

UK House Price Index

+7.2%

Current UK house price growth (YoY)

+1.4%

Last 3 months price growth on an annualised basis

2.1x

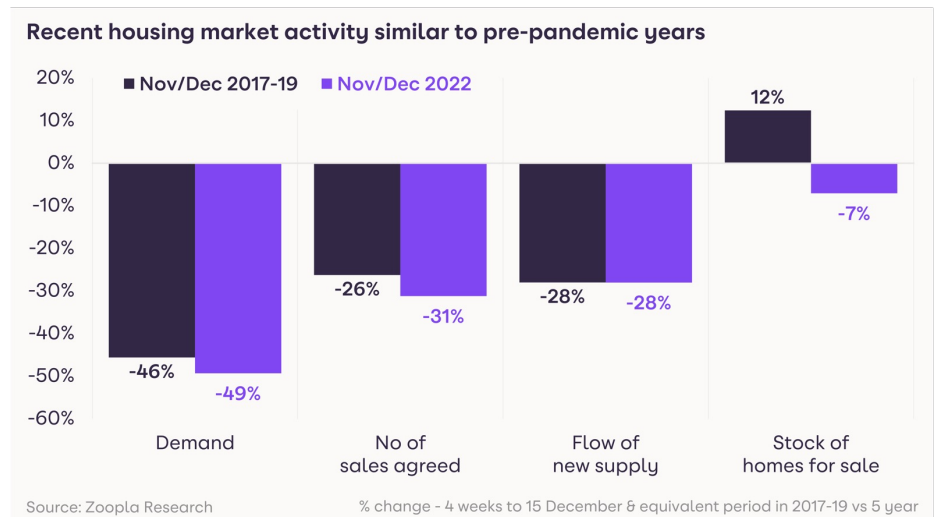
Price of a house compared to the price of a flat – highest for 20 years

Executive summary

- UK house prices increased by 7.2% over 2022
- Quarterly growth slows rapidly and is set to move negative in Q1
- Discounts to asking price widen to 4%
- Buyer demand 50% lower than last year, new sales agreed 28% lower
- Affordability and value for money are key to the outlook for 2023
- House prices in affordable markets less exposed to higher mortgage rates than in high-value markets where prices have underperformed
- Flight to rural and coastal areas moves into reverse
- Flats and urban areas expected to fare better in 2023

“The dynamics that have shaped the housing market over the last 5 years are shifting. We expect affordable urban centres to fare better than average in 2023 but the inner London market may require another year before it is ready to rebound”

Richard Donnell
Executive Director - Research



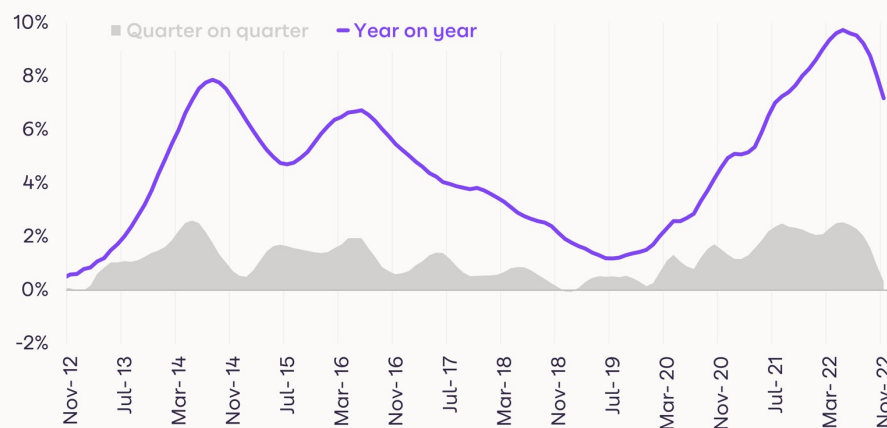
-50%

Year-on-year change in demand as buyers sit out Q4 and wait

Momentum in price inflation falls away quickly

The sharp drop in demand for housing since the summer has rapidly reversed the upward momentum in house prices. Average prices are up 7.2% year on year, an increase of £17,500. The underlying rate of quarterly price inflation has slowed quickly from over 2% up until the summer to just 0.3% in the last 3 months - an annualised growth rate of just 1.4%. We expect our index to register quarterly price falls over the first half of 2023, dragging the annual rate negative by mid-year.

