

# UK Cities House Price Index

## November 2016

- City level house price growth running at 7.7%, in line with our forecast made a year ago.
- Transaction volume growth over 2016 projected to range from +8% to -10% reflecting differing underlying market conditions across cities.
- We expect city level house price growth to average 4% over 2017. Above average growth in large regional cities is projected to offset low nominal price growth in London.

### City house price growth running at 7.7%

UK city house price inflation is running at 7.7%, up slightly on 12 months ago (7.3%), and in line with our projection for 7% capital value growth over 2016.

**Table 1- UK 20 city index summary, November 2016**

Month	3 mth. change	%yoy	Average price
Jun-16	2.4%	8.8%	£237,800
Jul-16	1.5%	7.9%	£237,800
Aug-16	0.3%	7.0%	£237,700
Sep-16	0.5%	6.8%	£239,100
Oct-16	1.5%	7.3%	£241,500
Nov-16	2.3%	7.7%	£243,200

Source: Hometrack House Price Indices

### Three distinct city level trends

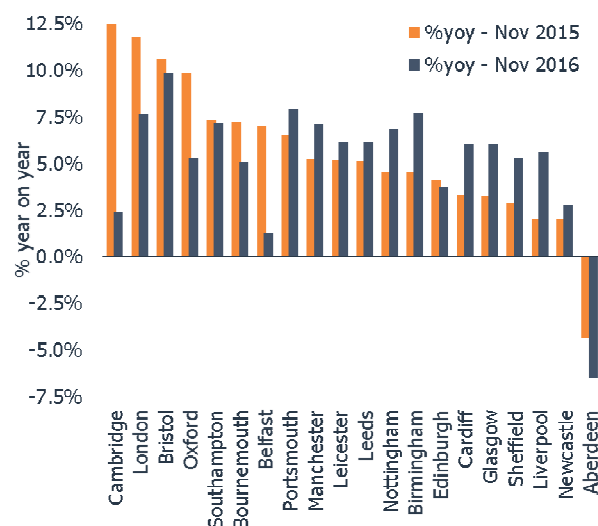
Comparing the current rate of house price growth to that registered 12 months ago reveals three distinct trends for price appreciation.

- 1. Decelerating cities** – London, Oxford, Cambridge, Bournemouth and Bristol – typically these are the ‘high growth’ cities of the last 5 years which are now slowing on stretched affordability levels and falling sales volumes. The slowdown in Bristol is less marked over 12 months but since mid-2016 growth has declined more sharply from over 14% per annum. Belfast is included in this group where growth is slowing off a lower base.
- 2. Strong, steady growth** – this group includes Birmingham, Manchester, Leeds, Leicester, Nottingham and Portsmouth. These cities have

been registering robust, consistent house price growth of 5-8% per annum over the last 12 months on stronger underlying market conditions. Fig. 1 highlights the 11 cities where house price growth is higher today than this time last year.

- 3. Falling** – just one city, Aberdeen, continues to register year on year price falls (-6.4% per annum) with the 50% decline in the oil price since mid-2014 continues to impact the local economy and demand for housing.

**Fig. 1 – City level growth – Nov.2016 v Nov.2015**



Source: Hometrack House Price Indices

### Cambridge records fastest slowdown in 2016

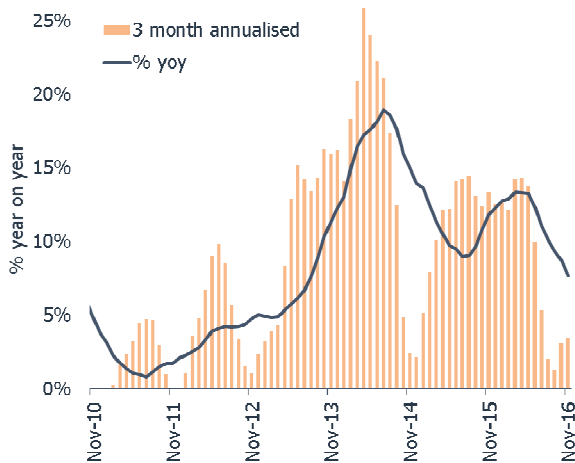
Cambridge has recorded the most pronounced slowdown in the rate of growth over the last 12 months down from over 12.5% to 2.5% today.

Note: All price changes are quoted in nominal terms. Hometrack's house price indices are revisionary and not seasonally adjusted.

**Underlying rate of growth in London slows to 3%**

The momentum in London house prices continues to dissipate post the Brexit vote. The annual rate of growth is down to 7.6%, the lowest level for 39 months (3.3 years). Fig. 2 compares growth rate over the last 3 months expressed on an annualised basis (the underlying rate) to the annual rate of price growth. It shows how the underlying rate of growth in London is c.3% as demand weakens on affordability pressures and multiple policy changes aimed at investors.

