

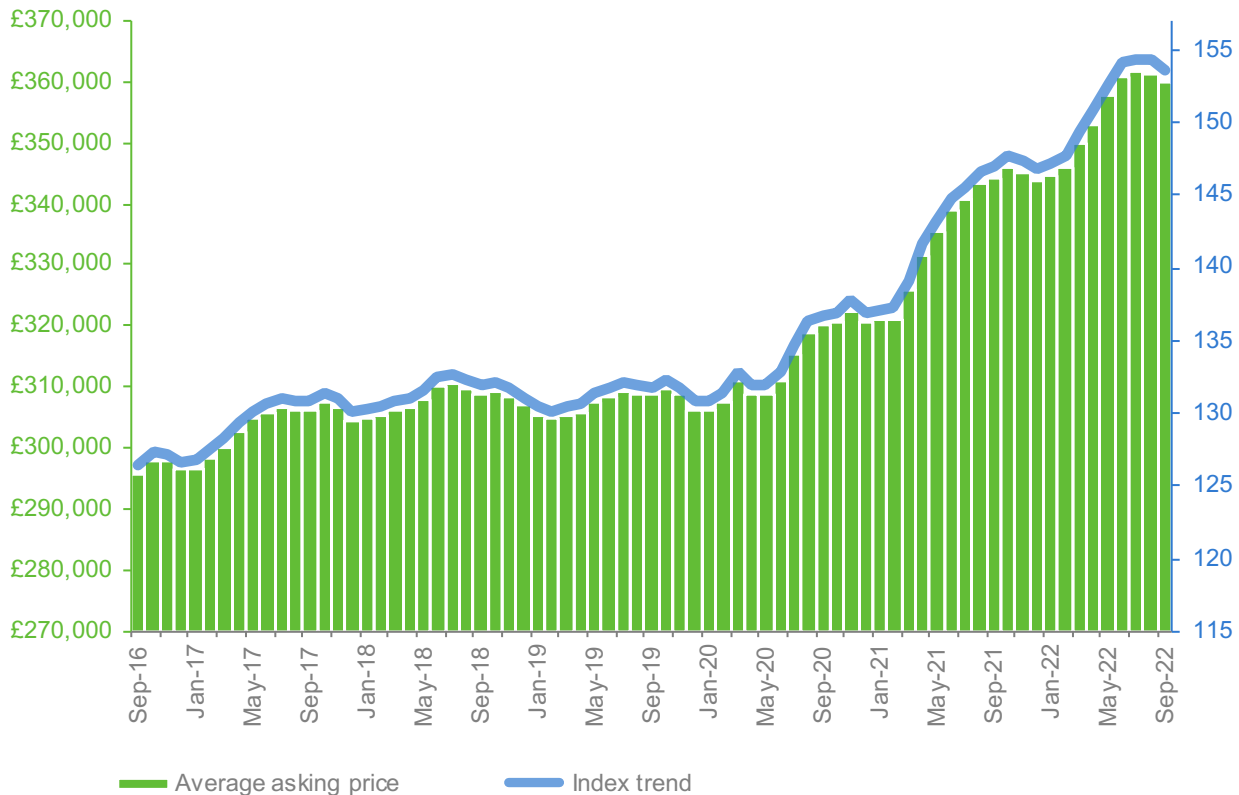
The Market Corrects: Prices Cool as Supply Increases

Headlines

- Asking prices across England and Wales have dipped slightly since August (by 0.4%), bringing the year-on-year rise to 4.6%, consistent with both seasonal expectations and typical price adjustments in the wake of a rapid surge.
- Good news for buyers as the total stock of property for sale in England and Wales ticked up again, albeit more strongly this month. However, it will take perhaps a year before total stock reaches what might be considered normal.
- No slowdown is evident as the Typical Time on Market (median) for unsold property remains unchanged at 65 days, 17 days less than in September 2021, indicating that properties continue to move through the market at a near-record pace.
- Supply of new instructions continues the upward trend, albeit from a very low base. Record-high prices are, as expected, encouraging more vendors to enter the market. 17% more properties were placed on the market last month compared to August 2021.
- The North West and Welsh property markets now lead in annualised regional price growth (both +7.9%), ahead of the previous leader, the South West (+7.6%).
- Meanwhile, monetary inflation increased further to 14.4% (RPI ex. housing), making current *real* growth around -10% year-on-year and, perhaps more importantly, the *real* mortgage interest rate around -11%.¹
- Spectacular hikes in Greater London rents continue. Demand is completely overwhelming supply of available properties, driving annualised rental growth to a shocking 29.2%.
- Central London rents have risen by far the fastest over the last twelve months and continue to do so, led by Hackney (+48%), Lambeth (+44%) and Islington (+43%) boroughs.
- Asking rent growth across the UK currently stands at an astonishing 21.8% year-on-year as rents rise in every English region, Scotland and Wales.

