UK House Price Index

+8.2%
Current UK house price growth

-28%
Hit to buying power from a shift to 5% mortgage rates

6%
Listings with a >5% price reduction in last month

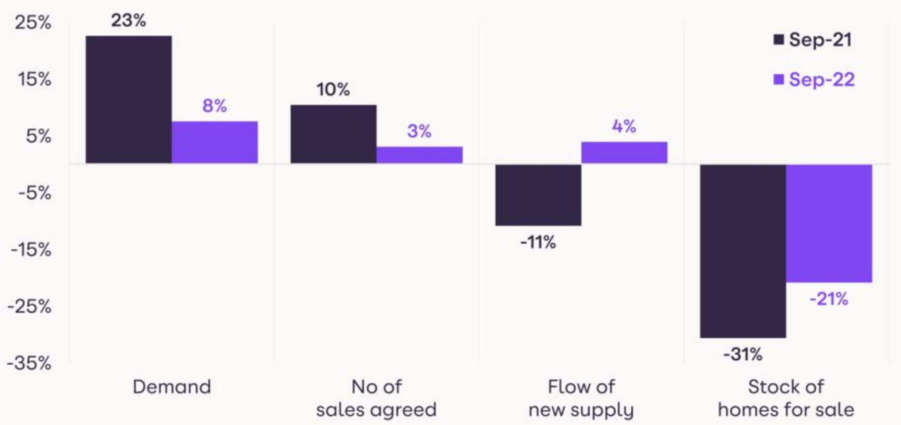
Executive summary

- The Housing market is transitioning to a buyers' market as higher mortgage rates are set to cut buying power by up to 28%
- The jump in house prices over the pandemic is compounding the affordability challenge, especially in southern England
- Some regions have seen 10 years of house price growth compressed into two years
- New sales are holding up with no sudden drop in demand in recent weeks - but buyer interest is weaker than a year ago
- Asking price reductions are at the highest levels since before the pandemic as sellers adjust to more price-sensitive demand
- Stamp duty changes will support regional markets and first-time buyers in southern England at a low cost to the exchequer.

"Stamp duty changes are welcome and will boost some sectors of the market but, overall, they are unlikely to offset the impact of higher mortgage rates on housing activity"

Richard Donnell
Research Director

Steady start to autumn market as new stock levels expand



Source: Zoopla Research
% change - 4 weeks to 18 Sept & equivalent period in 2021 vs 5 year average

+12%

Highest annual house price growth in Wigan

Fast evolving macroeconomic backdrop

The macro backdrop for the housing market has evolved rapidly over the summer. Central banks have increased interest rates to bring down inflation. Rising energy prices are adding to the cost-of-living squeeze. UK consumer confidence has hit an all-time low. Despite this challenging backdrop, these factors have not yet had a material impact on leading indicators of sales market activity.

The strong start to the year has carried the momentum into the summer. As we enter the autumn selling season, demand for housing continues to soften and is much lower than this time last year. UK-wide demand remains 8% above the 5-year average, supported by strong buyer interest in affordable markets, such as Scotland . All other regions have demand in line with the 5-year average.

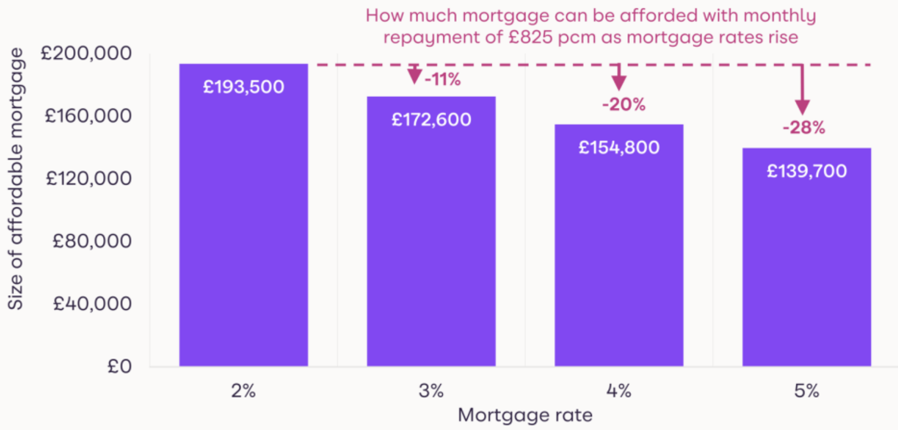
The UK government has responded with tax cuts and an energy price cap to support housing demand. Changes to stamp duty will boost some segments but the recent spike in borrowing costs are set to push mortgage rates higher.

