EMBARGOED UNTIL 16/08/23

Asking Price Index

Released 16/08/23 August 2023

Prices Hold Firm in the North but Slide in the South

Headlines

- Asking prices across England and Wales have taken what could be regarded simply as a seasonal dip of 0.3% since last month, although at the same time rising mortgage costs are inevitably dampening vendors' expectations, most notably in the South.
- Accordingly, year-on-year growth in asking prices is now -1.8%. This minor fall represents the total drop from last year's peak pricing in August 2022.
- The Typical Time on Market for unsold property in England and Wales increased by just two days during July, consistent with seasonal expectations. The current median is a relatively healthy 80 days, which is considerably lower than at any point during pre-pandemic 2019.
- The total sales stock count for England and Wales increased again towards levels last seen in 2019. The current total of unsold property is 445,363.
- Despite falls in most English regions, asking prices have risen since last month in the North West, Yorkshire and Scotland, attesting to the continued strength of these northern markets. Welsh prices remain unchanged.
- The supply rate of new instructions entering the market remains very restrained: down 2% vs. July 2022 and down 4% vs. July 2018. The largest year-on-year rise was in the East of England (+5%).
- Typical Time on Market for unsold property has risen in all English regions since last month with the exception of the North West and London, which fell by one and three days respectively. The median also increased in Scotland and Wales.
- The Scottish property market remains the leader in terms of annualised regional price growth (5.5%), while falls in London are now outpaced by the East of England at -3.7%.
- Rents across the UK continue to rise overall (11.9% annualised) and are now led by the East Midlands (up 17.8%) where supply of available properties remains tight.
- The current rent growth leaders in London asking rents are the boroughs of Bexley and Hillingdon (+40% and +31% annualised respectively).

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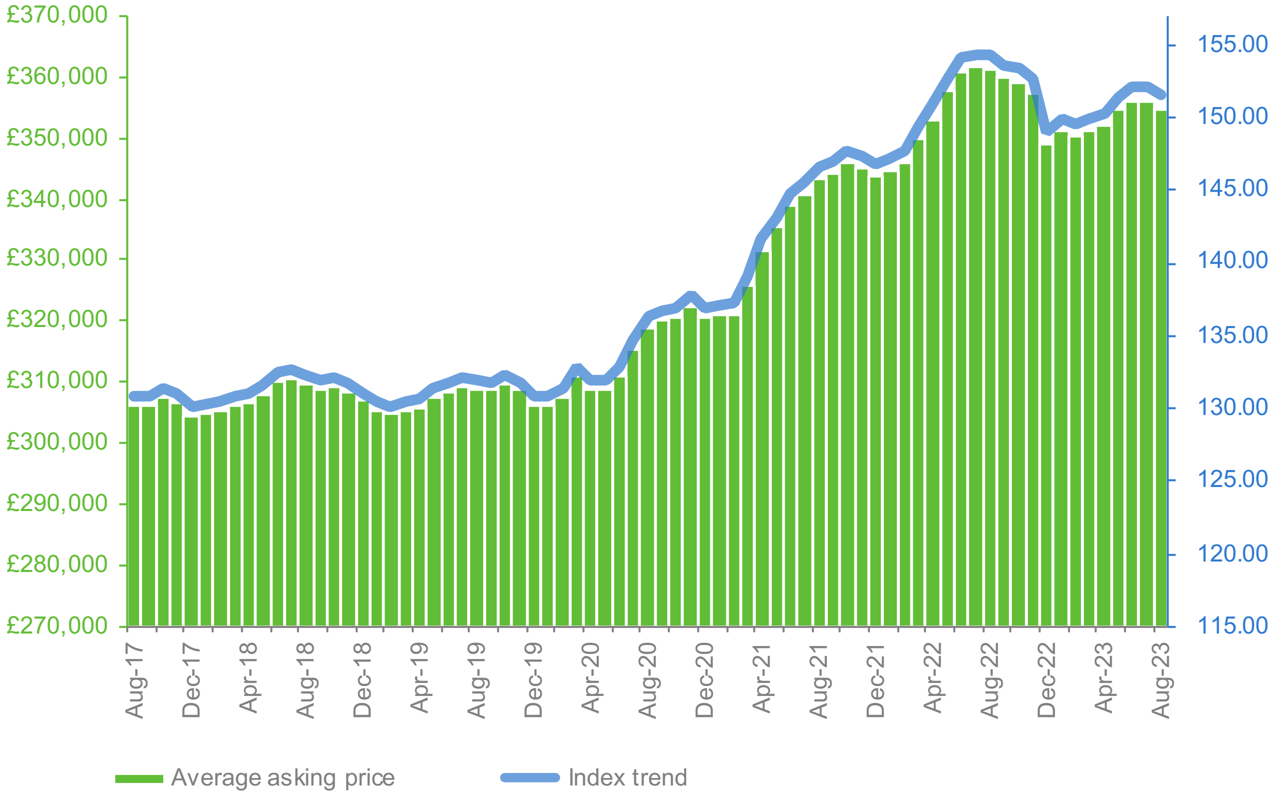
The Home.co.uk Asking Price Index was originally devised in association with Calnea Analytics Ltd

Home Asking Price Trend for England & Wales



Source: Home.co.uk Asking Price Index, August 2023, Indexed to May 2004 (Value=100).

