Executive summary

• Annual house price inflation is -1.1%, down from +7.2% a year ago
• Market sentiment improving with new sales agreed +17% year-on-year
• House price falls starting to moderate as sales improve
• Mortgage regulations a key reason for only modest price falls in 2023, along with strong labour market and rapid earnings growth
• First-time buyers are largest group of would-be movers in next 2 years (40%) followed by upsizers (34%)
• Almost half of buyers living in southern England looking to move >10 miles in search of better value for money
• House prices to fall 2% over 2024 with 1m sales

“The housing market has been more resilient than many expected over 2023 but it hasn’t been a surprise to us. Mortgage regulations stopped an over-valuation of housing making for modest price falls.”

Richard Donnell
Executive Director - Research
Sales hold up in Q4 2023, providing support for prices

The final weeks of 2023 have recorded above average levels of new sales, 17% higher than a year ago and ahead of 2019 levels. Market sentiment is improving due to rising incomes and an initial decline in mortgage rates. An increase in available supply, up a quarter on last year, is also boosting choice and supporting sales.

Buyers and sellers are becoming more aligned on pricing, reducing the downward pressure on values. Our headline UK house price index has recorded a slower pace of annual price decline at -1.1% in November 2023, down from +7.2% a year ago. The level of price falls have now moderated across all regions and countries of the UK.

House price indices diverge at market turning points

UK house price indices track well over time, but they tend to diverge at market turning points as the volume and mix of sales changes. The Zoopla house price index is based on the largest dataset of any UK house price index. It has performed in line with the ONS house price index, with both series including cash and mortgaged sales.

Cash purchases look set to account for a third of all sales in 2023 and are an important source of pricing evidence. The average price of a cash purchase is 10% lower than the average mortgage funded sale. This makes cash purchases slightly more affordable and likely to require more modest price reductions to attract demand.

Mortgaged sales are on track to be 30% lower over 2023 as higher mortgage rates hit demand. The mortgage lender house price indices responded quickly to weaker demand, recording steeper price falls over 2022 Q4 and 2023 H1. However, the annual growth rate for the lender series has improved in recent months as market activity and pricing stabilised, bringing the annual growth rate back towards the Zoopla/ONS series.

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1 Analysis of HMLR house price index data downloads for cash and mortgage indices. September 2023
Why haven’t house prices fallen by more in 2023?

History would suggest that mortgage rates rising from 2% to over 5% would have led to larger price falls than what has been recorded over 2023. There are several reasons why prices have defied predictions of larger falls. The strength of the labour market has been an important factor along with high earnings growth. Lenders have also pursued forbearance policies to support households struggling with repayments, which has limited the number of forced sellers.

But perhaps the most important factor here has been the tougher mortgage affordability testing for new borrowers since 2015. These regulations were designed to stop households taking on excessive debt at a time of low mortgage rates. They have stopped a major housing over-valuation and built resilience for many households to manage the transition to higher mortgage rates.

While mortgage rates got as low as 1.3% in late 2021, all new mortgage borrowers had to prove to their bank they could afford a 6-7% stressed mortgage rate to get the loan - see chart for the average mortgage stress rate applied to new borrowers. Banks were also limited to 15% of new business at high loan to income ratios over 4.5x.

These regulations have effectively capped buying power for home buyers. They require the borrower to have a higher income to buy and put down a larger deposit, which is especially true in higher value housing markets. ONS data\(^2\) shows that first-time buyers in London put down an average deposit of £145,000 in 2022 compared to £26,000 for those buying in the North East.

Today lenders are stress testing new borrowers at close to 9% despite mortgage rates starting to fall. This regulatory constraint on buying power is one reason we believe house prices are unlikely to rise in 2024, even as base rates start to fall later in the year.

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\(^2\) House prices simple averages, Datasets - annual tables 20-38, July 2023, ONS
First-time buyers to remain largest buyer group in 2024

Despite the affordability challenges facing first-time buyers, they are the largest group of would-be buyers. Our latest consumer survey found that 40% of people looking to buy a home in the next 2 years are first-time buyers. The rapid growth in rents continues to motivate this group - average rents have risen faster than average mortgage repayments over the last 3 years – and despite larger deposits.

Upsizers account for a third of would-be buyers in the next 2 years who will typically be buying a larger home that will require a larger mortgage. This group have been biding their time in 2023 waiting for the outlook on the economy and mortgage rates to become clearer. The trajectory for mortgage rates and getting better value for money will be key considerations for upsizers in 2024.

Buyers look further afield for better value

Almost a quarter of would-be home movers say they are looking to move to a different location. A high proportion of home moves tend to be limited to within local areas - the average distance buyers are looking to move when searching on Zoopla is 4.3 miles.

However, in the face of higher borrowing costs and the search for value, one of the key trends for 2024 will be buyers continuing to look further afield in search of better value. This is particularly the case in high value housing markets where upsizing is expensive.

Our data shows that up to half of would-be movers currently living in southern regions\(^3\) are looking to move more than 10 miles. The proportion looking longer distances in other parts of the UK is lower.

This is important for home builders and estate agents who tend to focus on demand and needs in local areas whereas there is the need to capture and nurture demand coming from further afield, especially as these buyers may well have more money to spend.

\(^3\) Zoopla’s data for people living in East of England and South East regions show 50% and 43% of movers looking >10 miles
Outlook for 2024

We expect the steady momentum in new sales that has developed over the final part of 2023 to continue into early 2024, with the usual seasonal rebound in demand over Q1 as pent-up demand returns to the market.

While mortgage rates are edging lower, affordability remains a key challenge for mortgage-reliant households who are making home moving decisions. The impact of higher mortgage rates continues to feed through with half of mortgagees are yet to move onto higher rates from cheaper fixed rate deals agreed before 2022.

The modest decline in house prices over the year means UK housing still looks 10-15% overvalued at the end of 2023. We expect this position to improve over 2024 as incomes rise and house prices drift 2% lower over the year. Sales volumes are expected to hold steady at 1 million sales completions over 2024.
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.
Zoopla House Price Index, city summary, November 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.

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<th>City</th>
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Contacts

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