+26.6%) and Camden (24.0%), confirming the continued return to city living.
- Scarcity of rental properties persists in all English regions, Scotland and Wales. Rents are up 5.3% across the UK since October 2020. However, despite reduced supply, Scotland and Wales indicate the lowest rental growth (-1.0% and 0.4% respectively).
- The largest annualised average rent hikes remain in the South East of England (+7.3%) and the East (+8.1%).

Home Asking Price Trend for England & Wales



Source: Home.co.uk Asking Price Index, October 2021, Indexed to May 2004 (Value=100).

For media enquiries and interviews please contact: press@home.co.uk 0845 373 3580
The Home.co.uk Asking Price Index was originally devised in association with Calnea Analytics Ltd

Summary

Rising inflation, caused by events in the wider economy, threatens to undermine all the gains of the COVID property boom. Three regions now show growth lower than the latest ONS figure (5.0%, RPI ex-housing August) which is probably an underestimate of the current rate of loss of purchasing power of sterling (see comment section).

Over the last year, price growth in the property market has been propelled by the twin tailwinds of low supply and low mortgage interest rates. Added to that, the stamp duty holiday gave significant extra boost and the post-lockdown quest for space increased demand outside of London and other large cities. Scarcity has also driven up rents across most of the UK and supply continues to dwindle.

The London lettings market, plagued at the start of the year by oversupply, has turned around. In a remarkably short time, the market has switched from a tenant's market to a landlord's market. Rents are now up by over 20% in many of the central boroughs and supply continues to fall, indicating that rent hikes will continue for the rest of this year and perhaps into next.

However, despite all these paper gains in both the sales and rental markets, monetary inflation looks set to make it a zero-sum game. Moreover, price growth is tailing off in several formerly hot regions and others look set to follow. Meanwhile, inflation in energy, food and durable goods is climbing rapidly, hence we now face the likelihood of negative growth in the property market in real terms and the possibility of negative yields on rental property. That is a risk that is likely to dampen any savvy investor's appetite.

Despite this, for the time being, the return to growth in rents is also boosting demand in the London sales market. It's worthy to note that the five-year growth in London asking prices is the lowest of all the English regions, Wales & Scotland and is a clear indication that there is plenty of room for further growth, especially in such a low interest rate environment. The total sales stock total in London continues to fall and is now down by 19% since the oversupply peak in Nov 2020. Moreover, the supply rate of new instructions is 42% lower compared to August last year, when the London exodus triggered a glut of sales properties. Given that yields on rental properties are soaring, we firmly expect demand to increase as investors continue to eye opportunities in this formerly troubled market.

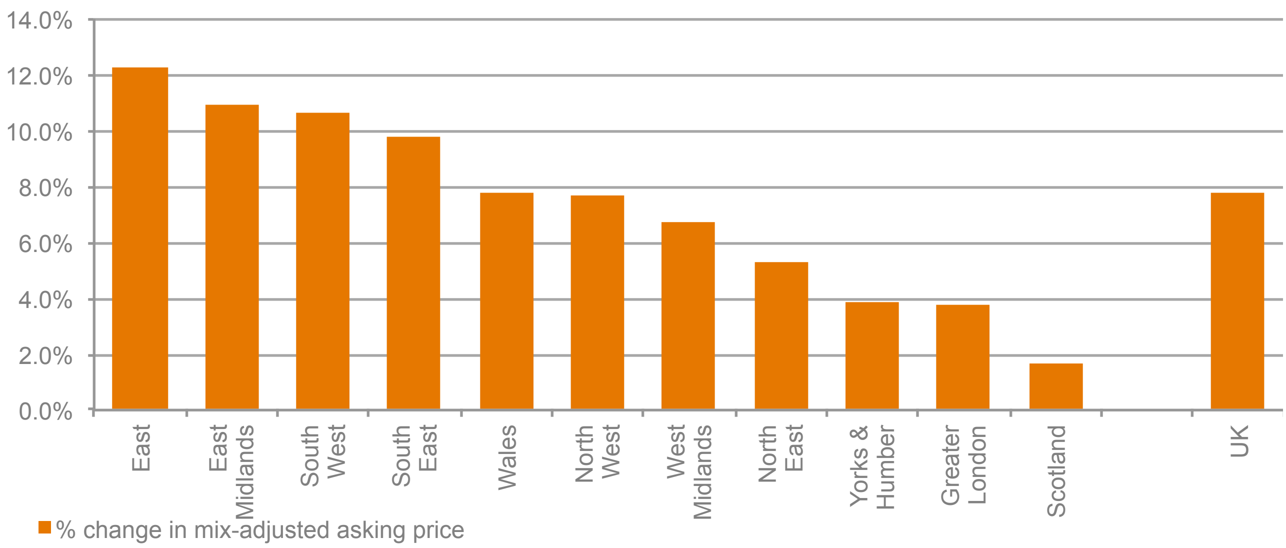
Across most of the UK, scarcity continues to push up both prices and rents. However, Scotland is now indicating that affordability limits have been reached in both sales and rental markets despite relatively low supply. The number of new instructions entering the UK sales market continues to be low compared to pre-COVID levels (down 7% September 2021 vs. September 2019). The number of newly available rental properties entering the market is also down considerably across the UK (down 31% September 2021 vs. September 2020).

