

UK House Price Index

-0.5%

Annual UK house price inflation

+12%

Rebound in demand over September

-4.2%

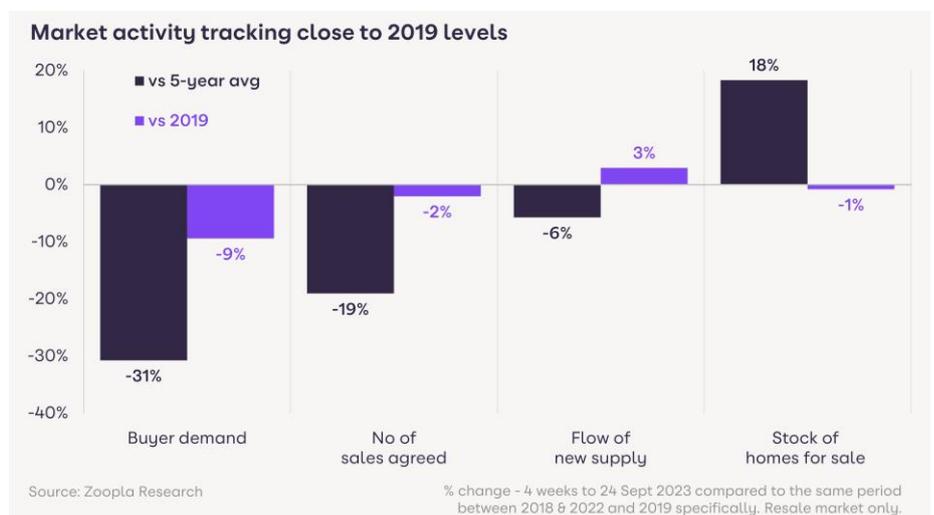
Discount to the asking price for completed sales

Executive summary

- Annual UK house price inflation moves negative to -0.5%, ranging from 1.6% in Scotland to -1.5% in the South East and Eastern regions
- Demand ticks higher over September as market sentiment improves
- Buyers unwilling to compromise on what they want in face of higher borrowing costs, waiting for price falls and/or lower mortgage rates
- Mortgage rates expected to fall slowly in Q4 2023
- Number of buyers will increase once mortgage rates get below 4.5%
- A buyers' market remains - the average discount to the asking price to achieve a sale up to 4.2%, the highest since 2019
- Average UK house prices on track to be 2-3% lower over 2023

“The modest fall in prices is not enough to improve affordability to a level that will boost activity. Falling mortgage rates are the most likely route to improving housing affordability and bringing buyers back into the market in the next 12-18 months.”

Richard Donnell
Executive Director - Research



-31%

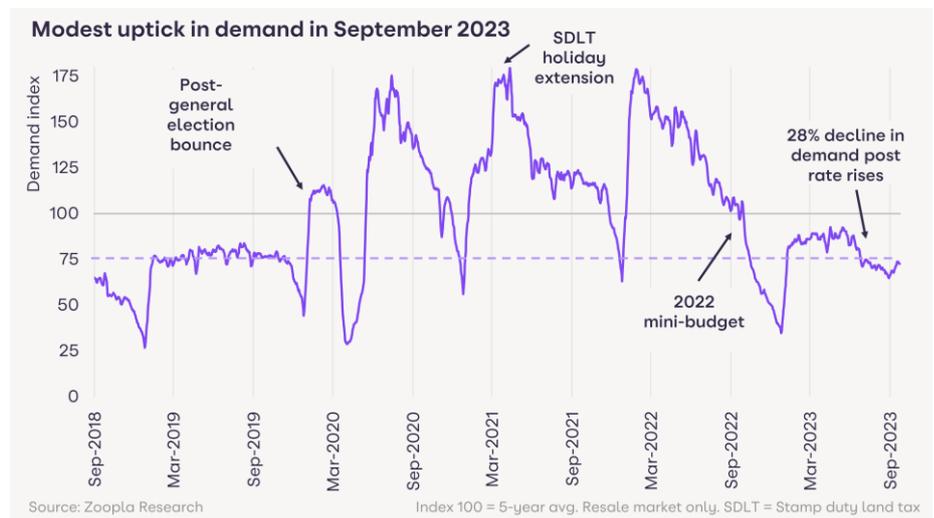
Buyer demand over last 4 weeks vs the 5-year average