House price growth losing momentum quickly



Source: Zoopla House Price Index

It is the same pattern across all regions and countries of the UK as weaker demand from higher mortgage rates, cost-of-living pressures and low consumer confidence hits price growth across all markets.

Sellers continue to accept larger discounts to asking prices to achieve sales. The gap has grown to 4% in the last month, down from zero percent in early October. We expect discounts to widen further in 2023. However, at this late stage in the year, fewer homes for sale undergo an asking price reduction as sellers wait to see what the market holds in January before making any adjustments to pricing.

Market activity returns to (poor) pre-pandemic levels

The sharp fall in demand in the wake of the mini-budget has now plateaued. Demand for homes is down 50% year-on-year, while the number of new sales agreed (i.e. sold subject to contract) is down by less (28%). This demonstrates that committed buyers remain in the market as sellers are willing to negotiate on price, hence the discount to asking prices widening.

Most measures of market activity are on a par with the pre-pandemic years of 2017-19. Some are referring to this as a return to normal market conditions. However, these were decidedly average years as political turmoil over Brexit and concerns over the economic outlook weighed heavily on market activity and consumer sentiment.

+61%

Demand for homes in
Bradford postal area in
2022 v 5-year average

The flight to rural/coastal locations runs out of steam

A key trend over the last 2 years has been the 'search for space' with a proportion of buyers looking to relocate to rural and coastal areas, pushing up demand and pricing more quickly than in other areas. Some of the largest gains in house prices over the last year have been across Wales, the South-West, Norfolk and East Kent.

Our data on the relative changes in demand and sales show this trend is reversing and set to continue over 2023. Coastal towns in the south of England - East Kent, Torquay and Portsmouth - as well as the wider Lake District area (the Lancaster postal area) and mid-Wales (the Shrewsbury postal area) have all recorded a greater slowdown in demand and sales over 2022 than other areas.

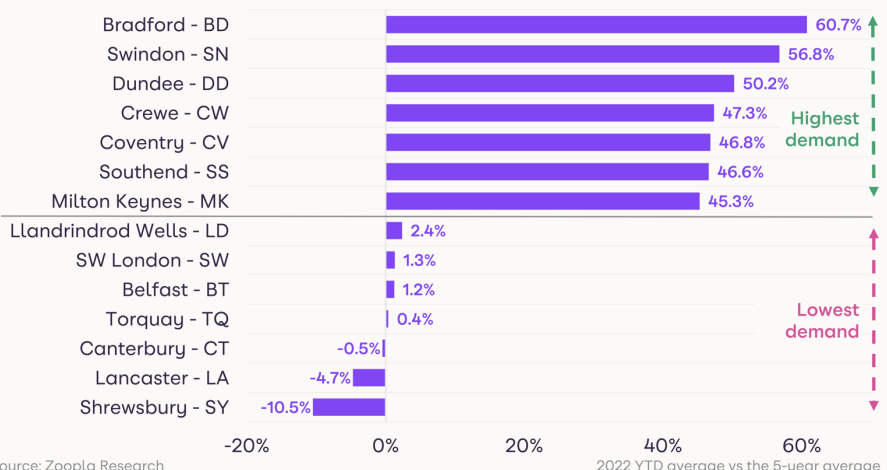
These markets are all slowing off a high base of activity. The initial wave of pent-up demand bought about by more working from home and a spike in retirement looks to have run its course for now with less value for money and fewer purely discretionary motivated moves.

Urban areas to fare better in 2023?

Buyer interest remains stronger in more urban settings where jobs are being created and there are more services. Family housing in city suburbs and commuter areas have registered above-average demand over the last year while demand in city centres has been weaker.

Postal areas including Bradford (BD), Swindon (SN), Coventry (CV), Crewe (CR), Milton Keynes (MK) and Southend (SS) are all registering above-average demand. All these areas have their own employment base, but they are also adjacent to, or have good transport connections into much larger employment centres, e.g. London, Leeds, Manchester and Birmingham. Continued employment growth will stimulate housing demand over 2023 in these affordable city regions.

