

UK Cities House Price Index – April 2019



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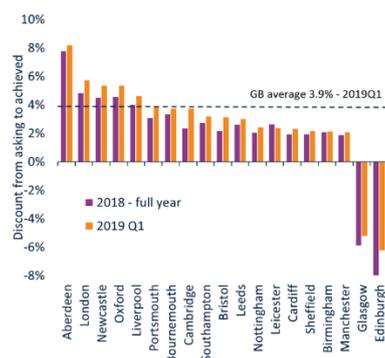
Price growth weakens across southern England

UK city house price growth is running at +1.7% down slightly on the level of growth 12 months ago (1.9%). Annual growth ranges from a high of 5.1% in Glasgow to -0.5% in London - the smallest spread in annual growth recorded across the 20 cities since 1996.

Figure 1 shows the range in growth between highest and lowest rate of growth over time. The recent narrowing is down to a slowing in the rate of price falls in Aberdeen, which have recently turned positive (+0.3%), alongside a general slowdown in price inflation across all cities, matching the national trend.

Fastest growing city has slowest growth since 2012

In 2014 the fastest growing city was London where prices were rising at an annual rate of 18%. There was a further increase in growth 3 years ago, as demand grew as investors rushed to beat the stamp duty changes introduced in April 2016. Since then, the rate of price growth has slowed to 5.1%. The last time the fastest growing city was at this level was in London seven years ago, at the end of 2012, just as the house price growth started to accelerate.



Pace of growth weakens across southern cities

Looking across the 20 cities, house price growth is higher than a year ago in eight cities (Fig. 3). The deceleration in price growth has been most marked in southern England with Bristol, Portsmouth, Bournemouth and Southampton all registering price inflation at or below 2.5%.

Discounts to asking price rise off low base

Our latest analysis shows that the discounts between asking and achieved prices are starting to increase off a low base across almost all cities except for Leicester. This is to be expected as house price growth slows.

Figure 2 compares the average discount from asking prices by city over the whole of 2018 compared to 2019 Q1. It shows that outside Scotland eleven cities have discounts that are below the national average of 3.9%.

Demand for housing in regional cities has been strong in recent years and levels of house price growth have run well ahead of the growth in average incomes. Strong market conditions have seen the discount that sellers have had to accept to achieve a sale have declined over this time. Now demand is weakening, buyers are negotiating harder on price and are less willing to keep pace with the pace of price inflation.

Sellers in Edinburgh and Glasgow continue to get a premium over the asking price, although this has reduced over the first quarter of 2019.

Discounts still increasing in London

In London, which has led the slowdown, the average discount from the asking price has increased from just 1% in 2016 to 4.8% over 2018 and 5.7% today. Price falls have been concentrated in inner London areas where discounts are largest and average 7.6%. Buyers in the most central areas continue to obtain double digit discounts. In outer London and the commuter areas, discounts average 5.1%.

House price growth tracks earnings in long term

House price growth continues to moderate with the slowdown now extending beyond southern England. House prices have posted 5-7 years of strong house price inflation relative to the growth in average incomes. Lower mortgage rates supported increased buying power and higher prices, but the impact is weakening with mortgage

rates having bottomed out two years ago at c.1.5% and new mortgage regulations limiting the ability of households to push affordability.

Once lower mortgage rates are fully priced into the housing market then house price growth should track the growth in earnings long term hence the recent convergence in city house price growth.

In the near term we expect the price adjustment in London to continue although we do expect sales volumes to tick upwards. The slowdown in the rate of growth will extend further across the south of England while we expect continued above average house price growth in regional cities where employment levels continues to grow, and affordability is attractive.

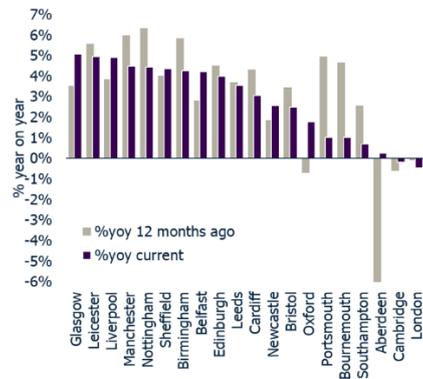


Fig. 3 – House price inflation – current and 12m ago

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