Demand ticks higher off a low base

The decline in buyer demand over the summer has started to reverse. Enquiries to estate agents are up 12% since the August bank-holiday weekend. This improvement is off a low base - demand remains 33% lower than a year ago and in line with 2019. This uptick in enquiries is partly seasonal but also reflects improved consumer confidence, which is at a 2-year high, amid expectations of lower mortgage rates.

Demand has improved in all areas, noticeably in southern England where enquiries for homes have been weakest in 2023. Demand is up 19% in the South East over the last 3 weeks and 16% higher in London.

The number of new sales agreed has also increased and is closely tracking 2019 levels, supported by homebuyers having a much greater choice as levels of inventory return to pre-pandemic levels.



Buyers unwilling to compromise

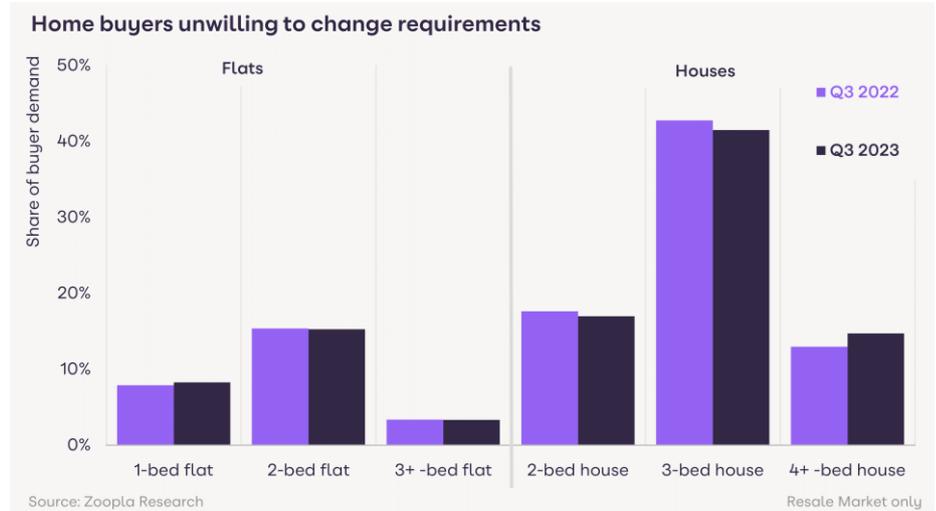
Mortgage rates remain over 5%, reducing household buying power by over 20% compared to early 2022. Despite this, data on buyer enquiries shows home hunters are unwilling to make compromises on the size of home they are looking for. Share of buyer demand by property type and size is virtually the same as a year ago. There is a similar pattern for demand split by price band.

There are some small regional variations with more demand for flats in London, for example, but the overall trend is buyers holding out for what they want. It seems many buyers are waiting for either a fall in house prices or mortgage rates. This is why sales volumes are set to be 20% lower this year and 28% lower for those buying with a mortgage.

An unwillingness to compromise is a rational approach as buying a home is a big and expensive life event. Younger buyers are taking longer mortgages, to boost buying power, so they want to buy a home they are going to be happy in for a decade or longer.

