

# UK Residential Housing Market Forecast Sample Report

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## UK housing market: Recent trends

### Forecast Summary

y-on-y % Growth	House Prices (based on ONS data)			
UK				
Greater London				
South East				
East of England				
South West				
East Midlands				
West Midlands				
Yorkshire & the Humber				
North West				
North East				
Wales				
Scotland				
Northern Ireland				

Sources: ONS, Experian. Forecast vintage: UK Mar xxxx, Regions Mar xxxx (SA)

This report refers to the May xxxx UK macro forecast and some indicators may not have been available when constructing the regional and local area forecasts that are based on the March xxxx vintage.

- UK house prices saw annual growth in the 2-3% range in xxxxq1 in key housing surveys.
- Poor affordability continues to weigh on demand.
- Lack of supply underpin recent price increases.
- Activity levels and lending indicators show further weakness.

### Highlights



## Housing indicators subdued with demand muted and supply tight

Nationwide quarterly *house price data* for xxxxq1 shows that UK house prices rose by 0.8% in the quarter, bringing annual growth down to 2.1%. On a month-on-month basis, house prices fell in both February and March on the Nationwide measure. More recently, there has been a slight uptick, of 0.2%, in monthly growth in April which has boosted annual growth to 2.6%. Halifax recorded a marginal fall in xxxxq1, with annual growth at 2.7%, although this slowed to 2.2% in April. Both surveys confirm that the market remains subdued with muted demand, tight supply conditions and weak activity. ONS data, that comes with a lag, suggests that prices rose by 4.4% in the year to February xxx, down from 4.7% in the year to January xxx. The latest RICS survey shows that there is no sign of a turnaround in market conditions with most balances showing a continuation of the trends seen over most of xxxx. On the demand side, balances for *new buyer enquires* marked 13 months of consecutive declines, although the pace of fall abated slightly in April. Although employment and wages have both picked up, buyers remain under pressure from rigid budget constraints and ongoing *affordability* issues. Nationwide data shows that the house price to earnings ratio for first-time buyers was 5.2 in xxxxq1 while mortgages as a proportion of pay touched 32.5%. To put this in context, the last time these measures were around these levels was just before the crash of xxx. Market supply conditions remain tight. The RICS survey reveals that the number of *new instructions* fell yet again in April, marking 26 months of no growth and highlighting how lingering uncertainty and high transaction costs are continuing to limit housing supply. Activity levels, measured by the *agreed sales indicator* in the RICS survey, also stayed negative with no growth seen on this measure since the beginning of xxx. Corroborating this weakness, Bank of England data shows a general weakness in the *number of loans available* for house purchase. While the number of loans did see a modest rise to around 67,000 in January, this indicator has fallen to around 62,900 in March, underperforming the 6-month average of 64,500.

UK	Prospects & Key Risks
<b>Recent Trends</b>	The final estimate of GDP growth for xxxxq1 came in at a weak 0.1%. The dominant services sector continued to drive any output rises.
<b>Business Planning Assumptions</b>	The Bank Rate rose by 25bps, to 0.5% in November last year. An increase of the same magnitude is likely some time later this year.
<b>2-Year Outlook</b>	Real GDP growth is forecast to grow by 1.5% in xxxx, down from 1.8% in xxxx. <b>Key risks:</b> The momentum gathering in the global economy falters. The emerging trade war between China and the USA is of particular concern. Wage growth fails to accelerate holding back consumer spending further.
<b>Longer-Term Outlook</b>	GDP growth of 1.6% a year in xxxx-xx, with annual employment growth of 0.5%. <b>Key risks:</b> Public finances suffer from low economic growth and relaxation of austerity to support the economy. High debt exposure of public and private sectors becomes a serious burden.
<b>Consumer</b>	Spending growth to be sustained but at a much slower pace than in recent years. <b>Key risks:</b> Lingered above target inflation and weak earnings growth inhibit spending. Further Bank Rate hikes hit highly-exposed borrowers.
<b>Trade</b>	Trade will benefit from sterling's decline and net trade will be less of a drag on GDP growth. <b>Key risk:</b> Sterling continues to appreciate, diminishing export price competitiveness.
<b>Inflation</b>	Inflation eased to 2.7% in February. <b>Key risk:</b> The recent appreciation of the sterling exchange rate reverses, and renewed import price pressures build. The upward trend in global oil prices continues.
<b>Labour Market</b>	The reversal of the short downturn in employment growth in recent months is unlikely to be sustained. Competition for employees should see pay gains slowly accelerate through xxxx. <b>Key risk:</b> The recent pick-up in productivity growth falters, holding back wage growth.
<b>Government</b>	Fiscal policy expected to loosen in the coming year as suggested by the Chancellors Spring Statement. <b>Key risk:</b> An easier fiscal stance could raise concerns about the impact of high government debt on growth prospects.

## Interest rates

The minutes from the March meeting of the Monetary Policy Committee (MPC) suggest that the Bank Rate is likely to rise to 0.75% later this year, from the current 0.5% rate. Two members out of nine said they wanted an immediate rate rise, while the majority agreed that an ongoing tightening of monetary policy over the forecast period would be appropriate. The MPC also reiterated its commitment that rate rises would be gradual and to a

(% per annum)					
Base rate (y/e)					
10 yr yield (y/e)					

### KEY RISK

The possibility of a fresh Sterling depreciation as Brexit uncertainties persist is a key inflation risk. This could lead to higher interest rates, earlier than in the Base case.

## Exchange rates

The Bank of England's effective exchange rate index, a weighted average of the movements in cross-exchange rates against a basket of other currencies has been steadily rising since September last year, and is above the level it was immediately following the EU referendum vote in June xxxx.

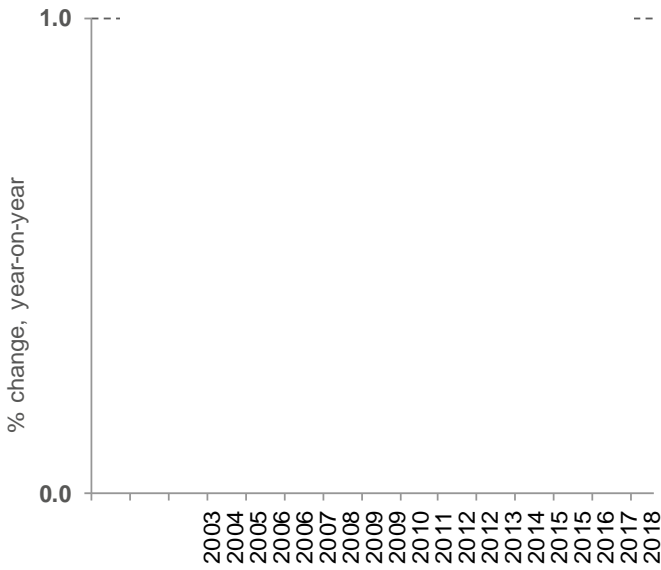
US\$ per £ (y/e)					
£ per € (y/e)					
REER (Jan XXXX=100)					

### KEY RISK S

Consumers will benefit as inflation slowly eases in line with softer import prices. However, given the pressure they have been under over the past year consumption could take some time to recover, resulting in a temporary output shortfall. An unwinding of the recent up-tick in manufacturing output as the exchange rate appreciates represents a further risk. Worryingly, the latest data from the ONS index of production showed a 0.2% contraction in manufacturing output comparing February with January, the first time output has fallen since March xxxx.