The East of England and the East Midlands remain the top performers in terms of regional price growth, with annualised home price inflation of 12.3% and 10.9% respectively, supported by considerable residual demand and a lack of supply. The end of the stamp duty holiday seems to have had little effect in these and other regional sales markets.

Our outlook is that prices and rents will continue to rise in tandem in this highly inflationary environment until there is a significant loosening of supply in either market or mortgage lending becomes tighter, but growth in asset values and yields may well be overshadowed by monetary inflation. Lenders continue to be lenient in regard to arrears and the repossessions court backlog will take a long time to unwind. Moreover, interest rates look set to remain extremely low, with any talk of raising rates to tame inflation unlikely to be enacted.

The annualised mix-adjusted average asking price growth across England and Wales edged up slightly to +7.8% this month; in October 2020, the annualised rate of increase of home prices was 3.5%.

Regional Price Changes, October 2021 vs. October 2020



Source: Home.co.uk Asking Price Index, October 2021

Regional Roundup

Sales stock shortages remain prevalent across most regions, while demand continues to be supported by ultra-low mortgage rates. The total number of properties for sale is at a new all-time low and supply is down on expectations in all regions, with the possible exception of Scotland. Prices there have stabilised over the last 12 months and supply is in line with pre-COVID levels. Rents have also stabilised but this is despite falling supply, suggesting that other factors such as high prices and looming rent controls may be disincentivising landlords. Rents have also stabilised in Wales and the North East.

The sales markets in the South East, London, the East of England and the South West are the most seriously affected by falling supply, all with a shortfall in new instructions last month of 40% or greater compared to September 2020. Even when compared to pre-COVID September 2019, supply is down significantly in nearly all regions, with the exception of London and Scotland (see map). Looking back further to 2016, we can observe that the current lack of supply is evident across all regions (except Scotland) and the UK total of new instructions is down by 19% when compared to September that year.

Both London's sales supply and stock levels are contracting, suggesting that this key regional market is on the road to recovery. 2020 saw the UK's most valuable property market overwhelmed by oversupply and the current improvement in market conditions is remarkable. Of course, the return of tenant demand came first and rising rents are having a positive knock-on effect for the sales market. It is worth noting that prices have risen only 2.0% over the last five years and, as some of the cheapest mortgage deals ever are currently available, there is the potential for huge price growth.

The greatest regional price growth over the last twelve months has been in the East of England (12.3%) followed by the East Midlands (10.9%) and the South West (10.7%). These are clearly extraordinary rises in asset values, especially when viewed against a backdrop of weakness in the wider economy. Moreover, for the time being, there are no immediate signs of a slowdown in these markets.