17%

House prices at the end of 2023 compared to pre-pandemic levels in 2020 Q1



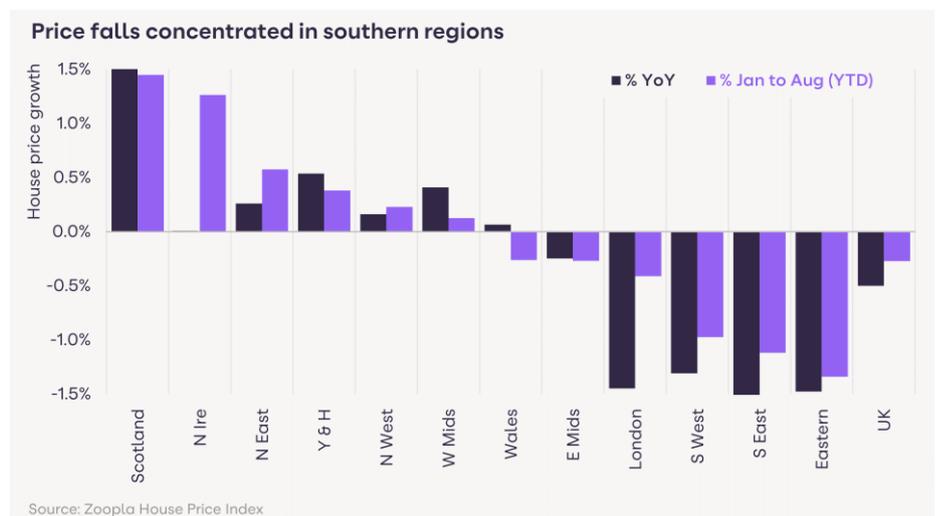
Price falls are modest - on track to be 3% lower over 2023

House price falls have been modest over the last year despite the hit to buying power. Many households have delayed moving while more fixed-rate loans, tougher affordability testing and a robust jobs market means there are few forced sellers in the market.

Our index has recorded a 0.5% price fall over the last year - the first annual decline for over a decade - since June 2012. House price falls are concentrated in southern England where higher mortgage rates have had a bigger impact on pricing. In Scotland, where prices are 40% below average, annual house price growth is running at +1.6%.

We expect our index to record small month-on-month declines over the Autumn and end the year 2-3% lower than 2022. This would leave average prices 17% higher than Q1 2020, just before the pandemic.

The modest reduction in house prices is not sufficient to boost affordability and support a recovery in sales volumes, even if mortgage rates were to dip below 5%. We should expect further modest downward pressure on prices over Q4 2023 and into Q1 2024.



5.1%

Average 5-year 75% LTV fixed rate loan across the largest lenders (w/e 24 Sept)

Mortgage rates on track to fall below 5%

Lower mortgage rates are more likely to improve affordability, and buying power, than falling house prices in the next 12-18 months. Better than expected inflation news and a pause in base rate rises have softened expectations over the trajectory of future borrowing costs.

The cost of finance to banks for fixed-rate lending has fallen over the last month. This means banks have room to reduce mortgage rates. However, this underlying cost is still almost 1 percentage point higher than it was in Spring 2023 when 5-year 75% LTV fixed-rate mortgages fell to 4.2%, boosting buyer demand and the number of sales agreed.

Across the UK’s biggest lenders, the average 5-year 75% LTV fixed rate loan currently averages 5.1%. We expect mortgage rates to continue to fall slowly in the coming weeks into the high 4%’s. However, uncertainty remains over the trajectory for inflation and how quickly this will fall back to the Bank of England’s 2% target.

Our consistently held view is that mortgage rates over 5% mean lower sales and year-on-year price falls. The closer mortgage rates get to 4% the more buyers will come back into the market, supporting sales and pricing levels.



Buyers market remains - discounts to achieve a sale

It certainly remains a buyer’s market with purchasers benefitting from 80% more homes for sale than in September 2021. While this provides more options to negotiate with sellers, pricing is not under as much downward pressure as might be expected for the reasons stated.

The discount to the asking price for newly agreed sales has increased over the summer and now averages 4.2% or £12,125 off the original asking price. This is the highest level since March 2019 albeit still below the recent high in late 2018. Discounts are greatest at 4.8% in London and the South East compared to 2.8% for the rest of the UK.

