



Asking Price Index

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Prices Soar as Supply Crisis Worsens in London and the South East

Headlines

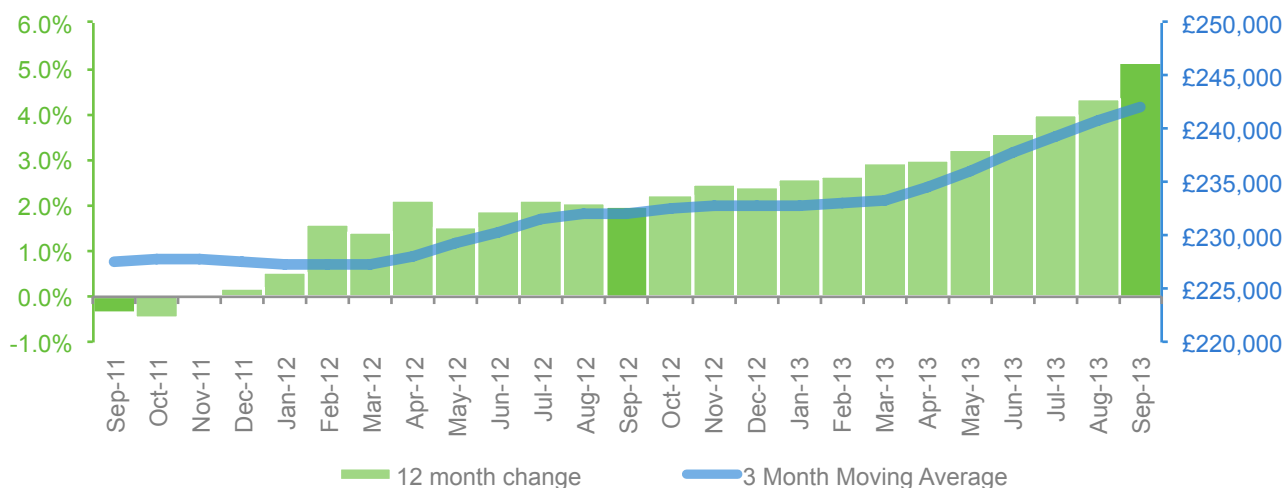
- Home prices have leapt by an inflation-busting 5.1% across England and Wales over the last 12 months, the biggest year-on-year rise since January 2008
- Total number of on-market properties has fallen 14% over the last 12 months
- Supply in London has collapsed by 19% over the same period
- The typical time on market for property stands at 111 days, down ten days on September 2012
- Rising vendor confidence is reflected in less price cutting: down by 25% year-on-year
- London property price rises hit double figures: up 10.6% on last year

Summary

The total volume of property for sale across England and Wales has fallen by 14% over the last year and now stands 30% lower than this time five years ago. In most regions, potential vendors are holding back, hence the supply of new property to the sales market continues to diminish. This is the main driver for rising prices. In London and associated regions, property buyers are becoming increasingly frustrated by lack of choice and spiralling prices. The volume of property placed on the market last month was down 56% on the highs of August 2007. In London, where the crisis is most prominent, supply of new property is down by a staggering 74% compared to August 2007.

Asking prices across England and Wales rose another 0.5% in September and now stand 5.1% up on last year, 1.6 percentage points above the current reported rate of inflation. This is the largest annual price growth since January 2008 and is, as the graph below illustrates, the continuation of a recovery that became apparent in early 2012. Home price inflation in 2013 is really accelerating, with average asking prices rising 4.9% in the first nine months alone, reinforcing the impression that the recovery is very much in its infancy

Trend in Year-on-Year Change in Average Asking Price (England and Wales)



Source: Home.co.uk, September 2013



The Supply Crisis

Property supply crisis is not improving in England and Wales. The volume of new and resale stock entering the sales market fell again last month and continues to fall year-on-year; it is now 56% lower than in 2007. The total number of properties for sale in England and Wales has dropped by 14% in just the last twelve months, as demand overwhelms supply. Moreover, the level of new build completions shows no sign of recovery and can in no way alleviate the lack of supply in most regions. Even house buyers with significant equity and mortgages approved in principle are becoming increasingly frustrated by lack of choice and fierce competition for desirable property.