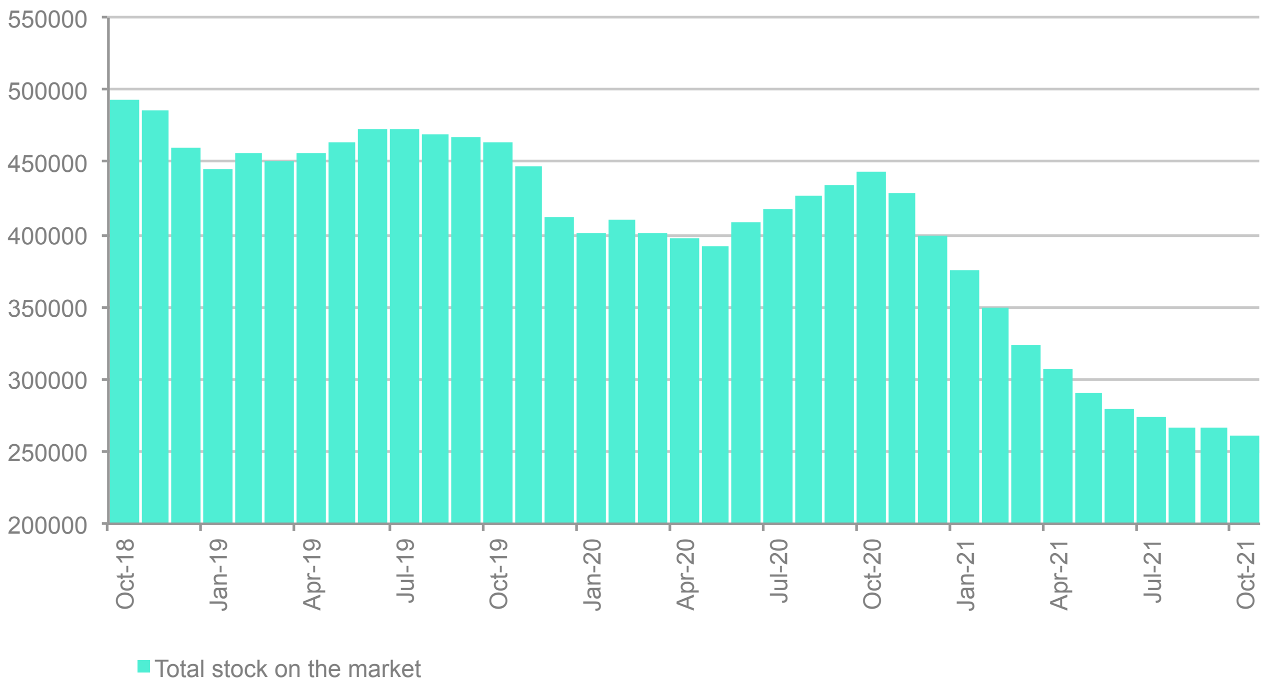
At the other end of the spectrum, Scotland and Yorkshire have seen their price growth cool to sub-inflation levels of 1.7% and 3.9% respectively.

Stock Total

Fierce demand coupled with low supply of new instructions have whittled down the total sales stock to yet another new low this month in the history of this index. However, the trend does appear to be tapering towards a minimum of around 250,000 properties. The number of unsold properties on the market has fallen by a shocking 41.1% since October last year and, looking back over a longer time period, the contraction is 70.0% since the peak stock level of May 2008.

Expectations are that mortgage rates will remain ultra-low for the foreseeable future and that forced sales remain few due to forbearance by the banks. On the surface there seems little or no reason why supply should increase in the near term. In fact, the London market is also showing a considerable reduction in new instructions. For the time being, overall demand remains strong from investors, next-time and first-time buyers therefore the stock looks set to remain at this low level at least into 2022. Property has long been considered a store of value although rapidly rising inflation may change that perception going forward.

Total Stock of Property for Sale, England and Wales



Source: Home.co.uk Asking Price Index, October 2021

When measured in real terms, house prices are already going backwards in two English regions and in Scotland.

It doesn't matter that prices are going up; it matters that home prices need to rise faster than inflation or you are losing purchasing power in your capital invested. Having one's capital tied up in an asset that is falling in value in real terms is painful and ultimately a malinvestment. Former US president Ronald Regan said that "Inflation is as violent as a mugger, as frightening as an armed robber and as deadly as a hit man."

However, inflation also erodes debt. In the 1970s, rampant inflation made a lot of mortgage debt (and government debt) gradually disappear relative to wages (and GDP). But that is the key point: wages must rise in line with inflation and at the moment they are not. Moreover, it's reasonable to concede that inflation has been consistently under-reported since the 1980s. John William, author of Shadowstats.com, has been monitoring US inflation according to the 1980s methodology, and he asserts that "In general terms, methodological shifts in government reporting have depressed reported inflation, moving the concept of the CPI [Consumer Price Index] away from being a measure of the cost of living needed to maintain a constant standard of living." Such is the current level of under-reporting that the real inflation rate calculated by using the 1980s method is around 13% and rising, much more than the 5% or so currently reported by the US Bureau of Labour Statistics (BLS).