4.2%

Average discount to the asking price to achieve a sale

Outlook

The housing market continues to adjust to higher borrowing costs. The more than doubling in mortgage rates since last 2021 together with increases in the cost of living represents a big adjustment for home buyers and the wider market.

The impact on pricing has been modest compared to the scale of the hit to buying power. Forbearance by lenders, tougher mortgage regulations over recent years and a strong labour market appear to have moderated the stress in the market compared to previous cycles that would have driven larger price reductions.

The biggest impact has been on housing sales volumes which are still on track to total 1 million in 2023, a fifth lower than 2022. While demand remains below average, new sales volumes are holding up better, tracking above 2019 levels. It's evidence that there are buyers out there serious about moving even though they are lower in number.

Some buyers are returning to the market this autumn, having delayed home moving decisions as base rates moved higher. Many others continue to wait on the outlook for mortgage rates while also holding out on their property requirements for their next purchase.

The quicker average mortgage rates (for 5-year 75% LTV fixed-rates) move towards 4.5% or lower, the sooner we will see buyers return to the market. This currently seems more likely in 2024 than later this year.

Lower mortgage rates don't mean prices will start to rise but it will support sales volumes and market liquidity. Prices still need to continue to move lower in the most unaffordable areas to boost buying power and open up the market to more potential buyers.

House Price Index - Country, region and city summary

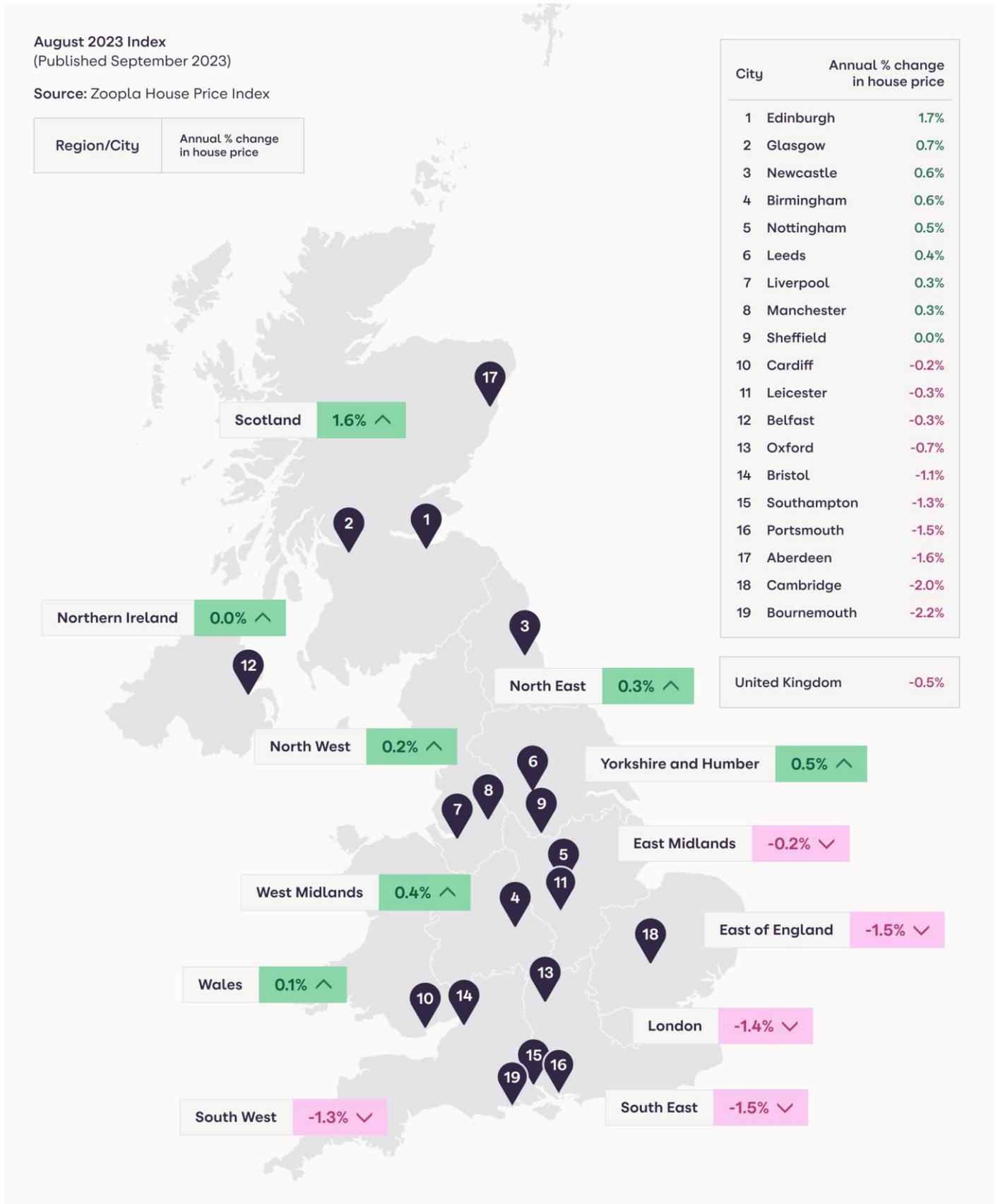
Note: The Zoopla house price index is a repeat sales-based price index, using sold prices, mortgage valuations and data for agreed sales. The index uses more input data than any other and is designed to accurately track the change in pricing for UK housing.

