

UK Cities House Price Index

April 2016

- 20 city year on year house price growth is running at 10.4% compared to 6.6% in April 2015 – city level growth ranges from -6.1% in Aberdeen to +15.8% in Cambridge.
- Looking to the Referendum, an analysis of city level sales volumes and house price growth over the last 20 years shows volumes are more responsive to external shocks than prices.
- A vote to leave is likely to hit the London market hardest, while a vote to remain will have the greatest benefit for housing markets in regional cities which have the greatest upside.

City house price growth running in double digits

The rate of city level house price inflation continues to increase after a strong first quarter. Year on year growth is running at 10.4% compared to 6.6% twelve months ago when growth had slowed in the face of uncertainty over the 2015 General Election.

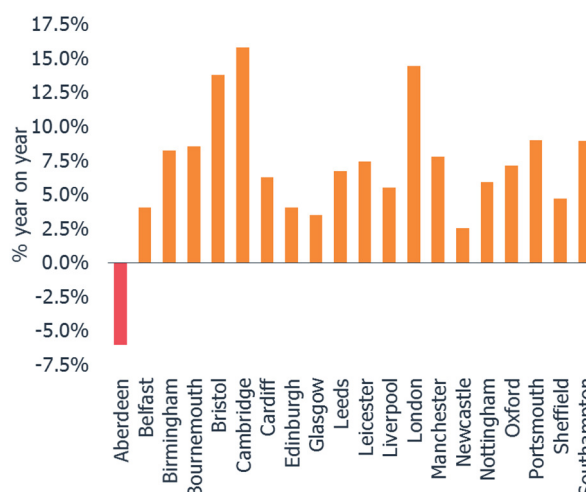
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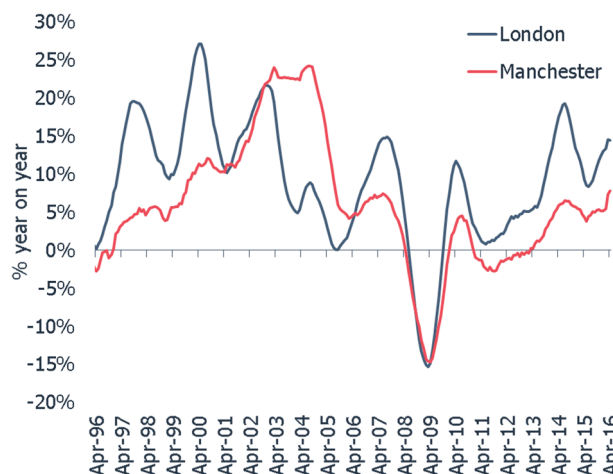
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Fig. 1 – City house price inflation – %yoy to Apr16



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Fig. 2 – City house price inflation last 12 months



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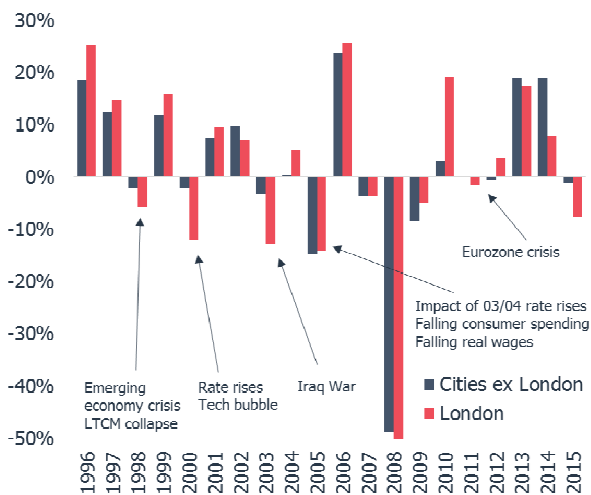
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All eyes on the Referendum result

The implication of the Referendum result for businesses operating in housing is the key unknown. The economic impact of ‘Brexit’ and consequences for interest rates, investment and incomes has direct implications for housing. The consensus appears to be a short economic shock accompanied by a period of uncertainty for consumers and business.