¹ ONS figure for July 2022.

Home Asking Price Trend for England & Wales



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

Summary

The UK property market continues to show significant momentum. Frothy valuations are being dialled back as the post-lockdown buying frenzy fades away. Stock levels are recovering in all regions except London, where renewed demand is gobbling up properties faster than agents can put them on the market. Higher nominal mortgage rates appear not to be deterring buyers and this is understandable when, owing to inflation, real mortgage lending rates are highly negative. Of course, real home price growth is also negative by a growing margin.

The property drought is over and a greater sense of normalcy prevails. However, property continues to

move through the market at an exceptional pace. The average time on the market for unsold property is now at the lowest it has been since the financial crisis of 2008 (144 days in England and Wales).

Moreover, the turnover rate for properties passing through the market has recovered vastly from the low set in January when stock levels hit a record low.

This measure of the number of properties passing through the market per day, which may be regarded as the 'pulse of the market,' has nearly doubled since the January low of 1163 properties per day to the current rate of 2075. This latest measure is broadly approaching the longer-term average for the UK property market.

Soaring rents in London have improved rental yields significantly. The typical yield for the London area has now surpassed 6% and this will spur further vital buy-to-let investment. Increasing scarcity in the capital lettings market has driven rents up by nearly 30% on average over the last twelve months. Only greater supply will address this fundamental problem. Given that rental yields underpin capital values, we expect demand for London property to increase and residential property values to rise later this year and into 2023.

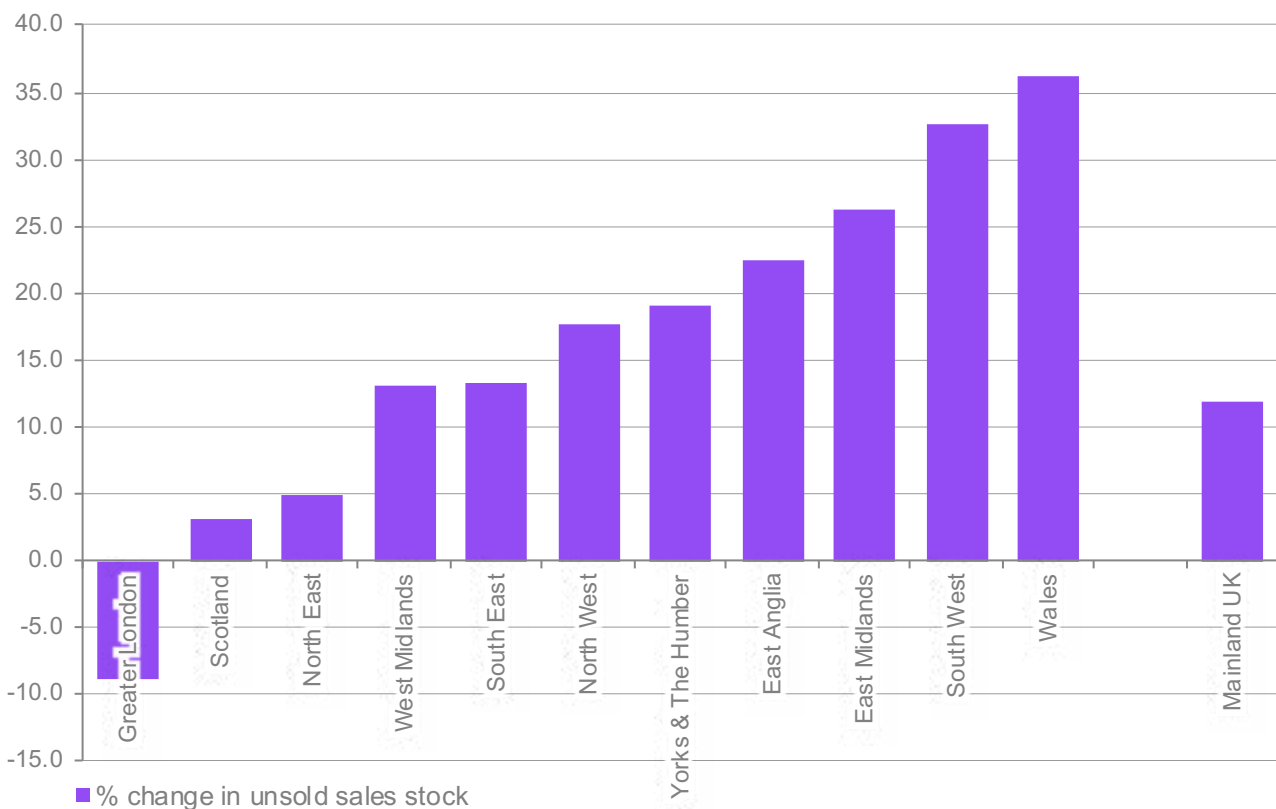
The annualised mix-adjusted average asking price growth across England and Wales is now at 4.6%; in September 2021, the annualised rate of increase of home prices was 7.5%.