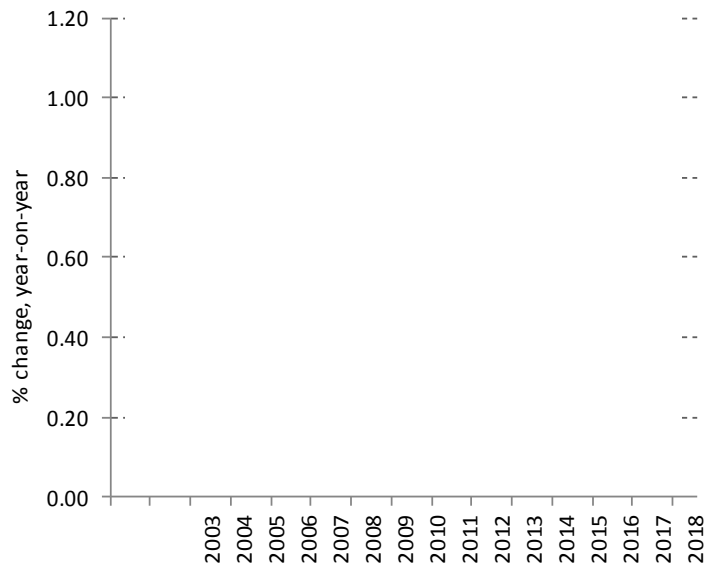
## UK Economy: Recent trends

GDP growth was 0.1% q-on-q in XXXXq1



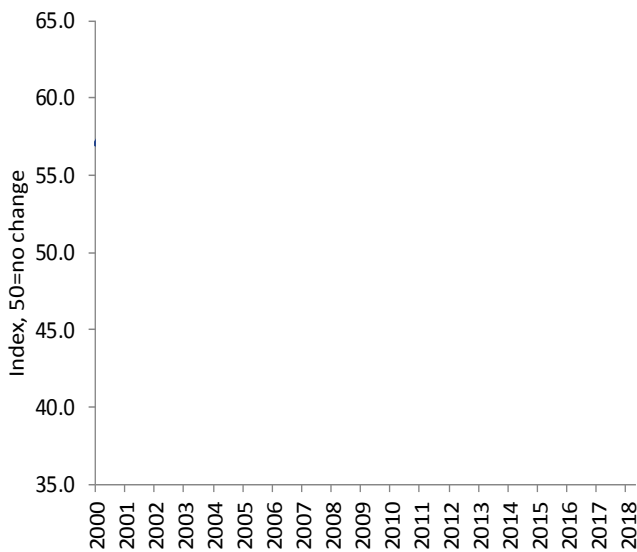
Source: Experian

Employment sees small uptick



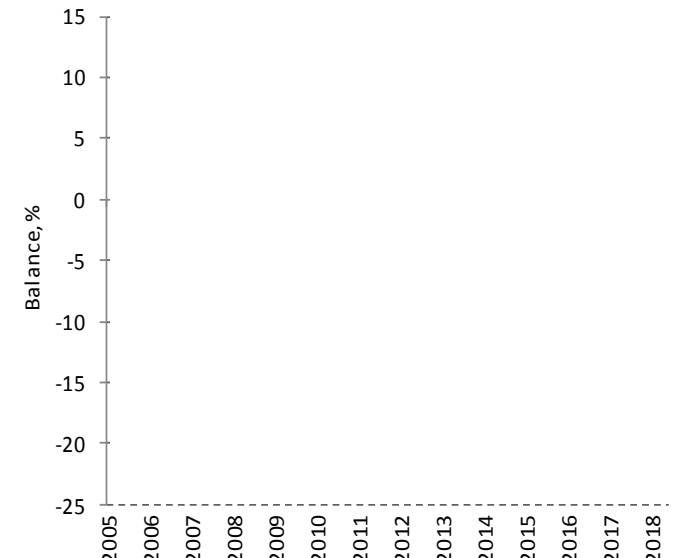
Source: Experian

Service sector output expands further



Source: CIPS

Consumer confidence improves



Source: GFK/Experian

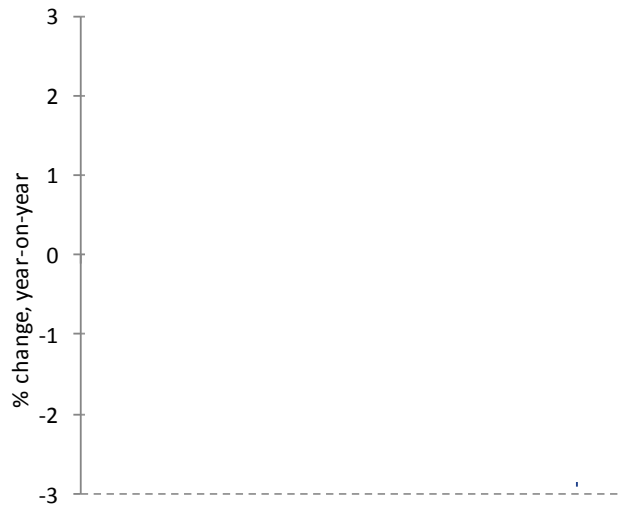
## UK economy: Two-year outlook

GDP growth prospects for XXXX weak



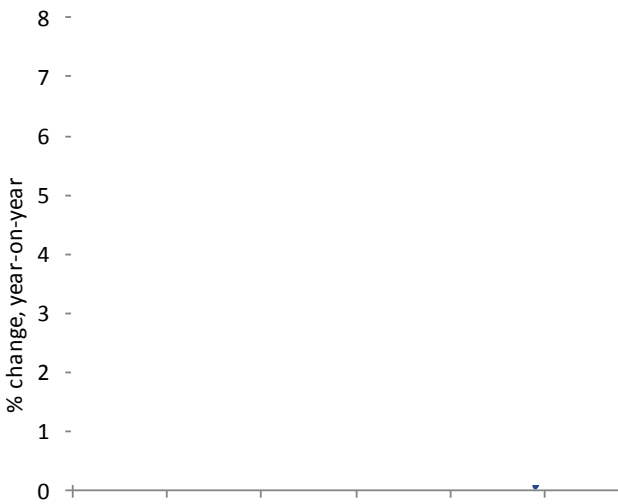
Source: Experian

Employment growth to lose momentum



Source: Experian

Inflation shows early signs of cooling



Source: Experian

Real income growth stays under pressure



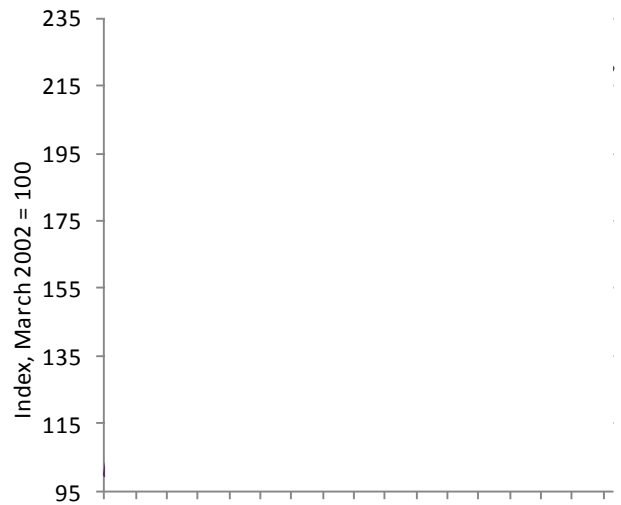
Source: Experian

# Housing market outlook: Summary

## Price growth expected in the 2-3% range in XXXX

The outlook for the UK housing market remains subdued in line with key leading indicators. The latest labour market release shows that employment grew by 82,000 in the three months to March xxxx as the unemployment rate edged down to a record low of 4.2%. While the fact that job creation is positive is promising, it should be noted that this is significantly slower than the gain of 168,000 seen in the three months to January xxxx. However, overshadowing this was the positive news that comparing January-March with a year earlier, pay for employees in Great Britain increased by 2.9%, a pace of growth that exceeded CPI inflation for the first time since January xxxx. Total job vacancies have been rising since July last year, and