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Asking Price Index

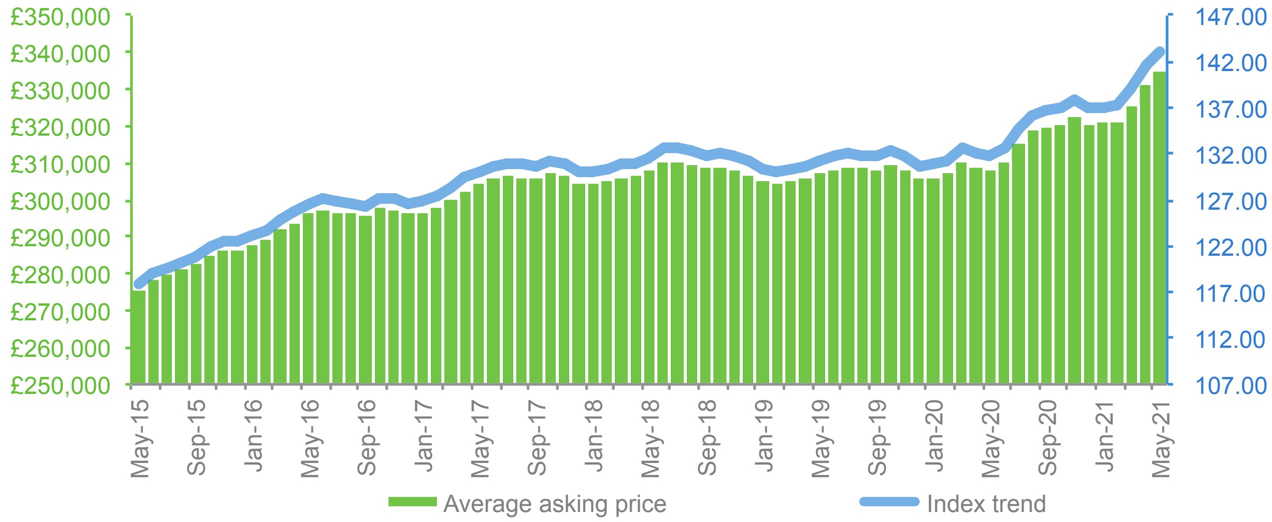
Released 12/05/21 May 2021

Synthetic Boom Continues as Vast Demand Chases Dwindling Supply

Headlines

- Asking prices across England and Wales add a further 1.1% since last month, pushing annualised average growth up to 8.6% (the highest annualised growth since Sept 2014).
- The total stock of property for sale in England and Wales has dropped again, setting a further all-time low of 291,025, 25.8% lower than in May 2020 and 36.1% less than in May 2018.
- Monthly supply remains well below expectations in all regions except Greater London where urban flight has increased new listings by 35% compared to April 2019.
- Phenomenal demand chasing fewer properties again forced up prices in every English region and Scotland since last month, with the largest hikes in the East Midlands (+1.9%), South East (+1.7%) and East of England (+1.6%).
- The North West property market now leads the 12-month regional growth chart at 11.4%, followed by Yorkshire, Wales and the East of England with annualised price rises of 10.9%, 10.8% and 10.8% respectively.
- Plagued by oversupply, Greater London remains the UK's worst-performing region with 4.8% annualised growth. Next worst is the West Midlands where prices have risen 7.8% over the last twelve months.
- Market momentum has increased again as buyers grab the little sales stock available: Typical Time on Market for unsold property in England and Wales has fallen by a further 10 days since last month to just 76 days. This figure is 13 days less than in May 2019.
- Still no sign of rents stabilising in the Greater London lettings market. Falls continue due to oversupply, down 13.3% year-on-year, while Hackney and Wandsworth boroughs register reductions in the average rent greater than 20%.
- By stark contrast, a drought in rental properties persists in all other English regions, Scotland and Wales, thereby driving up rents. During the last 24 months the total number of properties available to let has fallen by 37% across the UK, although in some areas the stock has fallen considerably further over the same time period (e.g. Wales is down by 70%).
- The largest annualised average rent hikes are in the East of England (+11.6%) and the South West (+12.2%).

