hometrack

Research and Insight
April 2023

UK House Price Index

+4.1%
Current UK house price growth (YoY)

500k
Expected sales completions in H1 2023

-1%
Change in prices since October 2022

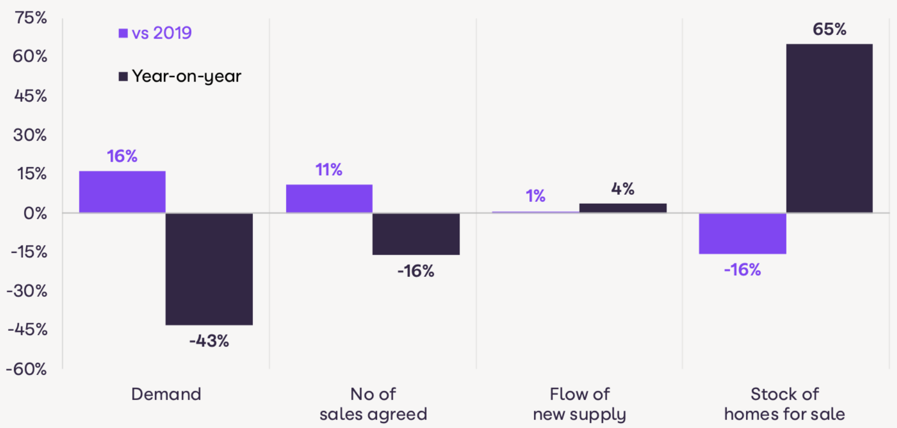
Executive summary

- The housing market continues to experience a soft repricing
- Annual inflation slows to 4.1%, prices 1% lower than in October 2022
- Market conditions at the end of Q1 are better than many had expected - buyers and sellers are striking deals at an increasing rate
- We expect 500,000 sales completions in H1 2023 meaning we are on track for 1m sales, potentially even higher in 2023
- Sales activity is being supported by 65% more homes for sale compared to March 2022
- We find a shift in sales towards markets with better value for money and expect the inner London flats market to see more activity in 2023
- High rental inflation will continue to support first-time buyer demand

"Buyers and sellers continue to agree sales, which is an important and positive indicator for the market. Sellers have to be realistic but it's clear that prices do not need to adjust lower to support transaction volumes in 2023"

Richard Donnell
Executive Director - Research

Leading indicators are down year-on-year, but up on 2019



Source: Zoopla Research

% change - 4 weeks to 26 Mar 2023 compared to the same period in 2019 and 2022. Resale market only.

+11%

New sales agreed versus 2019 levels

Buyers continue to return to the market

The sales market continues to see a return of buyers with more new sales being agreed. In recent weeks, the demand for homes reached its highest level since last October when the fallout of the mini-budget hit activity. Demand is 16% higher than this time in 2019.

All areas are registering an improvement in market conditions with some areas doing better than others. We continue to register above-average demand for housing in the most affordable areas led by Scotland, Wales, the North East of England and London.

Demand is weaker in regions where prices jumped the most over the pandemic and where prices are higher than the national average. These are markets where higher borrowing costs impact buyer power, covering the southern half of England and the Midlands.

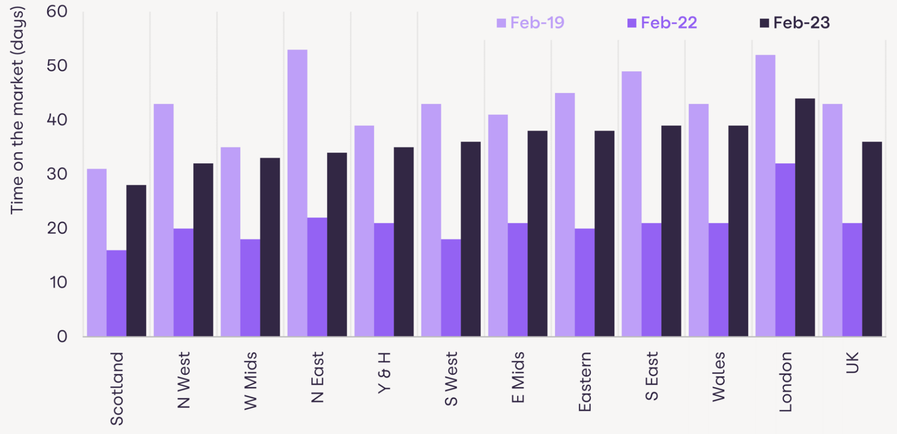
Sales volumes reveal a truer picture of market health