Summary

The UK property market continues to show remarkable resilience in the face of rising borrowing costs. Key indicators such as marketing times and stock levels continue to weigh in lower than observed in pre-COVID years 2018 and 2019. Meanwhile, following the December 2022 drop, pricing remains relatively firm overall with no notable increase in price-cutting of on-market properties. Of course, the mix-adjusted national average is down compared to August 2022, but this is precisely when prices peaked at the end of the unprecedented COVID boom that saw stock levels decimated in the rush to buy.

While increased mortgage rates are having a negative effect on market sentiment, it should be noted that current observations are not outside the normal seasonal cycle. Indeed, both prices and stock levels typically peak during the summer. It therefore remains to be seen if this is indeed the case or whether unsold stock totals continue to rise later in the year, which would indicate a switch from scarcity to overabundance. However, given the extreme demand and low supply in the rental sector, this scenario would appear unlikely for the time being.

A further hike in the base rate of 0.25% to 5.25% earlier this month has attracted criticism as essentially being too much too late. Even the Bank of England themselves say that inflation will fall of its own accord, so why risk a recession and financial hardship for millions of citizens? Indeed, the full effect of the recent rises in the cost of borrowing have yet to be revealed so the risk of overshooting the target is significant, along with collateral damage to the UK property market.

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Fortunately, despite the apparent rashness of the BoE decision, UK property owners have not panicked and neither should they. There is no huge surge in sales listings and vendors are not slashing their prices any more than usual. Stock levels have bounced back from record lows but this is to be expected and heralds a return to more normal market conditions after a frenzied boom. Time on market figures remain relatively low for the time being. Going forward, the future trajectory of stock levels will largely dictate the course of the market but, while the rental market has seemingly insatiable demand, there seems little prospect of a true buyer's market.

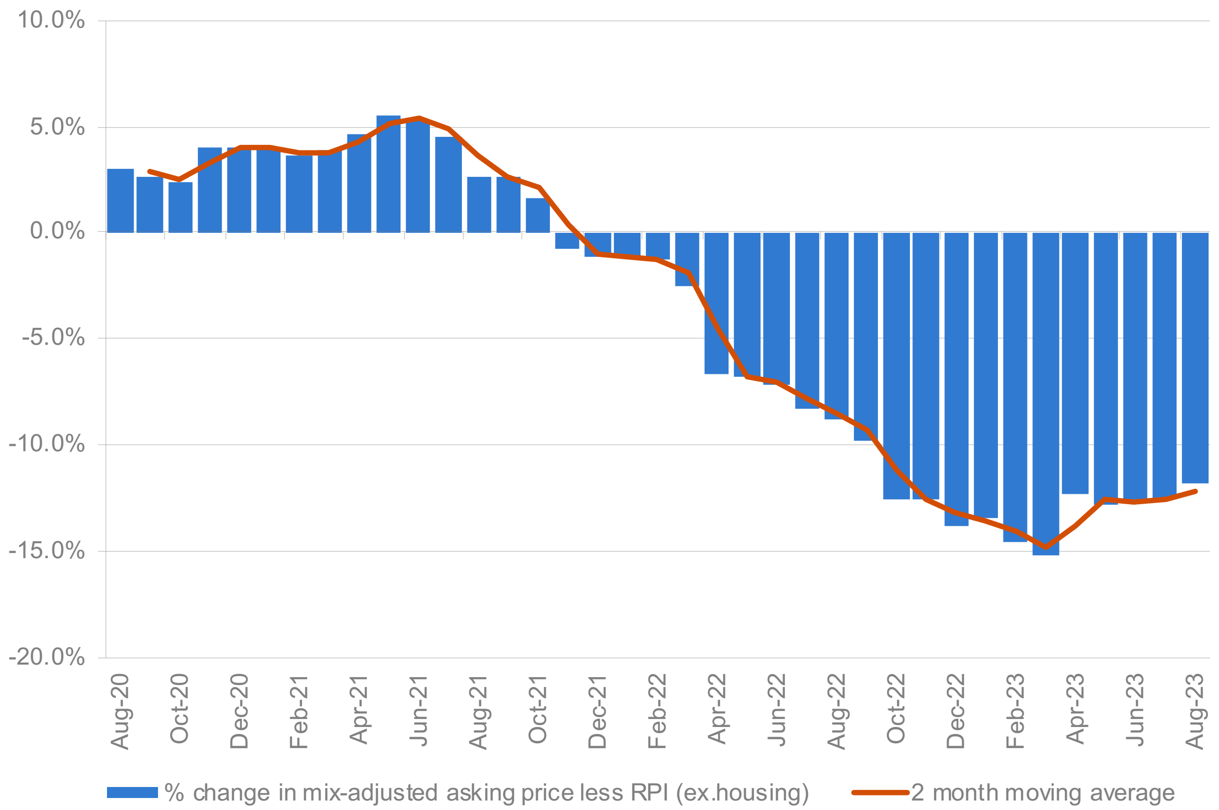
Prices did not fall in all regions last month. The North West and Yorkshire both posted modest rises while Scotland added a significant 0.9% to the mix-adjusted average. Wales showed no change in the average price. In fact, the northern regions, Wales and Scotland all continue to show momentum greater than before COVID and pricing remains robust, thanks to persistent demand.

