

UK House Price Index

+0.6%

Annual UK house price inflation

-18%

Change in buyer demand over last 2 months

-5%

Projection for annual UK house price inflation over 2023

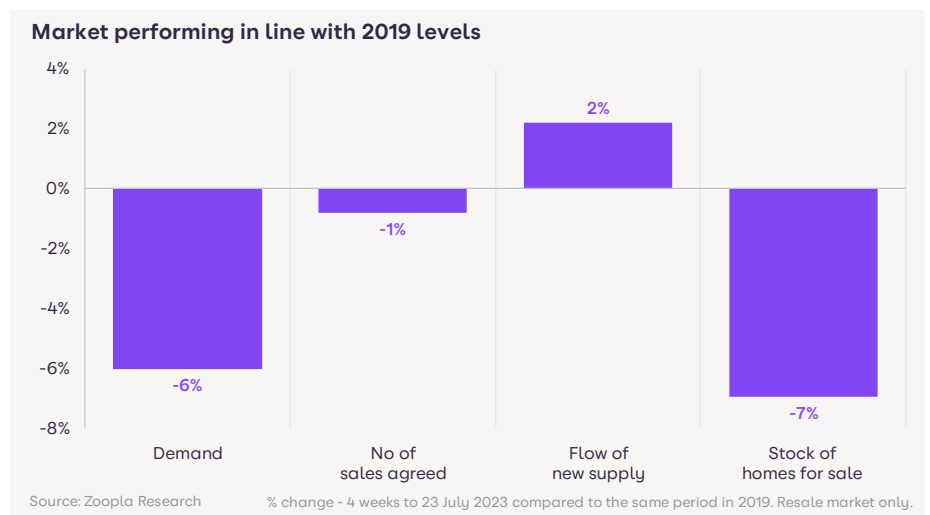
Executive summary

- Annual UK house price inflation slows to +0.6%
- Modest annual price falls of up to -2.2% concentrated in southern England and markets with an average price over £300,000
- Affordable markets in economically active areas still registering annual house price inflation of over 3.5%
- Higher mortgage rates have reduced demand by 18% in last 2 months
- Rise in mortgage rates appears close to peaking - likely to return to the 4-5% window this autumn. The key risk is higher rates for longer
- Resumption of modest price falls expected in H2 2023, concentrated across southern England in response to higher mortgage rates.
- UK prices still on track to be up to 5% lower over 2023

“Higher mortgage rates have hit home buyer demand, but the impact is not uniform across the country. Southern England is set to experience above-average price falls while some areas may not post any price falls at all”

Richard Donnell

Executive Director - Research



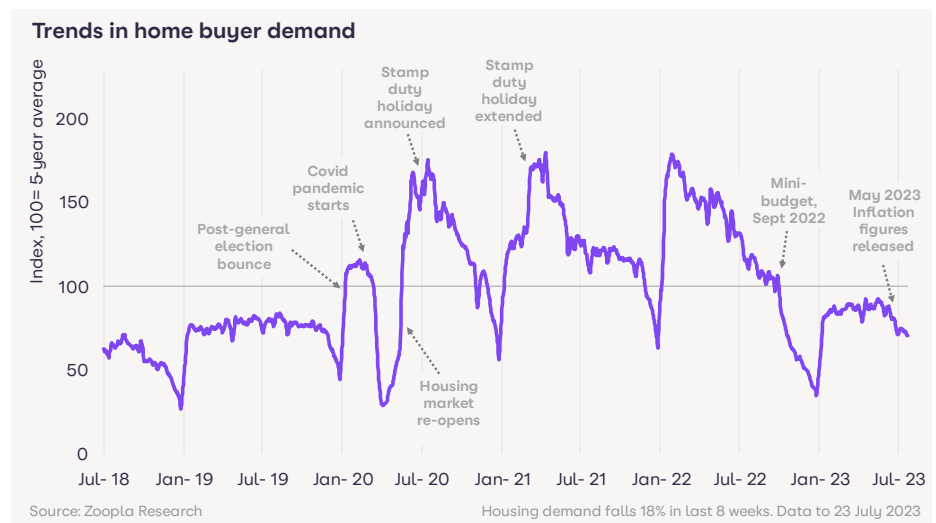
-0.6%

Annual house price growth in London

Demand falls 18% as mortgage rates spike higher

Demand for homes recovered over 2023 H1 as mortgage rates fell towards 4%, supporting an increase in new sales. Mortgage rates rising quickly over the last six weeks towards 6% has reduced buying power and hit demand, which has fallen by 18% over the last 2 months¹.

