

UK Cities House Price Index

January 2020

- UK city house price growth remains at +3.9%, close to a 3-year high, as prices firm across UK cities.
- Demand has bounced higher but the supply of homes for sale across UK cities is just 2.6% higher than last year. Available supply is lower in 9 cities, typically those registering above average price growth.
- House prices across all English cities have finally surpassed price levels recorded at the last peak in 2007 - Newcastle is the last to reach this milestone, 12 years after the global financial crisis hit.

UK city house price inflation approaches 3 year high

UK city house price growth remains at +3.9%, approaching a 3-year high. Last month we reported a strong bounce in demand. This has been reflected in the latest data for mortgage approvals (December 2019), which are up 5% compared to a year earlier.

The increase in the headline rate of growth is down to a pick-up in growth across cities, especially those in southern England where pricing was broadly flat over 2019 (Fig.1). All cities, except for Aberdeen, are recording annual house price inflation in excess of 2% per annum.

Table 1 - UK 20 city index summary, January 2020

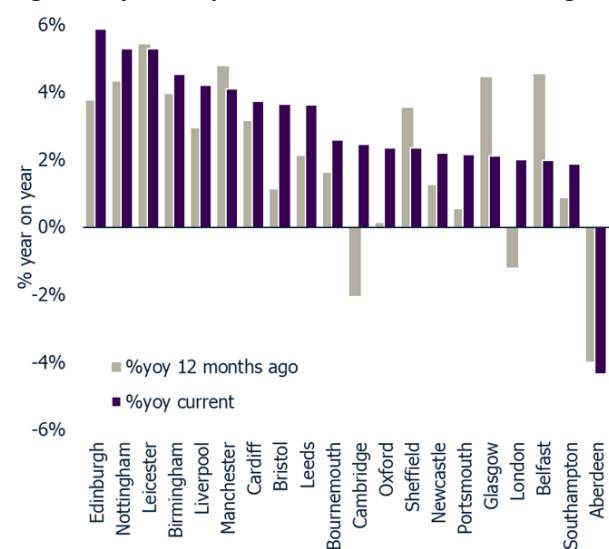
Month	3-month change	% year on year	Average price
Aug-19	1.0%	1.2%	£253,800
Sep-19	0.5%	1.5%	£253,800
Oct-19	0.5%	2.0%	£254,500
Nov-19	0.6%	2.5%	£255,400
Dec-19	1.3%	3.2%	£257,200
Jan-20	1.4%	3.9%	£258,100

Source: Zoopla House Price Indices, powered by Hometrack

Growth in supply fails to keep pace with demand

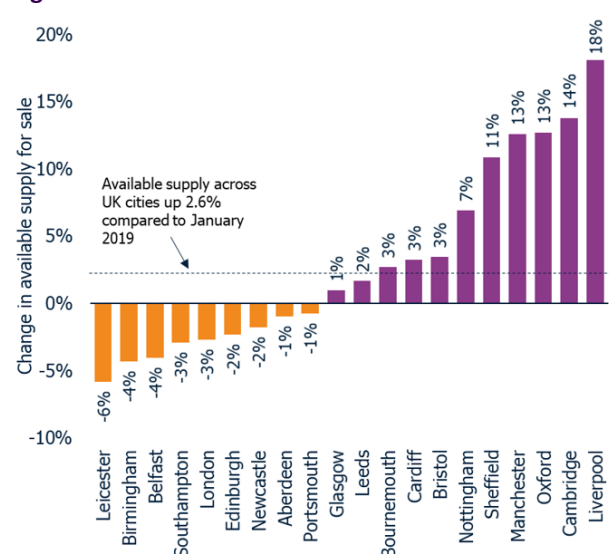
The supply of new homes coming to the market for sale has recorded the usual seasonal uplift. Increased buyer demand will naturally bring more homes to the market. However, the total stock of homes available to buy across UK cities is just 2.6% higher than this time last year. Across nine cities the stock of homes for sale is lower than a year ago by as much as 6% (Fig 2).

Fig.1 – City house price inflation – current / 12m ago



Source: Zoopla House Price Indices, powered by Hometrack

Fig.2 – Stock of homes for sale Jan-2020 v Jan-2019



Source: Zoopla Research

Note: All price changes are quoted in nominal terms. Hometrack's House Price Indices are revisionary and not seasonally adjusted.

Nine cities have lower supply than a year ago

Cities where available supply is flat or shrinking are typically recording higher rates of house price growth. Three cities are registering annual price growth in excess of five percent - Edinburgh (5.9%), Nottingham (5.4%) and Leicester (5.3%). The first two have fewer homes for sale than a year ago – Leicester (-6%) and Edinburgh (-2%).

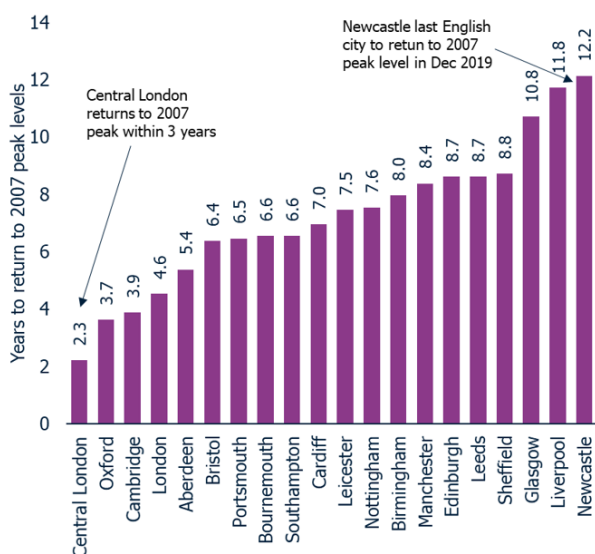
Strong demand and growing sales are eroding available supply at a faster rate than it is being replenished. This is exacerbated where demand from first time buyers is high as this group do not have property to sell.

