hometrack

Research and Insight
November 2022

UK House Price Index

+7.8%	-28%	25%
Current UK house price growth (YoY)	Sales volumes versus a year ago	Homes with any size of asking price reduction since 1 September 2022

Executive summary

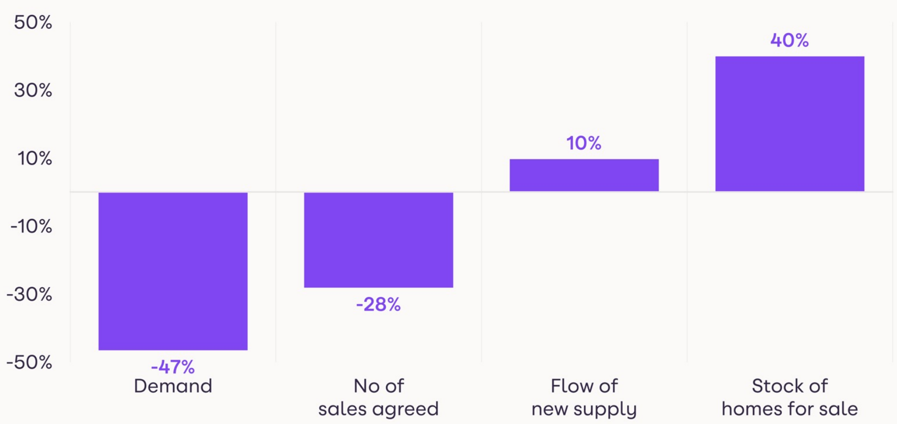
- Mini-budget fallout hits demand (-44%) more than new sales (-28%)
- New sales fell by half in the hottest markets, less in affordable areas
- Lower sales and new supply are boosting sales inventory. Ongoing scarcity expected to remain in 2023 limiting the downside for prices
- House price inflation losing momentum at speed – but no price falls recorded over the last quarter in any region or major city
- Discount to asking price on new sales widens in recent weeks
- Widespread repricing of homes underway, albeit modest in size
- Diverse range of need-driven factors expected to support sales volumes with mortgage rates set to start 2023 at 5% level.

"We still expect house price falls of up to 5% in 2023 with 1 million sales and mortgage rates dipping below 5%.

But the number of sales going through will remain buoyant for a range of structural, demographic and economic factors"

Richard Donnell
Executive Director - Research

Demand declines more than sales as supply recovers



Source: Zoopla Research

% change - 4 weeks to 20 November vs same period in 2021

-44%

Buyer demand reduction since mini-budget

Mini-budget fallout stalls market activity in Q4

The spike in mortgage rates after the mini-budget in late September has led to a sharp reduction in housing market activity, more pronounced in new buyer demand than sales agreed.

Demand has fallen to levels normally associated with Christmas as new buyers sit on the side-lines, watching the outlook for mortgage rates and what the economic headwinds means for jobs and incomes.

New buyer demand is almost half the level a year ago when market conditions were stronger, mortgage rates lower and there were fewer cost-of-living pressures on household budgets.

Sales volumes decline less than buyer demand

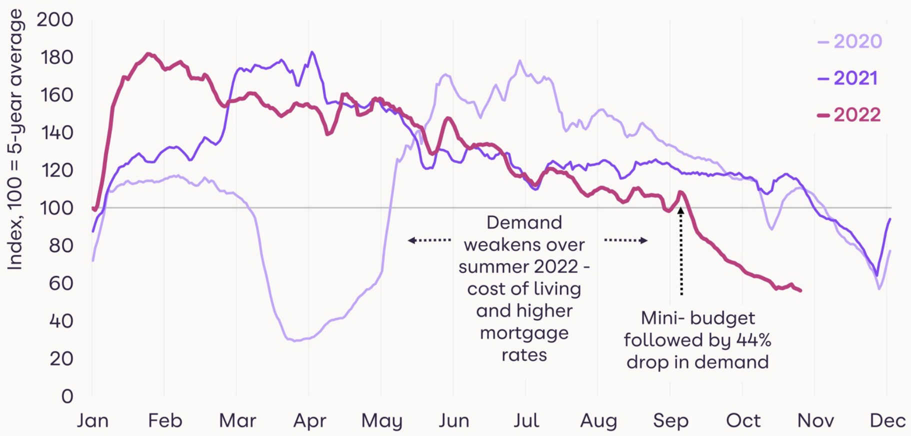
New sales are still being agreed by those with mortgage offers and the motivation to move e.g. would-be first-time buyers facing steep rent rises and older households less reliant on mortgage finance to fund a move.