In September 2007, just shy of 260,000 properties were placed on the sales market in England and Wales. This is the highest volume of new sales properties recorded in a single month since the beginning of the Home.co.uk Asking Price Index in May 2004. The wider economy and the property market have experienced a great deal of turmoil since 2007 yet, although a gradual recovery is underway, many potential vendors are choosing not to sell.

In stark contrast to 2007, just over 101,000 properties were placed on the market last month thus making the current sales market a shadow of its former self in terms of volume. It should also be noted that significant regional differences exist regarding supply, and these are examined in detail on page four.

Vendor Confidence Grows

The restriction in supply is yet another driver towards creating perfect market conditions for active vendors. Add to this rising prices and improving lending conditions, and it's clear why sellers in most parts of the country are beginning to feel more confident. This bullishness is ultimately demonstrated by their ability to stick with their asking prices. The number of properties that attracted a price cut has fallen by 25% year-on-year, and the extent of these reductions is also down (-4%) to an average of £15,106.

Vendors' confidence is further boosted by the fact that this is being achieved while typical time on market continues to fall. Average prices are up 5.1% year-on-year, yet the typical number of days on market is down ten to 111 (median), which equates to just under four months. This might feel inordinately long to a London vendor, however, who can enjoy typical time on market of just 76 days, at least a month lower than the national median.



Demand, fed by the growth in cheaper borrowing (including the Help to Buy scheme), is already outpacing the overall supply of properties for sale and pushing prices even higher.



There are 14% fewer properties for sale than there were at this time last year, yet we are witnessing a whole load more active buyers. The supply crisis, which is most acute in London and the South East, is not going to go away. As it stands, there is no indication of a sudden influx of new build or resale property to help address the housing supply crisis. Quite the contrary: domestic and foreign investment demand remains high and is rapidly driving prices in the capital and surrounding areas to precarious levels relative to average earnings.

Perversely, it's still fairly 'grim up North'. Just when home prices might have started to recover some of their lost ground, we are seeing an influx of supply into these relatively sluggish regional markets. Good news for buyers who will have much more choice, but northern vendors will continue to struggle and prices will most likely continue to stagnate.

Doug Shephard
Director at Home.co.uk



UK Asking Prices

Scotland	Sep-13
Average Asking Price	£160,673
Monthly % change	-0.2%
Annual % change	0.3%

North East	Sep-13
Average Asking Price	£153,178
Monthly % change	0.0%
Annual % change	0.5%

Yorks & The Humber	Sep-13
Average Asking Price	£169,495
Monthly % change	0.0%
Annual % change	1.2%

North West	Sep-13
Average Asking Price	£173,520
Monthly % change	0.3%
Annual % change	0.4%

West Midlands	Sep-13
Average Asking Price	£194,842
Monthly % change	0.3%
Annual % change	3.8%

East Midlands	Sep-13
Average Asking Price	£181,200
Monthly % change	0.5%
Annual % change	3.8%

East	Sep-13
Average Asking Price	£258,429
Monthly % change	0.7%
Annual % change	4.1%

