



Asking Price Index

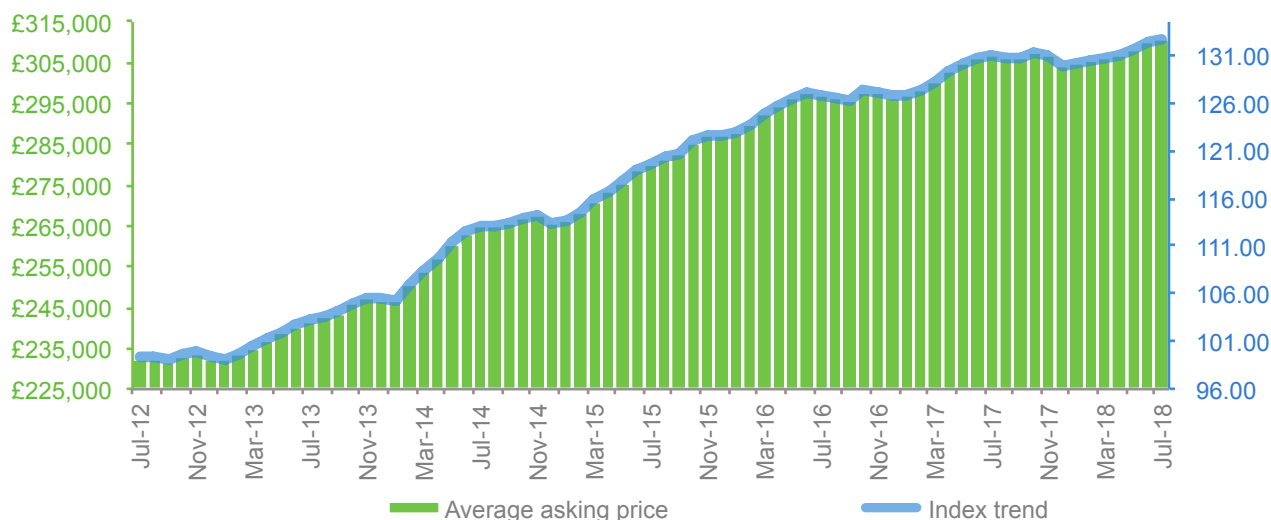
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Price Cutting Nears 6-Year High

Headlines

- Total number of properties having their price reduced whilst on the market at highest level since Oct 2012.
- Supply changes show a worsening market for vendors: up by 10% year-on-year (YoY) across the UK, making it the highest June total of new instructions since 2011.
- The biggest supply increases were found in the South East (+18%) and the South West (+21%) YoY.
- Home prices are basically static overall, rising a mere 0.1% this month.
- The total stock of properties on the market in England and Wales continues to rise (up 9.7% YoY) and is now at its highest level since Nov 2014.
- The mix-adjusted average growth for England and Wales is only 1.3% year-on-year: well below the rate of inflation.
- Regional markets in the North and West continue to thrive.
- Largest monthly price increases detected in Wales (1.0%) and the West Midlands (1.1%).
- Largest monthly falls in Scotland (-0.6%) and the East of England (-0.3%).
- Typical Time on Market continues to rise in London (+12%), the South East (+8%) and the East of England (+13%) year-on-year.
- Prices have risen in four out of nine English regions and in Wales since last month.
- Typical Time on Market for England and Wales falls to 80 days, two days less than in July 2017.

Home Asking Price Trend for England & Wales



Source: Home.co.uk Asking Price Index, July 2018



Summary

The number of properties on the market continues to grow overall, driven mainly by supply surges in the East, South East and South West. The first regional supply surge occurred in Greater London, where the total stock for sale has now climbed to the 'glut level' last seen in Oct 2010. Hence, discounting of stock on the market has risen accordingly with slow-to-sell properties having their asking prices slashed. In June, a total of £1.6 billion was knocked off asking prices of properties on the market in England and Wales.

By way of contrast to the woes of the South, the northern regional property markets are thriving, as is Wales. These late-cycle regions are still showing vigorous price growth and falling Time on Market figures. In the North West, North East, Yorkshire and Wales supply is essentially static. However, soaring prices in the Midlands have triggered an uptick in supply and Time on Market is no longer falling. Both the East and West Midlands are showing signs that they are coming to the end of their boom phase and prices look set to level out as supply continues to rise.

Overall, supply of property for sale in the UK is up by 10% year-on-year while the total stock for sale has increased by 9.7%.