remain at near-record highs. As the unemployment rate continues to fall, and the flow of overseas workers into the UK slows, it looks likely that competition for workers will support continued rises in pay. Accelerating pay growth will offer consumers some welcome relief. However, with household budgets being constrained for some time, the savings rate near historic lows and borrowing remaining extremely high there is little room for a spending splurge and we expect household demand to stay moderate at best this year. Heightened uncertainty around the general economy will further constrain demand. In addition, tight supply conditions will continue in the absence of sufficient construction activity, despite several measures announced recently to boost housebuilding, and this will provide artificial support to house prices. The latest RICS survey confirms that price expectations in the short-term remain firmly negative, with the poorest balances seen in London and the South East. Over a 12-month horizon, however, price expectations are more positive. We forecast house price growth in to land in the 2-3% range in xxxx with risks still to the downside.

House prices on a modest growth path

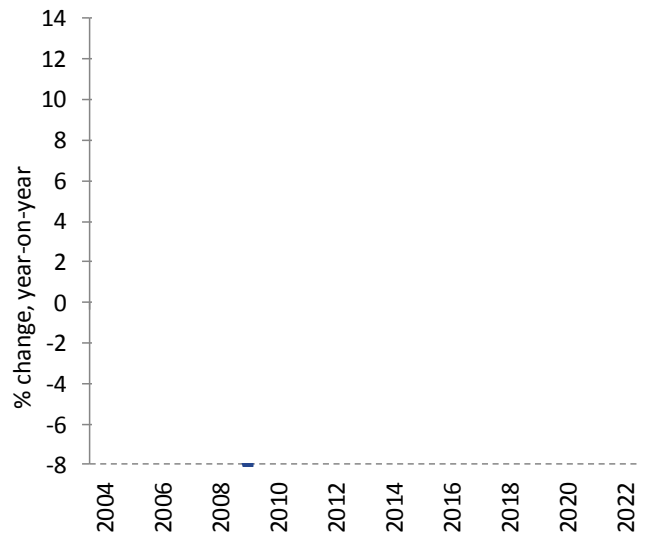


Source: National Statistics, Halifax, Nationwide

**KEY RISK**

The two key risks facing the economy are a breakdown in Brexit negotiations and the steady rise of household debt reminiscent of the period prior to the financial crisis.

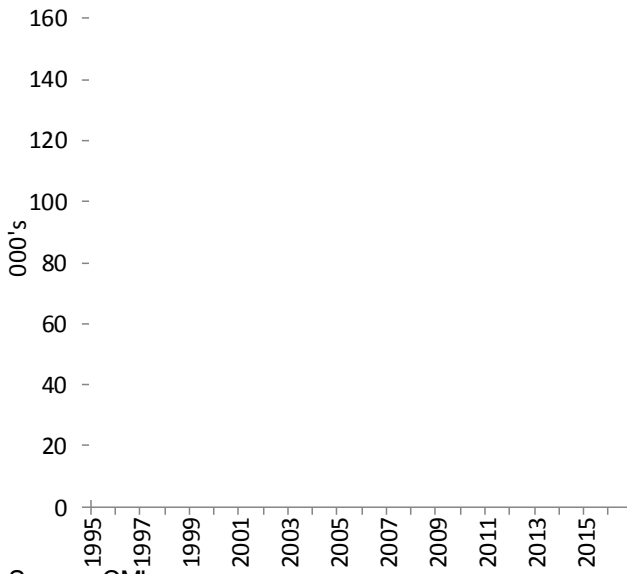
Tight supply and faltering demand flatten outlook