An analysis of city level house price growth and transactions over the last 20 years shows that external shocks tend to have a greater impact on market volumes than house prices, especially where there is no accompanying economic downturn. To highlight these differentials Fig. 3 plots the year on year change in housing sales for London City and all other cities combined. From 1996 to 2007 house prices posted consistent positive year on year growth (Fig. 2). This was not the case for sales volumes which were influenced by a mix of external shocks to sentiment and changing domestic factors such as short periods of rising interest rates.

Fig. 3 – Long run change in city level sales volumes



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In the decade before 2007, sales volumes fell on four occasions in London by as much as 15% highlighting how London is more prone to the impact of external factors – from the crisis in emerging economies and collapse of the Long Term Capital Management hedge fund in 1998 to the bursting of the dot-com bubble in 2000 and the Iraq war in 2003. The 15% drop in sales seen in 2005 was registered across the country, driven largely by domestic factors and rising

interest rates in 2003/04. In contrast, the impact of the 2011/12 Eurozone crisis on turnover was more muted as the market was just recovering.

Part of the reason for London experiencing greater volatility in sales over this period to 2007 was the fact that London house prices had more than doubled in the 7 years before 2000. In contrast, most other parts of the country had registered much lower rates of growth. Fig. 2 shows the variance in growth rates between London and Manchester. A lack of relative value in London post 2000 increased the sensitivity of the market to external factors, something which is very pertinent today when we consider the impact of the Referendum result.

A vote to leave – greatest impact on London

The implications of this analysis is that a vote to leave on 23 June would most likely result in a 5% to 10% fall in housing turnover with London bearing the brunt of the slowdown. The rate of national house price growth would undoubtedly slow, but the scale of this will depend upon the economic impact and whether mortgage rates increase. The greater the direct impact on the economy then the greater the downside for turnover and house prices. If the economy keeps growing, albeit more slowly, negative price growth is unlikely.

The London market faces greater headwinds irrespective of the Referendum vote. Turnover fell 7% last year on the back of affordability constraints and weaker overseas demand. Tax changes for investors will reduce demand and we expect price growth to slow in the near future even if the £ we were to weaken and improve the relative value of central London property.

A vote to remain – growth boost in regional cities

A vote to remain will have the greatest upside for house prices and transactions in regional cities where the recovery has been more short-lived and affordability less stretched than in southern cities. The boost to confidence from a vote to remain, coupled with low mortgage rates would most likely deliver the greatest benefit regional cities such as Manchester, Leeds and Birmingham where housing demand is growing and strong real rates of house price growth are likely to be sustained.