Rents continue to rise rapidly in every English region, Scotland and Wales. Overall, the mix-adjusted average annualised rise for the UK stands at 11.9%, while rent inflation in the East Midlands stands at an eye-watering 17.8%. Mandatory licensing schemes, energy performance upgrades and rising mortgage rates will only make the situation worse for tenants, as landlords either quit or – more likely – raise rents to cope with their much-increased costs.

The annualised mix-adjusted average asking price growth across England and Wales is now -1.8%; in August 2022, the annualised rate of increase of home prices was 5.2%.

Home prices are down 1.8% overall in England and Wales since August 2022. This minor correction is a world apart from the fearmongering forecasts being

Real Asking Price Growth, England and Wales



Source: Home.co.uk Asking Price Index, June 2023 and ONS [RPI ex. housing]. Inflation for July and August are our estimates.

issued by so-called experts. In fact, considering that the Bank of England started incremental hikes in the base rate 20 months ago, the damage to home values appears minimal. Small nominal falls are to be expected during periods of high monetary inflation, of course, since the real losses are masked by inflation.

Real house price growth generally goes unreported in the media. Even the more specialised property news outlets rarely cover the topic. However, correcting price growth for the effect of inflation is vital, both for understanding the market cycles better and for asset management. Looking at the real home price growth chart, we can clearly see that significant falls in real terms began around April 2022 and a major price correction has been taking place ever since, with the greatest monthly falls around March this year.

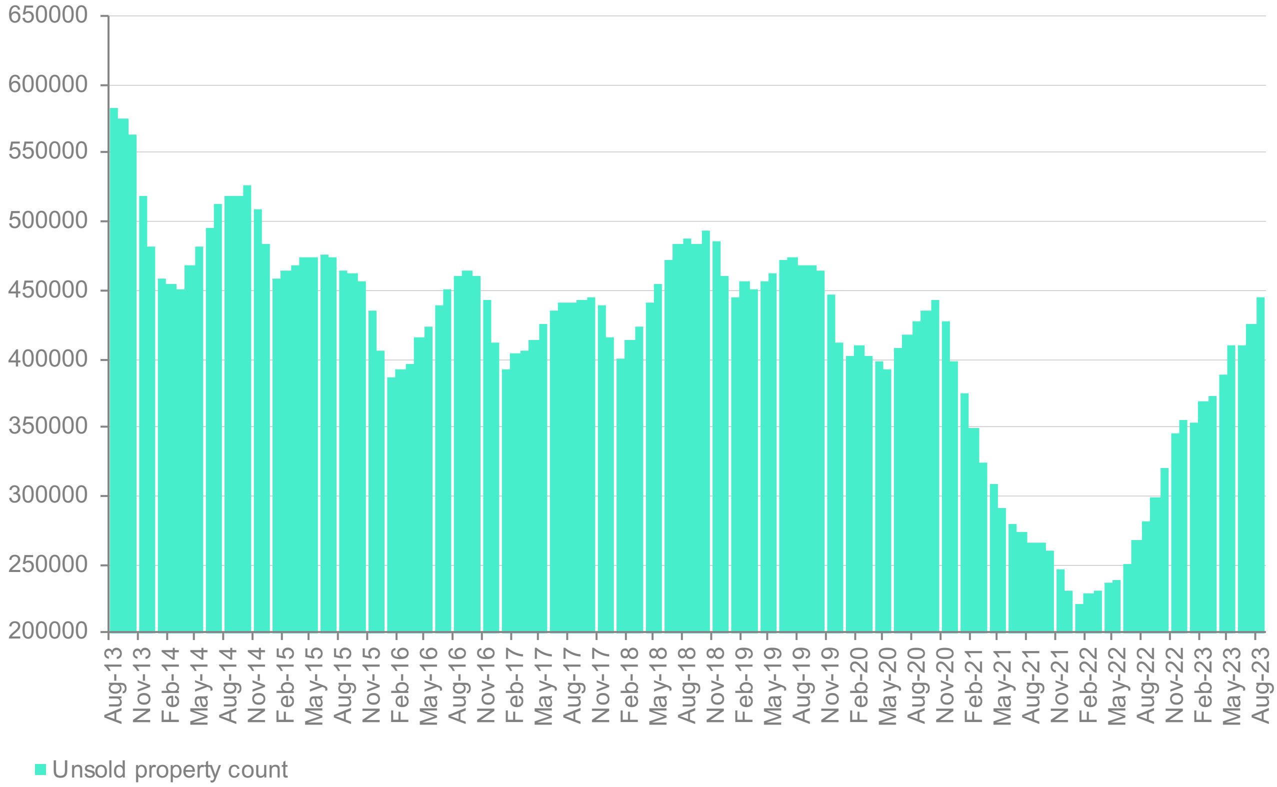
So, the property pundits' gloomy forecasts were partly right. They simply failed to take inflation into account. Fortunately for the banks, these real losses will not register on their balance sheets. Meanwhile, they look set to make record profits, thanks to higher interest payments. This is despite the fact that they have been issuing loans below the rate of inflation, which is only possible due to central bank financing.