Source: National Statistics, Experian

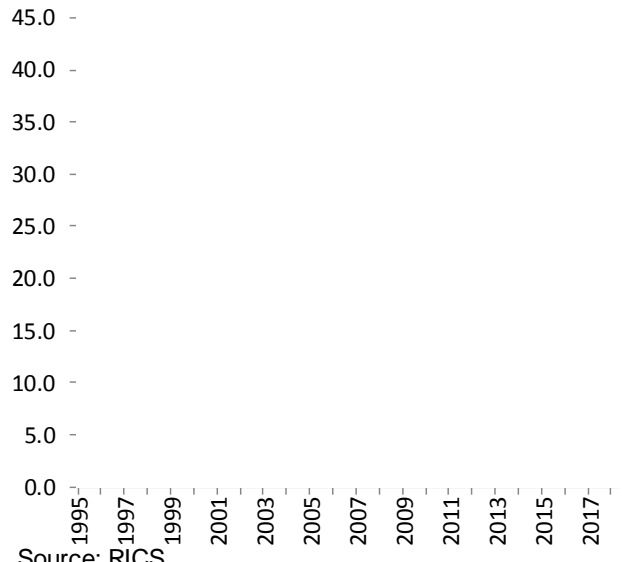
## Housing market outlook

Mortgage approvals weaken in xxxxq1



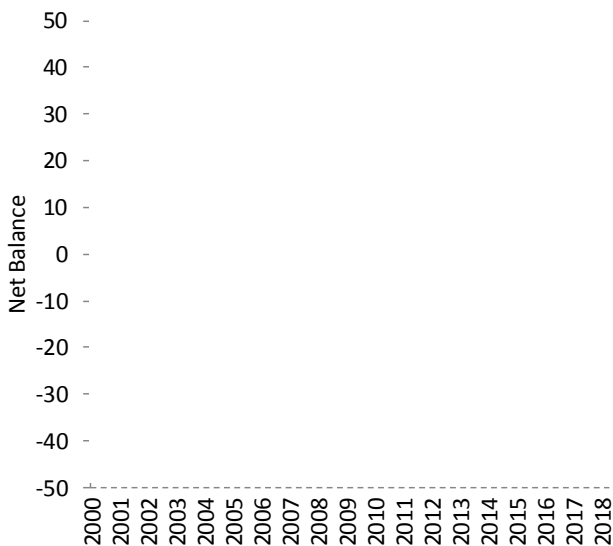
Source: CML

No recovery in sales activity



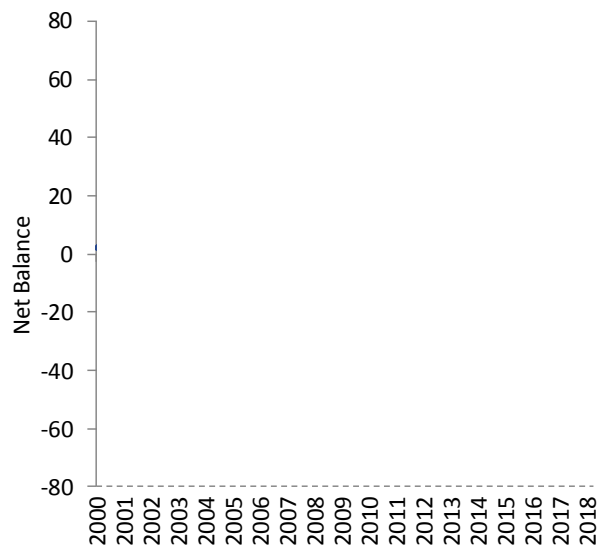
Source: RICS

New vendor instructions still negative



Source: RICS

New buyer enquiries continue to fall



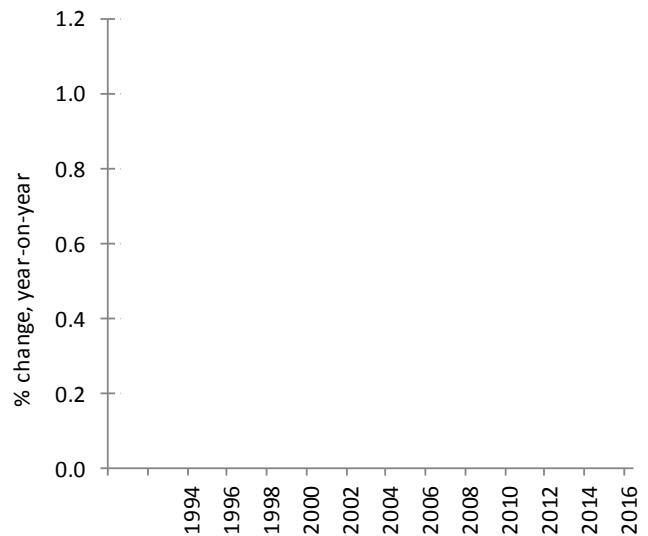
Source: RICS

## UK housing market: Prices and affordability

### Despite low mortgage rates, affordability remains elevated

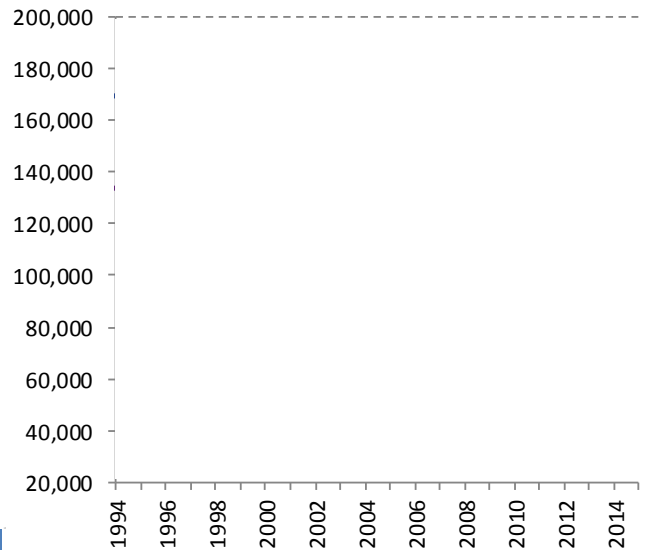
Nationwide data for xxxq1 shows that the house-price-to-earnings ratio (HPER) stayed at 5.2 in the first quarter of this year. It has hovered around this elevated level for about 8 consecutive quarters, close to its all-time high point of 5.4. Mortgage payments as a percentage of income reveals a less negative picture as mortgage rates have fallen. In xxxq4, mortgage payments were 32.5% of mean take home pay, compared to 33.9% just over a year ago. In addition to an elevated HPER and large mortgage payments, first-time buyers (nearly half the mortgage market) face raising large deposits. According to Halifax's First-time Buyer Review, the average first-time buyer deposit put down around £33,000 in the first six months of xxx. This is estimated to be just over 15% of the average house price of about £208,000. It is clear that affordability remains the most significant strain on buyer demand with potential buyers increasingly less able to enter the housing market as prices rise while incomes remain flat. House price growth has been outstripping earnings growth for a considerable time. Real household disposable income growth (of 10% over xxx-xx) has been far outpaced by house price increases (of 25%) over the same period. Regionally, there are marked differences, with the HPER in xxxq1 ranging from a low of 3.2 in Scotland and North East (3.4) to 9.8 in London. Although London's HPER has come down from 10.2 in xxxq3 after house prices saw small decline over xxx, affordability still remains the most constrained in the capital.

House prices edge up while earnings stay flat



Source: CML

Mortgage arrears continue to fall



Source: CML

#### Affordability measures

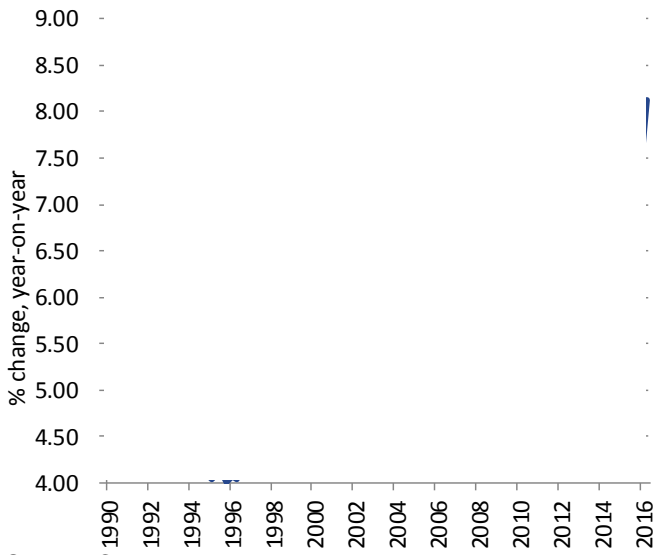
UK (% growth rates)	2008-2012	2013-2017	2018-2022
House price growth			
Disposable Income growth			

Sources: ONS, Experian.



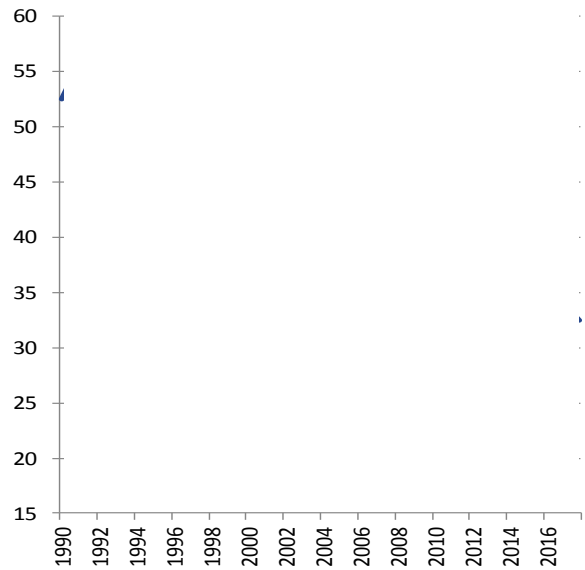
## UK housing market: Prices and affordability

