

UK Cities House Price Index

May 2018

- UK city house price inflation 4.6% year on year.
- The price gap between London and other cities fluctuates over the cycle and is narrowing again.
- House prices in regional cities would need to rise by as much as 25% to take the price relative to London back to long run, historic benchmarks.

City house price growth running at 4.6%

UK city house price inflation was +4.6% over the last 12 months. House price growth across the twenty cities ranges from 7.1% to -5.7% (Fig.1).

Edinburgh and Manchester continue to register the highest rates of growth at 7.1% and 7.0%, respectively. House prices are falling in real terms across five cities – Belfast, Oxford, London, Cambridge and Aberdeen.

Prices falling across 20 local authorities in London

House price growth across the London City index is now 0.4% over the last 12 months. Prices are falling in nominal terms by up to -3.2% across almost half of the 46 local authority areas covered by the index.

Table 1 - UK 20 city index summary, May 2018

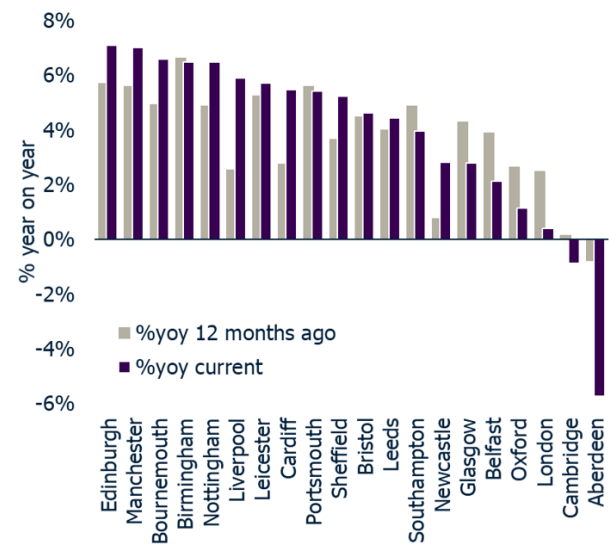
Month	Growth over quarter	Year on year	Average price
Dec-17	0.0%	3.1%	£247,200
Jan-18	0.3%	2.8%	£247,700
Feb-18	0.4%	2.8%	£248,300
Mar-18	1.3%	3.1%	£250,500
Apr-18	2.6%	4.4%	£254,200
May-18	3.6%	4.6%	£257,200

Source: Hometrack House Price Indices

Gap between London and other cities to narrow

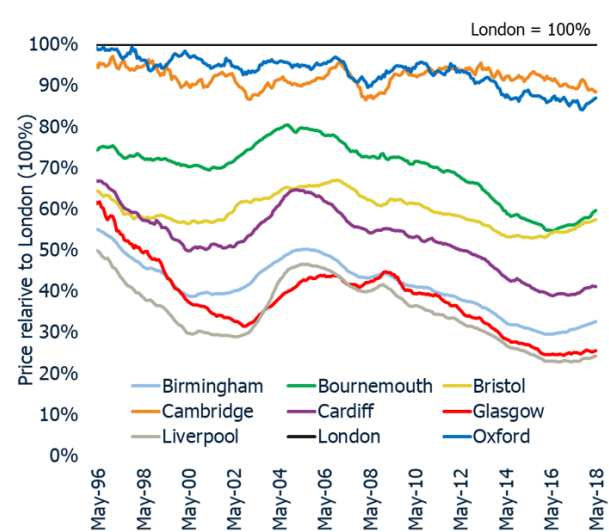
With house prices in regional cities rising faster than London, the gap between London and the rest is narrowing. Figure 2 shows the 'price relative' between London and selected other cities (this is simply the ratio of the city to London as the base at 100%). It shows how, over the housing cycle, the price relative between London and other cities expands and contracts.

