EMBARGOED UNTIL 16/02/22

Asking Price Index

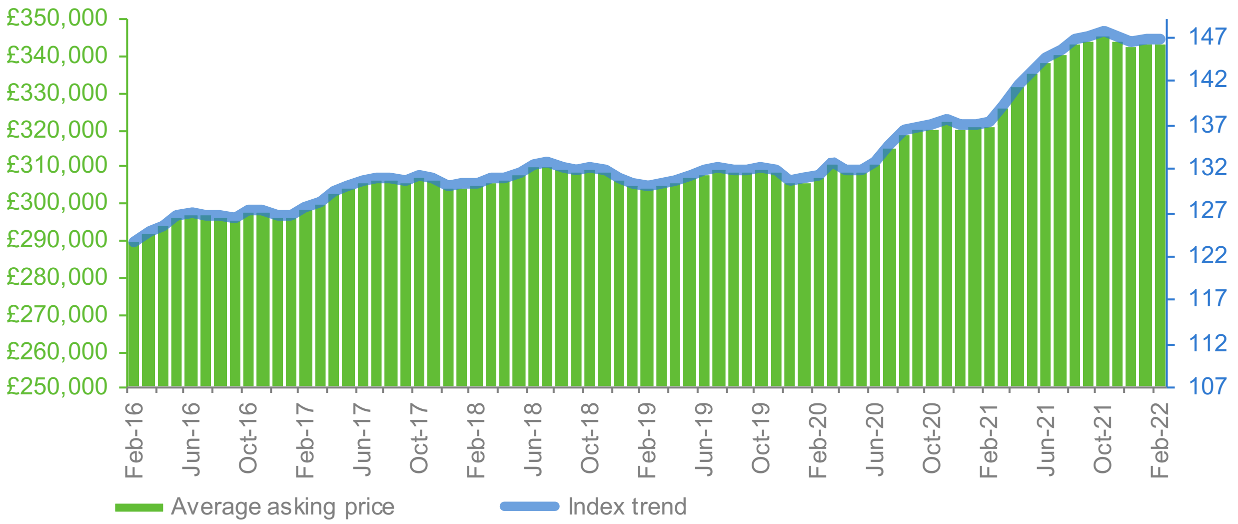
Released 16/02/22 February 2022

Market Pace Quickens While Stock Shows Small Uptick

Headlines

- The market is picking up momentum earlier than usual this year with the Typical Time on Market for unsold property in England and Wales dropping to 87 days (median), 24 days less than in February 2021.
- The total stock of property for sale in England and Wales ticked up this month for the first time since October 2020, adding 7,257 properties to the record low of 222,050 last month.
- Rampant inflation is worsening and making real home price growth increasingly negative overall. We have yet to see real growth bottom out.
- Monthly supply of new sales listings has risen slightly across the UK; up 4% compared to the month of January 2021, although Greater London shows a contraction.
- Asking prices across England and Wales show a marginal rise of 0.1% since January, while the nominal annualised average growth nudged up to 7.0%. Prices in the North West and East are the most bullish in England, rising 0.8% in each region during the last month, while Welsh prices jumped 1.1%.
- The East of England property market now heads up the 12-month regional price growth table with an inflation-beating annualised gain of 10.7%, putting the former leader, the East Midlands, into second place (+10.5%).
- Rents in Greater London continue to soar and are up an annualised 26%, while the supply of new properties to let has plummeted by 46% over the same period.
- The Central London rental market remains red-hot. The greatest rises in asking rents over the last twelve months are in the City (+116%), Hammersmith and Fulham (+49%) and Camden (+47%), as returning demand overwhelms supply.
- Scarcity of rental properties is a problem across the UK. The total stock has fallen 58% since February 2019 and it is this medium-term trend that is creating significant upward price pressure. Rents have risen by an annualised 7.3% across the UK since February last year, with 4.9% of this rise occurring in just the last three months.

Home Asking Price Trend for England & Wales



Source: Home.co.uk Asking Price Index, February 2022, Indexed to May 2004 (Value=100).

For media enquiries and interviews please contact: press@home.co.uk 0845 373 3580
The Home.co.uk Asking Price Index was originally devised in association with Calnea Analytics Ltd

Summary

Supply remains exceptionally tight in the sales market despite a small uptick in new instructions last month. The sales stock total also rose slightly last month for the first time since October 2020 but remains at historically unprecedented low levels. The uptick in supply is encouraging in the sense that the severe imbalance between supply and demand may be eased over the coming months as vendors take advantage of the current high prices. However, for the time being, agents continue to scrabble for sales inventory in this sellers' market.

Unsold properties are spending much less time on the market than they were a year ago. Moreover, the Typical Time on Market has dropped suddenly since last month's reading, indicating that the market is picking up the pace earlier this year. This median measure for England and Wales now stands at 87 days and has not been this low in February since 2007. Some regions are indicating a much faster sales turnover, for instance the Typical Time on Market for the East Midlands is a mere 67 days.