Home Asking Price Trend for England & Wales



Source: Home.co.uk Asking Price Index, May 2021, 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

Asking prices (and rents) outside of London continue to inflate at an alarming rate, as vast artificial demand dwarfs paltry supply. Thanks to the stimulus measures of the extended Stamp Duty holiday (till the end of June), furlough scheme and government-backed 95% mortgages, together with the urban flight trend, home prices in England and Wales have gained 8.6% overall during the last twelve months, despite a lacklustre London market plagued by oversupply and reduced demand. This is the largest overall growth we have observed since Sept 2014 when the London property boom was at its height. Of course, this growth may well extend higher next month, driven by a record-breaking surge in mortgage lending that has soared far above the previous high set in 2007.[1]

Pumped up by £11.8 billion of fresh mortgage lending in March alone, the market is on fire. Surging demand is evident everywhere except London, with seemingly unlimited credit feeding an insatiable appetite for the little stock available. Across the UK, the number of properties entering the market is currently 16% less than it was two years ago, and in many regions the supply shortfalls are much more severe. Put simply, supply is overwhelmed by demand and consequently the total stock of property for sale in England and Wales has dropped again, setting a further all-time low of 291,025, 25.8% lower than in May 2020 and 36.1% less than in May 2018.

Greater London remains the exception despite the flood of mortgage credit, showing the lowest growth in home prices and plummeting rents due to the de-urbanisation trend and lack of foreign visitors. Oversupply in sales and letting remains evident and this trend looks set to continue despite the successful vaccine rollout. Further sales supply (up 35% compared to April 2019) into an already saturated market will further hamper asking price growth in London going forward. Flats have been most affected and the median asking price within a 10-mile radius of the centre remains 9% down on May 2020.

Beyond beleaguered London, rents continue to rise rapidly in most regions due to lack of supply. Supply was already falling pre-COVID due to increased taxation and greater red tape deterring landlord investment and now demand has been boosted by urban flight. Given the overwhelming demand for rental property in the non-urban settings, supply cannot rise anytime soon to meet demand. We therefore expect that rents will continue to rise in the near term.

The annualised mix-adjusted average asking price growth across England and Wales is currently +8.6% and further increases look inevitable; in May 2020, the annualised rate of increase of home prices was just 0.4%.

Regional Roundup

While vast price growth is apparent overall due to government stimulus measures, the regional level of analysis reveals a more nuanced picture. The UK market shows huge differences between Greater London and the rest of the UK in both the sales and rental markets. Urban flight, triggered by the misery of the COVID pandemic lockdowns, has transferred substantial demand from the capital region to the rest of the UK, while at the same time increasing supply in both sales and lettings in London. The effect on prices is most evident in the fast-moving rentals market where lack of demand has meant that asking rents in the capital region are 13.3% lower on average than they were a year ago, while rents are soaring in most other regions, led by the South West with a rise of 12.2%.