House price to earnings ratio stays at same level



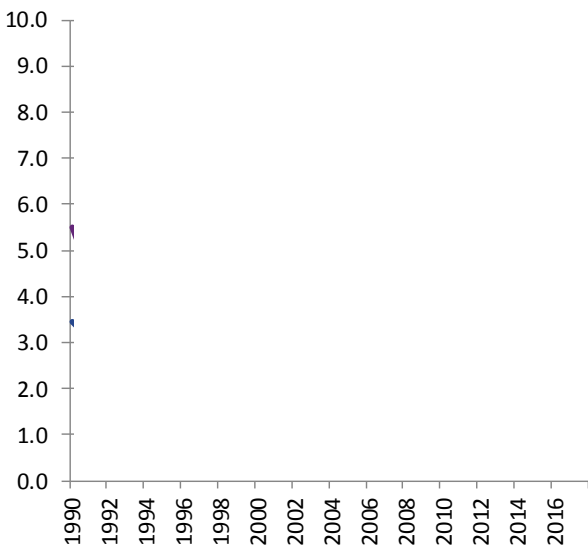
Source: CML

Low rates ease pressure on ftbs



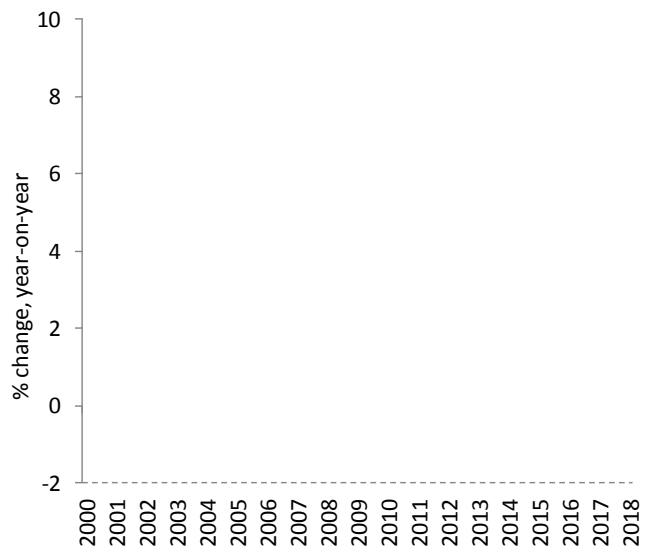
Source: Nationwide

FTB house price to earning ratio begins to flatten



Source: Nationwide and CML

Earnings growth shows some strength



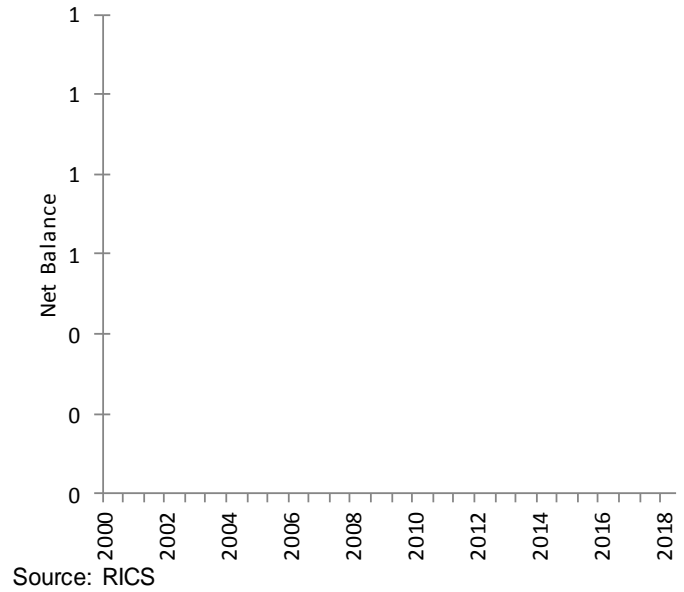
Source: Experian

## UK housing market: Activity and transactions

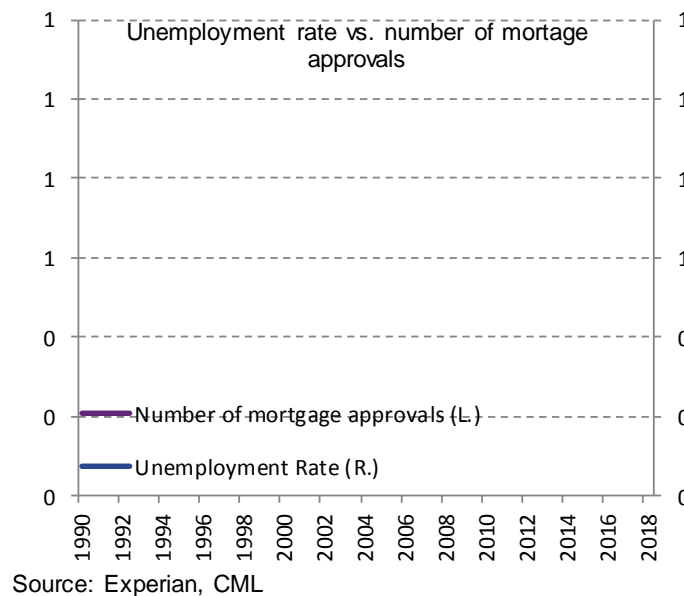
### Sales expectations for XXXX moderately positive

Activity levels, measured by the agreed sales indicator in the RICS survey, has stayed in negative territory since early xxxx. The latest survey shows a further decline in April xxxx, even though the pace of decline has eased from -19 in March to -4. However, shortage of stock and buyer restraint are collectively weighing on activity. There are some regional differences: with newly agreed sales balances ranging from a strong +22 in Wales and +15 in East Midlands to a sharp contraction of -29 in West Midlands. North West, Yorkshire and South East all saw negative balances while other regions saw moderately positive balances on this measure. London saw its run of 13 consecutive quarters of decline end with balances of +10. The longer-term sales outlook is more positive with all regions expecting a pick up in sales activity in xxxx. Balances are the weakest in the West Midlands and Northern Ireland on this measure and the strongest in the North West. Looking ahead, in the short-term (3-month expectations), balances remain negative in the West Midlands and Wales, with all other regions now expecting an uplift in activity. Bank of England data shows weakness in the number of loans available for house purchase. While the number of loans did see a modest rise to around 67,000 in January, it fell sharply to around 64,000 in February, underperforming the 6-month average of 65,000. HMRC data shows that the seasonally adjusted estimate of the number of residential property transactions fell by 0.3% m-on-m in February xxxx. UK Finance's latest statistics reveal that gross mortgage lending was £20.5bn in March xxxx, up from £18.9bn the previous month. Bank of England data shows that gross mortgage lending in XXXXQ1 was £61.1bn, 3.4% up from £59bn in XXXXQ1.