This rapid throughput of sales stock has yet to translate into significant price rises overall this year. However, bullishness is clearly already apparent in some regions. A 0.8% rise month-on-month in both the North West and East of England indicates that vendors remain highly confident as we head towards the traditionally busy spring months. In fact, prices have risen in five English regions and Wales since last month.

Meanwhile, monetary inflation is climbing higher and higher. In such an economic environment, where the purchasing power of sterling is falling relative to goods and services, it would appear unlikely that we will see nominal falls in home prices. However, in real terms, growth is less than zero overall. The latest ONS figure for RPI (ex. housing) is 8.4% for December, making annualised real home price growth -1.5% for that month. We estimate that real home price growth is currently around -2.8% this month. Expectations are that the Bank of England will again nudge up interest rates this year in response to rising inflation and we comment on that threat to the property market later in this report.

The rental sector is also dominated by scarcity. The total stock of available properties to let has fallen a massive 58% since February 2019. This lack of rental stock has been driving up rents across the country, as tenants increasingly compete for what little stock is available. Greater London is now the main driver of rental inflation overall, as tenants flock back to the capital post-COVID restrictions and short-term lettings recover their popularity. Rental affordability is looking stretched in all regions, including London, but due to supply constraints, we do not expect significant rent falls this year. More likely is a period of consolidation at these higher levels.

The annualised mix-adjusted average asking price growth across England and Wales has nudged up to +7.0% this month; in February 2021, the annualised rate of increase of home prices was 4.5%.

Regional Roundup

There are wide variations in market performance at the regional level. Only three English regions and Wales show growth above the latest inflation high of 8.7%* (East Midlands, East of England and the South West). The worst of the sub-inflation performers is Scotland with annualised growth a mere 2.0%. The next worst is the North East with only 3.1% growth. This subdued and sub-inflation growth comes despite large stock

*ONS RPI (ex.housing) for December 2021

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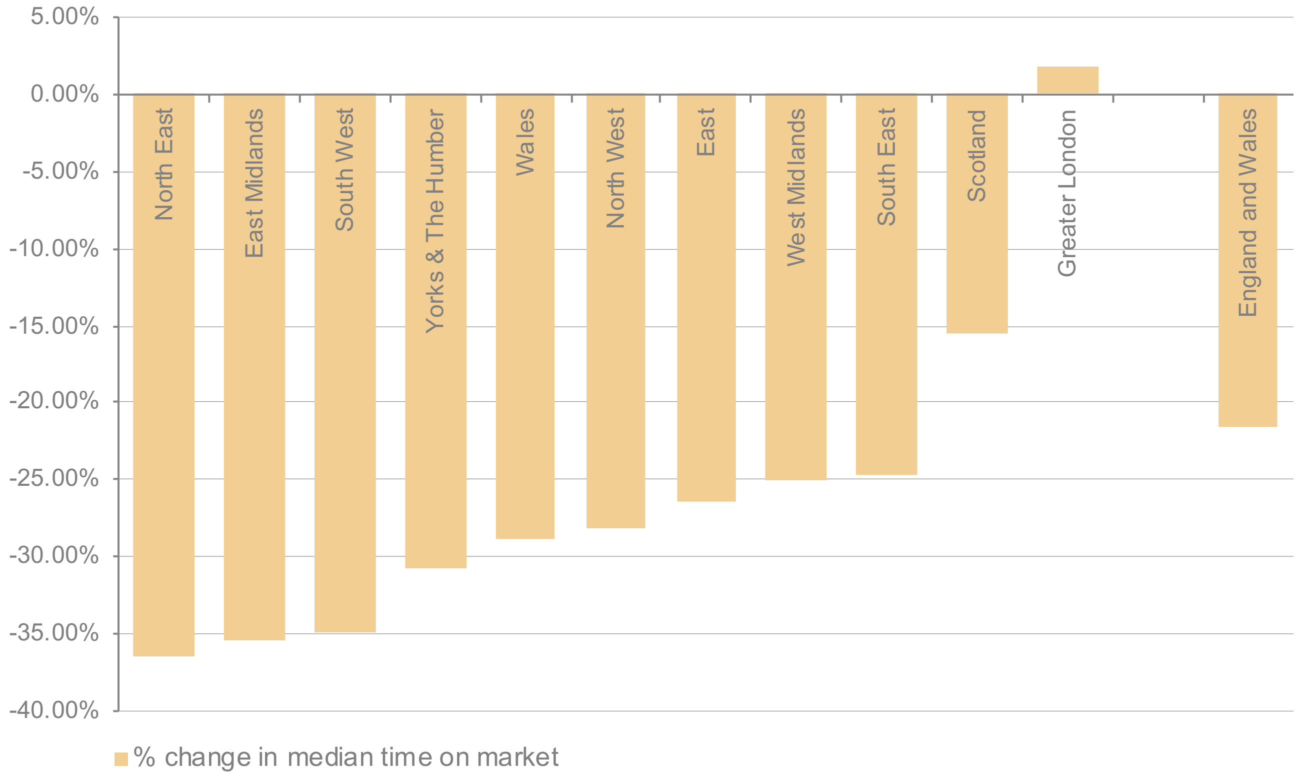
% Change in Typical Time on Market, Feb 2022 vs. Feb 2021



Source: Home.co.uk Asking Price Index, February 2022

shortages in both markets compared to a year ago. It is also noteworthy that both these markets show an increase in new instructions year-on-year of 10% and these are the highest such regional increases indicated this month.