Fig.1 – UK cities growth rate – current and 12m ago



Source: Hometrack UK Cities Index

Fig.2 – House price relative to London (selected cities)



Source: Hometrack UK Cities Index

Note: All price changes are quoted in nominal terms. Hometrack's House Price Indices are revisionary and not seasonally adjusted.

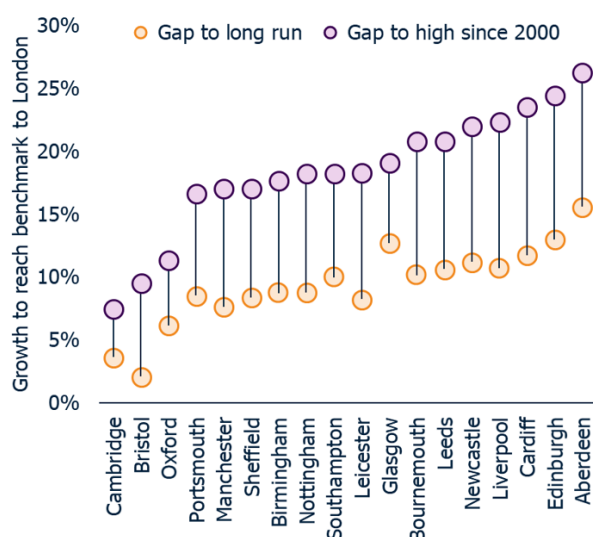
Price relatives reflect different drivers over time

Across all cities, the price relative ranges from 90% to 24% (Table 2). The size of the price relative between London and other cities reflects variations in the timing and levels of economic growth, incomes, job creation, available supply and the flows of net new investment.

Price relative set to narrow in regional cities

Over the next 12-24 months we expect the gap between London and other cities to narrow further, mirroring the trend over 2002-2005. Back then, London house price growth was weak after a period of out-performance from 1996-2000. In contrast, regional housing markets had under-performed and only started to register strong growth from 2001 onwards, which closed the gap to London.

Fig.3 – Growth to return price relative to benchmark



Source: Hometrack / Zoopla

How much can the house price relative close?

Figure 3 shows the level of house price growth required to return the price relative to one of two benchmarks – 1) the long run average and 2) the ‘high’ registered between 2002 and 2005. In cities that have registered strong house price growth, such as Bristol and Cambridge, the gap to the long run average is less than 5%. However, house price growth of 20% to 25% would be required to return the relative to the previous high in Cardiff, Edinburgh, Liverpool and Leeds.

Price falls in London can also reduce the gap

It is important to note that the narrowing of the price gap is not just about house prices rising in regional cities but prices in London falling in nominal terms. On balance we see the narrowing in the price relative being driven by price growth in regional cities but the weakness of price growth in London will support the overall trend over the medium term.

Table 2 - City level summary, May 2018

City	Current price	% yoy May-18	Price relative to London
Edinburgh	£225,300	7.1%	46%
Manchester	£163,300	7.0%	33%
Bournemouth	£292,500	6.6%	60%
Birmingham	£159,900	6.5%	33%
Nottingham	£150,100	6.5%	31%
Liverpool	£118,800	5.9%	24%
Leicester	£170,700	5.7%	35%
Cardiff	£201,700	5.5%	41%
Portsmouth	£239,400	5.4%	49%
Sheffield	£136,600	5.2%	28%
Bristol	£282,000	4.6%	57%
Leeds	£162,900	4.4%	33%
Southampton	£225,600	4.0%	46%
Newcastle	£127,100	2.8%	26%
Glasgow	£125,400	2.8%	26%
Belfast	£126,200	2.1%	26%
Oxford	£427,300	1.2%	87%
London	£491,200	0.4%	100%
Cambridge	£433,800	-0.9%	88%
Aberdeen	£178,300	-5.7%	36%
20 city index	£257,200	4.6%	52%
UK	£217,400	4.3%	44%

Source: Hometrack House Price Indices

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