Given that energy and basic foodstuffs have fallen considerably over the last year, inflation will come down accordingly and a return to positive real home price growth may be expected when the Bank of England begins to reduce the base rate.

Stock Levels

Stock levels continue to recover from the unprecedented low set in January 2022. The current total of unsold property on the market is just north of 445,000 (around 30,000 more than the 10-year average). This figure is lower than both August 2018 and 2019 and

Total Stock of Property for Sale, England and Wales



Source: Home.co.uk Asking Price Index, August 2023

therefore may be regarded as a return to more normal market conditions. Seasonality would predict a slight downward trend from October and, should this indeed be the case, it would further confirm the recovery.

However, should stock levels continue to rise at odds with seasonal expectations, this will be troubling for the market and likely induce a softening in pricing. As we pointed out last month, this scenario is consistent with prior episodes of monetary tightening where the ratcheting up of interest rates eventually triggered a market downturn. However, stock levels are much lower than they were in 2008 and interest rates were much higher then. In addition, scarcity in the lettings sector means that difficult to sell properties are being put up for rent.

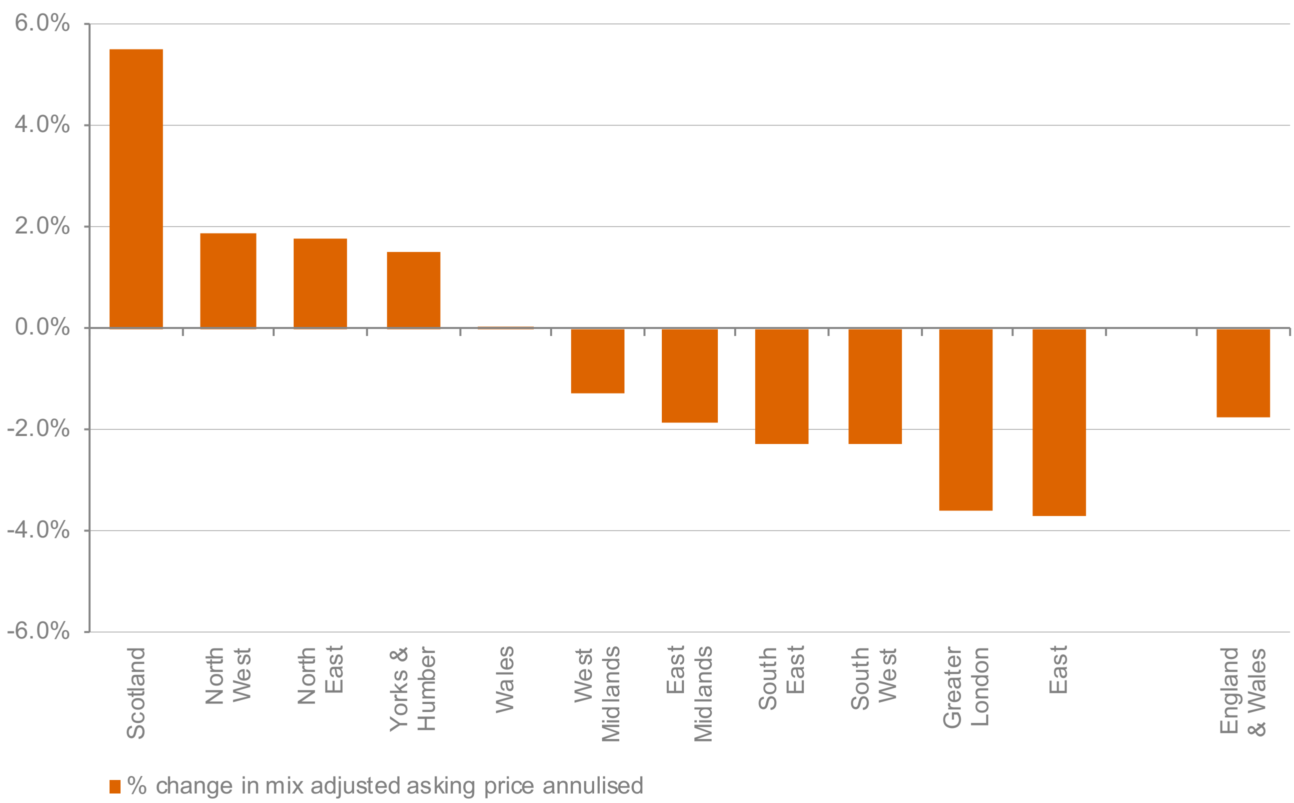
Moreover, the supply of new instructions into the marketplace remains restrained. July's total of new sales entrants across the UK is 2% less than July 2022 and 4% less than July 2018. Clearly, we are not currently witnessing a panic-induced flood of sales as was precipitated by the 2008 financial crisis.