Rising mortgage rates are set to impact buying power

Most new loans are at fixed rates and the cost to secure financing for these mortgages does not directly follow base rates. These costs have surged recently, and mortgage rates are on track to reach 5% by Q4 - more than double the rates at the start of 2022.

Our analysis shows that if mortgage rates rise from 2% to 5%, buying power will be reduced by as much as 28%[1], assuming buyers want to keep monthly repayments unchanged. This will impact housing demand into 2023 for the 7 in 10 buyers using a mortgage unless they: put down larger deposits; or allocate more income to mortgage costs; or adjust their budgets, buying smaller property or looking to cheaper areas. A fourth option is to sit on the sidelines until the outlook for borrowing costs becomes clearer.

Higher mortgage rates hit buying power by up to 28%



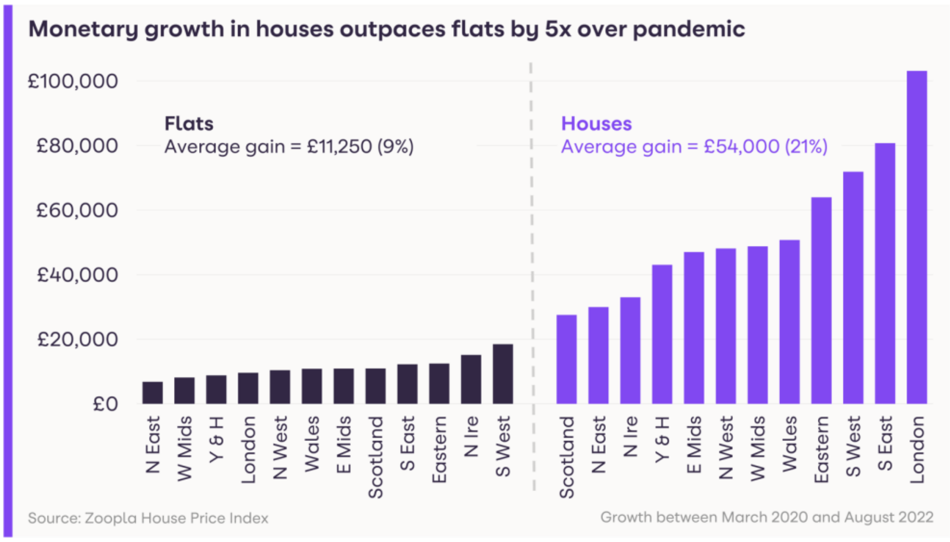
Source: Zoopla Research   Assuming fixed repayment of £825 at the same level as a 2% rate on average value home (£258k)

[1] Assumes a buyer uses a 75% LTV loan to buy an average priced UK home which would cost £825pcm in mortgage repayments at 2%. Keeping repayments the same and moving to a 5% rate means the buyer can only afford a mortgage that is 28% smaller

Pandemic boost to prices adds to affordability pressures

The impact of higher mortgage rates on market activity will be compounded by sizeable increases in house prices over the pandemic. The search for space and record low mortgage rates have resulted in the average value of a house increasing five times more than the average value of a flat over the pandemic - see chart below.

While London has lagged behind the rest of the market in terms of annual growth rates, the average house value in London has increased by over £100,000 since March 2020. But the average value of a flat in the capital has increased by just 2.4% - the weakest national segment in percentage growth terms as buyers prioritise space and working from home.



Pandemic impact: 10 years of house price growth compressed into two years

Houses in Wales have recorded a 27% jump in prices since the start of the pandemic. This is the equivalent of 10 years of pre-pandemic growth compressed into just over two years. A similar pattern has been seen in the North East and Scotland, largely due to below-average price growth since 2009. Across other areas and property types, recent price growth has been the equivalent of four to five years, highlighting how much prices have jumped ahead.