New instructions and new enquiries continue to fall

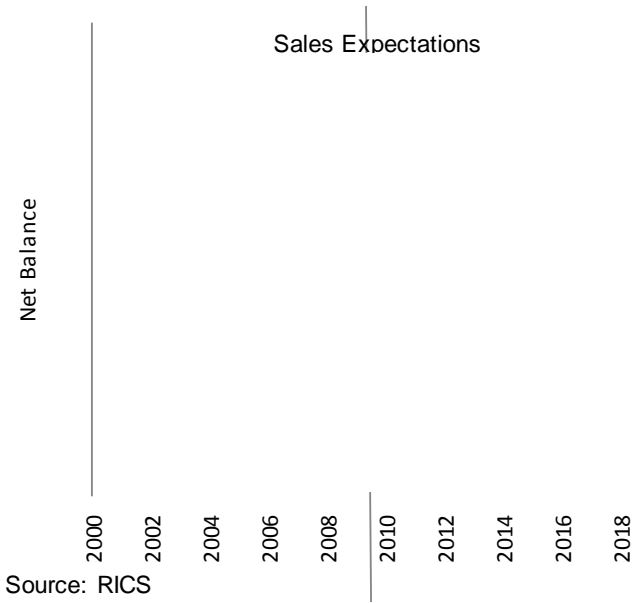


Mortgage approvals still well below peak

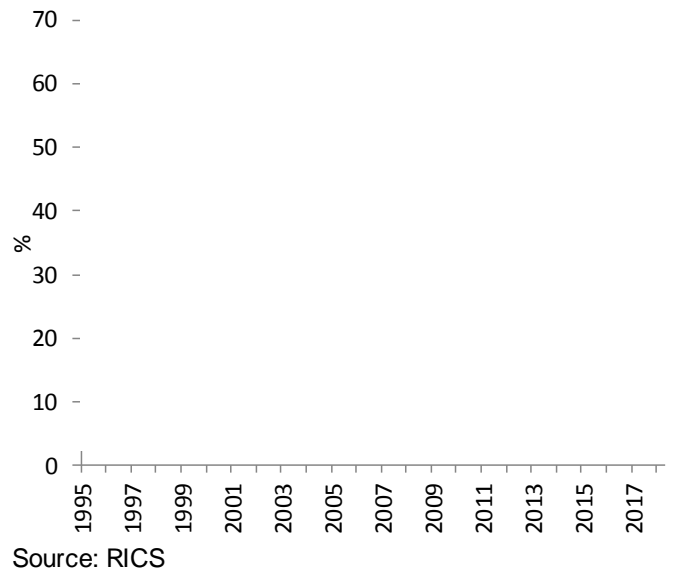


## UK housing market: Activity and transactions

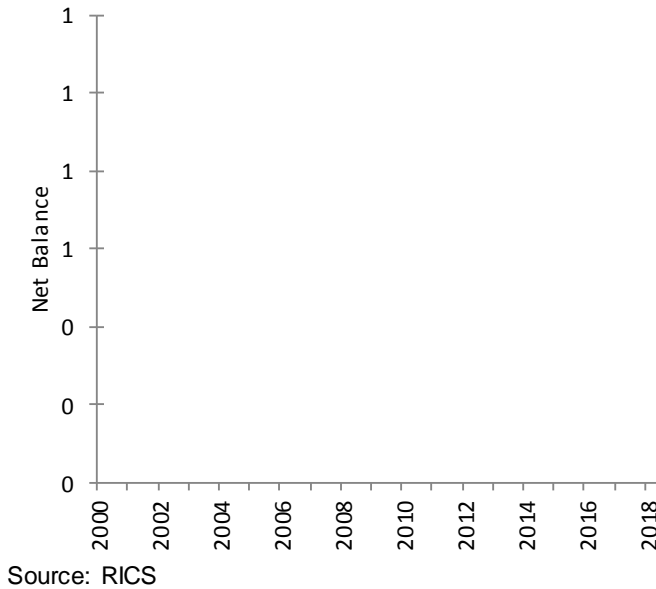
Short-term sales expectations remain downbeat



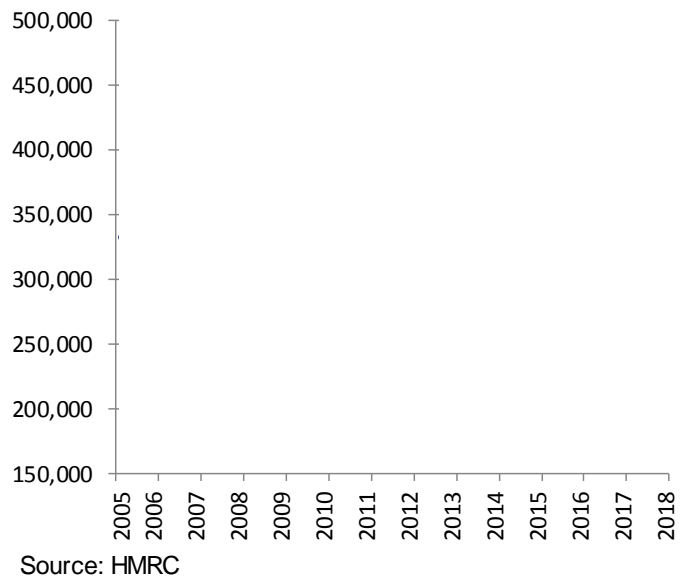
Sales to stock ratio weakens further



Agreed sales see no recovery



Number of transactions considerably below trend



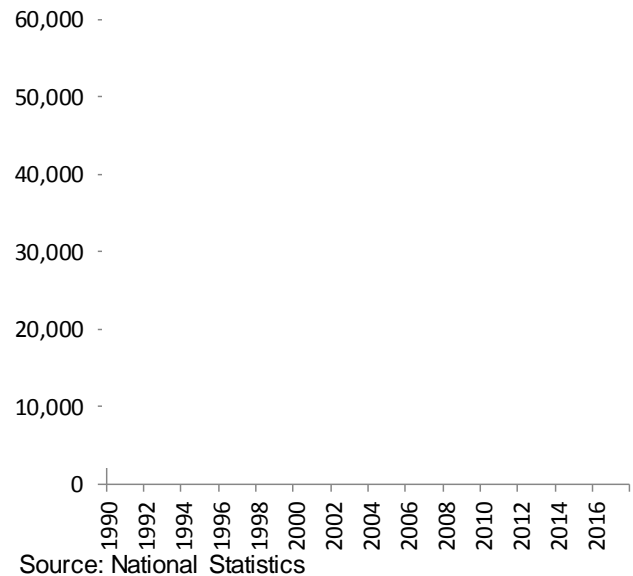
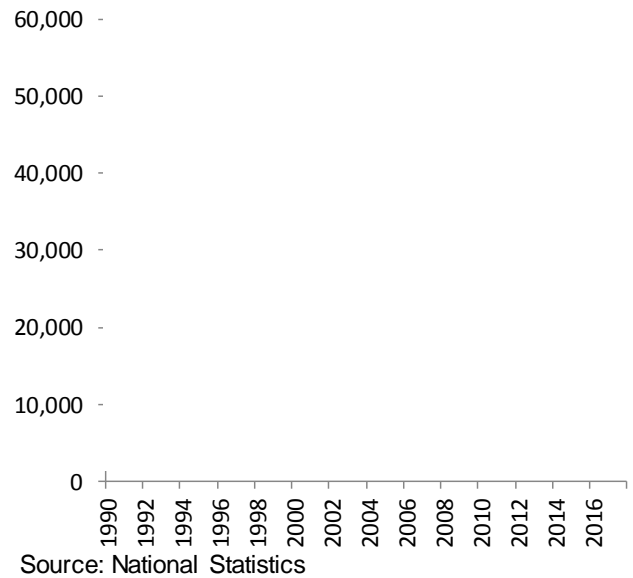
# UK housing market: The supply side

## English starts and completions show a small rise in XXXXq4

The first half of xxxx saw the momentum in GB private housing starts slow, with the trend worsening over the course of the year. Starts rose by a modest 2 per cent in xxxxQ1 followed by a 5% increase in Q2, but then suffered a sharp decline of 11 per cent in the third quarter. The four-quarter moving total series saw growth slow to 3 per cent in xxxxQ3 bringing the total number of units on this measure to 158,400. English starts fell by 9 per cent in xxxxQ3 but then bounced back by 8% in the final quarter of the year. On a four-quarter moving total basis, English starts recorded no growth on this measure in xxxxQ4.