Regional Roundup

Home price growth at the regional level has shown significant variation over the last year. Our chart shows that London and southern regions have taken most of the hit while those further west are relatively unscathed and the northern regions have actually prospered. However, price falls in London and the East over the last twelve months are not negligible, while Scottish house price growth is miles above even the best-performing English regions.

What is clear is that, thus far, sufficient demand remains in the north to support prices despite the rise in mortgage rates. Home values in the north are much lower than in the south and, for some time, landlords have refocused their acqui-

12-month Regional Price Growth



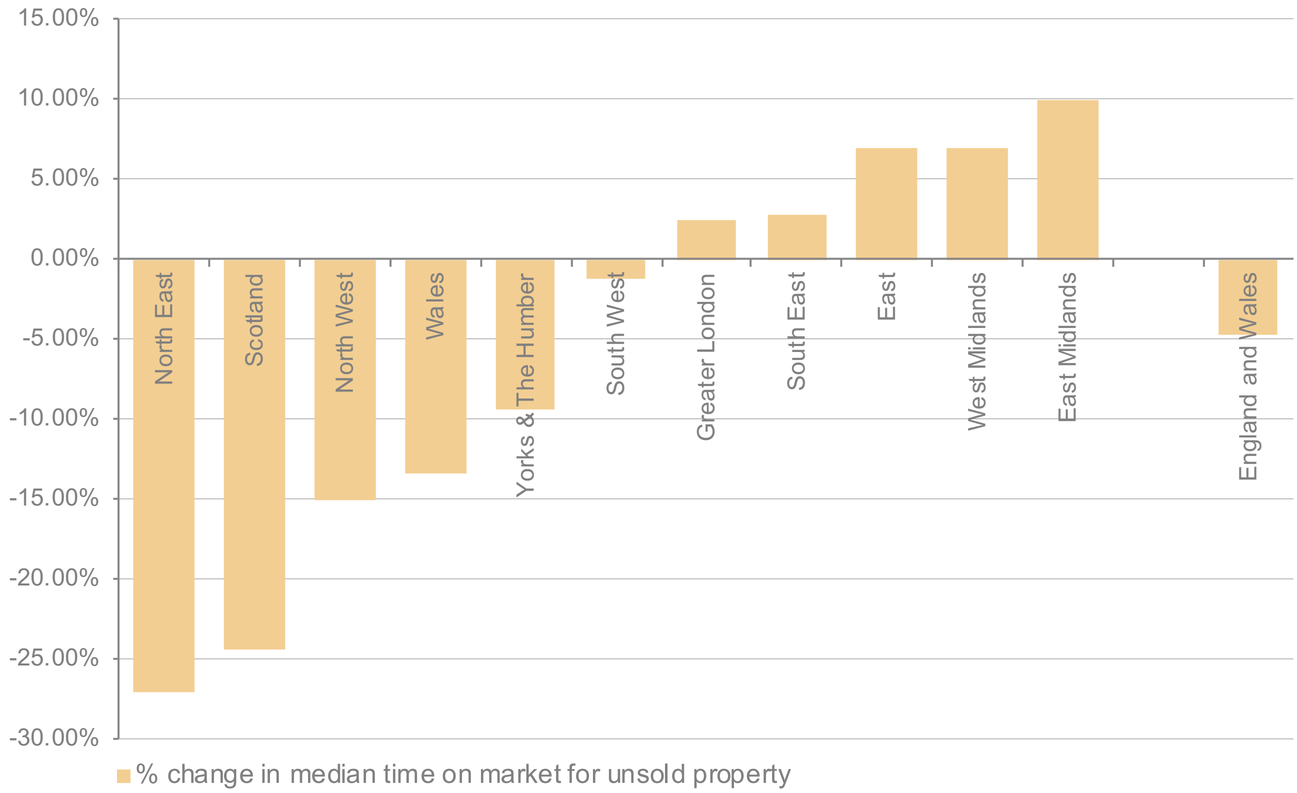
Source: Home.co.uk Asking Price Index, August 2023

sitions northwards due to the better yields available. Moreover, the increased acceptance of working remotely allows homebuyers the opportunity to purchase a more substantial property for much less money. COVID accelerated this trend, which could be described as a 'levelling up' between the affluent south and the underinvested north.

This trend, driven by pricing disparity, is likely to continue for some time. Comparing the relative changes in marketing times at the regional level over the last five years, we may observe that the most improved markets correspond with those that are currently benefitting from price growth.

The chart also indicates that the current Typical Time on Market for unsold property for England and Wales is lower than it was in pre-COVID July 2018. This key indicator bodes well for the market overall.