Demand weakens in rural areas and holds up in affordable urban areas



+47%

5-year house price growth in Oldham postal area

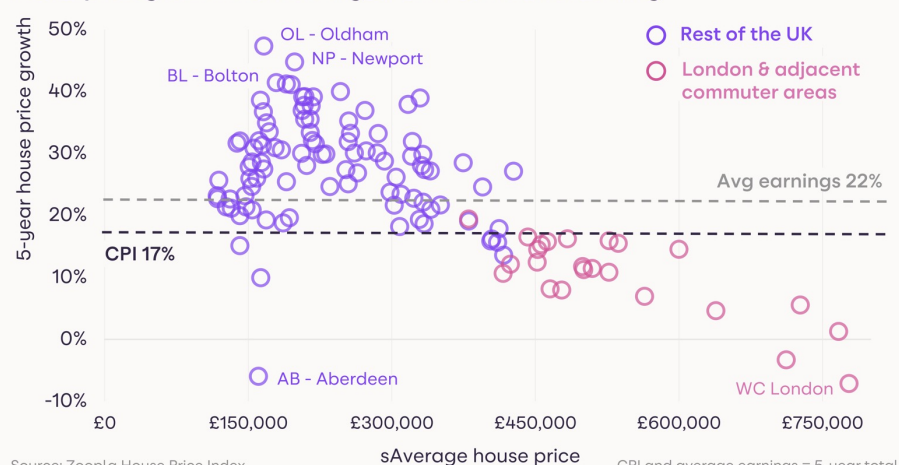
Affordability is the key to the outlook for house prices

Affordability is the primary factor looking ahead to 2023 and beyond influenced by mortgage rates, household incomes and the actual level of house prices. The more unaffordable a market, the more households are priced out, weakening demand and impacting sales volumes and pricing. The opposite is true in affordable markets with lower average house prices.

Higher mortgage rates increase the income needed to buy and worsen affordability for those buying with a mortgage (7 in 10 sales). The impact is the greatest in high-value areas where mortgages are bigger.

Looking back over the last 5 years house prices have certainly risen fastest in more affordable markets. The chart shows a clear relationship between house price inflation (2017-2022) and current house prices for every postal area in the UK.

House price growth over last 5 years linked to affordability



More affordable markets see lower price falls in 2023

Most housing markets have recorded house price gains above the level of consumer price inflation and average earnings (+22%) over the last 5 years. Economic growth and good affordability have enabled above average price gains over this period, supported by lower mortgage rates. The highest price increases since 2017 have been recorded in the Oldham (OL) postal area (+47%). Other high-growth markets include Newport (NP), Swansea (SA) and Bolton (BL).

We expect house price growth to slow in these higher-growth markets in 2023. Our national view is UK house prices falling by 5% next year. Price falls in more affordable markets are likely to be below average as the hit to buying power from higher mortgage rates will be less than in the high-value markets. This is supported by evidence of continued above-average demand in more affordable urban areas.