**Fig. 2 – Weak underlying growth rate in London**



Source: Hometrack House Price Indices

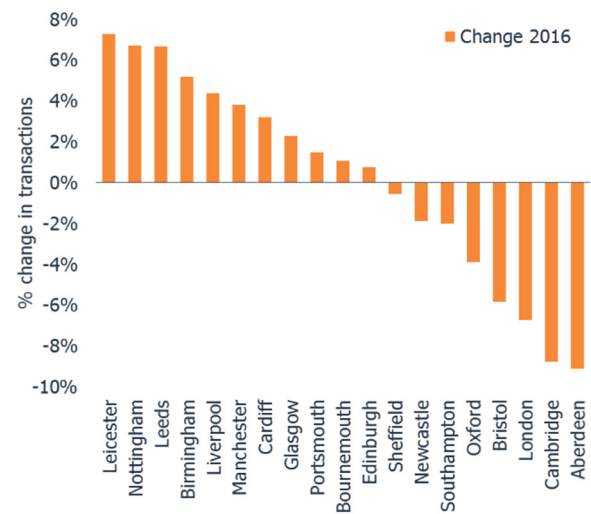
**Change in housing sales by city varies widely**

Housing transaction volumes provide an important insight into the underlying trends in demand for housing. Analysis of national housing sales volumes points to flat transaction numbers over 2016.

Extrapolating from the latest available data we have estimated the likely change in sales volumes at city level over 2016. All cities have registered a 50-60% increase in sales volumes over the last 5 years. Cities where house price growth has been high, and affordability levels are most stretched, have seen sales volumes level off over the last 2 years and fall back over 2016. Sales are set to contract by more than 5% in London, Aberdeen, Bristol and Cambridge.

In contrast, the cities registering sustained growth in house prices are expected to record higher turnover over 2016. The greatest increase in turnover over 2016 is expected in Birmingham, Leeds, Leicester and Nottingham.

**Fig. 3 – Change in transactions 2015 v 2016(est.)**



Source: Hometrack (excludes Belfast)

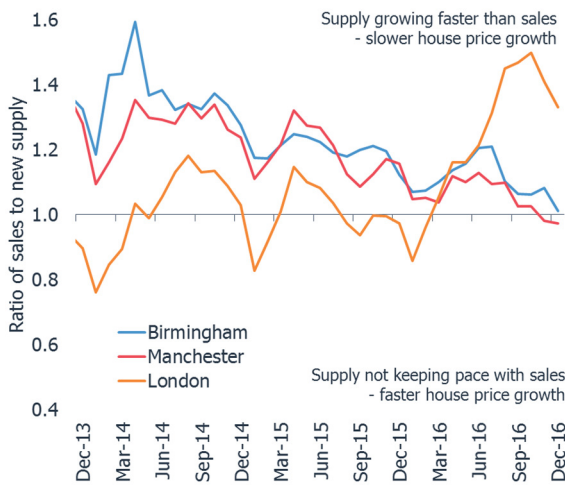
**Outlook for 2017**

Looking ahead to 2017 we expect weaker growth in real household incomes and concerns over the impact of Brexit on the economy to weigh on housing market sentiment, particularly in southern England. While the economy is projected to grow in 2017, levels of employment are forecast to grow more slowly although mortgage rates are expected to remain low by historic standards.

Given the current projections for the economy, we do not believe that any of the cities covered by the index will be registering year on year price falls at the end of 2017. However, we do expect the rate of city level house price growth to slow over the next 12 months led by weaker growth in cities across southern England. This is where affordability pressures on home owners are most extended and where previously buoyant investor demand has been impacted by fiscal changes and by tougher underwriting standards for mortgaged borrowers.

While we expect some moderation in the rate of house price growth from current levels in larger UK regional cities, such as Birmingham and Manchester, we believe the underlying fundamentals in these markets remain attractive and there is potential for further price appreciation over 2017. Fig.3 shows that market conditions continue to strengthen on rising sales volumes and attractive affordability.

Fig. 3 – Supply/sales fundamentals for 3 cities



Source: Hometrack House Price Indices

**City level house prices projected to rise 4% in 2017**

While the current consensus forecasts for UK house price growth is c.2-3% over 2017, we believe that city level house price growth will run slightly higher at 4% over 2017 with growth supported by large regional cities. The outlook for 2017 depends upon the scale of the slowdown in London.

We expect our London index to register nominal growth of 2% in 2017. This will equate to a fall in real terms. A harder landing for house prices could drag the headline rate lower. While house prices are registering small, single digit price falls in central London areas, a lack of forced sellers is expected to minimise the scale of price falls. Figure 3 shows how supply is already tightening in the face of weaker demand which is a natural market response.

Table 2- City level summary, November 2016

City	Current price	%yoy Nov 2016	% uplift from post downturn low
Aberdeen	£183,000	-6.5%	16%
Belfast	£126,700	1.3%	21%
Birmingham	£147,000	7.7%	26%
Bournemouth	£270,100	5.1%	41%
Bristol	£259,700	9.9%	62%
Cambridge	£417,800	2.4%	81%
Cardiff	£192,500	6.0%	30%
Edinburgh	£205,100	3.8%	20%
Glasgow	£117,100	6.1%	15%
Leeds	£155,100	6.2%	22%
Leicester	£157,700	6.2%	29%
Liverpool	£113,700	5.6%	14%
London	£483,300	7.6%	84%
Manchester	£148,300	7.1%	24%
Newcastle	£122,700	2.8%	11%
Nottingham	£141,100	6.9%	29%
Oxford	£411,100	5.3%	67%
Portsmouth	£220,800	7.9%	42%
Sheffield	£129,800	5.3%	18%
Southampton	£219,600	7.2%	42%
20 city index	£243,200	7.7%	52%
UK	£205,000	6.7%	34%

Source: Hometrack House Price Indices

**Hometrack**

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