Clearly, these areas are indicating negative real growth but, judging by Typical Time on Market and stock levels, demand still has the upper hand. The same may be said of Greater London and the North West, while South East, Wales and West Midlands are indicating real growth of around zero.

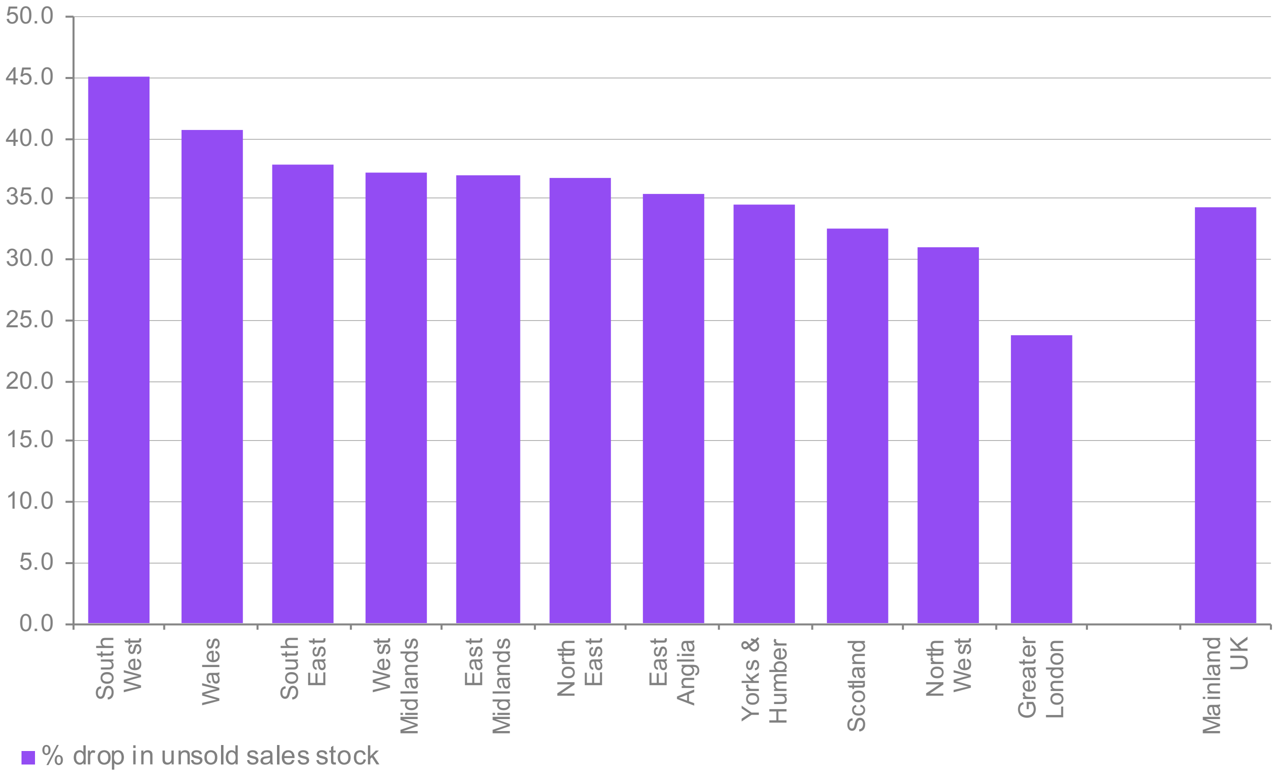
While East Midlands, East of England and the South West appear to have achieved growth in excess of inflation over the last year, rising inflation may tip their real growth into the negative. In fact, depending on the actual inflation figure for this month (expected to be published in April), this may already be the case.

The current trends suggest that sub-inflation growth will be evident in most (if not all) regions through 2022. It is also important to note that inflation has not yet peaked and is likely not to be a spike as many commentators suggest, as it is primarily driven by global supply rather than domestic demand.

Conditions in the London sales market continue to improve despite the small dip in the average price since last month. Most of the COVID-induced backlog of stock has been cleared from agents' portfolios and Time on Market figures are improving.