% Change in Typical Time on Market, Aug 2023 vs. Aug 2018



Source: Home.co.uk Asking Price Index, August 2023

I couldn't help but sigh inwardly at the news of a further hike of 25 basis points in the base rate by the Bank of England earlier this month.

As Abraham Maslow said: 'If the only tool you have is a hammer, you tend to see every problem as a nail.' And hammer that nail they will, even though it's too much, too late and pretty much pointless, as the cause of this inflation is already over.

Arguably, the key driver of this wave of inflation was the vast amount of money printing during the pandemic which was a coordinated action by all the main central banks, including the Old Lady of Threadneedle Street. In doing so, they created a slew of new billionaires and a huge spike in commodity prices. It now seems truly lamentable that it is ordinary citizens who are being forced to pay the price for this folly in the form of higher borrowing costs.

The knock-on effects for the wider economy, which desperately needs reinvestment, will not be pleasant. Expect belt-tightening, lay-offs and bankruptcies. The shored-up pound will favour imports over domestic production, which is already hamstrung by Green pipe dream policies. Of course, the too-big-to-fail banks are going to have a rare old time of it. Their profits will ramp up massively as borrowers come to the end of their cheap fixed-rate deals. I wonder if the government will impose a windfall tax on these mollycoddled behemoths? Given that Rishi Sunak's government has eased the tax burden on banks by reducing the bank surcharge in order to compensate for a rise in corporation tax earlier this year, I very much doubt it.

Italy, on the other hand, has taken a much stronger line with their banks as Kalyeena Makortoff reports for the Guardian: 'Italy has announced a one-off 40% windfall tax on local banks that have been accused of reaping billions in extra profit from rising interest rates.

'The Italian government, which approved the surprise tax in a cabinet meeting on Monday night [7th August], said it planned to use the proceeds to support mortgage holders and cut taxes, at a time when rising rates have put extra pressure on households.'

Italy's deputy prime minister, Matteo Salvini, told a news conference in Rome: 'One only has to look at the banks' first-half 2023 profits, also the result of the European Central Bank's rate hikes, to realise that we are not talking about a few millions, but we are talking, one can assume, of billions.'

Makortoff goes on to explain: 'Bank profits have soared in recent quarters because rising interest rates have allowed them to increase the amount they charge borrowers for loans and mortgages at a faster pace than they improve returns to savers. Lenders have pocketed the difference, known as the net interest margin and a key measure of their profitability. The Italian government intends to tax 40% of this net interest margin, probably for 2023 as a whole. The payment is due by mid-2024.'

Well, something similar would certainly help incentivise UK banks to offer better deposit rates to wannabe homeowners saving for a deposit. They should at least be in line with, if not slightly above, the rate of inflation.

Doug Shephard
Director at Home.co.uk

UK Asking Prices

England & Wales	Aug-23
Average Asking Price	£354,845
Monthly % change	-0.3%
Annual % change	-1.8%

Scotland	Aug-23
Average Asking Price	£226,643
Monthly % change	0.9%
Annual % change	5.5%

North East	Aug-23
Average Asking Price	£189,241
Monthly % change	-0.3%
Annual % change	1.8%

Yorks & The Humber	Aug-23
Average Asking Price	£248,446
Monthly % change	0.1%
Annual % change	1.5%

North West	Aug-23
Average Asking Price	£262,311
Monthly % change	0.2%
Annual % change	1.9%

West Midlands	Aug-23
Average Asking Price	£301,443
Monthly % change	-0.2%
Annual % change	-1.3%

East Midlands	Aug-23
Average Asking Price	£284,504
Monthly % change	-0.3%
Annual % change	-1.8%