In July 2017 the annualised rate of increase of home prices was 3.3%; today the same measure is just 1.3%.

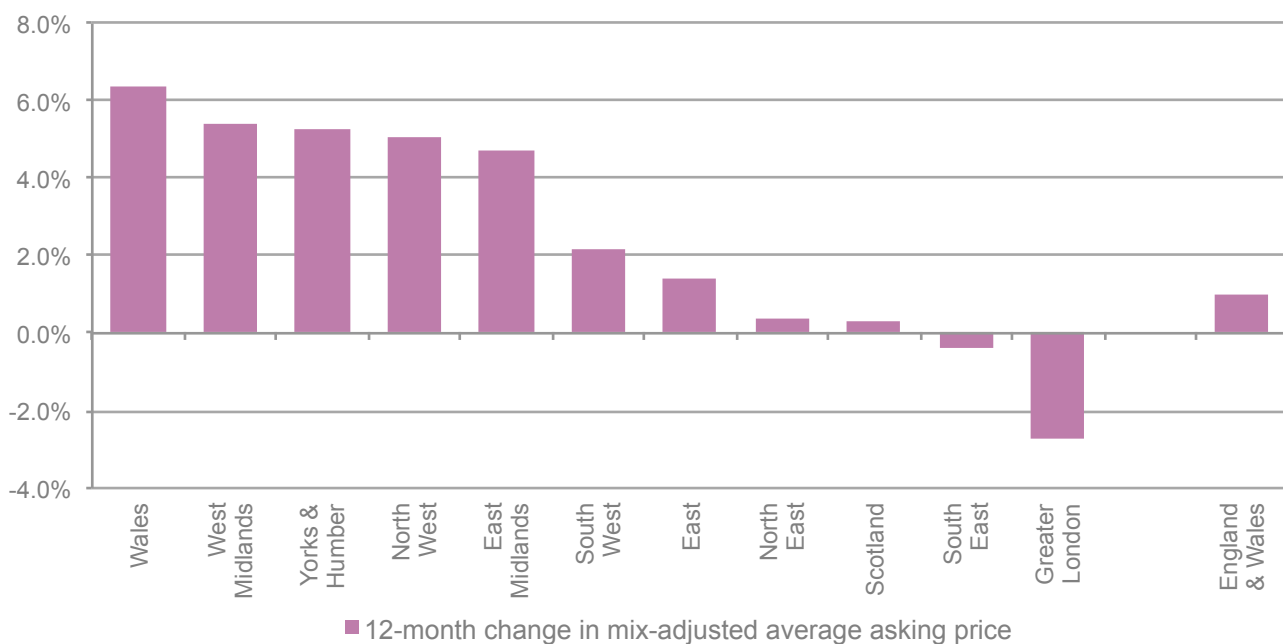
Regional Round-up

The devil is often in the detail, as they say, and whilst the national average figures show little or no growth in prices, analysis of the UK property market at the regional level affords a more refined snapshot of the present market dynamic. Right now, the disparity across the regions is remarkable. As London prices continue to slide further (down 2.7% YoY), Wales is experiencing the most market momentum for a decade while boasting the greatest rate of price growth across the UK (up 6.4% YoY). Between these two extremes lies the rest of the UK property market.

Oversupply in Greater London is clearly taking its toll on prices. In fact, since the peak, the typical (median) asking price has dropped some 11%. That's the equivalent of a reduction of £80k in market value of a typical property since Jan 2016. For some, that will mean negative equity is now an unpleasant reality. Albeit later in the cycle, the South East and the East property markets face a similar future characterised by too much stock and sliding prices. In fact, prices are already year-on-year negative in the South East (-0.4%) while growth in the East of England is now sub-inflation (+1.4%), so falling in real terms.

As stated earlier, Wales is enjoying significant price growth as are Yorkshire (+5.3%) and the North West (+5.1%) - a world apart from the woes of the South.

Asking Price Growth by Region July 2018 vs. July 2017



Source: Home.co.uk Asking Price Index, July 2018

Perhaps surprisingly, the North East has yet to see a significant recovery post-crisis. Prices there have risen a mere 0.4% over the last year and only 3% over the last five years. Time on Market figures (both mean and median) for unsold property remain the highest of all the regions.