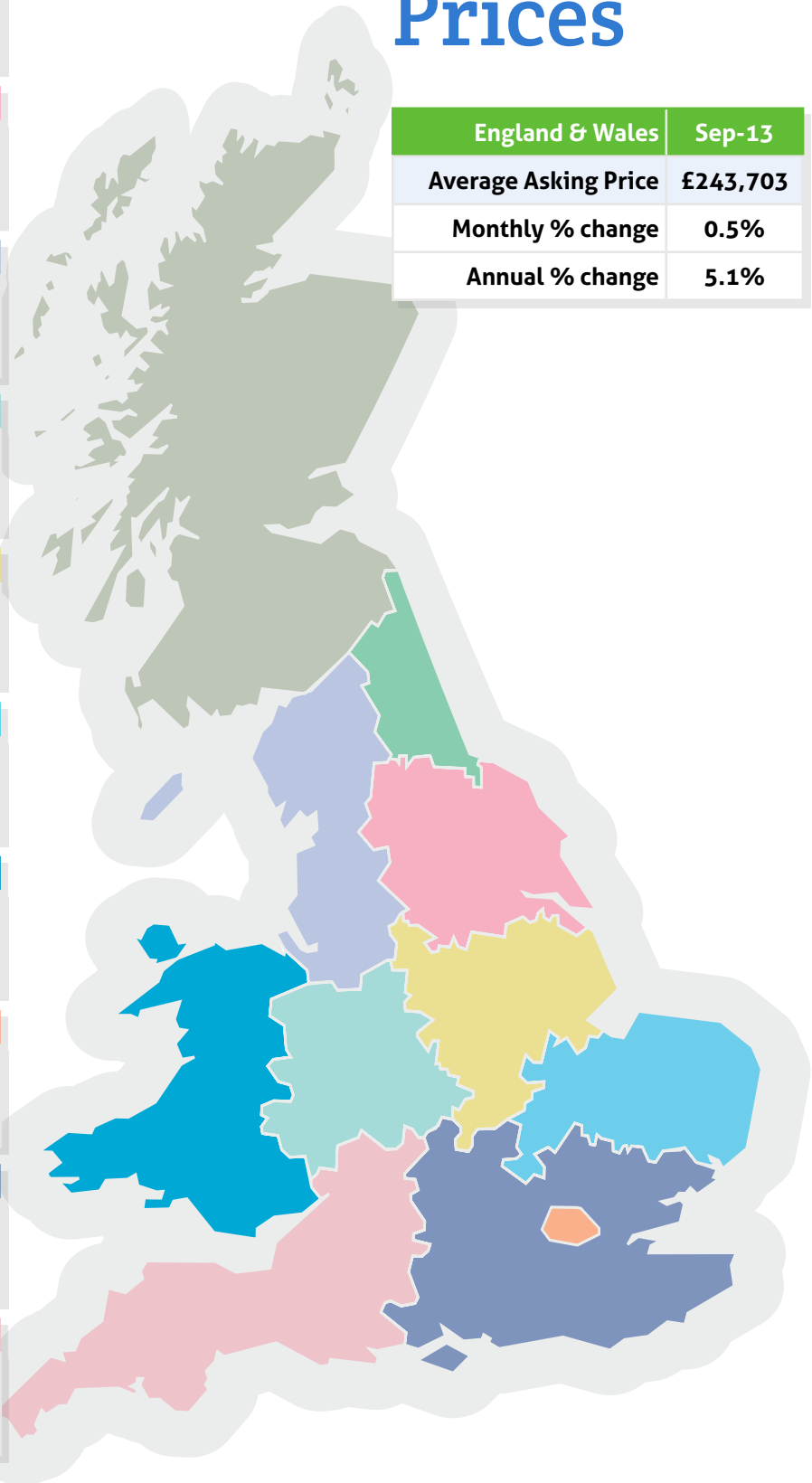
Wales	Sep-13
Average Asking Price	£176,447
Monthly % change	0.0%
Annual % change	1.6%

Greater London	Sep-13
Average Asking Price	£392,366
Monthly % change	0.9%
Annual % change	10.5%

South East	Sep-13
Average Asking Price	£313,531
Monthly % change	0.5%
Annual % change	6.5%

South West	Sep-13
Average Asking Price	£266,030
Monthly % change	0.4%
Annual % change	4.5%

England & Wales	Sep-13
Average Asking Price	£243,703
Monthly % change	0.5%
Annual % change	5.1%



Source: Home.co.uk, September 2013

Where are the Vendors?

Although the regional disparities in price recovery have been widely reported, regional supply dynamics, whilst equally important, have not garnered sufficient attention. The current volume of vendors entering the market (around 100,000 per month across the UK) is less than half of what it was during the property boom year of 2007. It may be argued that restricted supply of property for sale has been instrumental in both preventing a greater crash and facilitating a much more rapid recovery. The same thesis applies at a regional level.

To fully understand the nature of the UK property market, it is important to recognise that there are significant variations in supply dynamics across mainland UK. In fact, it should come as no surprise that the balance of supply and demand for property in each region is fundamentally correlated with price performance.