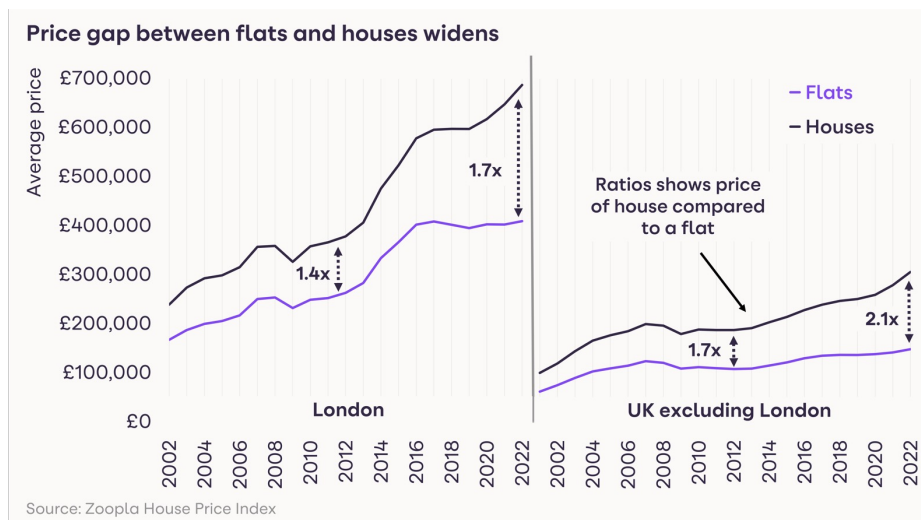
1.7x

Price of a London house compared to the average price of a flat

London and its commuter areas have under-performed

Stretched affordability for buyers in London and the adjacent commuter areas have limited the scope for price increases over the last 5 years, despite ultra-low mortgage rates until mid 2022. Prices have fallen slightly in Central London (the WC, EC postal areas), since 2017 and are 17% lower in real terms, allowing for inflation.

Earnings have risen faster than prices since 2017 which is slowly improving affordability, but average prices remain high by national standards and mortgage rates are now higher than last year. The inner London housing market will rebound soon, but this requires a further improvement in housing affordability. We expect London house prices to register above-average price falls of 5 to 8% in 2023, which will improve affordability alongside our expectation of lower mortgage rates. A resurgence in employment growth will be the trigger for a turnaround in this under-performing market in the next 1-2 years.



Flats becoming better value for money

The pricing of flats has also underperformed the rest of the market. Apartments make up around 1 in 5 homes in the UK, but price inflation for them has lagged behind growth for houses, exacerbated by the search for space and concerns over cladding and leasehold charges.

The chart above tracks the average price of flats and houses since 2002. The average price of a London house is 1.7x the price of a flat, up from 1.4x a decade ago. The same is true across the rest of the UK, where the price differential is currently 2.1x, the highest for 20 years.

We expect increased demand for flats in 2023 as buyers seek better value for money. This will be supported by improving sentiment towards flats as the Government moves to ensure cladding problems are remediated in most buildings. Only a small proportion of the UK's apartments are impacted by cladding meaning opportunities for buyers seeking better value for money in 2023.

House Price Index – Country, region and city summary

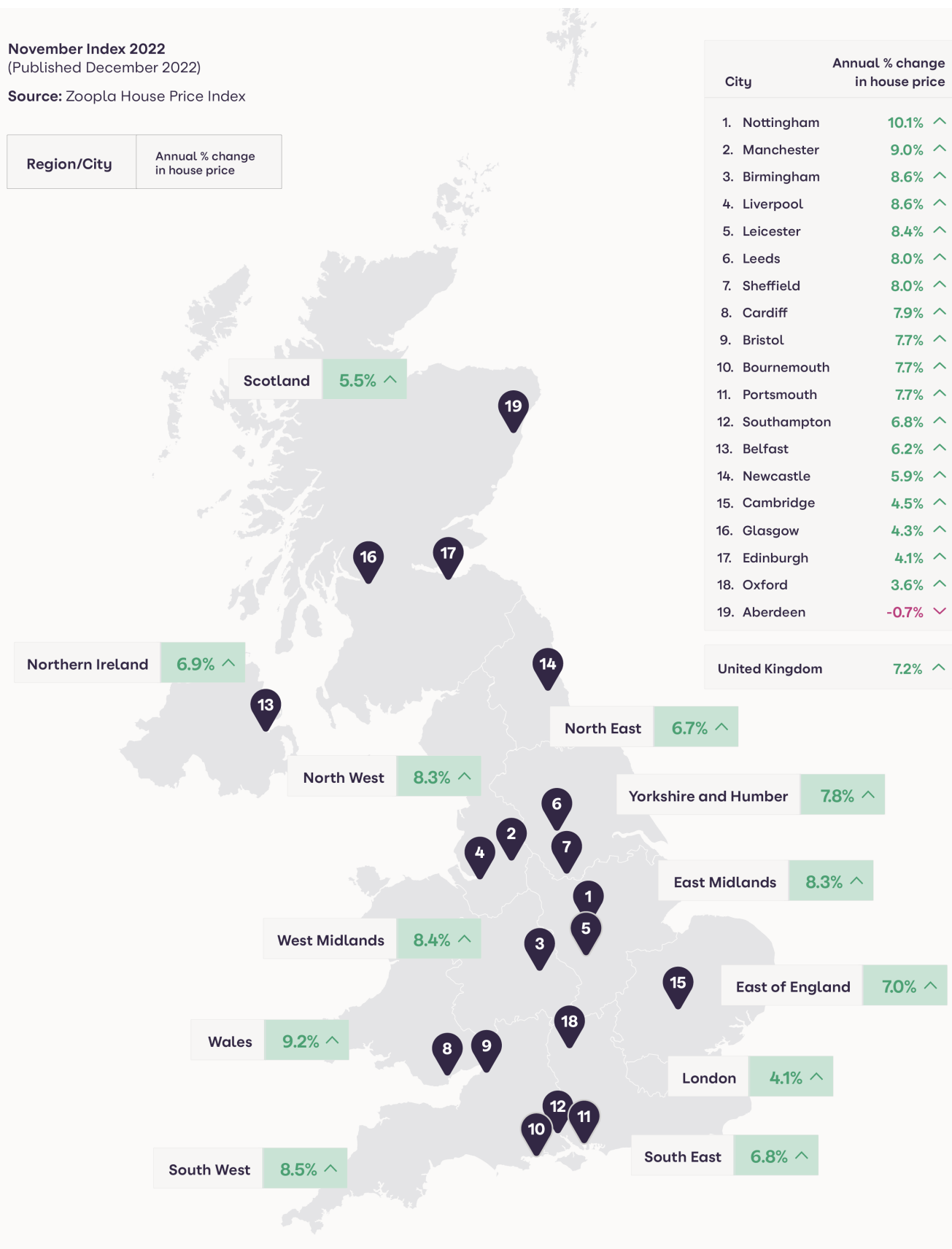
Note: The Zoopla house price index is a repeat sales-based price index, using sold prices, mortgage valuations and data for agreed sales. The index uses more input data than any other and is designed to accurately track the change in pricing for UK housing.