Supply is now rising in the Midlands regions following a price boom of several years and, combined with lower rental yields due to high prices, growth in home values is slowing. Typical Time on Market, another key metric, appears to have levelled off in the East Midlands but not yet in the West Midlands, albeit reductions are very small.

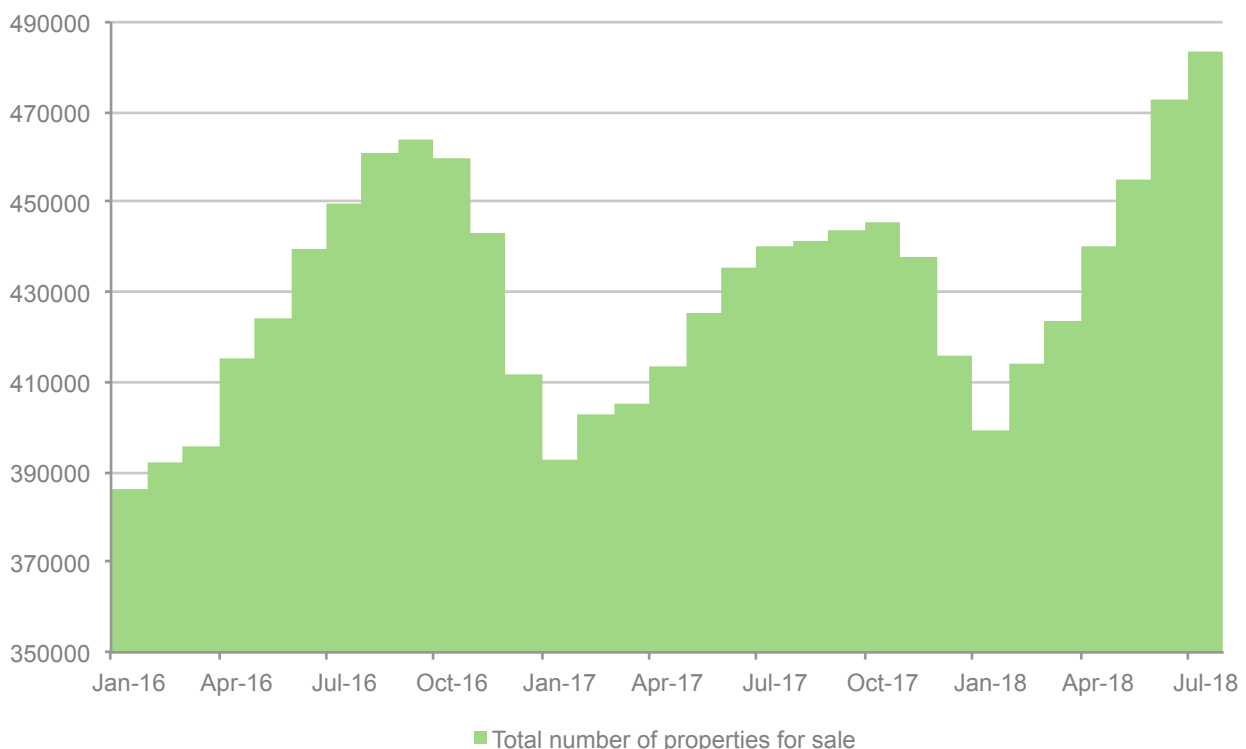
Price Cutting and the Growing Glut

Slashing the asking price is often regarded as a last resort for frustrated sellers. On the other hand, what else do you do if you need to sell in a sliding market like London is now? Vendors are increasingly in a painful position as their properties linger on the market while comparable new instructions arrive with lower price tags. Moreover, it's not just a trickle of new instructions. Over the last 30 months, the total stock of property in London has increased by 59% while the typical home price (median) has slipped by 11%.

Prices are also sliding in the South East and the East of England looks set to follow. Moreover, supply is rising in both these regions, by 18% and 16% respectively (YoY). As we predicted, these regions are following the same path as London, albeit later in the cycle. The East Midlands looks likely to be the next domino to fall, closely followed by the West Midlands. In fact, we are already seeing the first signs, as supply has risen 7% in the East Midlands and 6% in the West Midlands over the last 12 months. Hence, we expect the Stock Trend graph for England and Wales to soar in 2019.

We also expect price cutting to increase. Monthly totals of price-cut properties have already risen by 19% (June 2018 vs. June 2017), nearing levels last seen in 2012. However, it may be some time before we reach the extent of drastic price slashing last experienced in 2008 when a quarter of the entire stock for sale took a haircut each month.