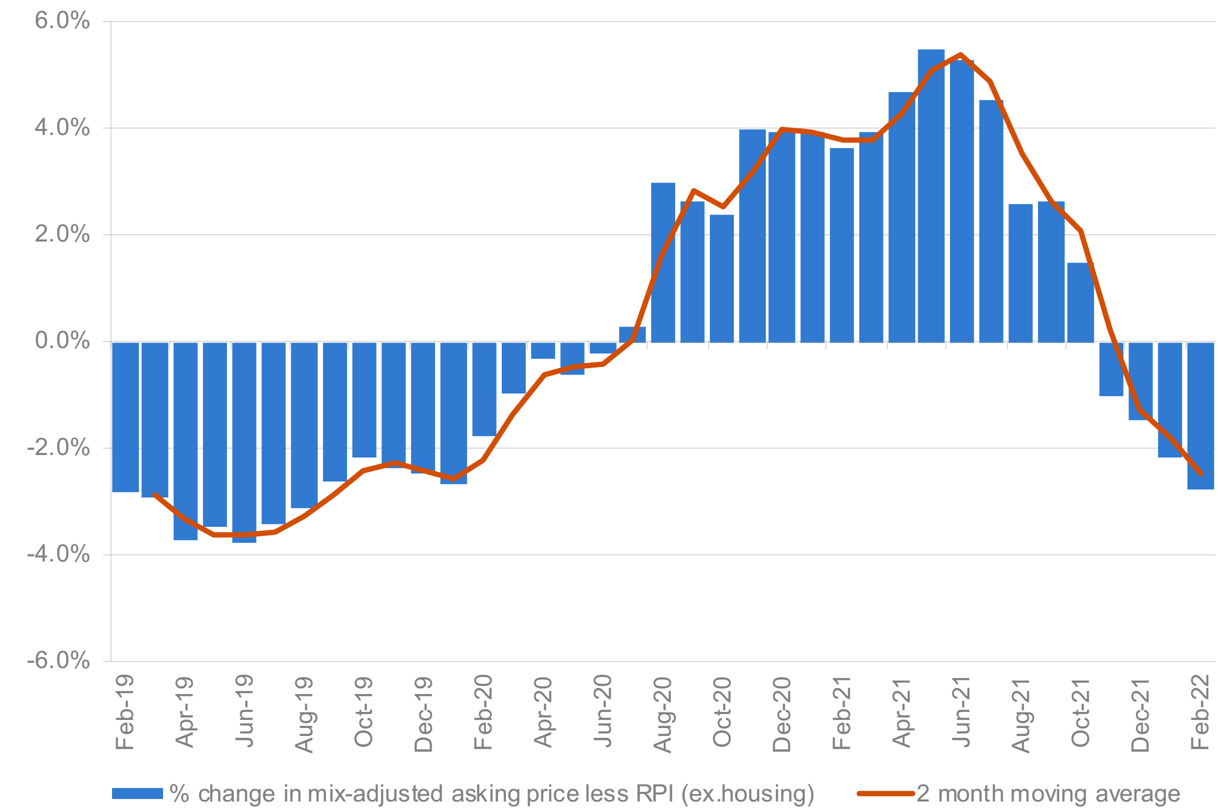
Supply remains relatively low and rental yields are improving, thereby paving the way to recovery in price growth.

Fall in Total Properties for Sale by Region, Feb 2022 vs. Feb 2021



Source: Home.co.uk Asking Price Index, February 2022

Real Asking Price Growth



Source: ONS and Home.co.uk (RPI ex. housing for January and February 2022 are our estimates).

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Real Home Asking Prices

While monetary inflation continues to surge even higher, real home price growth is clearly in negative territory and trending down. As per our last report, to illustrate the trend to negative real growth, we suggest conservative estimates for January and February of 9.1% and 9.8% respectively.

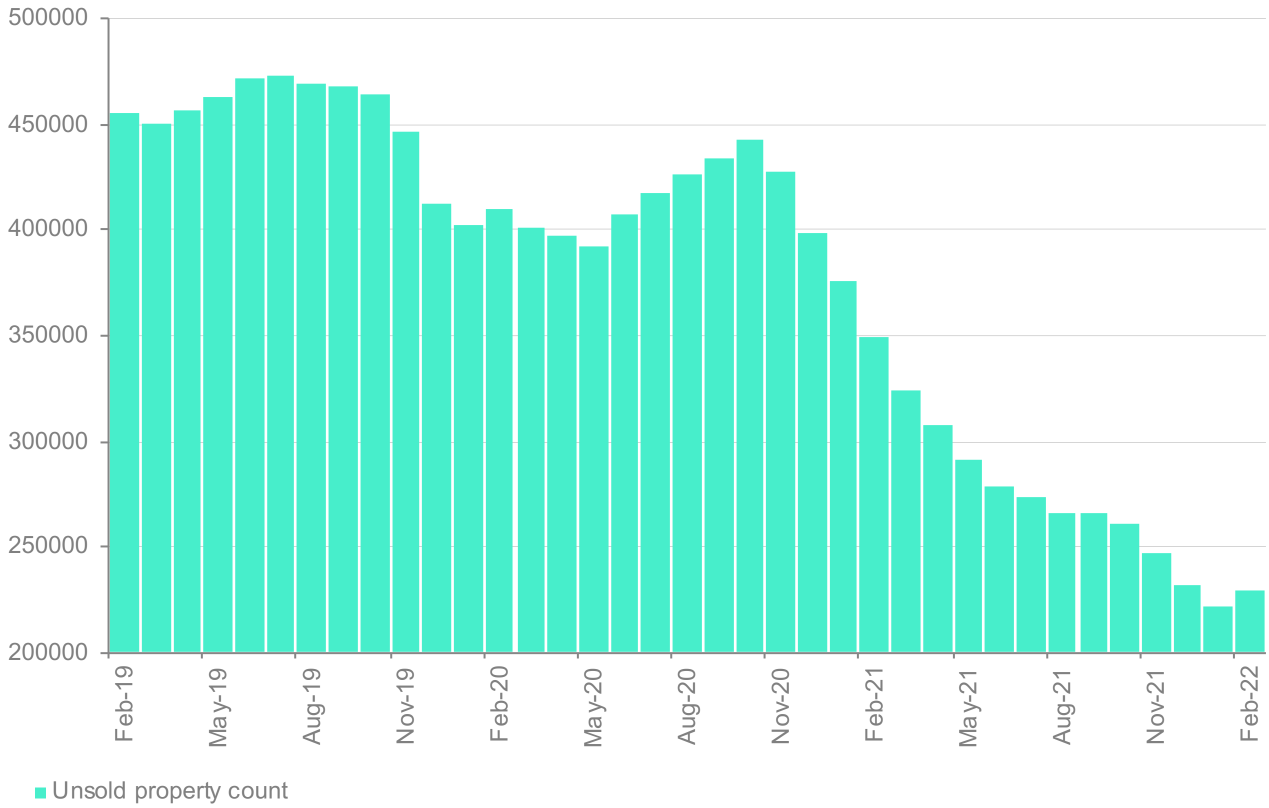
By extrapolation we estimate that we are four months into a period of negative real growth for England and Wales overall. Monetary inflation, caused by the massive expansion in credit, is still rising, and is busily eating its way through all the nominal growth of the COVID property boom. Unfortunately, property is not looking like a safe store of value at the present time nor in the immediate future. Those that understand the insidious effects of inflation will also appreciate that the much-hyped price growth of last year merely reflects the loss of purchasing power of sterling we are now seeing and not any real capital gain in UK homes.