Sales volumes are down 28% from a year ago and on par with the pre-pandemic period. We are transitioning from an unsustainably strong market to a more balanced one, albeit with demand-side headwinds for households most sensitive to higher mortgage rates.

Sales volumes are down by almost half in areas where market conditions have been strongest in the last year and where higher borrowing costs are hitting demand. This is typically the mid to upper price bands in southern England (excluding London), the East Midlands and Wales.

The decline in sales volumes has been smaller in more affordable markets e.g. Scotland and the North East. Sales in London are also holding up better than the national average but the capital's housing market has been far more subdued, lagging behind the rest of the UK.

Buyer demand down 44% since mini budget



Source: Zoopla Research

Rolling 7 day average, residential estate agency only. Data to 20 November 2022

23

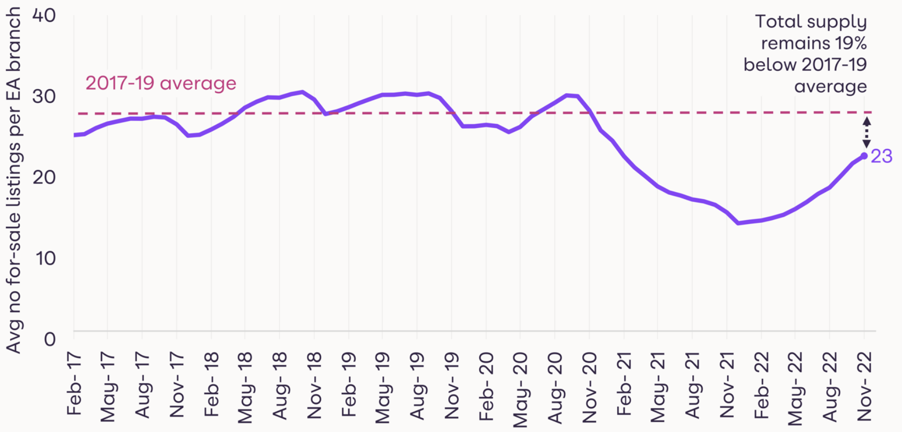
Avg. number of homes for sale per estate agency office

Sales inventory recovering off a low base

Weaker sales and more homes coming to the market mean that the stock of homes for sale continues to rebuild off a low base. The average estate agency office has 23 homes for sale. This is the highest since January 2021 but almost a fifth lower than pre-pandemic levels. This trend is being recorded across all areas of the UK.

Rebuilding sales inventory, which boosts buyer choice, is part of the move to a more balanced market. However, it is important that these homes are priced in line with what buyers are prepared to pay, given the hit to buying power. We analyse the repricing process underway later in this report. More homes for sale will reduce the scale of the upward pressure on house prices. Our expectation is that we won't get an over-supply of homes for sale in 2023. We expect some element of scarcity to remain a feature of the market, limiting the downside for pricing levels in 2023.

Available homes for sale recovering as activity slows



Source: Zoopla Research

Residential estate agency only, weekly average

A shake-out rather than a pre-cursor to a housing crash

The fallout from the mini-budget has clearly delivered a shock to sellers and buyers. New sales have been more resilient than some may have expected.

Committed buyers and sellers continue to bring homes to the market and agree on deals, although these are fewer in number and harder to negotiate and hold together over the buying cycle. Fall-through rates are higher but not unmanageable for agents. Our data shows that one in 15 homes formerly sold is returning to the market after the original sale has fallen through.