Regional Roundup

The return to more normal market conditions requires that stock levels rise and that is exactly what we are observing, with the notable exception of London.

Stock numbers in Wales and the South West are rising very rapidly, followed by the East Midlands and East Anglia. Yorkshire and the North West also show above average accumulation of for sale stock. Supply surges always lead to a softening of prices and sometimes a downward revision. Wales has shown extraordinary and unsurpassed growth over the last five years (+38%), even beating the North West (+34%) over the same period. We anticipate that a price

Rise in Total Properties for Sale by Region, Sept. 2022 vs. Sept. 2021



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



correction in Wales is inevitable given both the rapid recent price growth and increased supply (new instructions for the month of August are up 22% year-on-year).

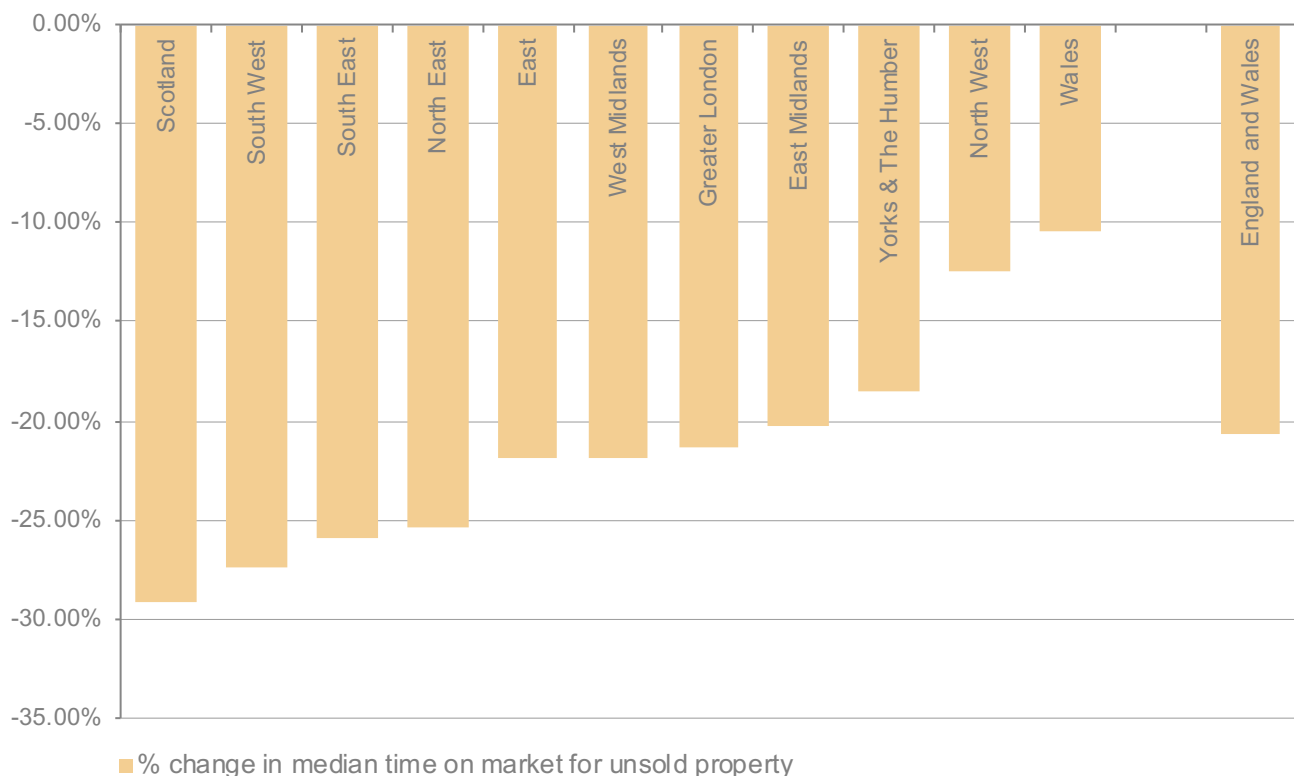
However, the rate of restocking is far from uniform across the regions. At the other extreme, stock levels are clearly in decline in Greater London despite an 11% rise in new instructions. In other words, demand is increasing and now outpaces supply. London prices have been the worst performers over the last five years, having risen a mere 3.3%, and this makes price growth very likely going forward.