Stock Totals

The sales stock total chart recorded a small uptick since last month, which is the first such increase since Oct 2020. At this point, of course, we do not know if this a mere blip or the beginning of a trend reversal. Should it turn out to be the first step in a rising trend, there is a long way to go before the market can return to what might be called normal stock levels. However, in the absence of the direct stimulus of a stamp duty holiday and further talk of interest rate rises by the Bank of England, we may see stock levels drift back up in the face of lesser demand.

On the other hand, this could just be a blip on the downward trend. Given the level of pent-up demand and the tiny rise in new vendors last month (4%), the

Total Stock of Property for Sale, England and Wales

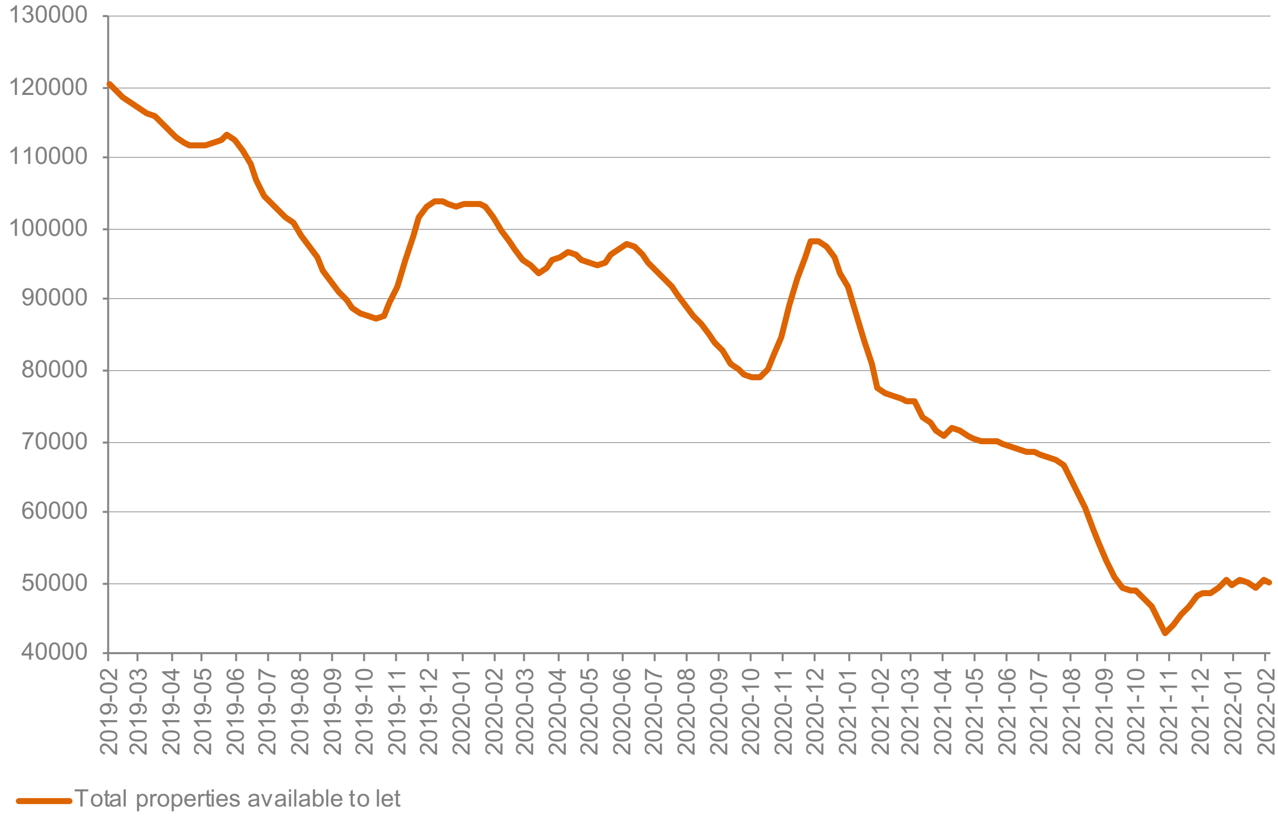


Source: Home.co.uk Asking Price Index, February 2022 stock total could resume its downward trajectory. As we stated last month, the gap between mortgage interest rates and inflation needs to close before can we envisage a turnaround that would make inventories return to previous normal levels. Until then, debt erosion caused by negative real interest rates is driving both private and institutional investment demand.

As for the rental market, the trend in available stock broadly mirrors that of the sales market.

We have been reporting on this trend for some time, albeit in numbers, but the chart better shows this unprecedented decline in available rental stock on the market. What is immediately apparent is that, while there is so little choice for prospective tenants, it is unlikely that rents will fall. Letting agents are overwhelmed with demand and renters have no real bargaining room in the majority of lets. However, setting rent controls would only make the situation worse as landlords would likely exit or switch to AirBnB-style letting. In order to improve the choice for tenants and keep rents in check, we clearly need more competition and that means more properties available for rent. To achieve that, the government must stop disincentivising buy-to-let through taxation and further regulation. However, the new Levelling Up agenda seems to be offering precisely the opposite.

UK Stock of Properties for Rent



Source: Home.co.uk Asking Price Index, February 2022

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This month, the Bank of England's Monetary Policy Committee voted to raise the base lending rate 25 basis points to 0.5%.

A minority voted for a more aggressive 0.5% hike and the futures market predicts a rise of 75 basis points by May with 98% certainty. That would take us up to 1.25% which, quite obviously, is miles behind inflation, the contagion that triggered this action. It looks to many like too little too late but, added to that, it risks dashing sentiment in the property market and the wider economy.