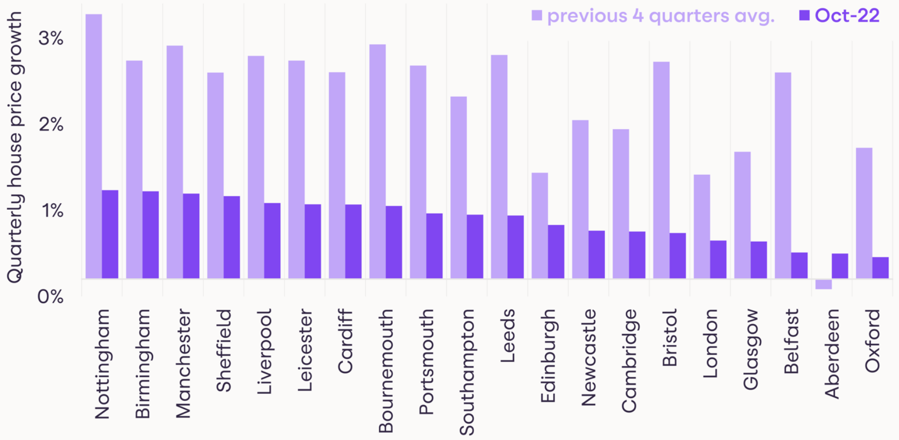
All the leading supply and demand indicators we measure continue to point to a rapid slowdown from very strong market conditions. We do not see any evidence of forced sales or the need for a large, double-digit reset in UK house prices in 2023.

House price inflation responding to weaker demand

Our measure of annual UK house price inflation has slowed to +7.8%. We have recorded the lowest quarterly rate of growth (0.7%) since February 2020, as weaker demand and a drop in sales feed into measures of annual house price growth.

At this stage, none of the major city or regional level indices are recording price falls over the last three months. What is clear is a major loss of momentum in the rate of quarterly price inflation across all areas including major cities. UK house price growth is heading to 0% and is likely to move into negative territory during 2023.

House price growth slows down across UK cities



Source: Zoopla House Price Index

Widespread repricing of sales inventory underway

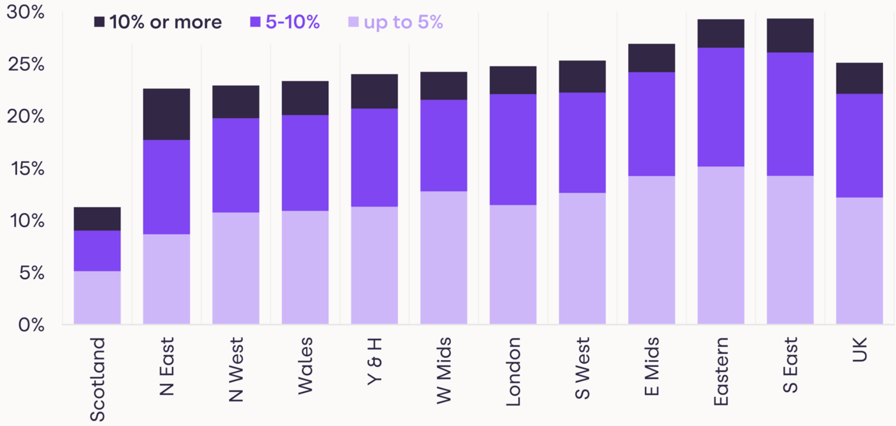
There is already a widespread repricing of homes for sale underway but with what might be seen as relatively modest reductions at this stage. The core measure we track is asking price reductions of 5% or more. This measure has jumped over the autumn but, importantly, still remains below 2018 levels.

Taking a broader view, one in four homes for sale since 1 September has experienced a price reduction of any size - see the chart below. Over one in ten (11%) has recorded a reduction of over 5%. Price reductions have been greatest in southern England, where sales activity has fallen back the most.

The South East and East of England regions have seen almost 1 in 3 homes for sale have their asking price reduced in the hope of attracting more buyer interest. Sales volumes are the key measure that will tell us if these reductions are sufficient in size.