The decline in demand is less stark than that recorded in the wake of the 2022 mini-budget or when the first lockdown was introduced. Demand has weakened off a lower base and is currently running 6% below 2019 levels. Year-on-year, demand is down 40% but sales agreed are only 17% lower, yet we see more committed sellers and buyers in the market.



House price inflation slows to +0.6%

Weaker demand and rising supply have driven a rapid slowdown in house price growth. UK house price inflation is currently running at +0.6% (June 2023), down from +9.6% in June 2022.

There is a clear split between trends in southern England and the rest of the country. Higher mortgage rates have a greater impact on buying power in southern England where house prices are highest. The barriers to first-time buyers are also greater, weakening demand from buyers who support the bottom end of housing chains.

House prices are falling by up to -0.6%, year-on-year, across all four regions in southern England as well as in Northern Ireland – see map. In contrast, house prices continue to register annual price growth of over 1% across the other seven regions of the UK, led by Scotland where house prices are 1.9% higher than a year ago.

We expect the divergence in house price growth between the south of England and the rest of the country to widen over the second half of 2023 with further modest price falls across higher-value markets. Some more affordable markets may not register any price falls over 2023.

¹ in the 8 weeks to 23 July 2023. Borrowing costs and mortgage rates started to increase from mid-May 2023

80%

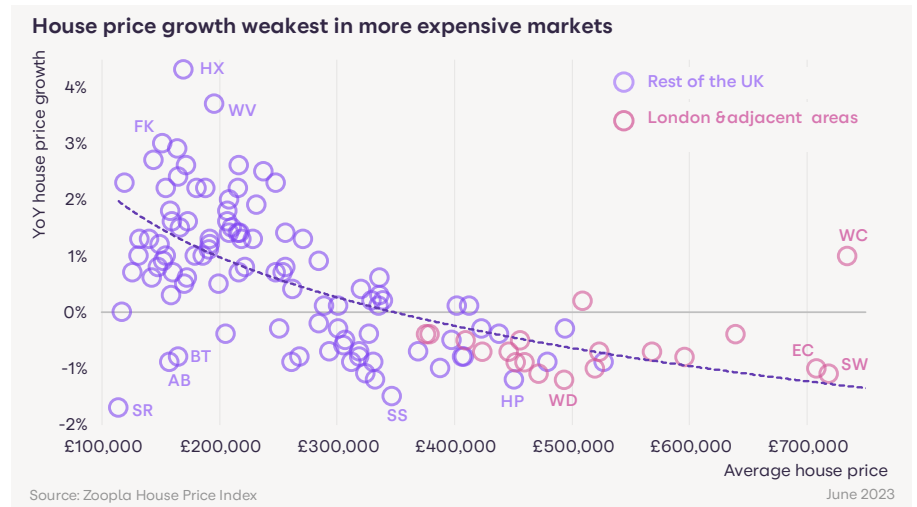
Markets with an average price over £300k registering annual price falls

Markets with prices over £300,000 most exposed to falls

Drilling below the regional level, it's clear that housing markets with average prices over £300,000 are feeling the impact of higher mortgage rates more than other areas. Some 4 in 5 local markets currently registering annual price falls have average prices over £300,000. The chart below shows annual price growth compared to average house prices for 121 UK postal areas in June 2023.

Higher house prices mean larger mortgages, bigger deposits and a higher household income required to buy a home. The more the income needed to buy increases, the more households are priced out of the market, which reduces demand and pushes prices lower.

Markets across South East England are leading on annual price falls, particularly in commuter markets adjacent to London. These are led by SS - Southend (-1.5%), WD - Watford (-1.2%) and HP - North West Hertfordshire (-1.1%). House prices in London are all falling but to a lesser degree than might be expected. This is because residential values have registered very limited price growth in recent years compared to the rest of the country. Prices in WC - West Central London are up 1% over the year.