Looking from this perspective, investors need to find returns on their capital north of 13% just to financially stand still. Even a good rental yield is only around 6%. Of course, growth in the underlying asset value can add a few more percentage points over time but, due to the cyclical nature of the property market, these gains come in fits and starts, just as we have observed in the latest artificial boom in home prices. If property returns can't beat inflation then property can no longer be regarded as a safe-haven asset. Such a realisation amongst investors would normally trigger capital flight but the question then would be to where? In the 1970s the answer was gold, but today we also have Bitcoin.

So where has all this inflation come from? Since the Great Recession of 2008, a vast amount of new money (Quantitative Easing) has been injected into the western economies, and interest rates have been forced down to historic lows. Over time these 'remedies' for the economic malaise caused the stock markets to rally to new highs and asset prices such as property to surge, hence the illusion of some sort of economic recovery was achieved. More recently the COVID pandemic triggered a further huge injection of new money into the system. Indeed, in May this year, 40% of all the US dollars in existence were created in the previous twelve months. Moreover, there appears to be no end in sight to this money printing. Our productive economies have not recovered as wished and the only solution the Central Banks have is to issue more and more currency.

And so to a quote by the third president of the US, Thomas Jefferson: "I believe that banking institutions are more dangerous to our liberties than standing armies. If the American people ever allow private banks to control the issue of their currency, first by inflation, then by deflation, the banks and corporations that will grow up around [these banks] will deprive the people of all property until their children wake up homeless on the continent their fathers conquered. The issuing power should be taken from the banks and restored to the people, to whom it properly belongs."

Wise words, but the upshot for the property market in the near term is that when investors realise that inflation is here to stay and it's sufficiently high that property is no longer a safe-haven asset, capital flight will mean estate agents' portfolios will swell rapidly. Add in the threat of rent controls, as already agreed in Scotland by the coalition government, in conjunction with the new tax burdens and red tape, and it will make investors consider whether they wish to continue to hold such an illiquid asset.

Doug Shephard
Director at Home.co.uk

UK Asking Prices

England & Wales	Oct-21
Average Asking Price	£345,596
Monthly % change	0.5%
Annual % change	7.8%

Scotland	Oct-21
Average Asking Price	£209,214
Monthly % change	-1.1%
Annual % change	1.7%

North East	Oct-21
Average Asking Price	£178,821
Monthly % change	1.4%
Annual % change	5.3%

Yorks & The Humber	Oct-21
Average Asking Price	£229,768
Monthly % change	0.0%
Annual % change	3.9%

North West	Oct-21
Average Asking Price	£241,896
Monthly % change	0.9%
Annual % change	7.7%

West Midlands	Oct-21
Average Asking Price	£284,154
Monthly % change	0.1%
Annual % change	6.7%

East Midlands	Oct-21
Average Asking Price	£275,919
Monthly % change	1.0%
Annual % change	10.9%