November Index 2022
(Published December 2022)

Source: Zoopla House Price Index

Region/City	Annual % change in house price
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City	Annual % change in house price
1. Nottingham	10.1% ^
2. Manchester	9.0% ^
3. Birmingham	8.6% ^
4. Liverpool	8.6% ^
5. Leicester	8.4% ^
6. Leeds	8.0% ^
7. Sheffield	8.0% ^
8. Cardiff	7.9% ^
9. Bristol	7.7% ^
10. Bournemouth	7.7% ^
11. Portsmouth	7.7% ^
12. Southampton	6.8% ^
13. Belfast	6.2% ^
14. Newcastle	5.9% ^
15. Cambridge	4.5% ^
16. Glasgow	4.3% ^
17. Edinburgh	4.1% ^
18. Oxford	3.6% ^
19. Aberdeen	-0.7% v
United Kingdom	7.2% ^



Zoopla House Price Index, city summary, November 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 Nov-22	%yoy Nov-21	Monthly trend	Annual trend
UK	£258,100	8.2%	6.9%		
20 city index	£293,700	6.5%	5.6%		
Nottingham	£196,900	11.1%	8.0%		
Leeds	£205,600	9.3%	7.3%		
Manchester	£215,700	9.2%	9.3%		
Birmingham	£202,400	9.2%	6.4%		
Bournemouth	£344,900	8.9%	8.0%		
Liverpool	£152,300	8.8%	11.6%		
Leicester	£223,800	8.7%	8.5%		
Bristol	£333,000	8.7%	7.1%		
Portsmouth	£282,900	8.5%	7.0%		
Cardiff	£253,400	8.5%	7.4%		
Belfast	£167,300	8.5%	8.3%		
Sheffield	£169,100	8.3%	8.6%		
Southampton	£260,500	6.9%	6.1%		
Newcastle	£147,200	6.2%	6.2%		
Cambridge	£465,700	5.5%	4.5%		
Oxford	£450,000	5.5%	5.0%		
Glasgow	£140,200	4.8%	7.2%		
London	£524,400	4.2%	2.5%		
Edinburgh	£263,600	3.8%	4.1%		
Aberdeen	£142,100	-1.6%	-0.7%		

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.

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