

UK Cities House Price Index

January 2017

- City level house price growth 6.9% year on year down on 7.9% recorded in January 2016.
- London drops to 8th in city rankings registering lowest rate of growth (6.4%) for 42 months.
- The growth in city house prices since 2009 has been highly varied ranging from 13% to 85%. There remains material upside for house prices in large regional cities outside London.

City house price growth 6.9%yoy

UK city house price inflation is running at 6.9%, compared to 7.9% in January 2016. The slower rate of growth is down to a 0.2% price fall in the third quarter of 2016. This is a consequence of weaker investor demand post the stamp duty changes and the impact of the Brexit vote on market activity.

Table 1- UK 20 city index summary, January 2017

Month	3 mth. change	%yoy	Average price
Aug-16	0.1%	6.7%	£238,800
Sep-16	-0.2%	6.6%	£239,100
Oct-16	0.0%	6.3%	£239,200
Nov-16	0.7%	6.3%	£240,500
Dec-16	1.8%	6.8%	£243,500
Jan-17	2.8%	6.9%	£245,900

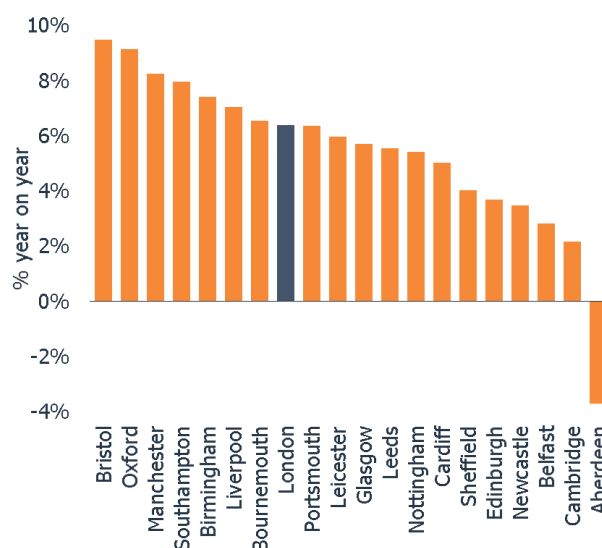
Source: Hometrack House Price Indices

London market going 'ex-growth'

London has slipped to 8th in the price inflation rankings (figure 1). Year on year growth running at 6.4%, the lowest for 42 months (June 2013). House price growth is slowing across all sub-markets. The lowest capital value markets continue to register above average price growth (>8%) – areas with average prices of c.£300,000 or 40% lower than the London average.

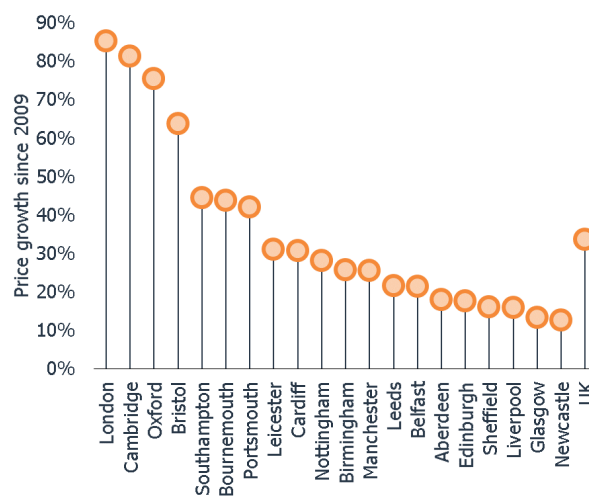
The markets with the highest capital values in London continue to register modest year on year price falls of up to 3% as weaker demand feeds into pricing at a faster rate than in outer London areas. We expect the rate of house price inflation for the London city index to continue to slow over 2017 towards 0%.

Fig. 1 – London drops to 8th in growth rankings



Source: Hometrack House Price Indices

Fig. 2 – Price recovery since 2009 – more upside



Source: Hometrack House Price Indices

Note: All price changes are quoted in nominal terms. Hometrack's house price indices are revisionary and not seasonally adjusted.

Regional cities overtake London

London is being overtaken by large regional cities such as Birmingham, Manchester and Liverpool where prices are rising off a lower base and where affordability levels remain in line with their long run average. Manchester is the fastest growing city outside southern England where prices are up 8.3% in the last year on an average price which is a third that of London.

London prices up 85% since 2009

Slower growth in London is not surprising given house prices are 85% higher than they were in 2009 (figure 2). This growth is primarily a result of rising incomes and strong demand with buying power fuelled by record low mortgage rates.

Cambridge and Oxford have recorded strong price gains of >75% which have resulted in record high price to earnings ratios in these cities (see November 2016 report).

The contrast to cities outside southern England is stark with prices in Newcastle, Glasgow and Liverpool just 13%-16% higher than their post global financial crisis lows.

Material upside for house prices in regional cities

The question is how much further house prices in regional cities could have to run were house prices to fully 'price in' low mortgage rates and the impact of continued economic growth and rising incomes.

In our view there is material upside for house prices in the coming years in many cities where the recovery since 2009 has been limited. This is based on our analysis of previous housing cycles and the recent profile of the recovery in London. The beneficiaries will be cities where investment in employment, infrastructure and regeneration will help stimulate the local economy. The timing and scale of future house price growth will, of course, depend upon the outlook for jobs, incomes and mortgage rates.

Hometrack

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Table 2- City level summary, January 2017

City	Current price	%yoy Jan 2017	% growth last qtr
Bristol	£263,200	9.5%	1.8%
Oxford	£430,200	9.2%	4.1%
Manchester	£150,600	8.3%	2.0%
Southampton	£223,200	8.0%	2.1%
Birmingham	£147,400	7.4%	1.5%
Liverpool	£116,200	7.1%	2.9%
Bournemouth	£275,600	6.6%	2.3%
London	£486,600	6.4%	1.3%
Portsmouth	£221,100	6.4%	1.0%
Leicester	£160,500	6.0%	2.5%
Glasgow	£115,200	5.7%	0.8%
Leeds	£154,700	5.5%	0.9%
Nottingham	£140,300	5.4%	1.2%
Cardiff	£192,900	5.0%	0.4%
Sheffield	£128,500	4.0%	-0.1%
Edinburgh	£200,700	3.7%	-1.3%
Newcastle	£123,900	3.5%	1.5%
Belfast	£126,100	2.8%	-0.2%
Cambridge	£418,100	2.2%	0.0%
Aberdeen	£186,200	-3.7%	2.8%
20 city index	£245,900	6.9%	2.8%
UK	£205,800	6.1%	1.4%

Source: Hometrack House Price Indices