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UK Cities House Price Index

November 2018

- UK city house price inflation running at 2.6%, lowest annual growth rate for 5 years.
- London house prices register annual price fall for only second time in 23 years.
- UK city house price growth projected to be 2% in 2019 as above average growth in regional cities offsets a 2% price fall across London.

City house price inflation lowest for 5 years

The 20-city index is registering house price inflation of 2.6%, the lowest annual rate of growth for 5 years (Fig.1). The average price of a home has increased by £6,500 over the last 12 months to £253,500.

Price falls in London and a sustained slowdown across cities in southern England are impacting the headline rate of growth. Edinburgh is the fastest growing city (6.6%) with price rises in Manchester and Birmingham also running at more than 6% (Table 2).

Table 1 - UK 20 city index summary, November 2018

Month	3 month change	% year on year	Average price
Jun-18	1.2%	2.0%	£250,600
Jul-18	1.2%	2.0%	£250,900
Aug-18	1.0%	2.1%	£251,500
Sep-18	0.6%	2.0%	£252,100
Oct-18	0.9%	2.5%	£253,100
Nov-18	0.8%	2.6%	£253,600

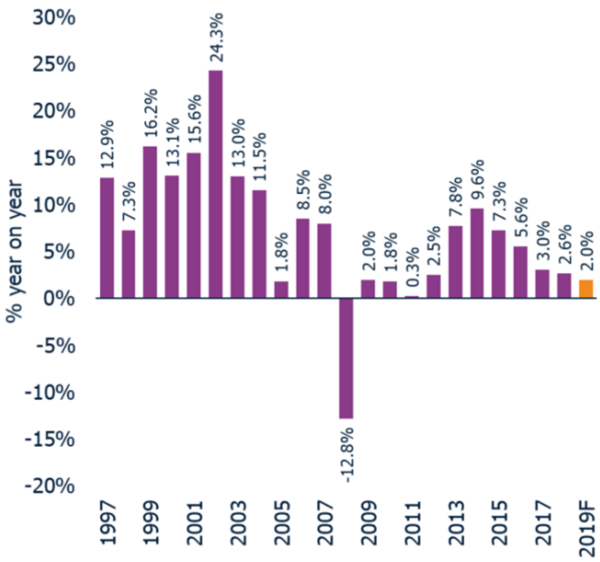
Source: Hometrack House Price Indices

Four cities registering growth higher than a year ago

There are just four cities where price growth today is higher than at the same time last year – Manchester, Liverpool, Cardiff and Newcastle. The remaining 16 cities are all registering slower growth (Fig.2).

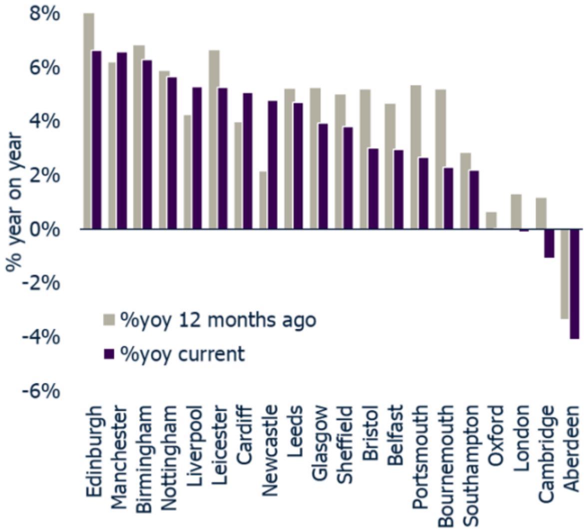
Cities in southern England such as Bristol, Portsmouth and Bournemouth have registered the greatest slowdown on the back of increasing affordability pressures. These cities have the highest price to earnings ratios outside of London, Oxford and Cambridge.

Fig.1 – Annual growth - 20 city index - 1996-2018



Source: Hometrack UK Cities Index

Fig.2 – House price inflation current and 12m ago



Source: Hometrack UK Cities Index

London prices fall for second time in 23 years

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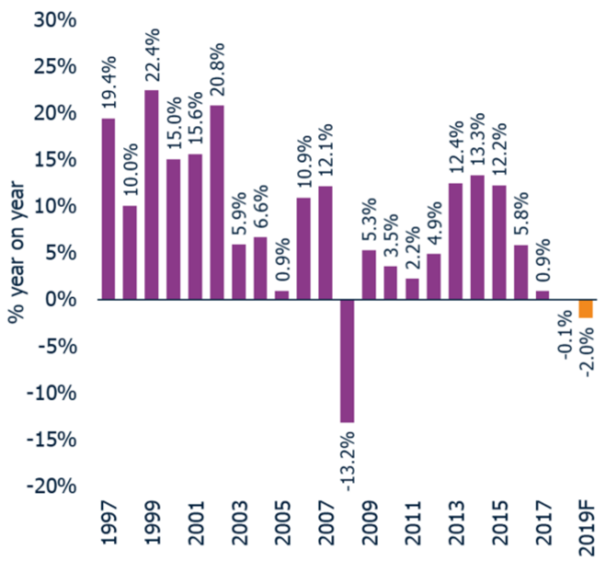
House price inflation in London is ending the year with price falls for only the second time in 23 years (Fig.3). Prices are -0.1% lower, down on +0.9% over 2017 and well short of the long run average of 8.2% per annum.

Stretched affordability, a succession of tax changes and increased uncertainty over the outlook are weighing on both demand and price growth. Recent house price falls are doing little to materially change the affordability picture. The house price to earnings ratio in London peaked at 14x in 2016 and has started to fall but remains extended at 13.3x (Fig. 4).

