

UK Cities House Price Index

January 2018

- UK city house price inflation +5% year on year. Five cities registering real price falls including London.
- House price growth since 2009 varies from +6% in Aberdeen to +86% in London.
- Regional cities have room for a further 20%-30% increase in prices over the next 3-4 years.

City house price growth running at 5%

UK city house price inflation is running at 5%, up from 4% a year ago. Edinburgh is the fastest growing city (+7.7%) with Birmingham, Manchester, Leicester and Liverpool all growing by more than 6% per annum.

Prices falling in real terms across five cities

There are five cities where house prices are falling in real terms – Southampton, London, Oxford plus two where prices are falling in nominal terms – Cambridge (-1.1%) and Aberdeen (-6.6%).

Table 1 - UK 20 city index summary, January 2018

Month	3 mth. change	% year on year	Average price
Aug-17	1.0%	3.4%	£244,900
Sep-17	0.5%	3.1%	£244,600
Oct-17	0.1%	3.2%	£244,800
Nov-17	0.4%	4.0%	£245,900
Dec-17	1.3%	4.9%	£247,900
Jan-18	1.7%	5.0%	£248,900

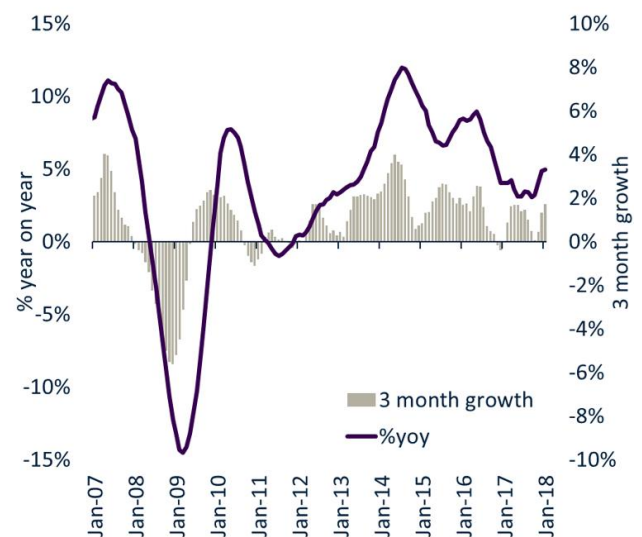
Source: Hometrack House Price Indices

Price growth since 2009 ranges from +6% to +86%

The level of house price inflation since the end of the downturn in 2009 varies widely. Fig. 2 shows that growth ranges from 6% in Aberdeen to 86% in London. Oxford and Cambridge have performed like extensions of London, while robust price growth in Bristol has resulted in a 70% increase since 2009.

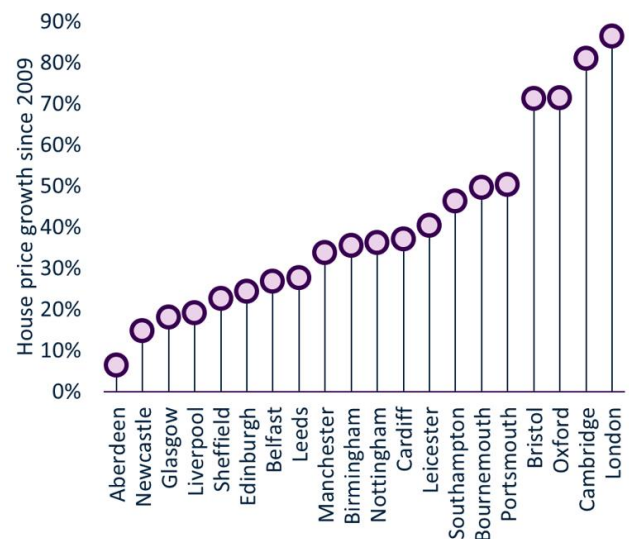
There is a clear gap to the remaining cities, each of which have experienced varied growth. These differentials are explained by economic and demand side factors. A similar pattern of relative performance was seen mid-way through the last housing cycle.