A more important indicator of market health is the number of new sales being agreed - homes sold 'subject to contract'. Sales agreed are 16% lower than this time last year (demand is 43% lower), but 11% higher than 2019 levels and on an upward trajectory.

Last year saw a chronic undersupply of homes for sale, which pushed prices higher but acted as a drag on sales completions. There are 65% more homes for sale than a year ago. The average estate agent has 25 homes available compared to a low of 14 homes this time last year. This is a positive change and improves buyer choice meaning sellers need to price sensibly if they are serious about moving.

Sellers continue to make modest downward adjustments to asking prices. This ensures pricing matches what buyers are prepared to pay. At the same time, they are accepting discounts to the asking price averaging 4% or £14,000. The scale of price gains over the pandemic enables sellers to adjust pricing while continuing to agree sales, unlocking their desire to move and supporting sales.

Homes sell faster than in 2019



Source: Zoopla Research

Avg. no of days from property listed on Zoopla to offer accepted

500k
Housing sales completions expected over 2023 H1

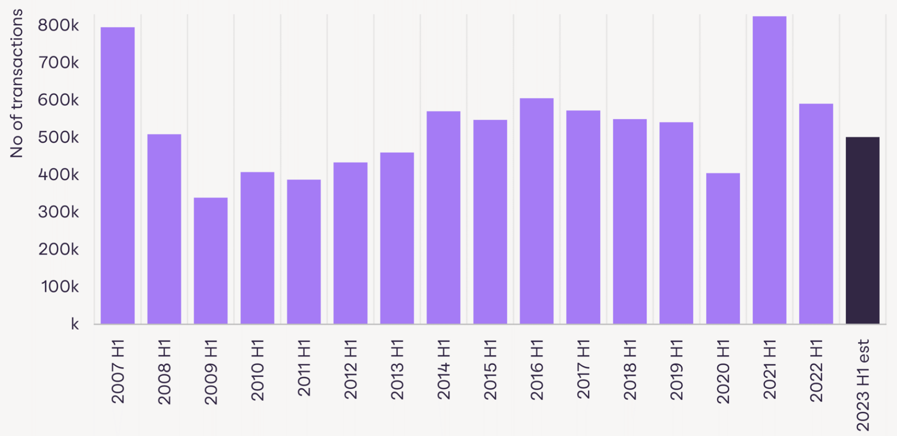
Time to sell higher but still below 2019 levels

The time to sell a home - from being first listed to going under offer - has jumped by 71% (15 days) since this time last year when the market was very strong. However, the time to sell remains below 2019 levels in most areas. Scotland has the shortest sales periods at 28 days as homes are marketed with a survey and valuation. London has the longest time to sell at 44 days. This is further evidence of a return to 2019 levels of market activity.

On track for half a million sales completions in H1

New sales agreed, subject to contract, can take 2 to 6 months to turn into a completed sale, when the buyer gets the keys and moves in. Some deals will fall through during this period and often homes are resold to another buyer. Completions are important as they drive estate agent commission and mortgage lending. Our analysis of new sales agreed data over the last 9 months indicates that we are on track for half a million sales completions in H1 2023. This run rate points to 1 million sales over 2023, in line with our forecast. This is well ahead of the years following the global financial crisis of 2008-2011.

