

# UK Cities House Price Index

## August 2017

- UK city house price inflation at 4.9%, down from 6.6% in August 2016.
- Manchester is the fastest growing city (7.3%). The upward momentum in house price growth across regional cities shows no sign of slowing. Real house price falls in London a drag on headline growth.
- Total value of all private homes across the 20 UK city index exceeds £3.0 trillion (£3,000bn). There is £2.4 trillion of housing equity across UK cities and a major opportunity for product innovation.

### City house price growth 4.9% yoy

UK City house price inflation is running at 4.9% compared to 6.6% in August 2016 (fig. 1). After weak growth over 2016H2, the 3 month growth rate has increased over recent months.

Falling unemployment and record low mortgage rates are supporting demand as house prices in large regional cities continue to increase off a low base (fig.2). Manchester is the fastest growing city (7.3%), followed by Birmingham (6.7%) and Edinburgh (6.6%).

In contrast, low house price inflation in London is acting as a drag on the headline rate of growth. House prices in London are currently falling in real terms. The nominal growth rate of 1.9% is below the general rate of inflation (2.9%, CPI).

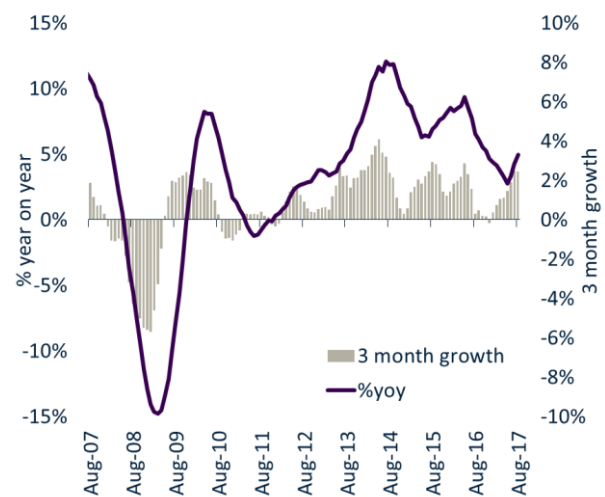
Other high capital value cities such as Cambridge and Oxford have also registered a steep slowdown in the rate of price inflation over the last 12 months as affordability pressures constrain housing demand.

**Table 1 - UK 20 city index summary, August 2017**

Month	3 mth. change	%yoy	Average price
Mar-17	1.1%	3.7%	£241,200
Apr-17	1.1%	3.3%	£242,400
May-17	1.5%	2.7%	£243,900
Jun-17	1.9%	3.3%	£245,800
Jul-17	2.5%	4.2%	£248,400
Aug-17	2.5%	4.9%	£249,900

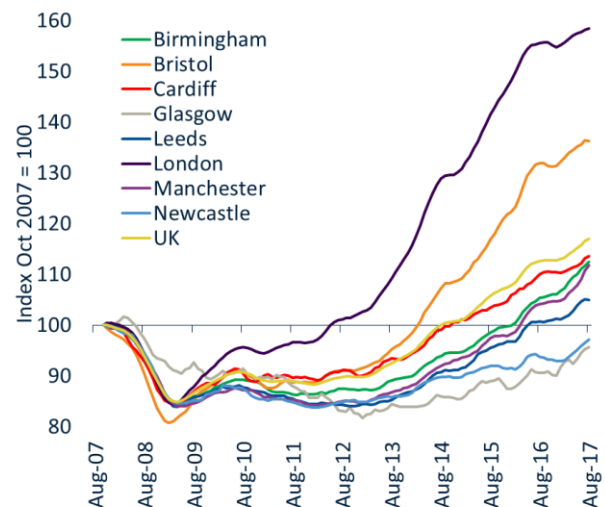
Source: Hometrack House Price Indices

**Fig. 1 – 20 City house price inflation (% yoy and 3m)**



Source: Hometrack UK Cities Index

**Fig. 2 – House price index from 2007 – selected cities**



Source: Hometrack House Price Indices

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

## Insight Series

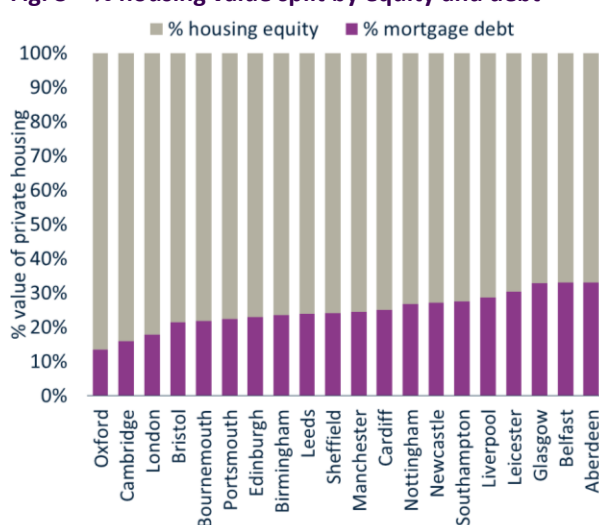
Hometrack UK Cities Index – August 2017

### Value of housing across UK cities exceeds £3.0trn

Residential values have been rising for eight years, boosting the total value of homes and the amount of equity locked up in housing. Using Hometrack's automated valuation model we estimate that the total market value of private housing across the 20 city index is £3.013 trillion (£3,013bn). This is 43% of the value of the whole UK housing market (£7trn or £7,000bn). The value of housing in UK cities has grown by £89bn over the last 12 months.