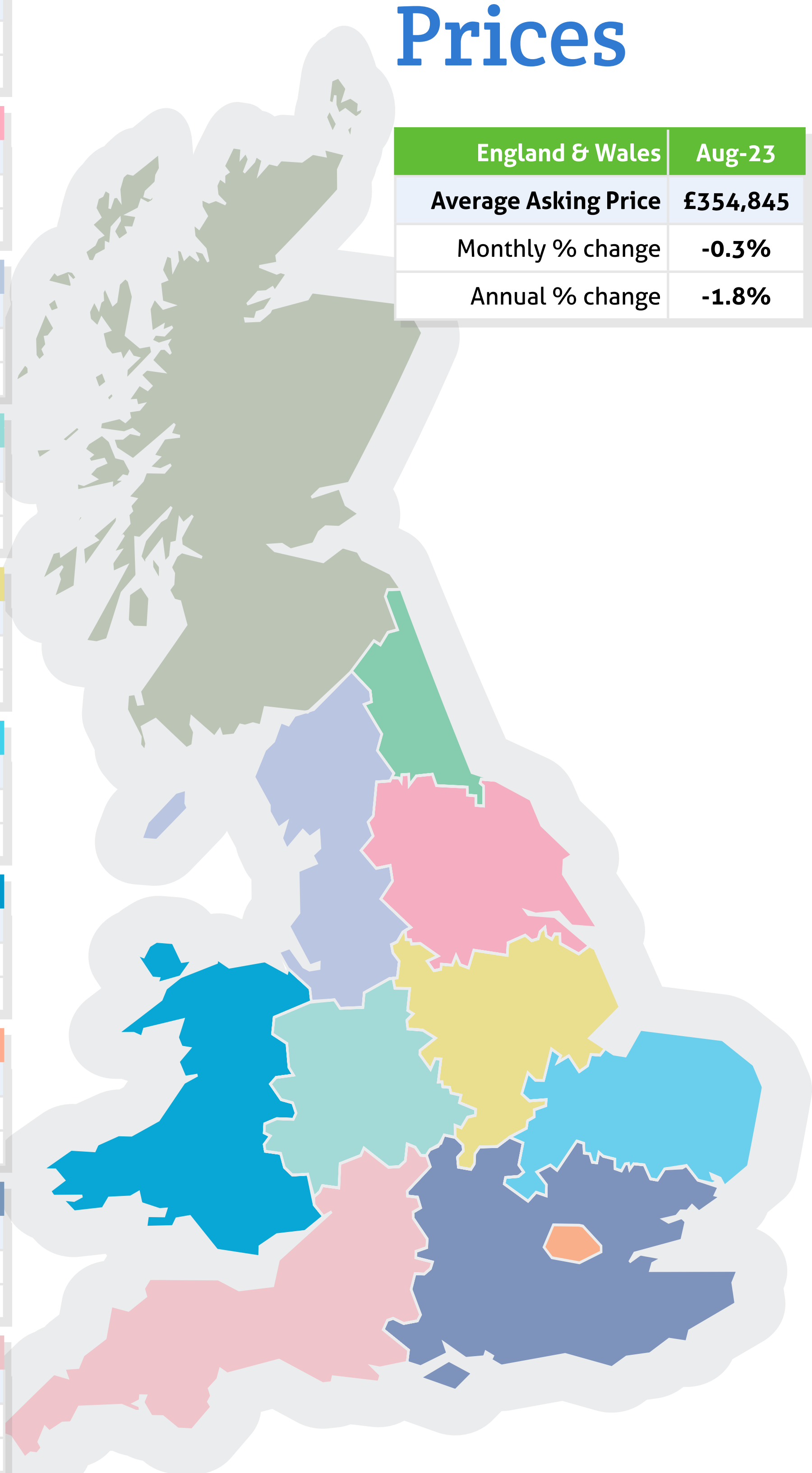
East	Aug-23
Average Asking Price	£397,891
Monthly % change	-0.5%
Annual % change	-3.7%

Wales	Aug-23
Average Asking Price	£265,761
Monthly % change	0.0%
Annual % change	0.0%

Greater London	Aug-23
Average Asking Price	£541,658
Monthly % change	-0.3%
Annual % change	-3.6%

South East	Aug-23
Average Asking Price	£446,610
Monthly % change	-0.6%
Annual % change	-2.3%

South West	Aug-23
Average Asking Price	£384,248
Monthly % change	-0.6%
Annual % change	-2.3%



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UK Time on Market

England & Wales	Aug-23
Average Time on Market	**154**
Typical Time on Market	**80**
Annualised % supply change	**11%**

Scotland	Aug-23
Average Time on Market	**188**
Typical Time on Market	65
Annualised % supply change	1%

North East	Aug-23
Average Time on Market	**145**
Typical Time on Market	78
Annualised % supply change	10%

Yorks & The Humber	Aug-23
Average Time on Market	**133**
Typical Time on Market	77
Annualised % supply change	10%

North West	Aug-23
Average Time on Market	**147**
Typical Time on Market	79
Annualised % supply change	9%

West Midlands	Aug-23
Average Time on Market	**143**
Typical Time on Market	77
Annualised % supply change	16%

East Midlands	Aug-23
Average Time on Market	**131**
Typical Time on Market	78
Annualised % supply change	11%