Table 2- City level summary, April 2016

| City | Current price | %yoy Apr 2016 | %yoy Apr 2015 |
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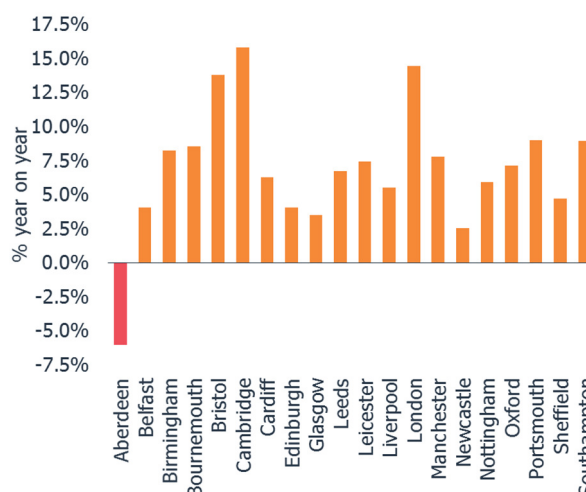
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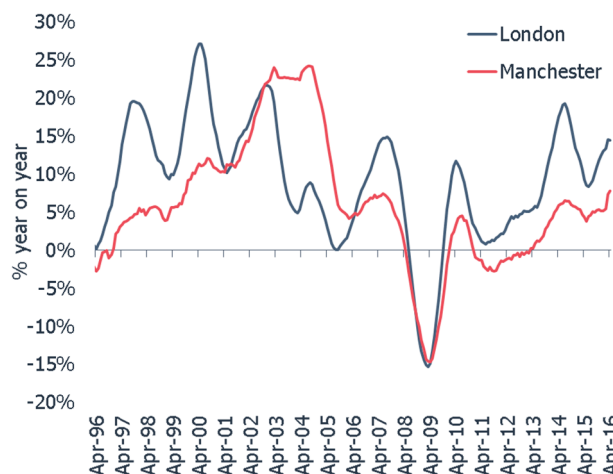
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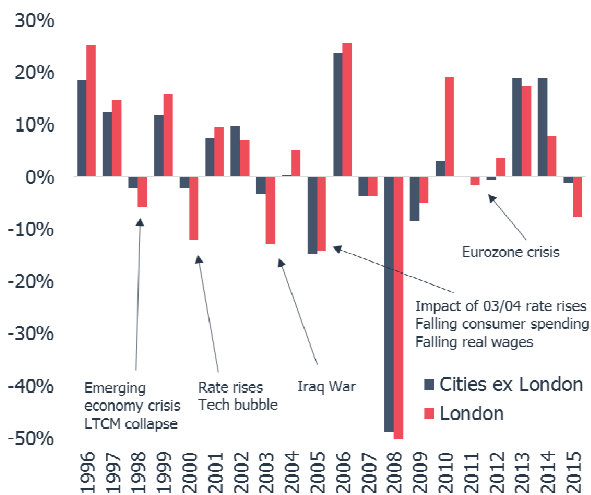
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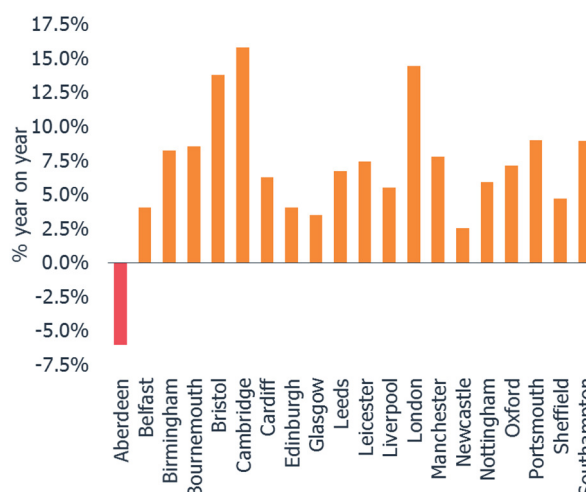
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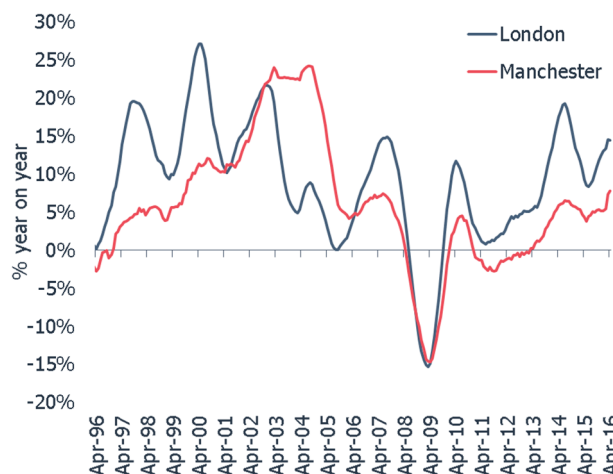
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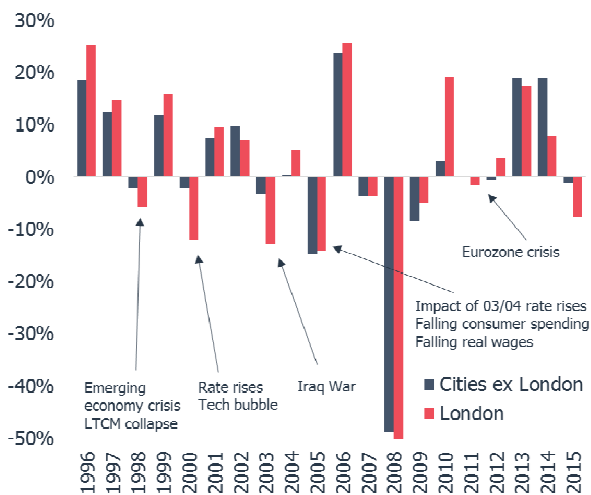
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