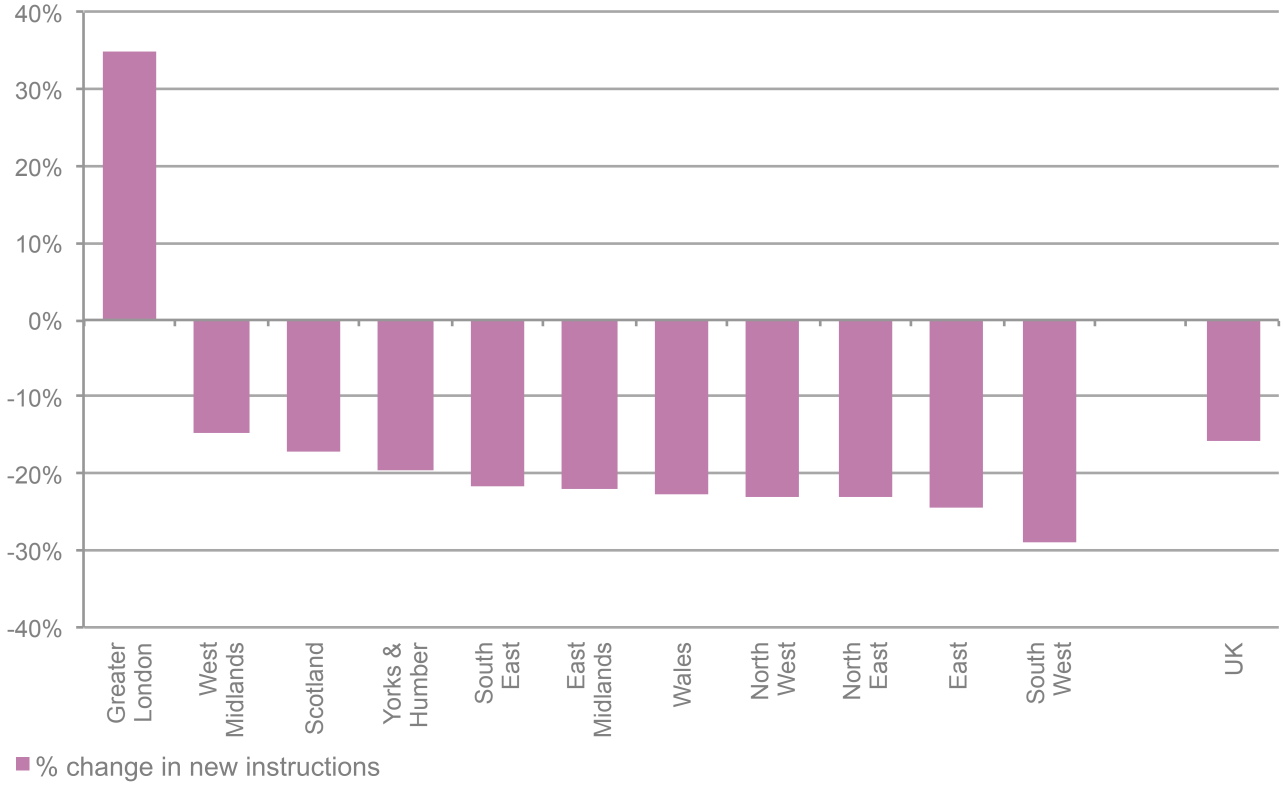
Due to wretched urban lockdowns and the growing acceptance of remote working, considerable wealth is being transferred to suburban and rural locations. Armed with sizeable deposits saved during lockdown, former city dwellers are hunting for a new home and leafier lifestyle. The fact that today there are 44% more flats on the market in London (10-mile radius) than there were a year ago serves as testament to this new trend. The typical asking price of a flat has fallen 9% over the same time period. Suffice to say, London is undergoing a painful period of price rediscovery amidst the supply and demand shocks imposed by the exodus.

The rate of sales supply entering the various regional markets is key to understanding the current market. Again this month, in order to make a meaningful comparison of the rates of supply at the regional level, we contrast current rates of new instructions with those of April 2019, thereby obviating comparison with the aberrant first UK lockdown period when the property market was shut down. Greater London indicates an instruction rate 35% higher than it was pre-COVID.

It is remarkable how many vendors are placing their properties on the market in London despite weak demand, driven by the continuing de-urbanisation trend. While prospects for renting out their properties remain poor, we expect sales supply to continue to increase, thereby overwhelming demand for at least the remainder of 2021. Meanwhile, across the rest of mainland

1. https://tradingeconomics.com/united-kingdom/home-loans

Regional Supply Change, Apr 2021 vs. Apr 2019



Source: Home.co.uk Asking Price Index, May 2021

UK, the supply dynamic paints a very different picture.