Eleven cities have more homes for sale than this time last year. Strong demand and attractive affordability mean above average price growth can be sustained in cities such as Nottingham, Liverpool and Manchester. Greater supply in Oxford and Cambridge is more likely a result of sellers, who were sitting on their hands waiting for market conditions to improve, deciding to make their move, encouraged by improving sentiment.

Supply/demand imbalance to last over 2020H1

We expect the imbalance in supply and demand to remain over the first half of 2020, supporting the upward pressure on prices. We do not expect a material acceleration in the rate of growth as affordability pressures will limit the scale of price growth, especially across southern England.

Fig.3 – Years to return to ‘peak 2007’ price level



Source: Zoopla Research

All English cities finally return to 2007 peak levels

Our city focused view on housing reveals how markets have seen prices develop at different speeds over the housing cycle. It has been 12 years since the global financial crisis saw a contraction in mortgage credit, lower housing demand and house price falls.

It has taken until the end of 2019 for all English cities to finally return to their 2007 price levels in nominal terms. Newcastle has been the last to achieve this milestone 12 years on from the peak of the market in October 2007. Figure 3 shows the number of years it took for house prices in each city to return to their previous high.

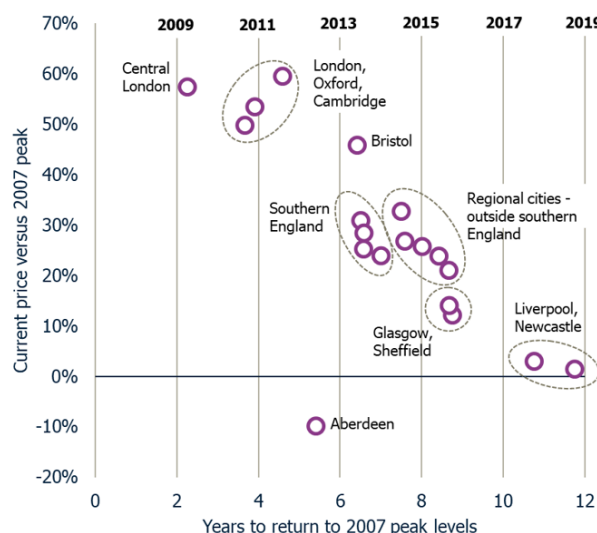
Southern cities reach 2007 levels within 7 years

Southern cities led the way and returned to 2007 levels within seven years, boosted by rising demand and employment growth. Smaller cities such as Oxford and Cambridge reached this benchmark before London which covers a much larger area.

Central London prices rebound within 3 years

We have added in data from our Central London price index which shows it took just 2.5 years for prices to rebound – this rapid turnaround was a result of overseas buyers entering the market attracted by a major drop in the value of sterling which made housing look better value cheaper to dollar backed purchasers.

Fig.4 – Years to return to 2007 levels and price relative



Source: Zoopla Research

Regional cities return to peak in 8-10 years

It took another 2 years for momentum to build in house prices across large regional cities in the midlands and north which passed their pre-crisis high 8-10 years after in 2015/16.

One city, Belfast, remains well below (-38%) 2007 levels when prices were unsustainably high and represent something of a false benchmark. Pricing in Belfast is far more sustainable today and affordability is attractive, and the rate of price inflation is in line with the headline rate. Aberdeen prices exceeded the 2007 peak in 2013, but subsequent price falls have taken them back below this level.

Prices growth since 2007 varies widely

The longer markets have recorded a recovery in prices the higher values are above their pre-crisis levels (Fig. 4 and Table 2). Prices in London, Oxford and Cambridge are more than 50% higher than where they were in 2007 and have largely stalled at this level over the last 3 years. Large regional cities are around 20-30% higher than pre-crisis levels while Newcastle and Liverpool are just 1% above.

Outlook

We expect city level house price growth to remain in line with current levels. There is a danger that, in areas where market conditions have been weak over recent years, would-be sellers, reading the headlines of a bounce in demand and a firming in prices, may get ahead of themselves and become unrealistic on pricing.

This would impact sales rates and sales volumes. It is most likely to be an issue in London and other cities in southern England where changes in demand can feed quickly and disproportionately into prices. While demand has increased, buyers will remain sensitive to pricing levels in markets where affordability levels remain stretched.

Table 2 - City level summary, January 2020

City	Current price	%yoy Jan-20	Price rel. to Oct 2007
Edinburgh	£241,900	5.9%	21%
Nottingham	£160,000	5.4%	27%
Leicester	£182,600	5.3%	33%
Birmingham	£168,600	4.5%	26%
Liverpool	£122,900	4.2%	1%
Manchester	£173,600	4.1%	24%
Cardiff	£212,400	3.7%	24%
Bristol	£286,300	3.6%	46%
Leeds	£169,200	3.6%	14%
Sheffield	£139,800	3.0%	12%
Bournemouth	£290,600	2.6%	29%
Portsmouth	£241,300	2.4%	31%
London	£482,000	2.3%	59%
Glasgow	£123,100	2.2%	3%
Newcastle	£129,700	2.2%	1%
Belfast	£136,500	1.9%	-38%
Cambridge	£415,200	1.9%	53%
Southampton	£228,800	1.9%	25%
Oxford	£416,600	0.3%	50%
Aberdeen	£153,100	-4.3%	-10%
20 city index	£258,100	3.9%	37%
UK	£220,900	2.9%	24%

Source: Zoopla House Price Index, powered by Hometrack