Stock Trending Up (England and Wales)



Source: Home.co.uk Asking Price Index, July 2018



So how long will London prices keep falling? This is a key question for the UK market as a whole, as history tells us that what happens first in London happens later to the rest of the regions.

The answer could be quite simple: when rental yields return to attractive levels. For that to happen, either prices must come down or rents must rise or both. In fact, the current trends show both processes are occurring already, but slowly. Prices have fallen around 2.7% over the last year and rents have risen 3.0% at the same time. However, the typical gross yield for London (around 3.8%), whilst improving, is still much less attractive than in many other parts of the country. In Prime Central London, it's much worse. Yields in the North and West are much higher and that is what is driving those markets. In Leeds, for example, the typical yield is an attractive (and reasonably profitable) 6.0%.

If we extrapolate the trends of sliding London prices and rising rents then we can estimate the timeline for when the yield would reach 6%. If we fast forward the current rates of change (sliding prices and rising rents) by 30 months, yields will improve to just under 5%. However, it should be noted that due to the scarcity of rental accommodation in London (a 23% drop in property available to rent over the last 12 months), we might expect

some significant rent hikes over the next two years as tenants compete to secure a home in the capital.

Factor this in and the magic 6% figure could return towards the end of 2020.

In the meantime, investors are busy adding to their portfolios in northern English towns and in Wales, and they will continue to do so until yields become less attractive due to rising prices and possible oversupply of rental accommodation as occurred in London in 2013, which made rents dip markedly.

Rental returns are, of course, the fundamental underpinning of property value. Secondary to that, but still of fundamental importance, is the cost of borrowing. Historically, rates remain extraordinarily low, but Mark Carney at the Bank of England has been suggesting another mini hike may be in the offing in August. The last time they did a quarter point rise GDP growth stopped dead for three months. Moreover, whilst not radically affecting the economics of property investment (mortgage costs would not be significantly impacted), sentiment would be adversely affected.

Expectations of a slow ratcheting up of interest rates would be very negative for the property sector going forward.



Doug Shephard
Director at Home.co.uk



UK Asking Prices

Scotland	Jul-18
Average Asking Price	£184,199
Monthly % change	-0.6%
Annual % change	0.3%

North East	Jul-18
Average Asking Price	£157,872
Monthly % change	-0.1%
Annual % change	0.4%

Yorks & The Humber	Jul-18
Average Asking Price	£196,907
Monthly % change	0.8%
Annual % change	5.3%

North West	Jul-18
Average Asking Price	£202,248
Monthly % change	0.3%
Annual % change	5.1%

West Midlands	Jul-18
Average Asking Price	£247,925
Monthly % change	1.1%
Annual % change	5.4%

East Midlands	Jul-18
Average Asking Price	£233,291
Monthly % change	0.6%
Annual % change	4.7%

East	Jul-18
Average Asking Price	£363,823
Monthly % change	-0.3%
Annual % change	1.4%