Greatest hit to buying power in high price and high growth markets

This momentum in price rises has supported measures of market activity in H1 2022. There are no immediate signs of a major slowdown in price inflation. The average UK house price has increased by 8.2% or £19,650 in the past 12 months, although the quarterly growth rate is slowing. Looking ahead, higher mortgage rates will have the greatest impact on activity in higher value markets and areas which have registered the greatest surge in prices over the pandemic.

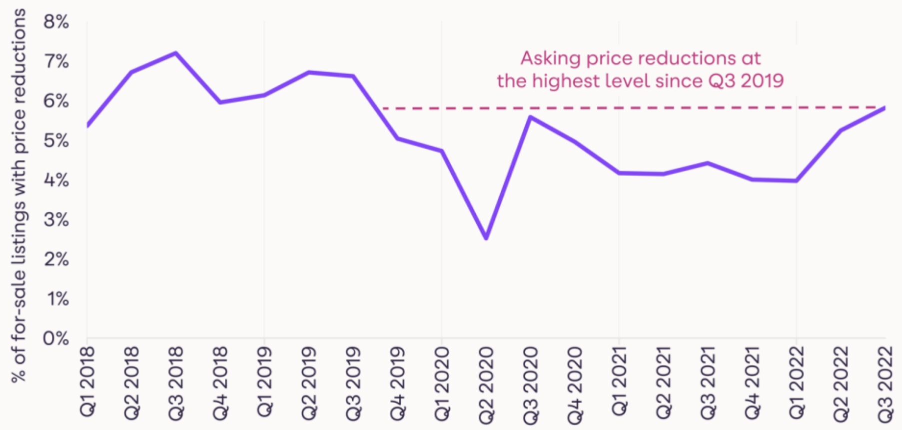
Asking price reductions rise to pre-pandemic levels

We are starting to see early signs of price sensitivity from the scale of reductions in asking prices of homes for sale. Sellers want to maximise the value of their homes and when house prices are rising quickly, agents need to anticipate the strength of demand and price ahead of the market as needed. However, when demand starts to shift, agents and owners need to adjust as well.

There has been a clear upward trend in the proportion of listings which have had asking prices reduced by 5% or more over the spring and summer. The latest data shows that 6% of homes listed for sale have seen the asking price adjusted downwards. This is the highest level since before the pandemic, although re-pricing is a common seasonal trend as we enter the autumn market. Given the economic backdrop, we see this as a move to more of a buyer's market after two years of a red-hot sellers' market.

Right now, we don't see any big variations in price adjustments by region or property type. The adjustments are to be expected as the market transitions from one where demand greatly exceeds supply. They are not precursors for big price falls but indicate the rate of price growth will slow more rapidly in Q4 and into 2023.

Asking prices being adjusted for more price sensitive buyers



Source: Zoopla Research

% of listings with price reductions of 5% or more, 2-4 bed houses, Q3 is Jul & Aug 2022

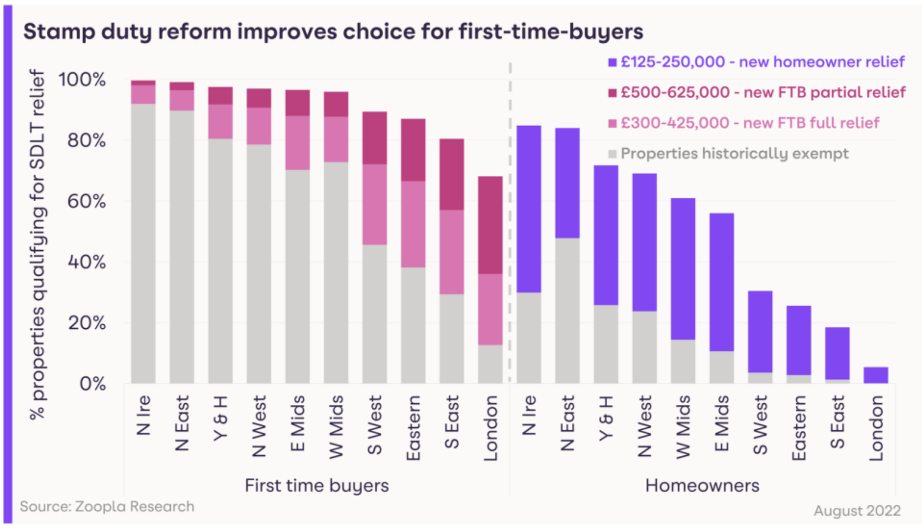
Any homeowner wanting to sell their home in Q4 or early 2023 will need to price at the right level to ensure a sale. Sellers need to shift their mindset, giving more consideration to local market dynamics and the types of buyers for similar-sized properties in the local area.