Significant shortfalls in the flow of new instructions are evident in every English region (outside the M25), Scotland and Wales. The largest undersupply was again in the South West where 29% of the expected number of new instructions failed to arrive on the market. In fact, most regions are at least 20% down on expectations and such scarcity in the face of pumped-up demand is having a dramatic effect on pricing. Indeed, with asking prices up around 10% on average across all regions other than London, one might ask the question: 'Why aren't potential vendors rushing out to market to cash in, given such buoyant pricing?'

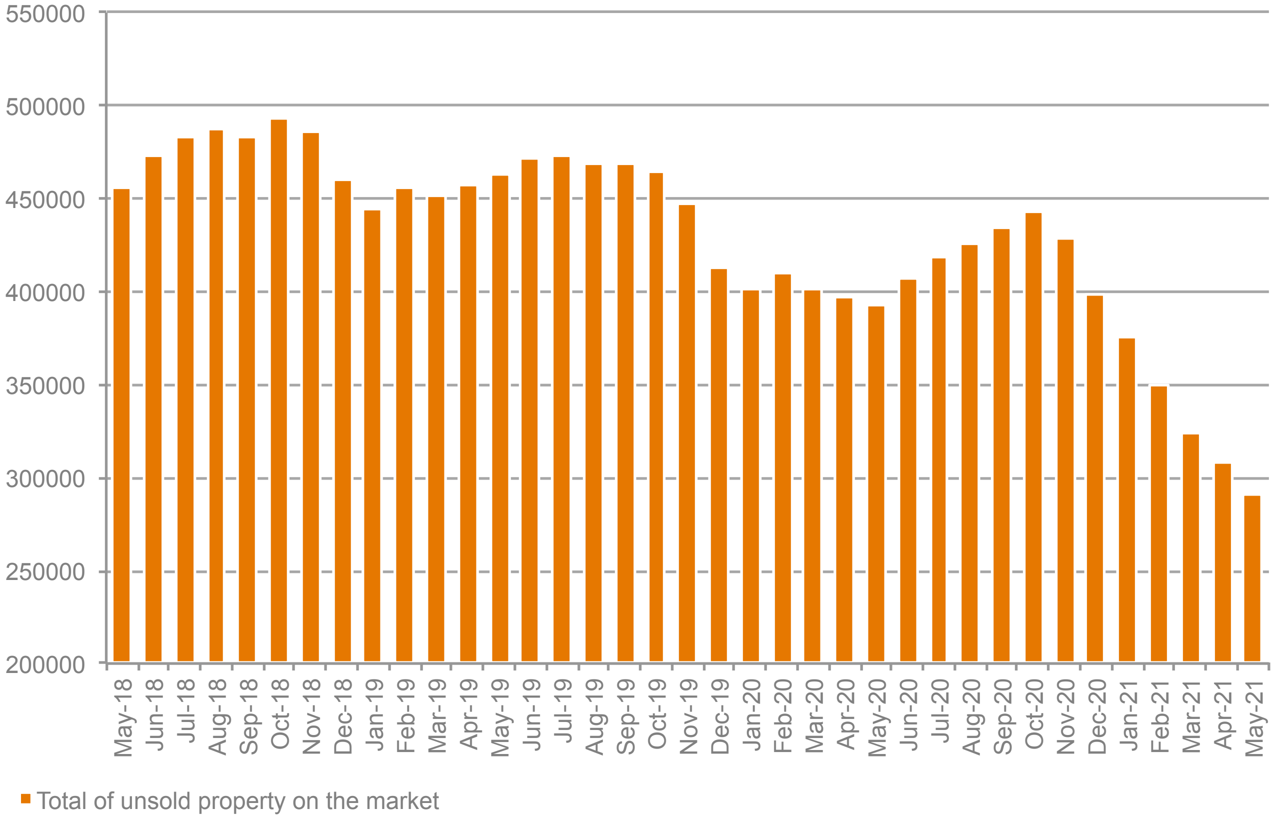
The answer likely lies in the fact that lack of supply is also evident in the regional lettings markets. The result is soaring rents and the allure of this income will be a no-brainer for many potential vendors, allowing them to play wait-and-see instead of committing to a sale. Of course, capital values of their properties are increasing at the same time and this factor will be pivotal in many property owners' decisions. Currently, letting properties in the regions has never been so straightforward, even at the newly inflated rent levels, thanks to enormous demand. Void periods are very short and the Typical Time on Market for rental properties has plummeted. In the South West, for example, the median was 48 days in May 2020 but now demand has driven this indicator down to a mere 15 days.