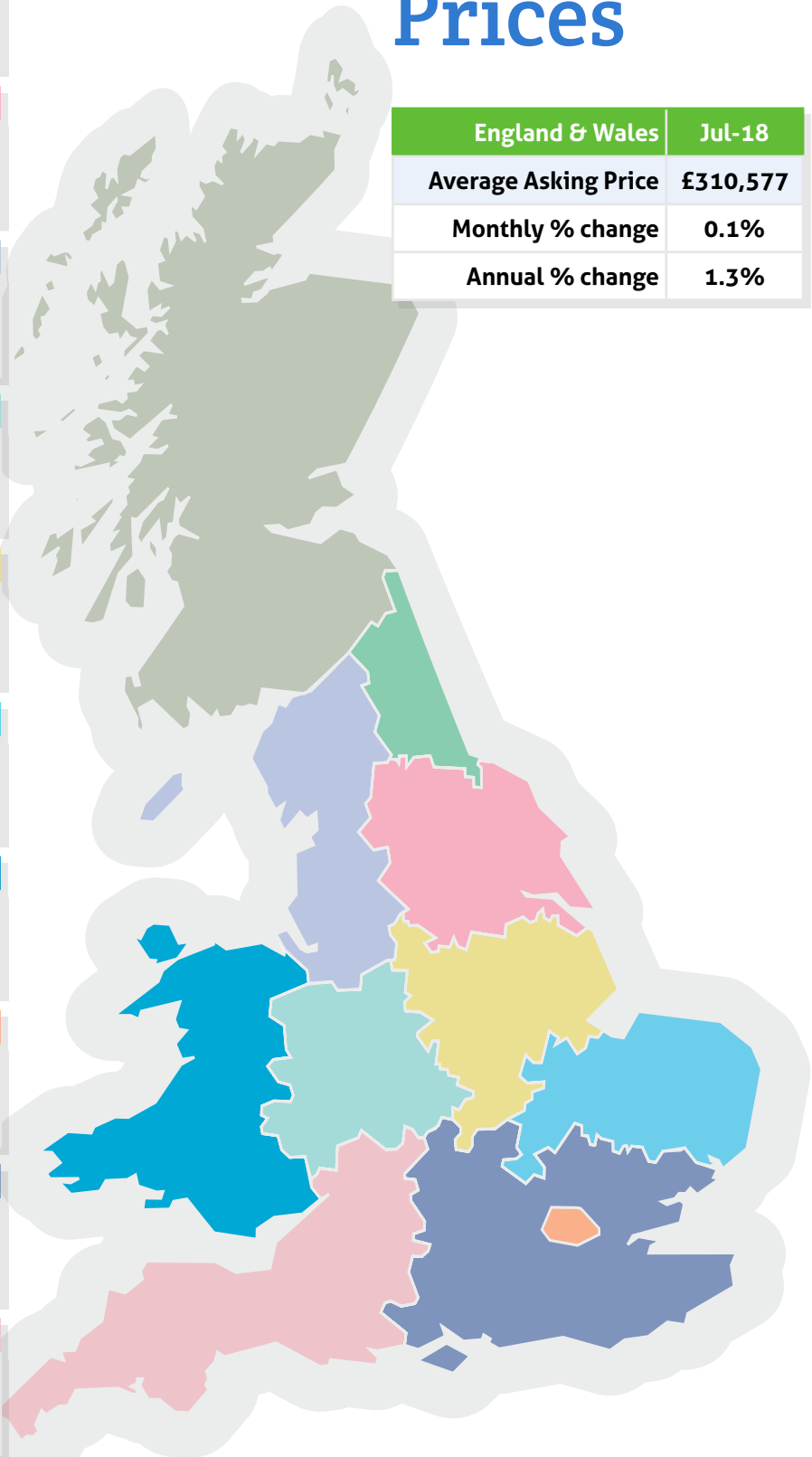
Wales	Jul-18
Average Asking Price	£202,378
Monthly % change	1.0%
Annual % change	6.4%

Greater London	Jul-18
Average Asking Price	£529,578
Monthly % change	-0.2%
Annual % change	-2.7%

South East	Jul-18
Average Asking Price	£404,120
Monthly % change	-0.2%
Annual % change	-0.4%

South West	Jul-18
Average Asking Price	£328,659
Monthly % change	0.0%
Annual % change	2.2%

England & Wales	Jul-18
Average Asking Price	£310,577
Monthly % change	0.1%
Annual % change	1.3%



Source: Home.co.uk Asking Price Index, July 2018

UK Time on Market

Scotland	Jul-18
Average Time on Market	213
Typical Time on Market	84
Annual % supply change	12%

North East	Jul-18
Average Time on Market	222
Typical Time on Market	106
Annual % supply change	1%

Yorks & The Humber	Jul-18
Average Time on Market	165
Typical Time on Market	82
Annual % supply change	3%

North West	Jul-18
Average Time on Market	171
Typical Time on Market	91
Annual % supply change	1%

West Midlands	Jul-18
Average Time on Market	138
Typical Time on Market	68
Annual % supply change	6%

East Midlands	Jul-18
Average Time on Market	129
Typical Time on Market	69
Annual % supply change	7%

East	Jul-18
Average Time on Market	117
Typical Time on Market	68
Annual % supply change	16%