GB private housing completions fell by 2% in xxxxQ3, with the total number of units on the four-quarter moving basis at 147,500 units. English completions registered strong growth of 11 per cent q-on-q in xxxxQ1 but then saw no real change in the second or third quarters. English completions did pick up by 7% q-on-q in the final quarter of the year, with growth on the four quarter rolling total measure a more sedate 4%.

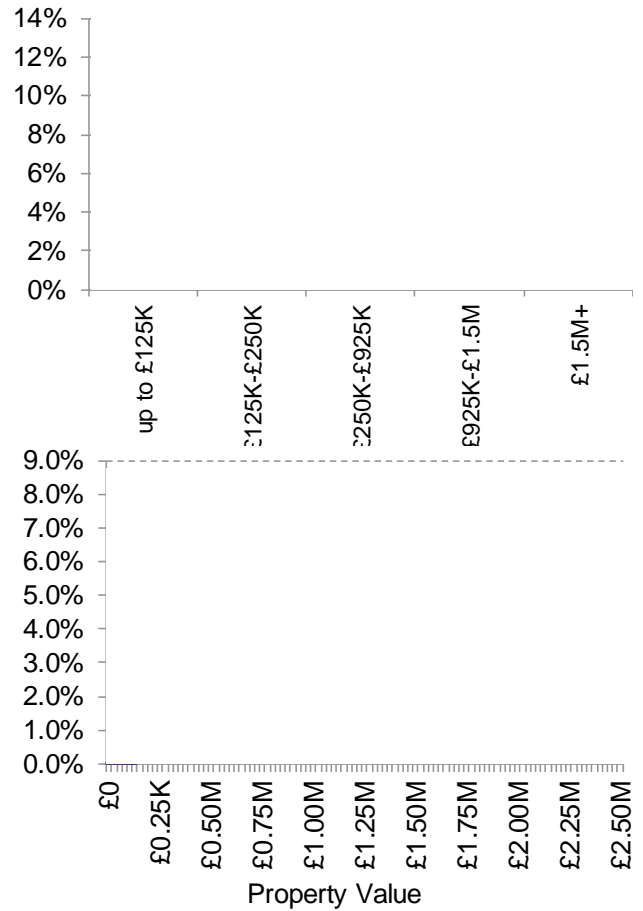
ONS data shows that private sector construction is dominated by new houses which constituted nearly 80 per cent of new builds in xxxx/xx. A decade ago, houses constituted about 55 per cent of new private sector dwellings and flats the remaining 45 per cent. Three and four-bedroom properties (for both houses and flats) continue dominate the private new build sector, collectively constituting over 70 per cent of new construction in xxxx/xx.



## UK housing market: The policy side

### Recent policy has focused on supply and first-time buyers

On the policy side, recent moves have been largely supportive of increasing the housing stock and encouraging first-time buyers. £15.6bn of new funding has been set aside to encourage more house building. While the Monetary Policy Committee (MPC) kept rates steady at 0.5% in May, it signalled that rates could rise earlier than was previously thought due to a more stable economy than expected. Even with two further 0.25pp increases on the horizon until end-xxxx, interest rates remain historically low which will support demand. The xxxx Budget introduced measures to help first-time buyers, significantly the abolishing of Stamp duty for first time buyers on homes up to £300,000 and, in London, the first £300,000 of a home up to £500,000. While intended to be supportive of demand, it is likely to have only a modest impact as first time buyers tend to pay only a small amount of stamp duty already, given the price of a typical first-time property outside of London is around the previous threshold of £125,000. The Financial Stability Report published in xxxx reviewed risks from the UK mortgage market. Key amongst the recommendations to mitigate these was the affordability criterion requiring lenders to test that borrowers are able to weather increases of up to 3 percentage points above the rate specified in the mortgage contract. This suggests that some borrowers may find it difficult to get a mortgage under these tighter rules, weighing on demand even further. Meanwhile, other schemes currently in place include a stamp duty charge levied on buy-to-let properties and second homes that came into force in April xxxx. In addition, a change was also introduced in buy-to-let tax relief whereby mortgage interest tax relief was cut back to 20% between xxxx and xxxx. From April xxxx, landlords have no longer been able to deduct 10% of their rental profits as notional wear and tear. Also, the government announced plans to ban letting agents' fees, a measure that could potentially further curb investor interest.



- The government has allocated £15.6bn of new funding to support house building
- Stamp duty relief for first-time buyers will marginally help support demand
- New rules require greater stress testing of buyers, potentially excluding some from the market.