Scotland's market operates differently, with homes marketed with a survey and valuation and asking prices set on the base of 'offers over'. Elsewhere we have bids at or below the asking price.

Widespread repricing underway - asking price reductions since 1 Sept



Source: Zoopla Research

Proportion of for-sale listings marketed since 1 Sept 2022

Sellers less likely to achieve asking price

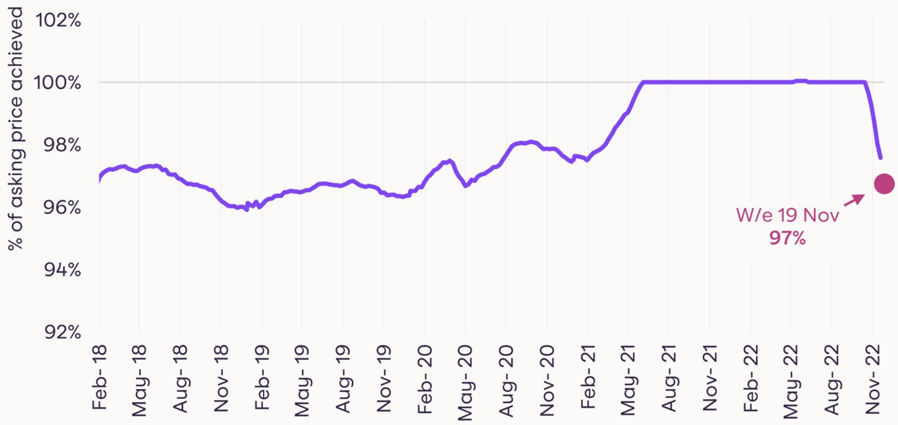
Over the last few weeks, we have seen clear evidence that buyers are starting to get bigger discounts from sellers as sales are agreed.

Data from our valuation and property risk business Hometrack, shows that the gap between the first asking price and the agreed price has started to widen in recent weeks – see the chart below.

The strength of the post-pandemic market resulted in buyers having to pay, on average, 100% of the asking price or higher on some occasions for much of 2021 and 2022. The average discount to achieve a sale has widened to 3% in recent weeks. Historic data shows that discounts to asking prices in the region c.5-7% are consistent with annual price falls.

We expect the discount to widen further as we move to more of a buyers' market. The positive is that strong house price growth has given sellers more room to negotiate on asking price. The prospects for 2023 really depend on how willing sellers are to adjust asking prices in line with what buyers are prepared to pay.

Proportion of asking price achieved takes a dip



Source: Zoopla & Hometrack

4 weeks rolling average, initial asking price vs achieved price

A wide range of motivations to move can support sales

It's important this repricing process continues. A rapid, broad repricing of homes for sale in Q4 will support sales volumes going into 2023. Transaction volumes are more important for the business plans of agents, lenders and builders than house prices. However, pricing matters more to homeowners and would-be purchasers as the price of a home is a key part of unlocking the options for their next move.

The drivers and motivations to move home have, and will continue to shift in our view. This is a result of the pandemic, greater labour market flexibility and the rise in retirement. These factors are now being compounded by rising living costs. High levels of rental inflation are adding to cost-of-living pressures for renters and we expect this to support first-time buyer demand in 2023, even with the headwinds and hit to buying power from higher mortgage rates.

A return towards 4-5% mortgage rates in 2023?

Mortgage rates exceeding 6% have been the primary factor behind the recent drop in market activity. Our outlook for 2023, with house price falls of up to 5%, assumes mortgage rates will fall back to 4-5%. This still looks on track with rates settling in the 4.5% to 5% range.

The cost of finance that underpins 5-year fixed-rate mortgages (used by 6 in 10 mortgaged buyers) has fallen from 5.5% to 4.1% since early October. Lenders add a margin on top of this rate to cover risk and profit which translates into the actual mortgage rate for homebuyers.

This means that 5-year fixed mortgage rates are likely to start 2023 at or just below 5%. This is a much better position for the housing market outlook than rates of 6.25%, but it still represents a material increase in buying costs for 7 in 10 households using mortgage finance to buy. We expect households to adapt through a range of mechanisms, such as changing requirements, injecting more equity or waiting for house prices and/or mortgage rates to fall further over 2023.