Affordability and strength of local economies important

House prices are also falling in some lower-value markets such as Sunderland (-1.7%) Aberdeen (-0.9%) and Northern Ireland (-0.8%). In these areas, local economic factors are impacting demand in addition to mortgage rates and cost-of-living pressures.

House prices continue to increase at an above-average rate in affordable markets next to major employment centres. Higher mortgage rates have less of an impact on demand. For example, it's still cheaper to buy than rent in many low-value housing markets, even at 5.5% mortgage rates. This supports first-time buyer demand. The highest rate of annual price growth is being registered in HX - Halifax (4.3%), WV - Wolverhampton (3.7%) and FK - Falkirk (3.0%).

60%

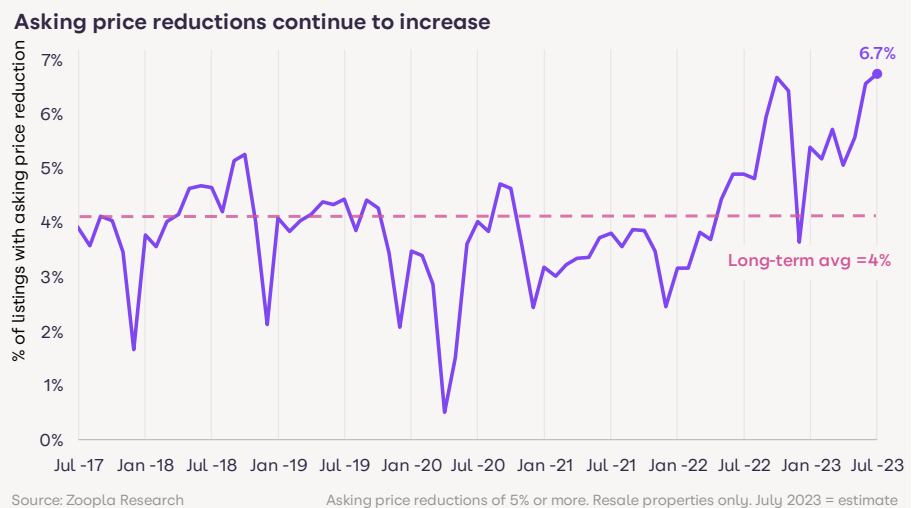
Above average proportion of sellers cutting asking prices by >5% to attract demand

Asking price cuts point to lower achieved prices in H2

Our house price index tracks achieved prices - it's not an asking price index. However, trends in asking prices provides important insight into where achieved prices are likely to move in the next 2-6 months. One important measure we track is the proportion of homes where the asking price is being cut by more than 5% to attract more demand and boost the chance of a sale.

This measure is now back to 2022 Q4 levels with 6.5% of homes for sale seeing >5% cuts to asking prices, a level that is 60% above the 5-year average. The scale of asking price cuts is greatest in southern England where the downward pressure on prices is greatest.

These trends are a clear sign that buyers have become more price-sensitive over the last 2 months. Sellers need to set their asking prices at the right level if they are serious about achieving a sale. It's one reason we believe achieved prices will continue to fall over H2 2023.