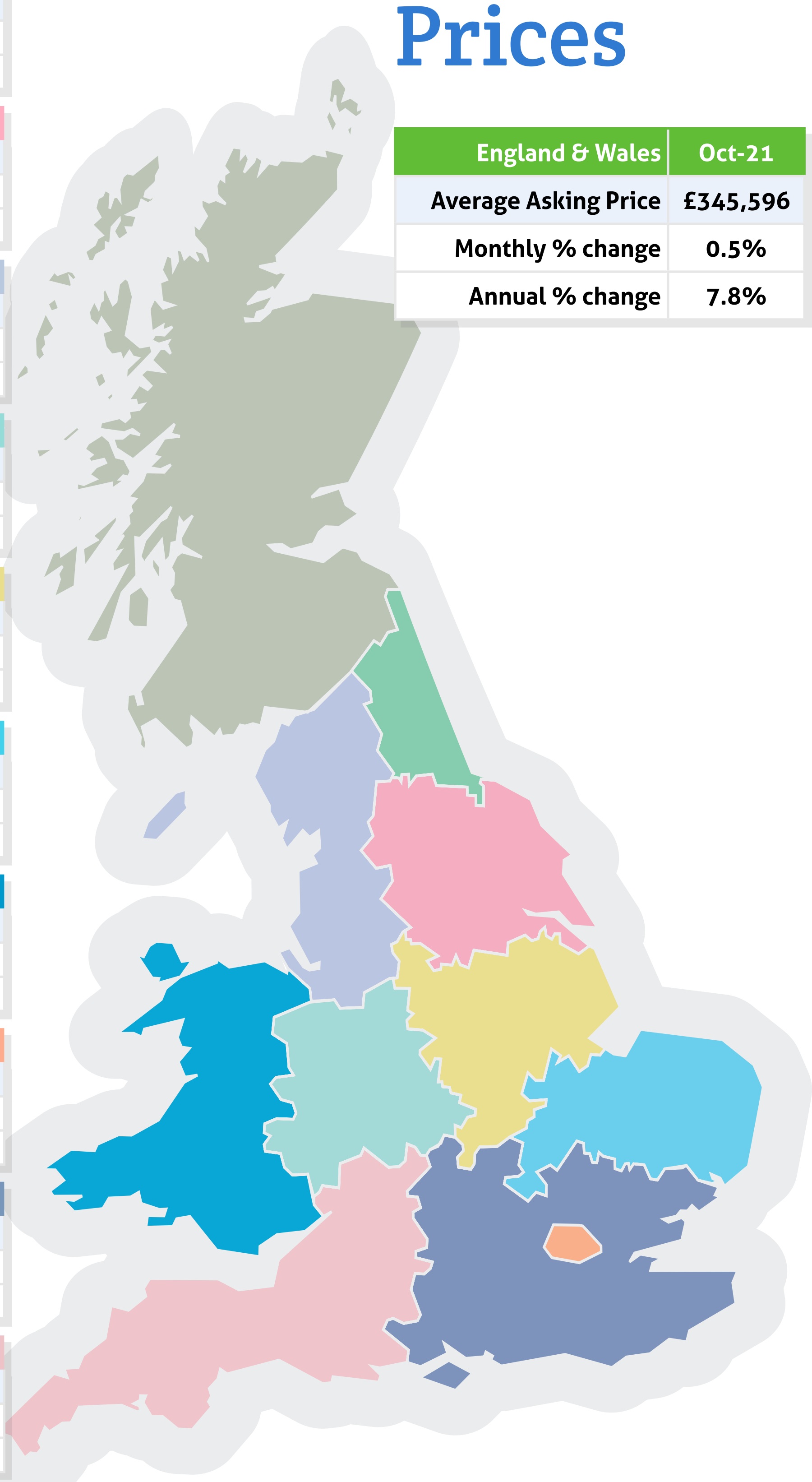
East	Oct-21
Average Asking Price	£399,606
Monthly % change	0.5%
Annual % change	12.3%

Wales	Oct-21
Average Asking Price	£244,245
Monthly % change	-0.1%
Annual % change	7.8%

Greater London	Oct-21
Average Asking Price	£549,516
Monthly % change	0.0%
Annual % change	3.8%

South East	Oct-21
Average Asking Price	£445,284
Monthly % change	0.6%
Annual % change	9.7%

South West	Oct-21
Average Asking Price	£366,601
Monthly % change	1.1%
Annual % change	10.7%



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UK Time on Market

Scotland	Oct-21
Average Time on Market	**233**
Typical Time on Market	68
2 year % supply change	6%

North East	Oct-21
Average Time on Market	**202**
Typical Time on Market	75
2 year % supply change	-6%

Yorks & The Humber	Oct-21
Average Time on Market	**151**
Typical Time on Market	62
2 year % supply change	-10%

North West	Oct-21
Average Time on Market	**166**
Typical Time on Market	71
2 year % supply change	-4%

West Midlands	Oct-21
Average Time on Market	**163**
Typical Time on Market	68
2 year % supply change	-12%

East Midlands	Oct-21
Average Time on Market	**136**
Typical Time on Market	59
2 year % supply change	-9%

East	Oct-21
Average Time on Market	**158**
Typical Time on Market	67
2 year % supply change	-13%