Fig.3 – London prices fall for second time in 23 years



Source: Hometrack UK Cities Index

Stretched affordability a material constraint in London

London is a large and diverse city with many housing markets. There remains a clear divide in growth between low price growth in outer London and the commuter areas while nominal price falls are concentrated in the high value, inner areas of London.

Overall, we expect average house prices across London to fall by 2% over 2019 with continued, above average price falls in higher value areas as buyers remain price sensitive. This will result in the price to earnings ratio falling to 12.9x, still higher than the 17-year average of 11x and returning to levels last recorded in mid-2015.

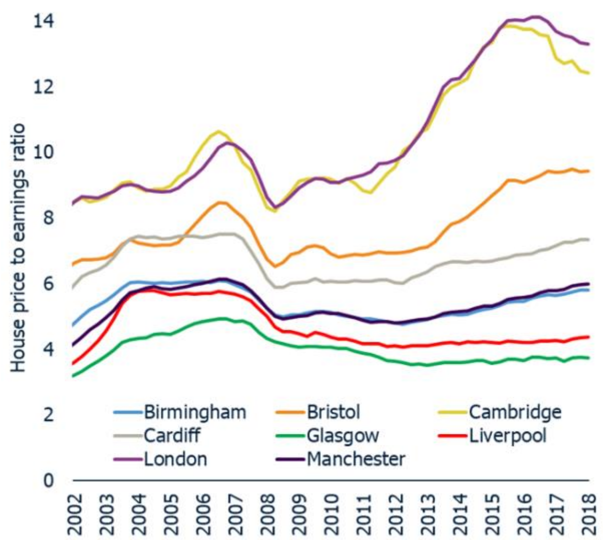
While levels of mortgage debt are growing, average loan to value ratios for mortgaged property remain low with plenty of scope to absorb price falls over the year.

City price inflation lower than forecast for 2018

A year ago, we forecast that UK city house price growth would be 5% over 2018 with a 3% increase across the UK. The outturn for cities has been weaker than we anticipated, largely a result of slower price growth in regional cities. We were spot on for the UK.

Affordability levels in regional cities outside the south of England remain attractive but house price growth has run well ahead of earnings growth for the last 5 years. Small increases in mortgage rates over 2018, and growing uncertainty, has impacted the speed at which households bid up the cost of housing.

Fig.4 – Price to earnings ratio 2002-2018



Source: Hometrack UK Cities Index, ONS

Affordability sets framework for future growth

The fundamentals of housing affordability will shape the prospects for city house prices in 2019 and beyond. This is already the case with flat to falling prices in the most unaffordable cities and above average growth in the more affordable areas (Fig 5).

The speed at which housing affordability translates into price changes depends upon demand side factors influenced by the economic outlook, changes to mortgage rates and household sentiment. Brexit is the greatest driver of uncertainty in the near term and is likely to impact market activity in the early parts of 2019. The housing market is very sensitive to changes in mortgage rates and we expect any changes to be limited.

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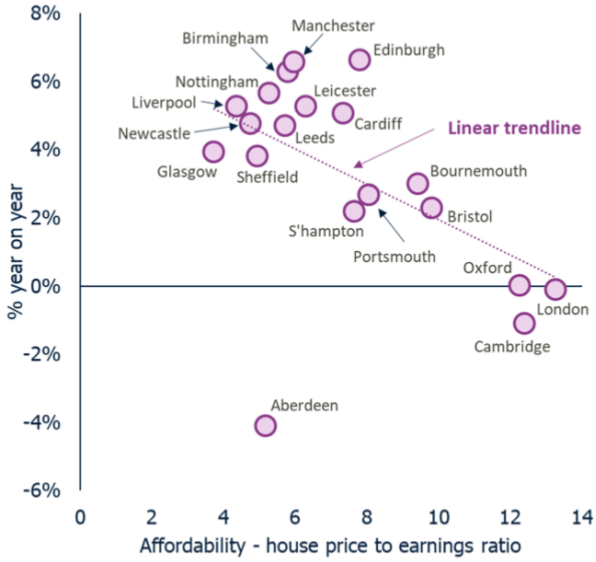
2% house price growth expected in 2019

Overall, we expect average UK city house prices to increase by 2% over 2019. This factors in a 2% fall in London prices and a continued moderation in the rate of growth across regional cities compared to growth over 2018. We expect house price growth of up to 5% in the most affordable markets such as Liverpool and Glasgow.

Fig.5 – Price to earnings and yoy growth



Source: Hometrack UK Cities Index, ONS

Table 2 - City level summary, November 2018

City	Current price	%yoy Nov-18	%yoy Nov-17
Edinburgh	£239,200	6.6%	8.2%
Manchester	£168,900	6.6%	6.2%
Birmingham	£163,700	6.3%	6.8%
Nottingham	£153,700	5.7%	5.9%
Liverpool	£120,300	5.3%	4.2%
Leicester	£173,800	5.3%	6.6%
Cardiff	£209,600	5.1%	3.9%
Newcastle	£131,200	4.8%	2.1%
Leeds	£167,200	4.7%	5.2%
Glasgow	£122,500	3.9%	5.2%
Sheffield	£137,300	3.8%	5.0%
Bristol	£281,700	3.0%	5.2%
Belfast	£130,300	3.0%	4.7%
Portsmouth	£239,700	2.7%	5.3%
Bournemouth	£288,200	2.3%	5.2%
Southampton	£228,300	2.2%	2.8%
Oxford	£406,800	0.0%	0.6%
London	£481,900	-0.1%	1.3%
Cambridge	£423,700	-1.1%	1.2%
Aberdeen	£159,700	-4.1%	-3.3%
20 city index	£253,600	2.6%	3.6%
UK	£217,400	3.3%	3.8%

Source: Hometrack UK Cities Index – four highlighted numbers are where growth rate is higher than a year ago

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