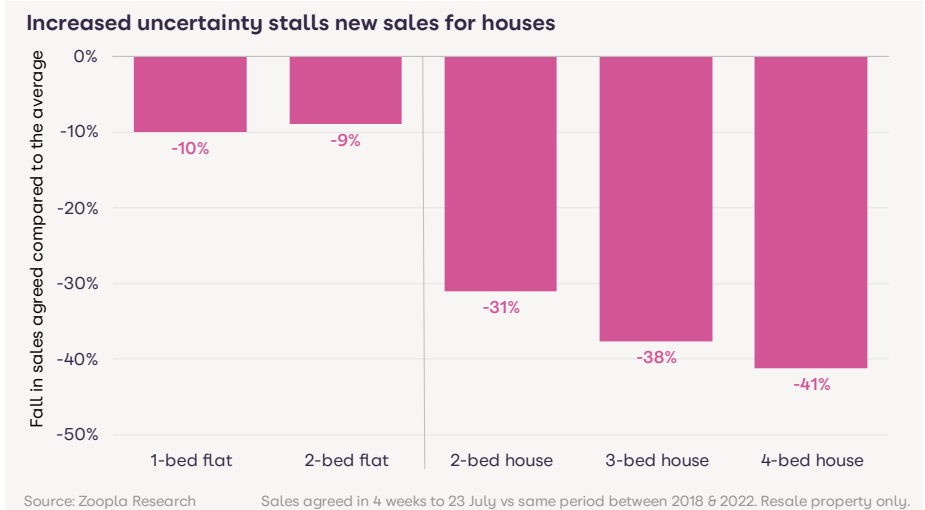


Shift in the mix of homes selling towards smaller homes

One impact of higher purchasing costs is that buyers look to buy smaller, lower-value homes or simply delay moving until the outlook for mortgage rates is lower. Sales volumes are bearing the brunt of higher mortgage rates and are expected to be 23% lower over 2023 compared to 2022. Our data shows sales volumes holding up in more affordable areas of the UK, specifically Scotland and the North East.

New sales of 3- and 4-bed family houses have been hit harder than for smaller homes with lower prices, making them more affordable to would-be buyers. Comparing trends in the last 4 weeks to the same period over the last 5 years we find that agreed sales of family homes are down by up to 41%. Sales of smaller homes and flats have fallen to a lesser degree. Higher mortgage rates and rising living costs are delaying decisions to move home where people already have larger homes. In our view, this will continue to suppress sales volumes while mortgage rates remain above 5%.

-5%
UK house price
inflation over 2023



Outlook for H2 – on track for UK price falls of up to -5%

The outlook for market activity and prices depends on the trajectory of mortgage rates. It will be influenced by market expectations for how much higher base rates are likely to increase to control inflation. The latest inflation reports are starting to show the impact of higher base rates feeding through into the economy. It looks less likely that the Bank of England will need to raise rates as much as financial markets expected just a few weeks ago.

The average mortgage rate for a 5-year fixed rate at 75% loan-to-value has reached 5.4%², compared to 4% in the Spring. Mortgage rates look likely to peak over the summer. The underlying cost of fixed-rate finance for banks has fallen by 0.6% over the last 3 weeks. This will take time to feed through into mortgage rates which could fall below 5% this autumn. Higher rates over a longer period remain a key risk.

House prices started to fall in Q4 2022 as mortgage rates for a 75% loan-to-value 5-year fixed rate reached 5.5% late last year. Price falls reversed over H1 2023 as mortgage rates fell towards 4%. The recent spike in mortgage rates has reduced buying power once again. Weaker buyer demand will push down prices over H2 2023.