Outlook

Looking ahead, our expectations for 2023 remain the same as reported in our last report with headline house price falls of up to 5%, concentrated in the high-value markets that are most sensitive to higher borrowing costs. We also expect a decline in sales volumes over 2023 to 1m sales. A broader range of needs-based drivers is supporting home moves in a market that has become less reliant on high loan-to-value mortgages as an important component of enabling home moves. This is an important and under-reported shift in the housing market over the last decade.

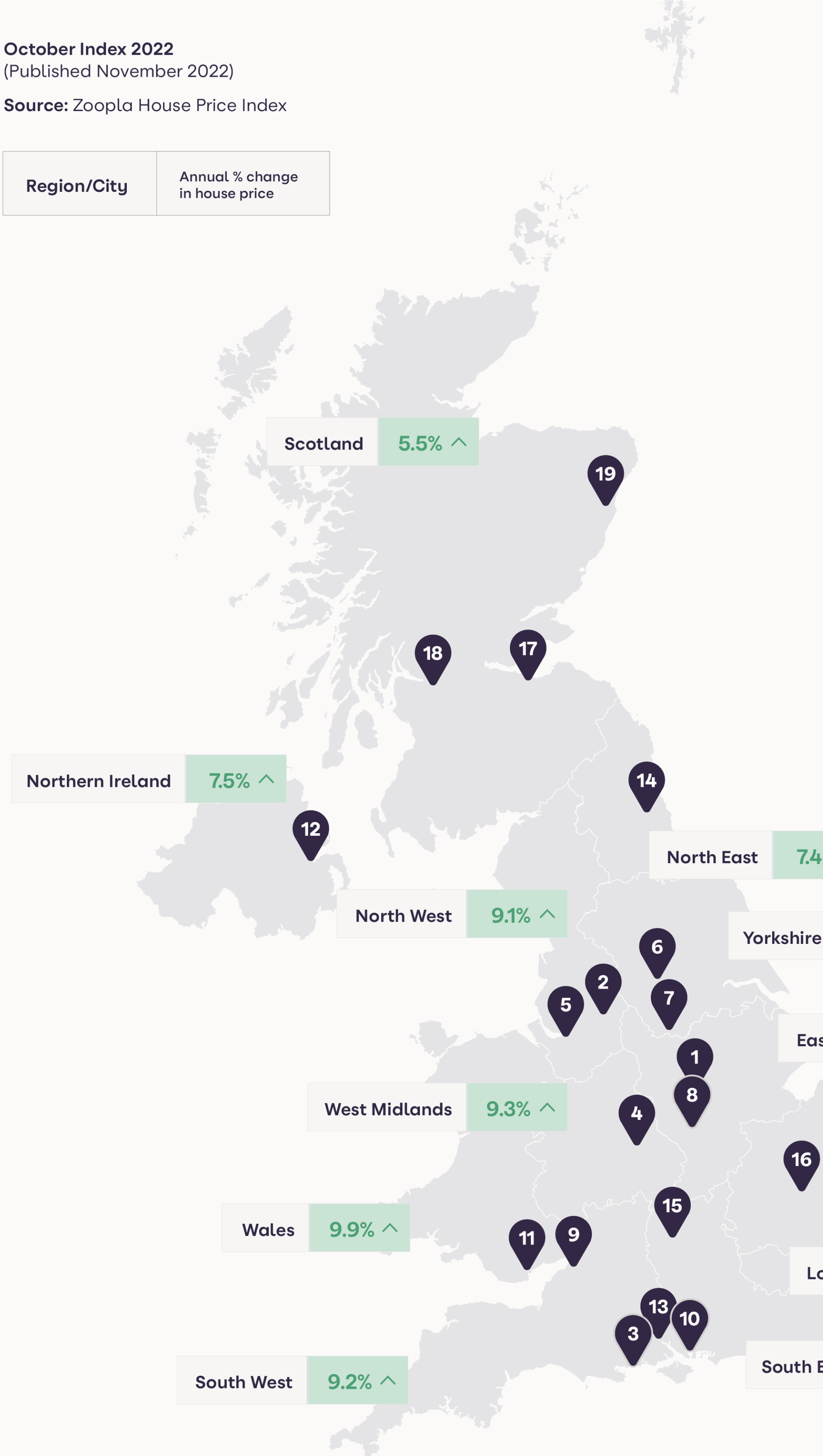
House Price Index – Country, region and city summary