London City, which covers London and its commuter hinterland, contains 39% of the homes across the 20 city index but accounts for 66% of the total value of housing (£2.0trn or £2,000bn). Birmingham (£152bn) and Manchester (£133bn) are the next highest value cities, together accounting for 10% the value of housing within UK cities. To put these numbers in context, the market capitalisation of FTSE 100 companies stands at £1.9trn while total mortgage debt is £1.322trn.

**Fig. 3 – % housing value split by equity and debt**



Source: Hometrack, UK Finance – Lending by postcode

### Housing equity in cities exceeds £2.4trn

At the end of 2016 there was £610bn of outstanding mortgage debt secured against the value of housing across the 20 cities. This mortgage debt represents 20% of the value of all private housing, leaving £2.4trn of housing equity across UK cities. Figure 3 plots the proportion of housing value that is accounted for by outstanding mortgages and housing equity by city.

Housing equity as a share of private housing value ranges from 87% in Oxford to 69% in Aberdeen. A significant amount of this equity is accounted for by homes owned with no mortgage at all, typically older households who have paid off their mortgage.

Cities that have recorded the highest house price growth in recent years have a higher share of equity as a proportion of total market value. Conversely cities that have registered weak price growth have a lower proportion of housing equity.

**Table 2 – Value of homes, debt and % housing equity**

City	Value of private housing £bn	Stock of mortgage debt £bn	% housing equity
Oxford	£25	£3	87%
Cambridge	£23	£4	85%
London	£1,990	£356	83%
Bristol	£81	£17	80%
Bournemouth	£53	£11	80%
Portsmouth	£51	£11	79%
Edinburgh	£59	£13	78%
Birmingham	£152	£36	78%
Leeds	£56	£13	78%
Sheffield	£47	£11	77%
Manchester	£133	£32	77%
Cardiff	£30	£7	77%
Nottingham	£40	£11	75%
Newcastle	£46	£12	75%
Southampton	£34	£9	74%
Liverpool	£38	£11	73%
Leicester	£31	£9	72%
Glasgow	£61	£20	69%
Belfast	£45	£15	69%
Aberdeen	£18	£6	69%
20 city index	£3,013	£611	80%
UK	£6,960	£1,322	81%

Source: Hometrack, UK Finance

Developing ways in which households can leverage or access this housing equity is a large opportunity for those developing financial or housing products to help households release equity while staying in their home, or to free up equity by moving home.

#### Down-trading limited by ‘compressed’ house prices

Data on the overall size of the down-trading market is limited. The ability of households to release sufficient equity, on average c£90,000, from moving home and down-sizing limits the size of this market. This is because the relative under-supply of smaller sized homes (<3 beds) keeps pricing for smaller homes relatively high making it harder to release sufficient funds. The main opportunity to support down-trading is for home builders to develop homes that are attractive to this under-served segment of the market.

#### Equity release products growing fast off a low base

Financial products that enable households to release equity while remaining in their home represent a fast expanding market. The latest data from the Equity Release Council reveals £2.15bn of equity release products were taken-up in 2016. The market is set to grow further over 2017. Mortgage lending into retirement is also subject to greater focus and the Financial Conduct Authority has recently published a paper on an Ageing Population and Financial Products. The paper highlights some of the challenges but also acknowledges the opportunity for innovation in products and services that is likely to benefit both consumers and firms.

#### More innovation in leveraging housing equity

Given the scale of equity available and the long run demographic and social changes facing UK households, further innovation in how housing equity can be accessed or leveraged is inevitable. We expect further innovation that make it easier for families to continue to support first time buyers to raise deposits.

**Table 3 - City level summary, August 2017**

City	Current price	%yoy Aug-17	% last quarter
Manchester	£158,000	7.3%	2.1%
Birmingham	£154,400	6.7%	1.6%
Edinburgh	£212,300	6.6%	1.6%
Leicester	£165,600	6.4%	0.8%
Nottingham	£146,600	6.2%	1.5%
Southampton	£229,000	5.9%	1.5%
Bournemouth	£283,700	5.8%	1.2%
Glasgow	£119,900	5.6%	1.1%
Portsmouth	£227,700	4.3%	0.8%
Leeds	£159,400	4.1%	1.1%
Belfast	£130,200	3.8%	0.9%
Liverpool	£117,900	3.8%	1.6%
Oxford	£425,800	3.8%	1.0%
Newcastle	£127,300	3.6%	1.5%
Bristol	£268,500	3.4%	0.8%
Cardiff	£197,200	3.2%	0.9%
Cambridge	£434,500	2.8%	1.1%
Sheffield	£132,000	2.7%	0.9%
London	£489,100	1.9%	0.6%
Aberdeen	£179,600	-1.9%	0.1%
20 city index	£249,900	4.9%	1.3%
UK	£210,600	3.8%	1.1%

Source: Hometrack House Price Indices

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