The consequences of low supply and high demand are all too apparent in the overheating London property market, where supply is down 19% and prices are up 10.5% (year-on-year). Contrastingly, the North East is the real contrarian in the country's supply crisis. In this region, the supply of new and resale property has actually risen by 16% over the last 12 months while pricing is essentially stagnant (+0.5% but falling in real terms).

Clearly, in the current market, homeowners in areas where prices are growing at a reasonable rate are reluctant to sell. Concerns about the lack of suitable properties are discouraging many would-be vendors. Another considerable

influence is the strong rental market. As sales prices continue to rise, property owners are choosing to bide their time and enjoy the high rental yields and income generated from a strong lettings market, hence the growing number of 'double renters'. Even in London, where the average property price has risen 10.5% in the last 12 months, the strong rental market can offer landlords an average monthly rent of £2,369 for a flat and £3,636 for a house.

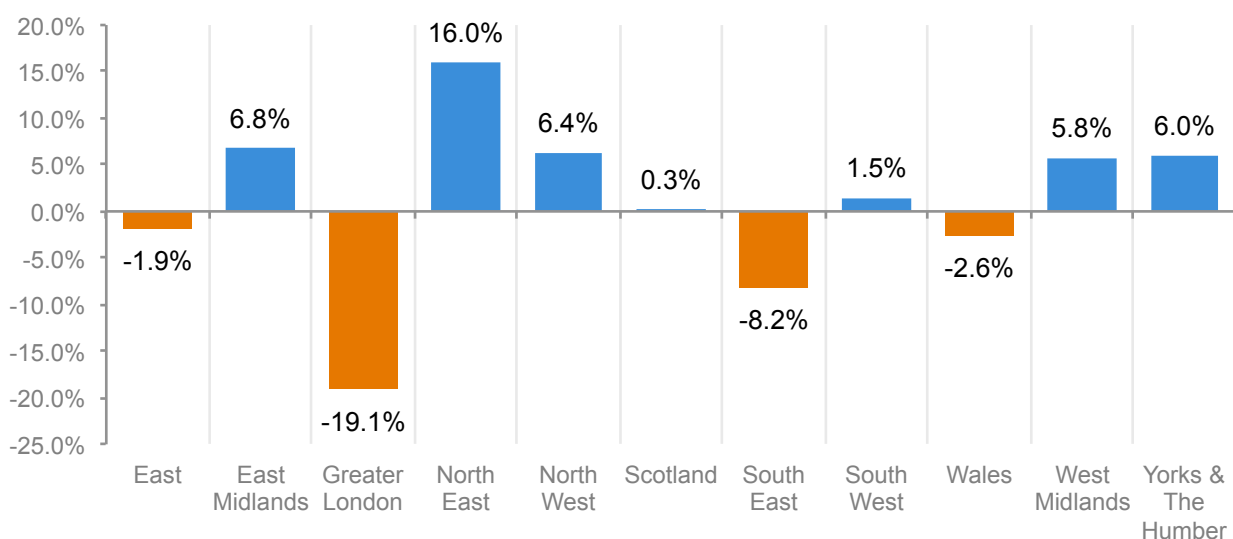
On the other hand, we are also witnessing increases in the number of vendors in the poorly performing northern regions. This is an alarming trend for areas such as the North East and the North West where price growth is already negligible. Increasing supply looks set to keep prices in such regions in check, at least for the rest of the year. Hence, in contrast to the South, the North remains, for the time being, a buyer's market.

Doug Shephard, director at Home.co.uk, commented:

"These regional supply dynamics suggest that the bipolar nature of the UK property market is only going to get worse. Starved of new and resale stock, pricing in the London and South East property markets looks set to go ballistic. Prices in the capital are already increasing too fast and further restrictions in supply can only serve to make matters worse."

Meanwhile, increases in supply in the sluggish northern markets can only exacerbate their problems of slow sales and price stagnation."

Change in volume of sales property supply by region (Aug'13 vs. Aug'12)



Source: Home.co.uk, September 2013

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 700,000 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 15th October
- Wednesday 13th November
- Thursday 12th December