There is a recent parallel with action taken by the US Federal Reserve. In 2018, they started to slowly hike rates and taper QE. The result was panic in the markets. Job growth slowed and fuel prices rose. By January 2019, they had made a policy U-turn and said their projections had been wrong. As Heather Long wrote in the Washington Post, "The Federal Reserve and its leaders have done something unusual in 2019 for central bankers: They admitted they were wrong in their short- and long-term outlook for the U.S. economy." In July they actually cut the bank rate; the first such cut in a decade.

The take-home message is that, in an economy such as ours that is addicted to cheap credit, even a small tightening of monetary policy can have disastrous results. Of course, inflation is a very real problem and, before the financial crisis of 2008, would have been dealt with by these very means. However, we don't live in that world anymore. Trying to tame inflation in the current situation by raising interest rates would be like pushing on a string, and the fallout for the stock markets and property market would be devastating. Interest rate rises work in dealing with inflation when the cause is too much demand driving up prices (as Fed Chairman Paul Volker did back in the 1980s). In the present case, the problem is in the global supply of energy, essential goods and services. We cannot choose to not heat our homes or travel and nor can we choose not to eat.

However, the Bank of England needs to be seen to be doing something about inflation (which is arguably of their own making). Hence they will embark on this folly but, when it begins to hurt, you can expect a halt to hikes and a full U-turn sooner rather than later. Meanwhile, Andrew Bailey, the current governor, is clearly aware of his impotence in what has been dubbed the 'cost of living crisis' when he suggests that workers should not ask for large wage rises. Surely a sign of desperation? At the same time, according to Emma Dunkley in the Mail on Sunday, "The Bank admitted the rise in rates combined with rocketing household bills will result in the biggest plunge in annual spending power since 1990." That sounds like intentionally causing a recession to me.

We can, therefore, fully expect a rollback of these measures when the BoE throw up their hands in despair and acknowledge that their actions are not working as intended. How much pain the housing market will have endured by the time they admit their error is anyone's guess. We can only hope the U-turn comes sooner rather than later. In the meantime, mortgage lenders still have funds to lend and there are still very good mortgage deals to be had. Moreover, as we explained last month, while inflation remains high real mortgage rates are negative, making high LTV mortgages particularly attractive.