Transactions run rate on track for 500k in H1 2023



Source: HMRC, Zoopla Research
No of housing transactions in H1 of the year

Motivations for home moves continue to support activity

We believe there is some upside to this outlook for sales completions over 2023 with several factors supporting the desire to move. Working from home 1-2 days a week is becoming the norm for many office-based workers. It means people can look further afield for a home than has been the case in the past, enabling a search for better value for money. The spike in retirement caused by the pandemic is also a trigger for home moves. At the same time, cost-of -living pressures will continue to encourage some to down-trade from larger homes that are expensive to run.

34%

First-time buyer share of home sales in 2022

Share of sales grows in lower price bands over Q1 2023

Buyers seeking better value have driven a clear shift in the price bands registering the greatest increase in sales. While mortgage rates have fallen back towards 4% for new loans, the average homebuyer still has 20% less buying power than a year ago. This doesn't mean average house prices need to fall by this much. However, it does mean buyers are seeking out better value-for-money areas, smaller homes or supporting their purchases with larger deposits.

Comparing sales in the last month to the same time last year, we find an increase in the share of sales in the cheapest 40% of the market by price. We also see a drop in the share of sales in the higher-priced top 40% of the market by price. This is clear evidence of continued demand from first-time buyers or second-steppers. It also signals more caution on the part of existing homeowners. Upsizing into a bigger home will cost much more in mortgage costs and homeowners may be waiting to see what happens to economy before entering the market.

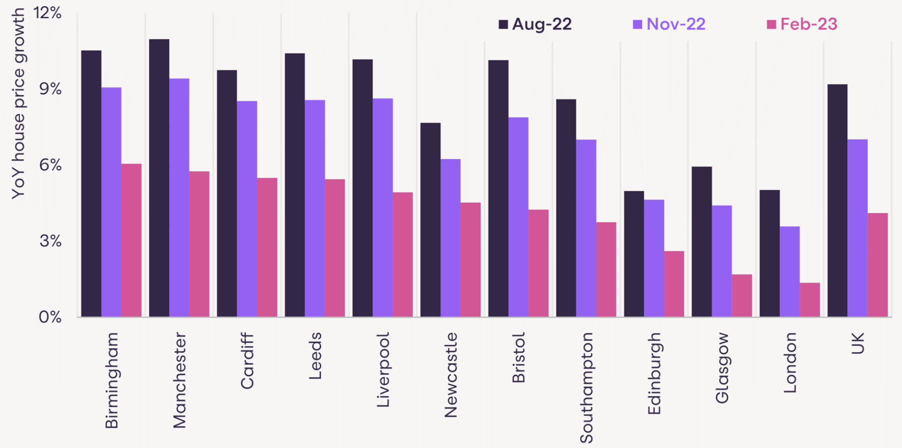
This is a consistent trend across all regions and countries of the UK. On average we are seeing a 5% increase in the share of sales at the lower end of the market and a 4% fall at the top end. The top end of the London market is the only area bucking this national trend with an increase in the share of sales in the top 20.

House price growth slows

Our index shows that house price growth continues to slow to 4.1% - down from 9% a year ago. Our index has fallen by just 1% since last October. The quarterly growth rate has been negative for the last 3 months. It's the weakest rate of quarterly growth since 2011 as the market continues to go through a swift repricing nationally.

The annual rate of growth has slowed sharply across major cities, where house price inflation was running in double digits a year ago to less than 6% now. The weakest annual growth is in London where higher mortgage rates hit demand harder in higher-value markets.

House price growth slows down in key cities



Source: Zoopla House Price Index

-1%

UK price reduction October 2022 to February 2023

Outlook

As we end the first quarter of 2023, the housing market is in much better shape than many predicted at the end of 2022. Arguably, the market is more in balance than at any time for the last 3 years. The market is going through a soft re-pricing process with modest quarter-on-quarter price falls across all regions and countries of the UK. The positive news is that buyers and sellers are agreeing deals which are supporting sales activity. In turn, it drives business plans and revenues for agents, lenders and builders.