While rising borrowing costs will see demand weaken in the coming weeks, we expect the ongoing pandemic impacts and cost-of-living pressures to continue to stimulate homeowners to want to move home. Those who are relying on taking a large mortgage will be most impacted by rising borrowing costs which is most likely to impact buyers in southern England. The changes to stamp duty will support demand in lower value areas.

Stamp duty changes deliver some specific benefits

Stamp duty is an additional cost for home buyers. In England, it is a tax that hits buyers in southern England -London and the South East accounted for two-thirds of stamp duty income in 2020/21.

The key changes in the government's recent mini-budget were to take all sales in England and Northern Ireland under £250,000 out of stamp duty (up from £125,000) while extending the additional relief for first-time buyers. The increase in this threshold takes 43% of homes out of stamp duty, primarily boosting regional markets. In many cases, the proportion of homes that are exempt will more than double - to deliver savings of up to £2,500 per sale - see right side of the chart. This has much less impact in southern England as prices are higher.



First-time buyers (FTBs) account for 1 in 3 purchases and will not pay stamp duty up to £425,000 with a reduced rate up to £625,000. This change provides the greatest boost to FTBs in southern England who will get new savings of up to £10,000 per purchase. The left side of the chart shows that FTBs will get full or partial stamp duty relief on 68% of homes in London rising to over 80% across southern England. We expect this to boost demand from FTBs but rising mortgage rates may ultimately offset the boost from lower stamp duty costs.

South East England continues with high stamp duty costs

While any changes that reduce the costs of buying a home are welcome, the changes in the budget do little to reduce the 90% stamp duty paid on homes over £250,000. This buyers' tax remains a big cost for existing homeowners buying a property in the South East of England, particularly in the £500,000 to £925,000 price range, which accounts for a sizable proportion of sales. The budget was a missed opportunity to remove barriers to sale at this end of the market where higher mortgage rates will also have a greater impact on demand.

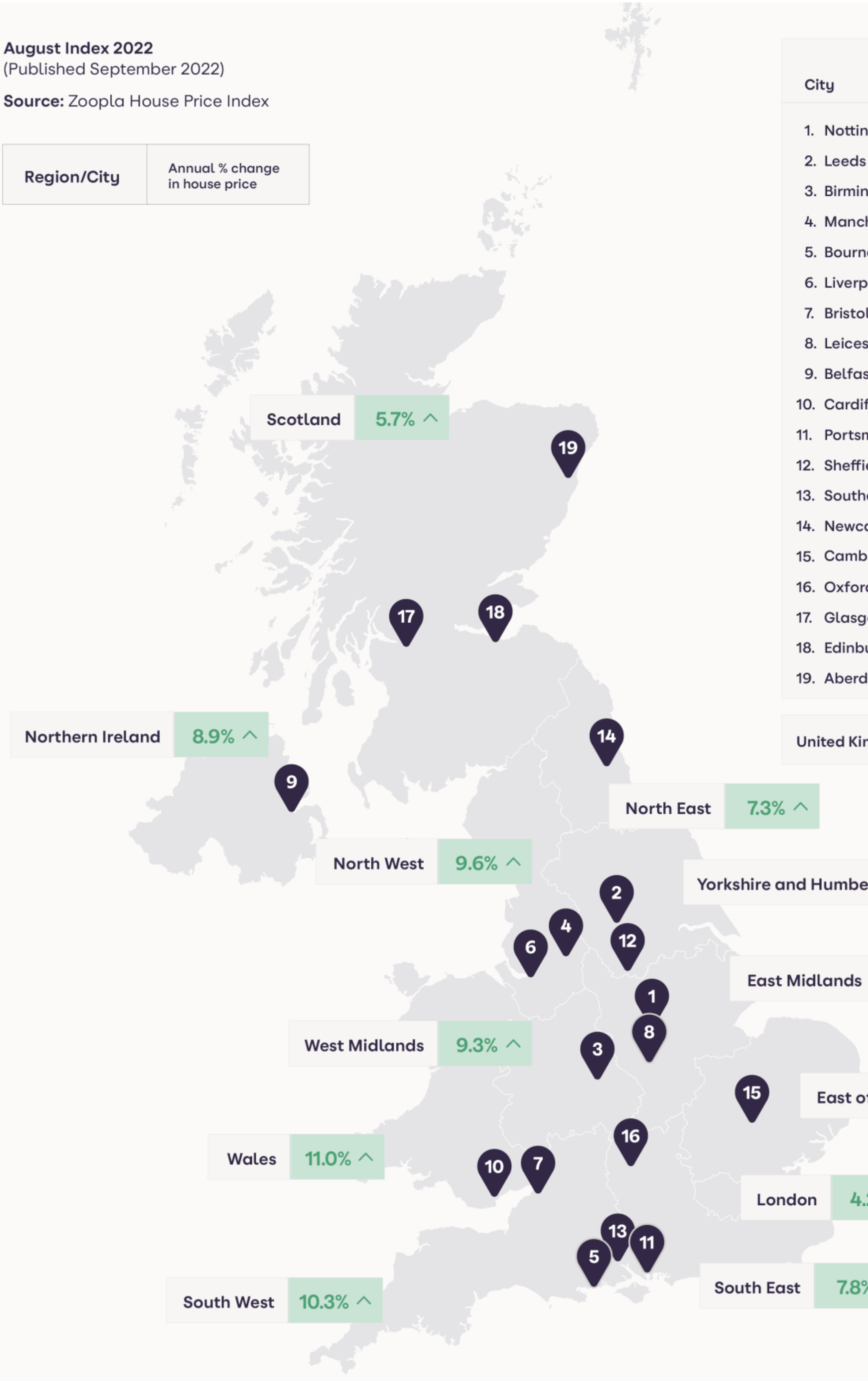
House Price Index – Country, region and city summary