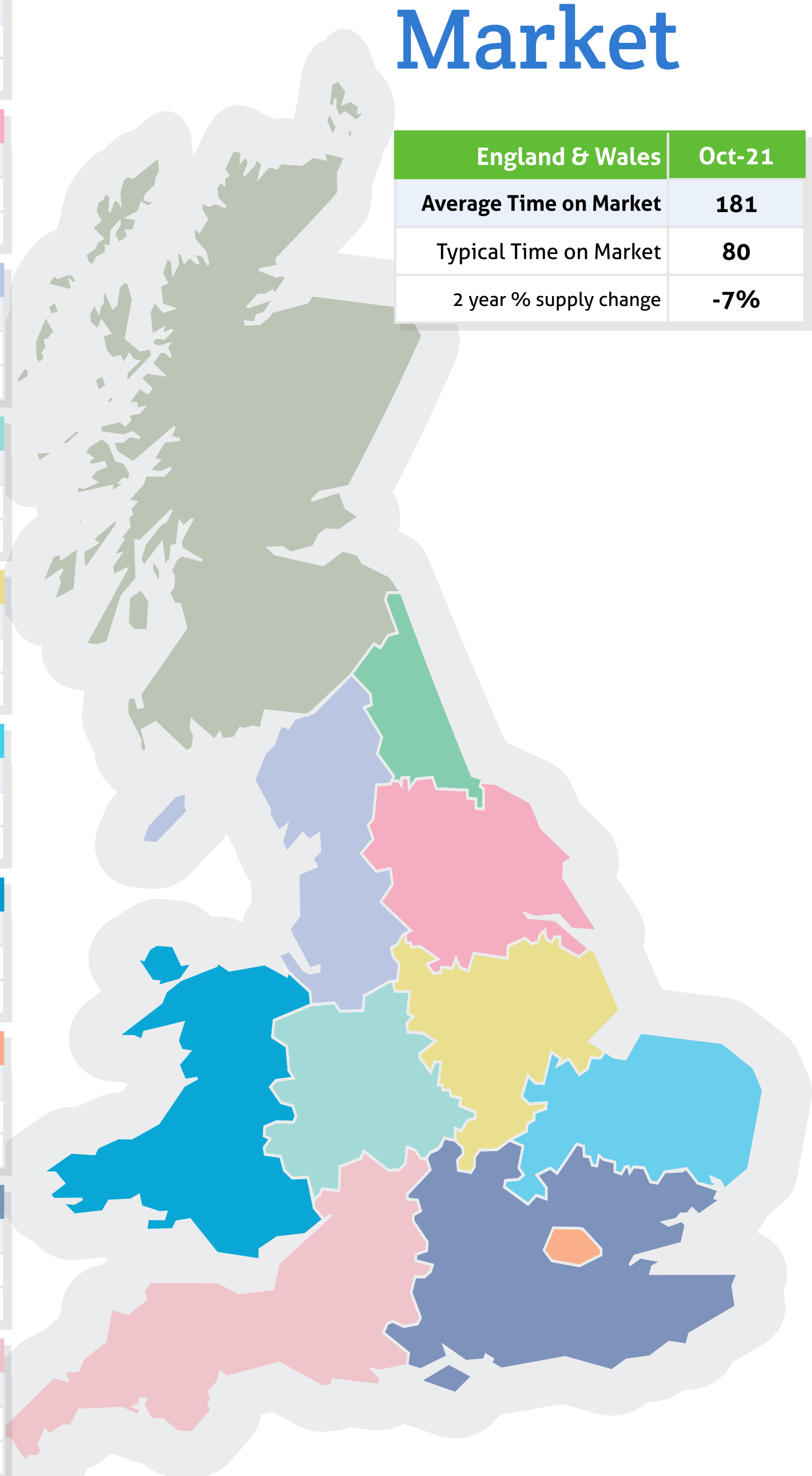
Wales	Oct-21
Average Time on Market	**179**
Typical Time on Market	67
2 year % supply change	-3%

Greater London	Oct-21
Average Time on Market	**200**
Typical Time on Market	101
2 year % supply change	12%

South East	Oct-21
Average Time on Market	**175**
Typical Time on Market	75
2 year % supply change	-15%

South West	Oct-21
Average Time on Market	**174**
Typical Time on Market	69
2 year % supply change	-16%

England & Wales	Oct-21
Average Time on Market	**181**
Typical Time on Market	**80**
2 year % supply change	**-7%**



Source: Home.co.uk Asking Price Index, October 2021. 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

- For media enquiries please contact:
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  0845 373 3580
- 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:

- **Friday 12th November**
- **Wednesday 15th December**
- **Wednesday 12th January**