There is no evidence of a major mismatch between buyers and sellers that would suggest house prices and transaction volumes are going to suddenly drop lower. Markets that have the best affordability will continue to attract demand and see above-average levels of sales.

The onus on all sellers is to make sure pricing aligns with buyers' expectations. If you are serious about moving, you simply cannot afford to over-price your home.

The shift towards lower mortgage rates has improved market activity. Mortgage rates are set to remain around 4% over much of 2023 and could move lower towards the end of the year. While mortgage rates remain 2 x higher than early last year, we still expect to see 1m sales transactions in 2023 . We also anticipate ‘peak to trough’ house price falls of up to 5% in localised areas.

Activity starts to recover in inner London

We expect the market in inner London to be stronger than it has been for some time, largely resulting from a prolonged period of underperformance. The inner London flats market has seen no change in average prices since 2016 which are 24% lower in real terms. It remains an expensive market but has become a better value in over the last 6 years compared to other markets further afield. We don’t see prices rising fast, but we do expect more sales which will be welcome news for sellers in a market where conditions have been challenging.

First-time buyer numbers hold up

The rapid pace of rental inflation - up 11% in the last year - is also keeping pressure on would-be first-time buyers (FTB) in the rental market to become owners. FTBs accounted for 1 in 3 sales in 2022. We believe that FTB numbers will continue to hold up this year as would-be buyers seek smaller homes and better value for money. Mortgage repayments are below rental costs in many regions at 4% mortgage rates so getting a deposit will remain the big hurdle.

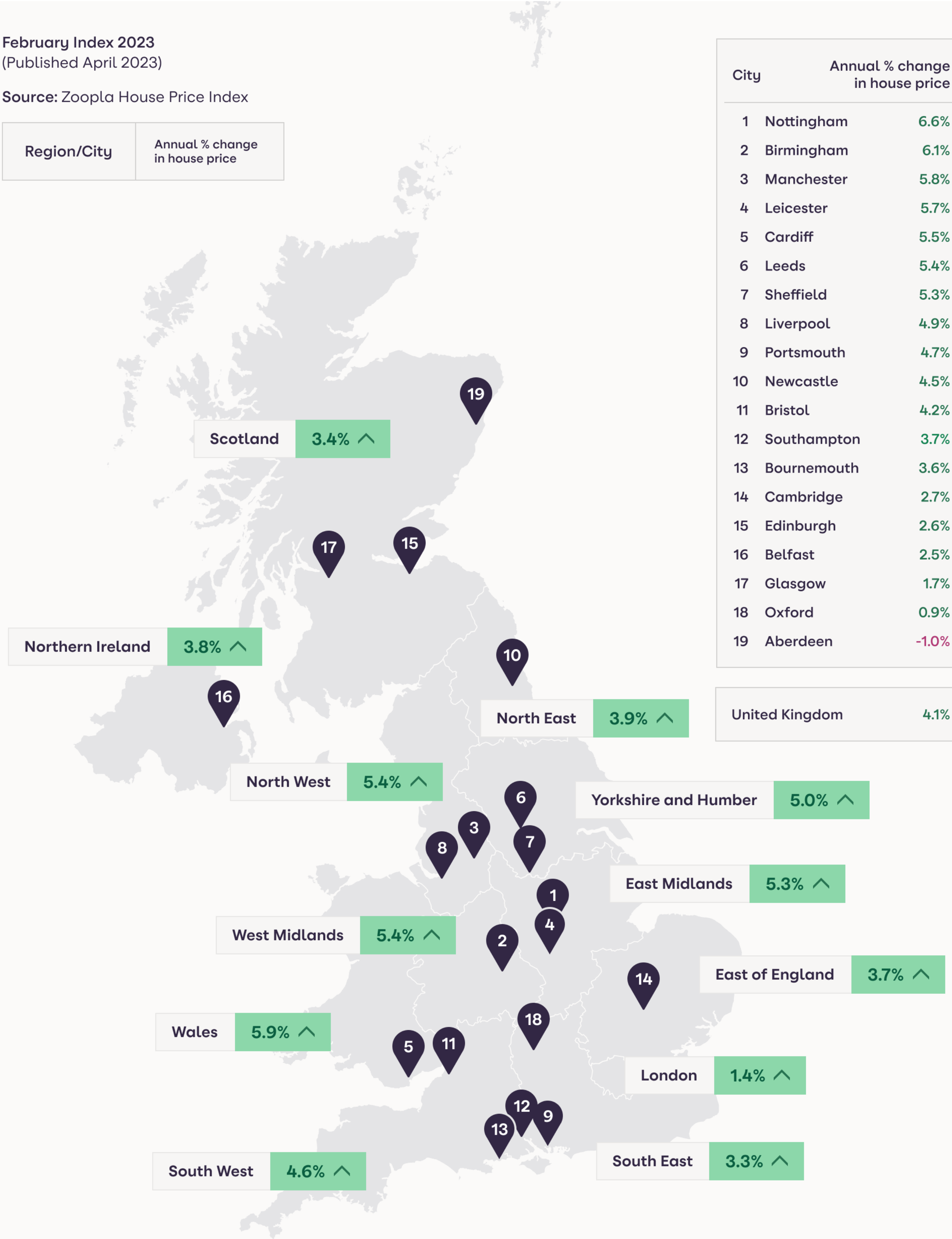
House Price Index - Country, region and city summary