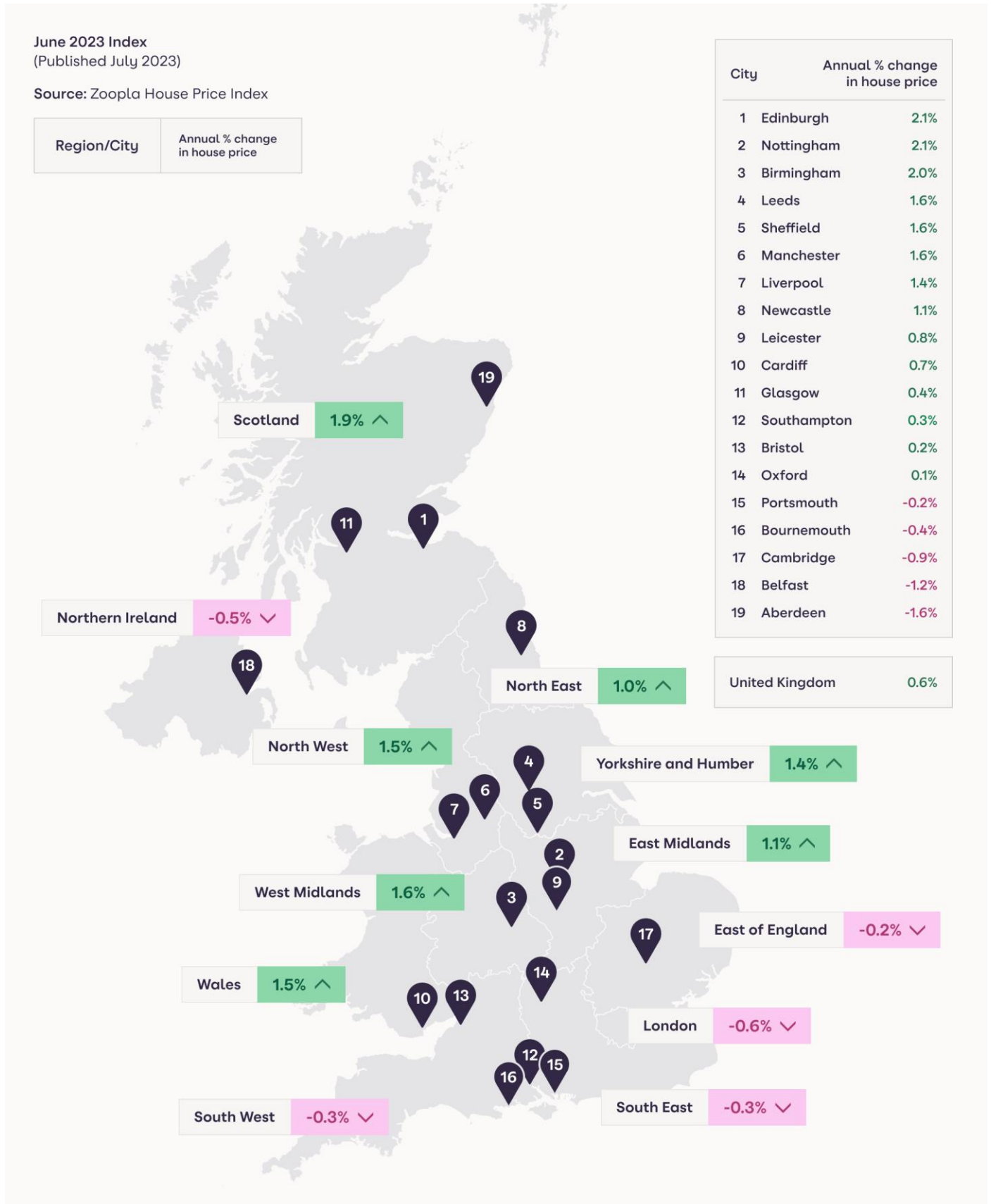
We expect modest price falls over the coming months, with UK house prices expected to fall by up to 5% over 2023. This would mean that prices are still 15% higher than at the start of the pandemic. Even if mortgage rates fall back into the 4-5% window later this year and into 2024 H1, we expect house price growth to remain very low for the next 1-2 years. House prices are likely to lag behind the growth in price inflation and earnings as house prices adjust to a higher level of mortgage rates. Southern England and the Midlands are where house prices and incomes need to realign the most through very low nominal growth or modest price falls.

We expect sales volumes to remain in the region of 1 million to 1.15m with demographic, social and cost-of-living factors continuing to drive the motivation to move home.

² Bankstats, Bank of England – average new mortgage rate

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, June 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 Jun-23	%yoy Jun-22	Monthly trend	Annual trend
United Kingdom	£261,500	0.6%	9.6%		
20 City Composite	£296,800	0.3%	8.1%		
Nottingham	£202,800	2.1%	13.0%		
Edinburgh	£268,500	2.1%	5.7%		
Birmingham	£207,300	2.0%	10.5%		
Manchester	£220,300	1.6%	11.3%		
Leeds	£210,200	1.6%	10.8%		
Sheffield	£172,200	1.6%	10.1%		
Liverpool	£156,300	1.4%	11.4%		
Newcastle	£149,600	1.1%	8.3%		
Leicester	£227,800	0.8%	11.1%		
Cardiff	£257,000	0.7%	10.4%		
Glasgow	£143,200	0.4%	7.4%		
Southampton	£259,800	0.3%	9.2%		
Bristol	£338,000	0.2%	11.1%		
Oxford	£453,200	0.1%	7.0%		
Portsmouth	£283,500	-0.2%	11.0%		
Bournemouth	£344,900	-0.4%	12.0%		
London	£524,900	-0.6%	4.9%		
Cambridge	£466,300	-0.9%	7.6%		
Belfast	£168,200	-1.2%	10.4%		
Aberdeen	£137,400	-1.6%	-1.2%		

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.

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