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.

August Index 2022
(Published September 2022)

Source: Zoopla House Price Index

Region/City	Annual % change in house price
Scotland	5.7%
Northern Ireland	8.9%
North East	7.3%
North West	9.6%
Yorkshire and Humber	9.0%
East Midlands	10.0%
West Midlands	9.3%
East of England	8.1%
Wales	11.0%
London	4.2%
South East	7.8%
South West	10.3%



City	Annual % change in house price
1. Nottingham	11.1%
2. Leeds	9.3%
3. Birmingham	9.2%
4. Manchester	9.2%
5. Bournemouth	8.9%
6. Liverpool	8.8%
7. Bristol	8.7%
8. Leicester	8.7%
9. Belfast	8.5%
10. Cardiff	8.5%
11. Portsmouth	8.5%
12. Sheffield	8.3%
13. Southampton	6.9%
14. Newcastle	6.2%
15. Cambridge	5.5%
16. Oxford	5.5%
17. Glasgow	4.8%
18. Edinburgh	3.8%
19. Aberdeen	-0.9%
United Kingdom	8.2%

Zoopla House Price Index, city summary, August 2022

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 Aug-22	%yoy Aug-21	Monthly trend	Annual trend
UK	**£258,100**	**8.2%**	**6.9%**		
20 city index	**£293,700**	**6.5%**	**5.6%**		
Nottingham	£196,900	11.1%	8.0%		
Leeds	£205,600	9.3%	7.3%		
Manchester	£215,700	9.2%	9.3%		
Birmingham	£202,400	9.2%	6.4%		
Bournemouth	£344,900	8.9%	8.0%		
Liverpool	£152,300	8.8%	11.6%		
Leicester	£223,800	8.7%	8.5%		
Bristol	£333,000	8.7%	7.1%		
Portsmouth	£282,900	8.5%	7.0%		
Cardiff	£253,400	8.5%	7.4%		
Belfast	£167,300	8.5%	8.3%		
Sheffield	£169,100	8.3%	8.6%		
Southampton	£260,500	6.9%	6.1%		
Newcastle	£147,200	6.2%	6.2%		
Cambridge	£465,700	5.5%	4.5%		
Oxford	£450,000	5.5%	5.0%		
Glasgow	£140,200	4.8%	7.2%		
London	£524,400	4.2%	2.5%		
Edinburgh	£263,600	3.8%	4.1%		
Aberdeen	£142,100	-1.6%	-0.7%		

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.

House price index report produced by

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