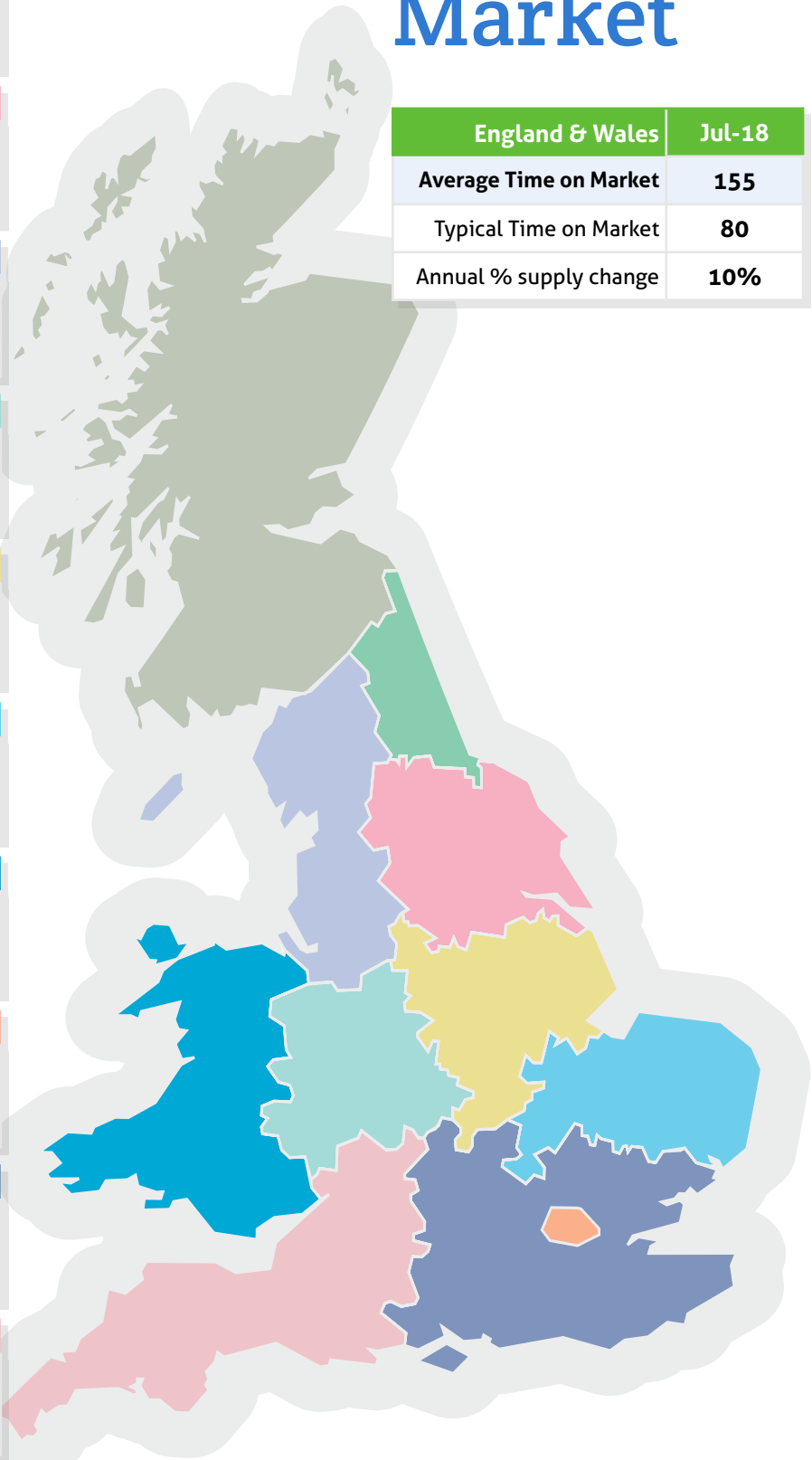
Wales	Jul-18
Average Time on Market	217
Typical Time on Market	103
Annual % supply change	-2%

Greater London	Jul-18
Average Time on Market	149
Typical Time on Market	82
Annual % supply change	3%

South East	Jul-18
Average Time on Market	122
Typical Time on Market	70
Annual % supply change	18%

South West	Jul-18
Average Time on Market	137
Typical Time on Market	73
Annual % supply change	21%

England & Wales	Jul-18
Average Time on Market	155
Typical Time on Market	80
Annual % supply change	10%



Source: Home.co.uk Asking Price Index, July 2018. Note: Average = Mean (days), Typical = Median (days)

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

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- To learn more about Home.co.uk please visit:
<http://www.home.co.uk/company/about.htm>
- For further details on the methodology used in the calculation of the HAPI please visit:
http://www.home.co.uk/asking_price_index/Mix-Adj_Methodology.pdf
- To learn more about Home.co.uk data services please visit:
<http://www.home.co.uk/company/data/>

Future release dates:

- Tuesday 14th August
- Wednesday 12th September
- Friday 12th October