Sales Stock

Never have so few properties been on the market in the history of this index. In May 2008 there was a record number of 868,241 properties on the market and the Bank of England Base Rate was 5.0%. Now, after thirteen years of quantitative easing and the Base Rate now at 0.25%, the sales stock total for England and Wales has been eroded to a mere 291,025 properties. Falling stock levels is clearly a long-term trend following the financial crisis and has served to support prices during this period, along with the cheapest mortgages in history. However, the recent surge in demand has taken the stock level to a new all-time low and prices to a new all-time high.

Of course, a shrinking stock of properties for sale is a consequence of supply not keeping up with demand. Since credit-based demand is potentially infinite (in a system based on quantitative easing) and supply is strictly finite, the decimation of the sales stock total is perfectly understandable. It's economics 101: unlimited money is chasing a limited amount of

Total Stock of Property for Sale, England and Wales



Source: Home.co.uk Asking Price Index, May 2021

goods. Hence, the twin trends towards further scarcity and higher prices appear set until the cost of borrowing increases. An unimaginably catastrophic event, given the indebtedness of the UK, but it must happen sooner or later.

Will supply rise to reinflate stock levels? In our view this seems unlikely while rents and prices are rising in tandem and interest rates remains low. Moreover, additional artificial demand will come from government-backed 95% mortgages. The danger, of course, is that stoking demand during a time of scarcity will only serve to exacerbate distortions in the market and a period of unsustainable growth. Nor are these stimulus measures helping much to save the capital region's property market from the correction we are now witnessing due to urban flight and the loss of international visitors.

This must be the most blatantly fake property boom in history, but don't worry because house prices always go up, right?

Yeah, right... But how did we get here? As Merryn Somerset Webb pointed out in MoneyWeek: 'In mid-2020, the Office for Budget Responsibility was getting nervous about UK house prices. It was forecasting that they would fall into the end of 2020 and then fall some more, to end 2021 down by 11% on the year. They weren't alone in their pessimism (or maybe optimism – how you see this depends on whether you are a buyer or a seller). At the same time, the Centre for Economics and Business Research was forecasting a 14% fall. They were all completely wrong.'

Indeed they were wrong but there's nothing like fear when it comes to provoking a dangerous overreaction, especially by our modern interventionist governments. Fear of falling house prices gave us this artificial boom which, quite ironically, makes the risk of a correction much greater going forward. The next fear, of course, is what happens after June when the Stamp Duty holiday ends? Will the market fall off a cliff? Shudder at the thought! More likely that, given a couple more pessimistic forecasts, we'll have an extension to the Stamp Duty holiday or even have it made permanent. The UK's sacred cow (aka housing market and mortgage lenders) must be saved at all costs even if it risks jeopardising the entire economy!

'Extend and pretend' is still the mantra 13 years after the politicians gained control of the Bank of England. 'The moral hazard inherent in the provision of ex post insurance to institutions that have engaged in risky or reckless lending is no abstract concept,' Dr Mervyn King, the then Chairman of the Bank of England (BoE), told the British Parliament in an open letter in early September 2007. Dr King's warning is as relevant today as it was then. We are all on the hook for these loans should the party turn sour.

Inflation is here. Supply chain disruption caused by the COVID pandemic (and vast money creation in the guise of economic stimulus) is causing spiralling prices in basic commodities from timber to microchips. These rapidly rising prices are soon going to filter down to the cost of energy, food and consumer goods but how will we be able to tame this inflation? The normal remedy, of course, is to raise interest rates but this would reveal a structural vulnerability in the UK economy which has become so dependent on the housing market.