August 2023 Index
(Published September 2023)

Source: Zoopla House Price Index

Region/City	Annual % change in house price
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City	Annual % change in house price
1 Edinburgh	1.7%
2 Glasgow	0.7%
3 Newcastle	0.6%
4 Birmingham	0.6%
5 Nottingham	0.5%
6 Leeds	0.4%
7 Liverpool	0.3%
8 Manchester	0.3%
9 Sheffield	0.0%
10 Cardiff	-0.2%
11 Leicester	-0.3%
12 Belfast	-0.3%
13 Oxford	-0.7%
14 Bristol	-1.1%
15 Southampton	-1.3%
16 Portsmouth	-1.5%
17 Aberdeen	-1.6%
18 Cambridge	-2.0%
19 Bournemouth	-2.2%
United Kingdom	-0.5%



Zoopla House Price Index, city summary, August 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 Aug-23	%yoy Aug-22	Monthly trend	Annual trend
United Kingdom	£265,100	-0.5%	9.4%		
20 City Composite	£306,300	-0.6%	7.9%		
Edinburgh	£267,100	1.7%	5.1%		
Glasgow	£144,900	0.7%	6.6%		
Birmingham	£207,900	0.6%	10.5%		
Newcastle	£152,400	0.6%	8.2%		
Nottingham	£202,900	0.5%	12.1%		
Leeds	£208,700	0.4%	10.5%		
Manchester	£222,600	0.3%	11.1%		
Liverpool	£156,500	0.3%	10.4%		
Sheffield	£171,500	0.0%	10.6%		
Cardiff	£254,100	-0.2%	10.2%		
Leicester	£227,800	-0.3%	10.5%		
Belfast	£168,300	-0.3%	9.6%		
Oxford	£447,200	-0.7%	6.6%		
Bristol	£342,500	-1.1%	10.9%		
Southampton	£257,100	-1.3%	8.7%		
London	£541,800	-1.4%	5.1%		
Portsmouth	£282,100	-1.5%	10.4%		
Aberdeen	£145,300	-1.6%	-1.6%		
Cambridge	£472,500	-2.0%	7.3%		
Bournemouth	£336,200	-2.2%	11.2%		

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.

Contacts

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

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