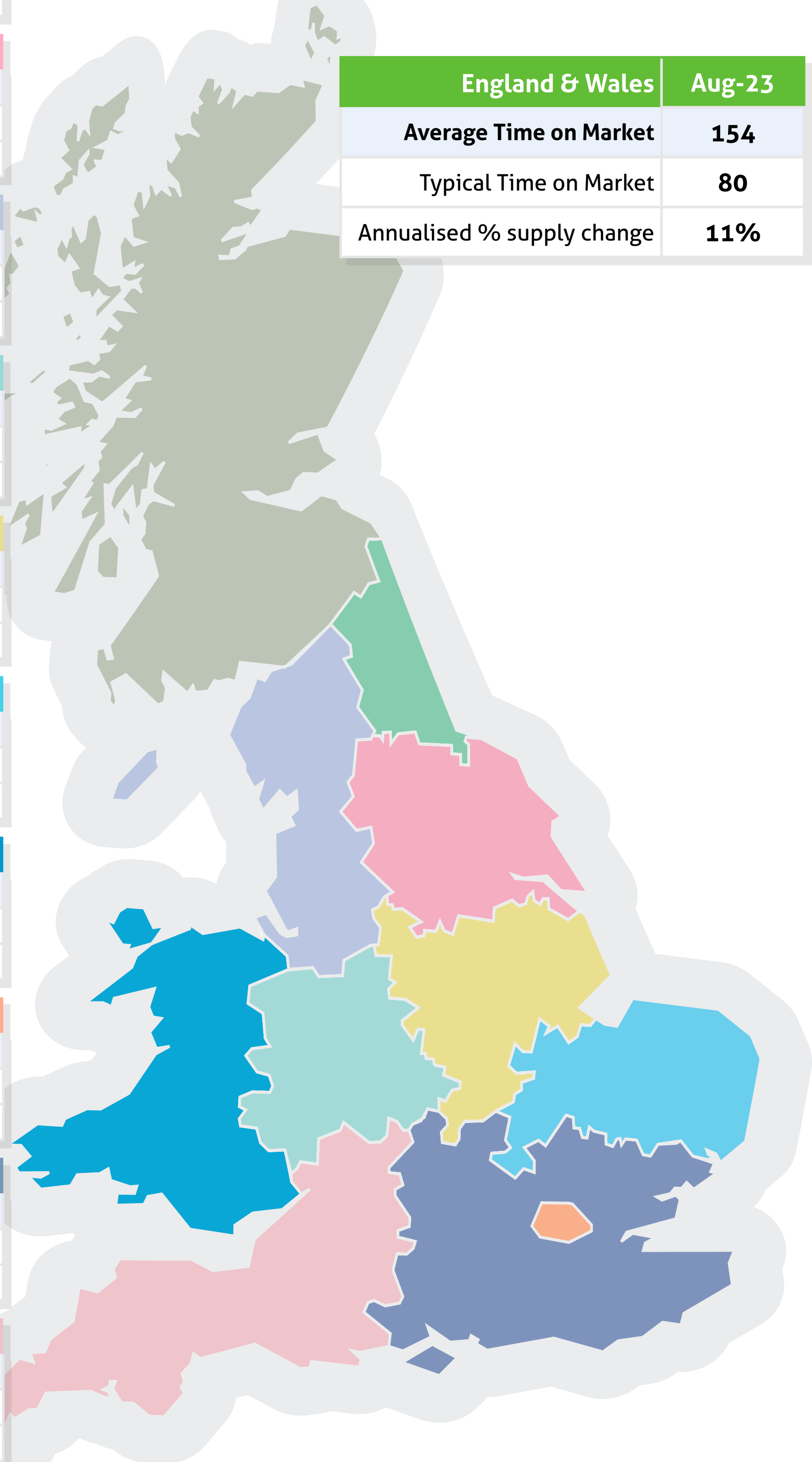
East	Aug-23
Average Time on Market	**139**
Typical Time on Market	77
Annualised % supply change	16%

Wales	Aug-23
Average Time on Market	**161**
Typical Time on Market	90
Annualised % supply change	5%

Greater London	Aug-23
Average Time on Market	**190**
Typical Time on Market	87
Annualised % supply change	5%

South East	Aug-23
Average Time on Market	**143**
Typical Time on Market	76
Annualised % supply change	13%

South West	Aug-23
Average Time on Market	**137**
Typical Time on Market	76
Annualised % supply change	18%



Source: Home.co.uk Asking Price Index, August 2023. Average = Mean (days), Typical = Median (days).

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About the Home.co.uk Asking Price Index

- The Home.co.uk Asking Price Index was originally devised in association with Calnea Analytics: the statistical consultancy responsible for the production of the official Land Registry House Price Index.
- The Home.co.uk Asking Price Index (HAPI) is calculated using a weighting system based on the DCLG (formerly ODPM) Survey of English Housing Stock (published March 2006). This allows for enhanced regional delineation and conforms to the current geographical orthodoxy as set out by the Office of National Statistics.
- The HAPI is the UK's only independent forward market indicator. The published figures reflect current and historic confidence of buyers and sellers of UK property on the open market. The HAPI is calculated every month using around 500,000 UK property house prices found in the Home.co.uk Property Search Index. This figure represents the majority of the property for sale on the open market in the UK at any given time.
- The HAPI is based on asking price data which means the index can provide insights into price movements around 5 months ahead of mortgage completion and actual sales data – thus making it the most forward looking of all house price indices. Properties above £1m and below £20k are excluded from the calculations.

Contact details and further information

- For media enquiries please contact:
  press@home.co.uk
  0845 373 3580
- To learn more about Home.co.uk please visit:
  https://www.home.co.uk/company/about.htm
- For further details on the methodology used in the calculation of the HAPI please visit:
  https://www.home.co.uk/asking_price_index/Mix-Adj_Methodology.pdf
- To learn more about Home.co.uk data services please visit:
  https://www.home.co.uk/company/data/

Future release dates:

- **Wednesday 13th September**
- **Thursday 12th October**
- **Wednesday 15th November**