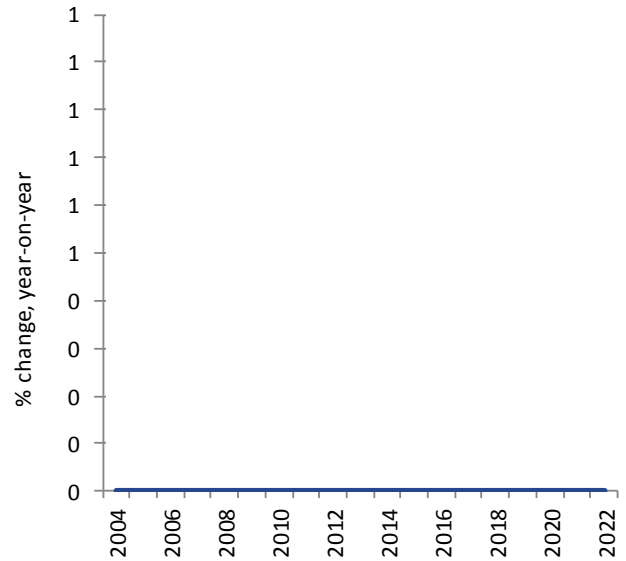
**Key Policy Issues**

## UK housing market: Regional outlook

### London the only region to see annual house prices fall in XXXXQ1

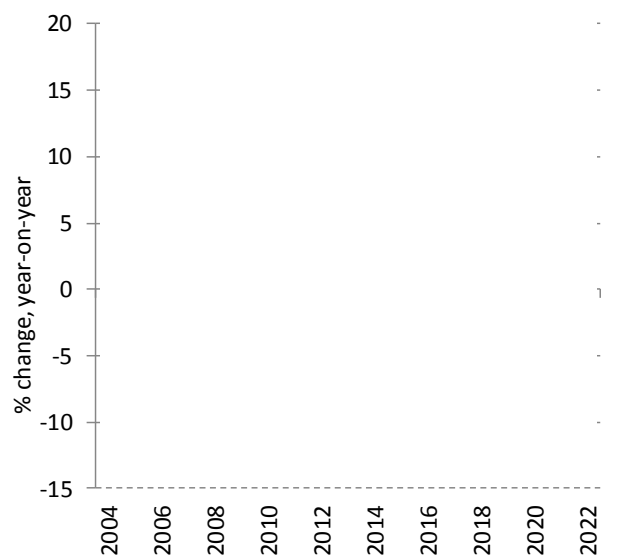
Nationwide house price data for xxxxq1 shows that London was the only region to see a negative annual growth in contrast to a modest national rise. While UK house prices rose by 2.5% y-on-y in xxxxq1, London was the worst performer with a fall of 1% over this period. Despite weak growth rates, the capital still has the highest level of house prices (£473,776 in xxxxq1) by a significant margin. While price growth has cooled markedly across all the boroughs, the decline in the inner boroughs remains more pronounced. The latest RICS survey shows that short-term price expectations for the London housing market stayed negative in March xxxx, marking 26 consecutive months of decline. While the London housing market is affected by a muted economy as well as uncertainty around the outcome of Brexit negotiations like the rest of the country, it is also weighed down by significantly higher transaction costs. To some extent, the current decline in prices is an adjustment to these higher costs. Anecdotal evidence suggests that while there has been stabilisation in activity, the lack of urgency in the market means this will not be sufficient to push up prices. The best performing British region was Wales with annual growth a strong 6.1% in xxxxQ1. Other better performing regions included West Midlands (4.9%), East Midlands (4.5%), Yorkshire & the Humber (4.1%) and North East (4.1%). Closer to the UK average were the North West (3.2%), South West (2.9%), East Anglia (2.5%) and South East (2.1%). Northern Ireland posted a strong outturn with annual house price growth of nearly 8% in xxxxQ1 but house price levels remain significantly below those of all other regions. Our medium-term outlook for regional performance remains unchanged. All regions will come under pressure from the squeeze on employment and incomes which will curb housing demand across the UK, but given tight supply constraints and low interest rates, house prices will remain in moderately positive territory.

House prices in the capital stay weaker than trend



Source: DCLG, Experian

House price trends in the south move together



Source: DCLG, Experian

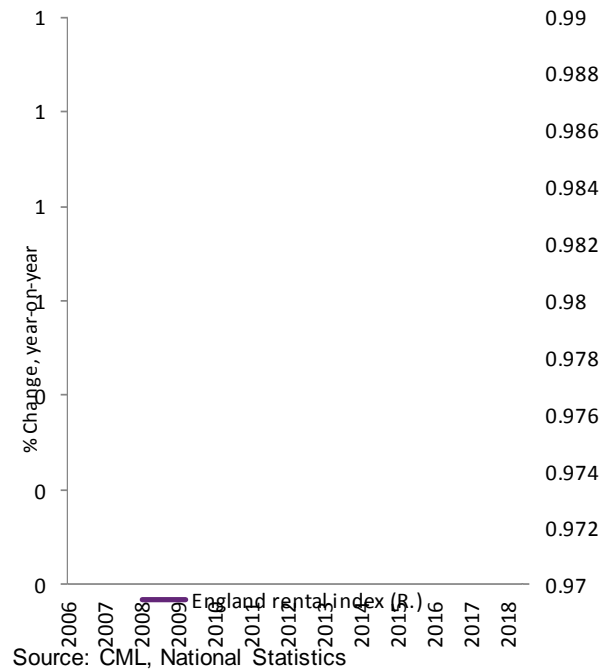
# UK housing: The rental market

## Rental growth stays flat in the year to March XXXX

The latest ONS Index of Private Housing Rental Prices shows that rental price growth in Great Britain stayed at a muted 1.1% in the year to March xxxx, reflecting no change from the previous two months, but down from 2% in March xxxx. Rental growth in London in the 12 months to March xxxx was a marginal 0.1%, well below the English average of 1.1% and the weakest pace of rise in all the regions. The RICS survey suggests that the London rental market remains weak with both tenant demand and landlord instructions negative. Overall, rental expectations in London are negative; London is now the only region where this is the case. We expect this trend to continue in the near term as the dynamics of demand and supply offset each other: on the demand side, we expect continued job creation and income growth in the TMT and professional service sectors, which are now a key source of rental demand in the capital. However, on the supply side, the joint impact of 'accidental landlords' who are forgoing selling their properties as a result of high transaction costs and a large number of new builds being put on the market is creating oversupply on the market that offsets the impact of improved demand. Our view remain that overall trends are unsupportive of robust rental growth in Prime Central London.

Rental growth in Wales, at 1.2% in the year to March xxxx, was close to the English average while Scotland saw a more sedate rise of 0.7% over the same period. The average for England also masks some regional disparities. The East Midlands remain the strongest performer by a considerable margin with annual rental growth at 2.7% in March xxxx. The South West (2.1%), East of England (1.9%), West Midlands (1.8%) and South East (1.7%) were in the next tier of growth. Yorkshire & the Humber (1.4%) and North West (1.2%) saw performance closer to the English average while North (0.2%) and London (0.1%) are clear laggards on this measure.

Rents v house price patterns



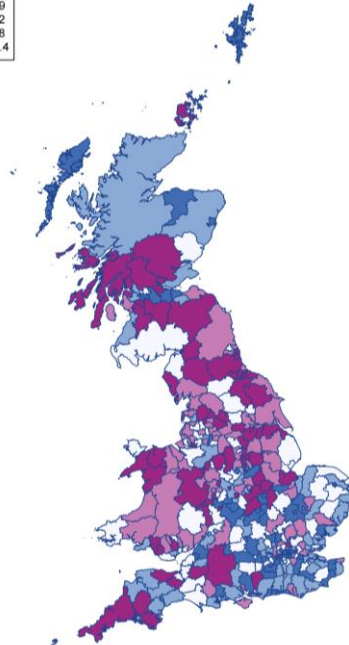
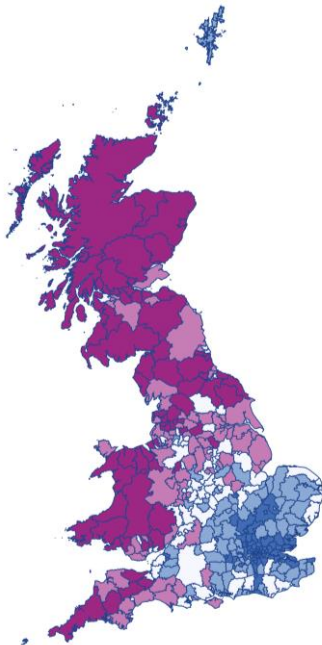
- Annual rental growth stayed at a weak 1.1% in March 2018.
- Scotland's rental market has improved but still lags the English and Welsh average by a considerable margin.
- Tenant demand stays flat while landlord instructions continue to fall.
- Near-term rental expectations moderately positive but easing.

### Highlights



## UK housing market: Local area forecasts

Highest Annual Growth (%)		
Region	Local	
Greater London		
Scotland		
South East		
East of England		
South West		
North West		
Yorkshire and the Humber		
East Midlands		
West Midlands		
Wales		
North East		



Sources: ONS, Experian. Regions and local forecast vintage: Mar XXXX



## Economics from Experian

### Our economic forecasting expertise

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