Fig.1 – UK cities index – annual and 3-month growth



Source: Hometrack UK Cities Index

Fig.2 – House price growth from 2009 to January 2018



Source: Hometrack UK Cities Index

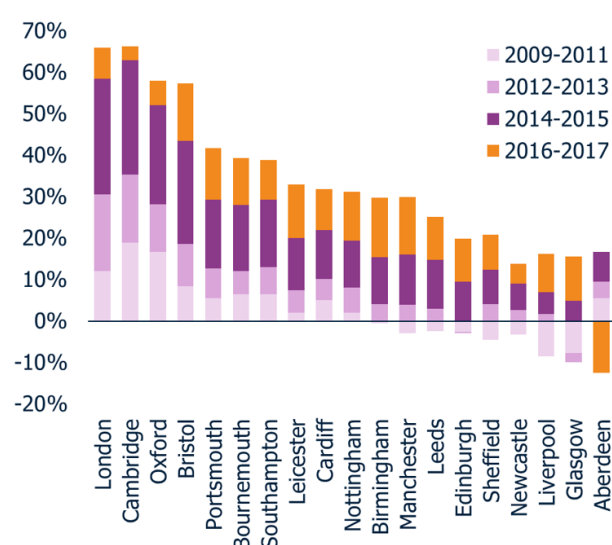
Note: All price changes are quoted in nominal terms. Hometrack’s House Price Indices are revisionary and not seasonally adjusted.

Timing and scale of growth varies over time

Over housing cycles housing markets register different growth rates at different times. Fig.3 shows the variation in the timing and scale of house price growth since 2009. By the end of 2013, the strongest growth had been registered in London as overseas and domestic buyers boosted demand.

In contrast, most large regional cities outside southern England failed to record a 10% increase in prices by the end of 2013. Glasgow and Liverpool continued to register price falls at this time. Only in the last 2 years have large regional cities started to record above house price growth on improved consumer confidence, rising employment and attractive affordability metrics.

Fig.3 – Cumulative house price growth from 2009



Source: Hometrack – note the difference in growth reported between fig.2 and fig.3 is down to compounding of growth.

Will all cities grow as much as London?

Cities outside southern England have further room for house price growth. We do not expect growth to match the increase registered in London as the market dynamics are different e.g. high levels of overseas and investor buying. There are also questions over the sustainability of pricing in London where gross yields are sub 4.5% and affordability levels are at an all time high. We expect average house prices in London to drift lower in real terms in the coming 2-3 years with lower turnover (down 16% since 2014) creating scarcity.

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How much further can prices rise in regional cities?

We expect house prices in regional cities such as Birmingham and Manchester to increase by 20% to 30%. This is based on our analysis of how the last housing cycle unfolded and adjusting for today's policy environment. It assumes mortgage rates remain low by historic standards and the economy to continue to grow. At current growth rates this will take 3 to 4 years to feed through into house prices.

Table 2 - City level summary, January 2018

City	Current price	%yoy Jan-18	%yoy Jan-17
Edinburgh	£222,200	7.7%	2.6%
Birmingham	£154,600	7.3%	6.4%
Manchester	£158,800	6.7%	6.7%
Leicester	£168,700	6.4%	6.2%
Liverpool	£114,600	6.2%	2.8%
Leeds	£159,400	5.9%	4.1%
Glasgow	£119,600	5.3%	4.9%
Bristol	£273,400	5.3%	8.1%
Nottingham	£144,500	5.3%	5.6%
Bournemouth	£282,100	5.3%	5.6%
Belfast	£133,100	4.9%	2.7%
Sheffield	£132,300	4.8%	3.6%
Portsmouth	£231,000	4.5%	6.7%
Cardiff	£196,700	4.2%	4.4%
Newcastle	£125,100	3.7%	1.1%
Southampton	£222,600	2.1%	6.1%
London	£487,500	1.6%	4.9%
Oxford	£412,000	1.1%	4.4%
Cambridge	£427,700	-1.1%	2.5%
Aberdeen	£165,700	-6.4%	-5.6%
20 city index	£248,900	5.0%	4.0%
UK	£211,200	4.0%	4.7%

Source: Hometrack House Price Indices