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.

February Index 2023
(Published April 2023)

Source: Zoopla House Price Index

Region/City	Annual % change in house price



	City	Annual % change in house price
1	Nottingham	6.6%
2	Birmingham	6.1%
3	Manchester	5.8%
4	Leicester	5.7%
5	Cardiff	5.5%
6	Leeds	5.4%
7	Sheffield	5.3%
8	Liverpool	4.9%
9	Portsmouth	4.7%
10	Newcastle	4.5%
11	Bristol	4.2%
12	Southampton	3.7%
13	Bournemouth	3.6%
14	Cambridge	2.7%
15	Edinburgh	2.6%
16	Belfast	2.5%
17	Glasgow	1.7%
18	Oxford	0.9%
19	Aberdeen	-1.0%

United Kingdom	4.1%

Zoopla House Price Index, city summary, February 2023

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 Feb-23	%yoy Feb-22	Monthly trend	Annual trend
United Kingdom	**£259,700**	**4.1%**	**8.9%**		
20 City Composite	**£295,400**	**3.4%**	**7.3%**		
Nottingham	£201,100	6.6%	11.2%		
Birmingham	£205,600	6.1%	9.2%		
Manchester	£219,200	5.8%	10.5%		
Leicester	£226,100	5.7%	10.1%		
Cardiff	£254,100	5.5%	9.6%		
Leeds	£207,000	5.4%	9.7%		
Sheffield	£170,700	5.3%	10.1%		
Liverpool	£155,300	4.9%	11.5%		
Portsmouth	£285,600	4.7%	10.0%		
Newcastle	£148,800	4.5%	6.6%		
Bristol	£335,100	4.2%	9.9%		
Southampton	£261,900	3.7%	8.9%		
Bournemouth	£344,300	3.6%	10.6%		
Cambridge	£465,100	2.7%	6.5%		
Edinburgh	£267,000	2.6%	5.4%		
Belfast	£166,200	2.5%	9.5%		
Glasgow	£142,000	1.7%	8.1%		
London	£522,000	1.4%	3.9%		
Oxford	£452,900	0.9%	8.5%		
Aberdeen	£139,800	-1.0%	-1.3%		

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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