Doug Shephard
Director at Home.co.uk

Scotland	Feb-22
Average Asking Price	£205,543
Monthly % change	0.0%
Annual % change	2.0%

North East	Feb-22
Average Asking Price	£176,680
Monthly % change	0.5%
Annual % change	3.1%

Yorks & The Humber	Feb-22
Average Asking Price	£227,414
Monthly % change	0.0%
Annual % change	3.2%

North West	Feb-22
Average Asking Price	£240,854
Monthly % change	0.8%
Annual % change	6.8%

West Midlands	Feb-22
Average Asking Price	£286,730
Monthly % change	-0.6%
Annual % change	8.1%

East Midlands	Feb-22
Average Asking Price	£275,351
Monthly % change	-0.4%
Annual % change	10.5%

East	Feb-22
Average Asking Price	£396,271
Monthly % change	0.8%
Annual % change	10.7%

Wales	Feb-22
Average Asking Price	£248,566
Monthly % change	1.1%
Annual % change	8.2%

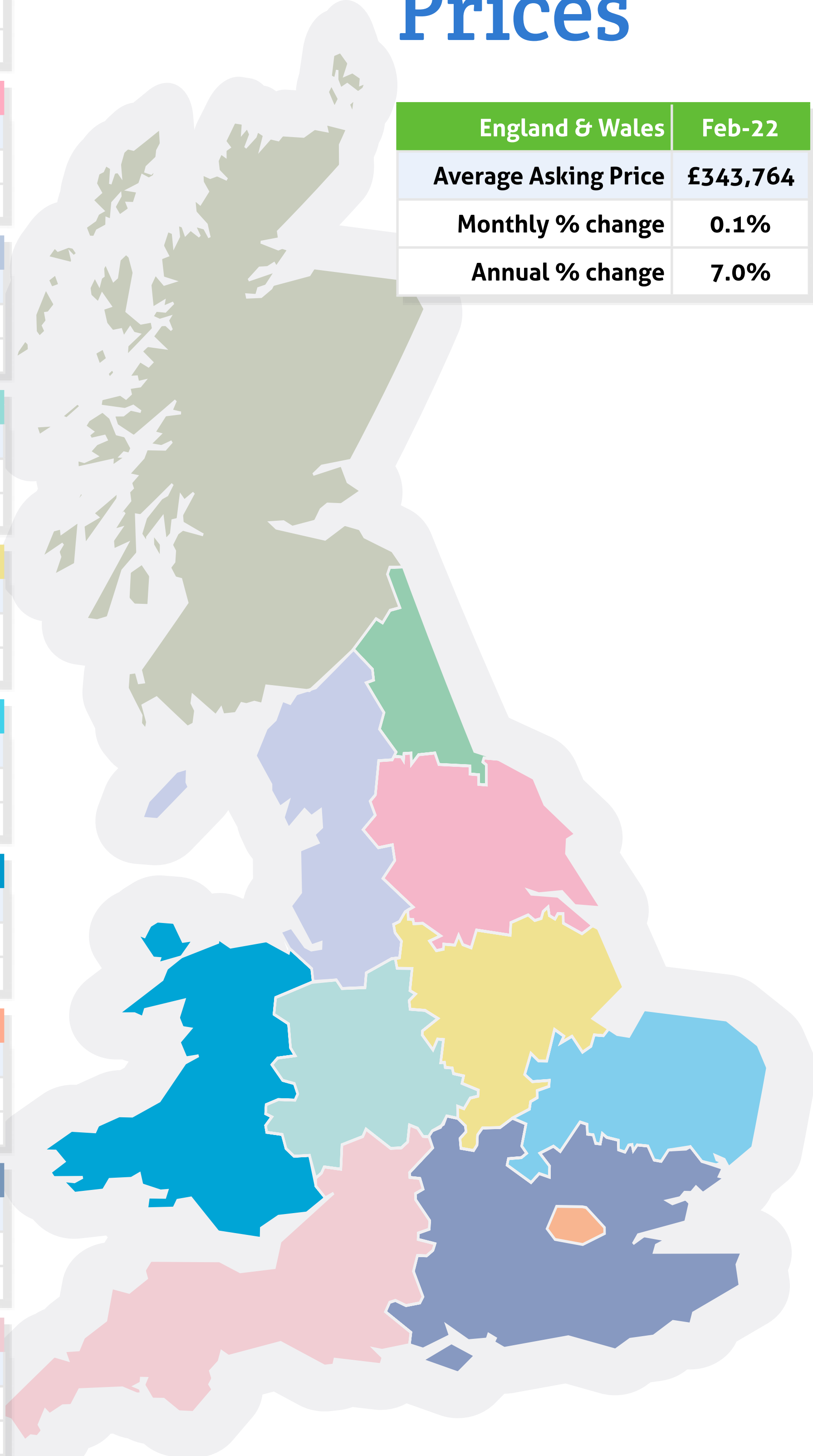
Greater London	Feb-22
Average Asking Price	£551,472
Monthly % change	-0.3%
Annual % change	3.5%

South East	Feb-22
Average Asking Price	£436,496
Monthly % change	0.2%
Annual % change	7.9%

South West	Feb-22
Average Asking Price	£362,148
Monthly % change	0.1%
Annual % change	9.4%

UK Asking Prices

England & Wales	Feb-22
Average Asking Price	£343,764
Monthly % change	0.1%
Annual % change	7.0%



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UK Time on Market

England & Wales	Feb-22
Average Time on Market	**178**
Typical Time on Market	87
12 month supply change	4%

Scotland	Feb-22
Average Time on Market	**259**
Typical Time on Market	104
12 month supply change	10%