In many other countries, including the US, interest rates are fixed for the term of the loan, typically 25 years. In the UK, however, half of outstanding mortgages have interest rates fixed for only two years or less. Get the picture? Added to that, many of the newly introduced 95% government-backed mortgages are also on short-term deals. Sounds risky? Indeed it is. Just a small rise in mortgage interest rates (say 2%) from where they are now, coupled with higher living costs, would slam on the affordability brakes, while a bigger inflation-busting 5% rise would likely crash the market.

Post-financial crisis, UK economic policy has painted us all into corner. We are powerless to deal with inflation when it comes (and it will) without shooting ourselves in the foot, as raising rates would snuff out any foreseeable economic recovery. Our hands are tied (apart from disastrous price-fixing policies) and so inflation will most likely be left to run its course, at least initially. After that, small rises in the BoE Base Rate will be too little too late anyway. In such an inflationary environment, house prices will continue to rise in nominal terms but in real terms they will fall.

Doug Shephard
Director at Home.co.uk

UK Asking Prices

England & Wales	May-21
Average Asking Price	£335,213
Monthly % change	1.1%
Annual % change	8.6%

Scotland	May-21
Average Asking Price	£207,246
Monthly % change	0.6%
Annual % change	9.7%

North East	May-21
Average Asking Price	£175,513
Monthly % change	1.2%
Annual % change	8.1%

Yorks & The Humber	May-21
Average Asking Price	£227,331
Monthly % change	0.3%
Annual % change	10.9%

North West	May-21
Average Asking Price	£234,557
Monthly % change	0.9%
Annual % change	11.4%

West Midlands	May-21
Average Asking Price	£276,408
Monthly % change	0.6%
Annual % change	7.8%

East Midlands	May-21
Average Asking Price	£262,428
Monthly % change	1.9%
Annual % change	10.0%

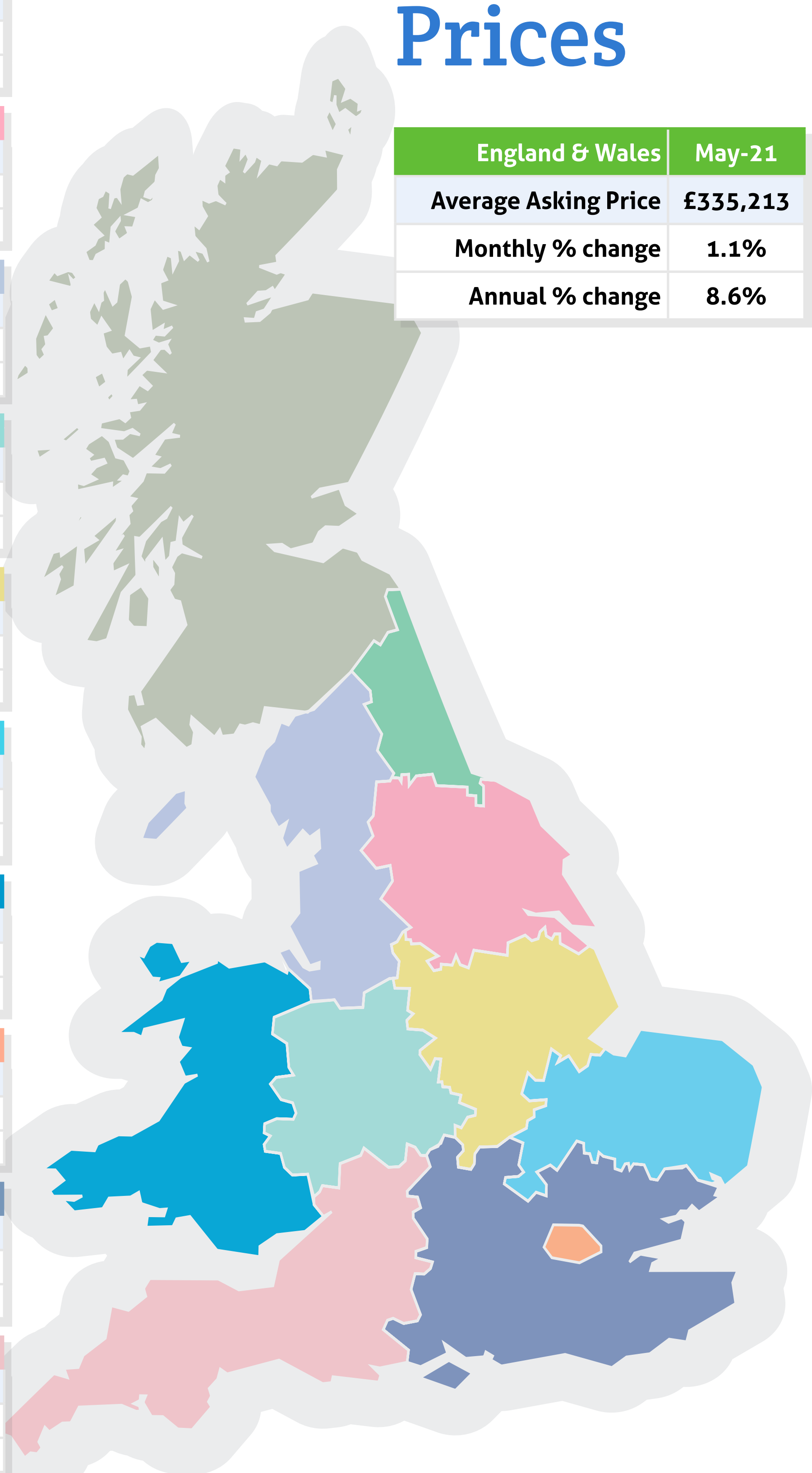
East	May-21
Average Asking Price	£380,072
Monthly % change	1.6%
Annual % change	10.8%