Note: The Zoopla house price index is a repeat sales-based price index, using sold prices, mortgage valuations and data for agreed sales. The index uses more input data than any other and is designed to accurately track the change in pricing for UK housing.

October Index 2022
(Published November 2022)

Source: Zoopla House Price Index

Region/City	Annual % change in house price

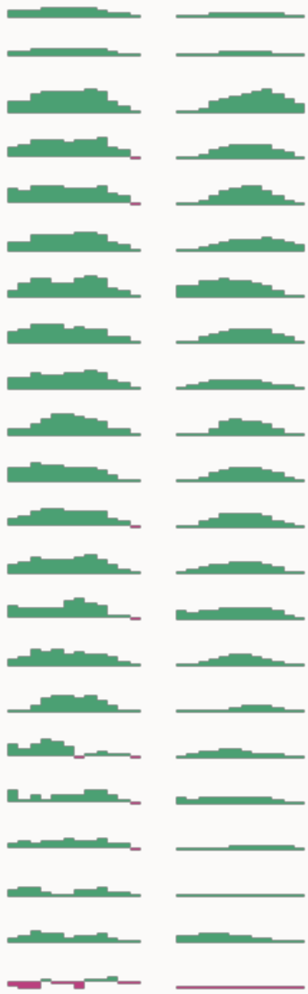


City	Annual % change in house price
1. Nottingham	10.5%
2. Manchester	9.3%
3. Bournemouth	9.0%
4. Birmingham	8.9%
5. Liverpool	8.7%
6. Leeds	8.6%
7. Sheffield	8.5%
8. Leicester	8.4%
9. Bristol	8.3%
10. Portsmouth	8.1%
11. Cardiff	8.0%
12. Belfast	7.0%
13. Southampton	6.9%
14. Newcastle	5.8%
15. Oxford	4.8%
16. Cambridge	4.6%
17. Edinburgh	4.4%
18. Glasgow	4.2%
19. Aberdeen	-1.1%
United Kingdom	7.8%

Zoopla House Price Index, city summary, October 2022

Source: Zoopla House Price Index. Sparklines show last 12 months trend in annual and monthly growth rates - red bars are a negative value - each series has its own axis settings providing a more granular view on price development.

	Average price	%yoy Oct-22	%yoy Oct-21	Monthly trend	Annual trend
UK	**£261,600**	**7.8%**	**7.4%**		
20 city index	**£297,300**	**6.5%**	**5.8%**		
Nottingham	£201,600	10.5%	8.9%		
Manchester	£219,700	9.3%	9.2%		
Bournemouth	£349,600	9.0%	8.6%		
Birmingham	£206,000	8.9%	7.0%		
Liverpool	£155,300	8.7%	11.0%		
Leeds	£208,100	8.6%	7.9%		
Sheffield	£171,600	8.5%	8.9%		
Leicester	£227,500	8.4%	8.9%		
Bristol	£338,400	8.3%	7.5%		
Portsmouth	£287,400	8.1%	8.3%		
Cardiff	£256,900	8.0%	7.8%		
Belfast	£168,100	7.0%	9.0%		
Southampton	£263,800	6.9%	6.5%		
Newcastle	£149,200	5.8%	6.6%		
Oxford	£456,000	4.8%	4.9%		
Cambridge	£472,900	4.6%	6.1%		
London	£527,600	4.4%	2.7%		
Edinburgh	£266,000	4.4%	4.0%		
Glasgow	£142,300	4.2%	7.2%		
Aberdeen	£140,200	-1.1%	0.0%		



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Contacts

If you have any questions about our research please do get in touch

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