North East	Feb-22
Average Time on Market	**183**
Typical Time on Market	80
12 month supply change	10%

Yorks & The Humber	Feb-22
Average Time on Market	**148**
Typical Time on Market	72
12 month supply change	3%

North West	Feb-22
Average Time on Market	**161**
Typical Time on Market	79
12 month supply change	5%

West Midlands	Feb-22
Average Time on Market	**161**
Typical Time on Market	78
12 month supply change	3%

East Midlands	Feb-22
Average Time on Market	**127**
Typical Time on Market	64
12 month supply change	8%

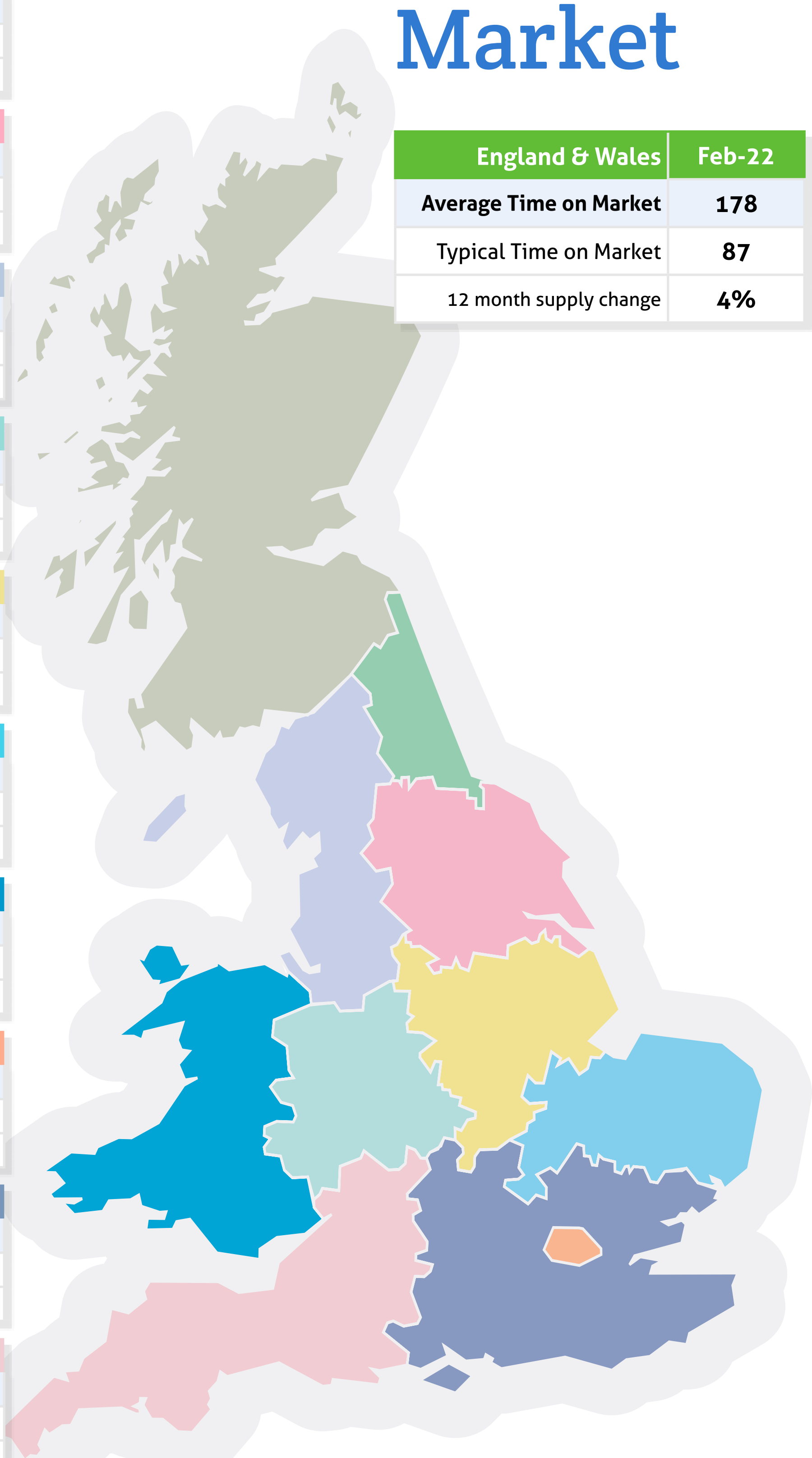
East	Feb-22
Average Time on Market	**151**
Typical Time on Market	75
12 month supply change	9%

Wales	Feb-22
Average Time on Market	**179**
Typical Time on Market	89
12 month supply change	2%

Greater London	Feb-22
Average Time on Market	**210**
Typical Time on Market	112
12 month supply change	-5%

South East	Feb-22
Average Time on Market	**167**
Typical Time on Market	79
12 month supply change	4%

South West	Feb-22
Average Time on Market	**156**
Typical Time on Market	71
12 month supply change	1%



Source: Home.co.uk Asking Price Index, February 2022. 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 16th March**
- **Wednesday 13th April**
- **Thursday 12th May**