Wales	May-21
Average Asking Price	£237,898
Monthly % change	0.0%
Annual % change	10.8%

Greater London	May-21
Average Asking Price	£543,987
Monthly % change	0.5%
Annual % change	4.8%

South East	May-21
Average Asking Price	£428,663
Monthly % change	1.7%
Annual % change	9.4%

South West	May-21
Average Asking Price	£350,402
Monthly % change	1.4%
Annual % change	8.3%



Source: Home.co.uk Asking Price Index, May 2021

UK Time on Market

Scotland	May-21
Average Time on Market	266
Typical Time on Market	90
2 year % supply change	-17%

North East	May-21
Average Time on Market	228
Typical Time on Market	82
2 year % supply change	-23%

Yorks & The Humber	May-21
Average Time on Market	167
Typical Time on Market	60
2 year % supply change	-20%

North West	May-21
Average Time on Market	183
Typical Time on Market	74
2 year % supply change	-23%

West Midlands	May-21
Average Time on Market	163
Typical Time on Market	67
2 year % supply change	-15%

East Midlands	May-21
Average Time on Market	152
Typical Time on Market	59
2 year % supply change	-22%

East	May-21
Average Time on Market	159
Typical Time on Market	63
2 year % supply change	-24%

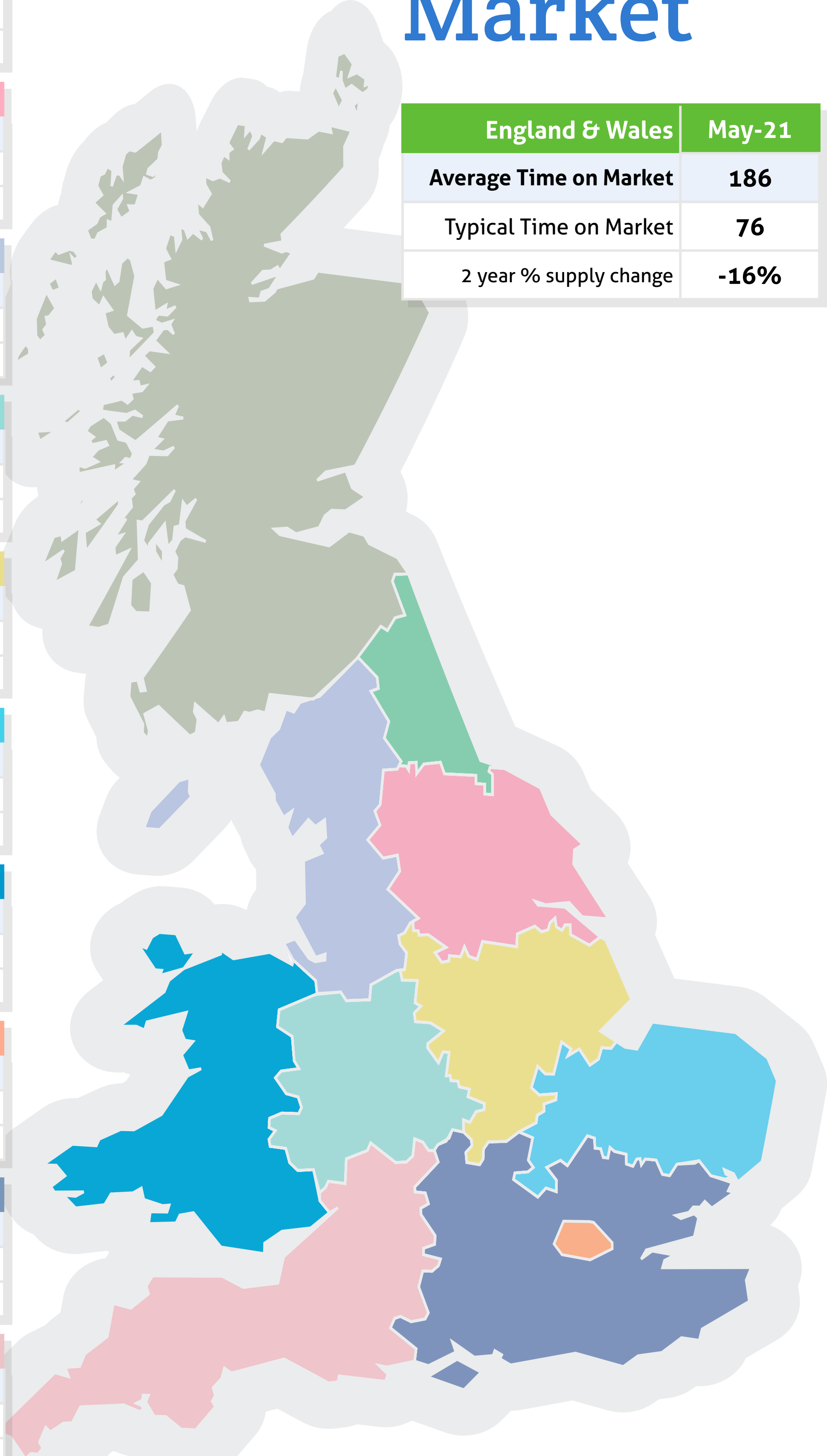
Wales	May-21
Average Time on Market	221
Typical Time on Market	81
2 year % supply change	-23%

Greater London	May-21
Average Time on Market	187
Typical Time on Market	86
2 year % supply change	35%

South East	May-21
Average Time on Market	172
Typical Time on Market	70
2 year % supply change	-21%

South West	May-21
Average Time on Market	174
Typical Time on Market	67
2 year % supply change	-29%

England & Wales	May-21
Average Time on Market	186
Typical Time on Market	76
2 year % supply change	-16%



Source: Home.co.uk Asking Price Index, May 2021. Average = Mean (days), Typical = Median (days).
Supply change % has been calculated over 2 years rather than 12 months due to first lockdown distortion.

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:
  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 June**
- **Wednesday 14th July**
- **Thursday 12th August**