Not that the regional markets are slowing, just restocking outside of London. Our next chart shows that every single region shows a

reduction in Typical Time on Market for unsold stock when compared to last year. In our experience, this highly indicative measure tends to turn positive (i.e. lengthening marketing times) before prices correct significantly.

Whilst the overall change in the mix-adjusted average price for England and Wales was -0.4%, price changes in the regions varied considerably over the last month. The North East put in a stunning rise of +1.9% and Scotland +1.3%. Prices also nudged up in Yorkshire and the North West (see map) but fell in all other English regions and Wales. The largest monthly falls were in London and the East of England (both -0.8%). Given the renewed demand in London, this month's fall

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



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

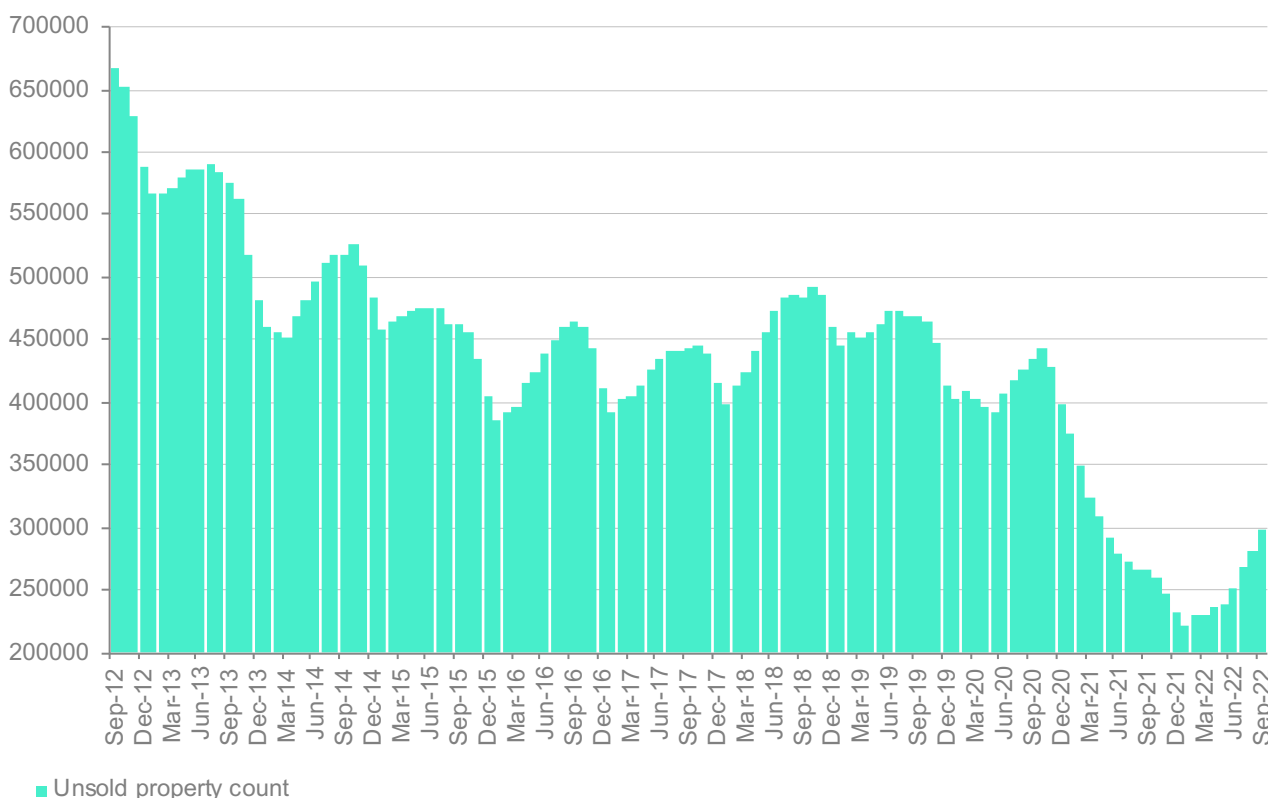
is perhaps surprising, although price signals can be slow to filter through into estate agents' portfolios.

Stock Levels

To help understand the overall recovery from the property drought, we again present the longer-term sales stock chart using ten years of data. Stock levels remain a long way

short of the 'normal' levels and it will be probably next year before they return to between 400,000 and 500,000 properties. Supply of new instructions has increased by 17% but residual demand remains strong in most regions, therefore they will restock only gradually. Significant supply shocks look unlikely at this point.

Total Stock of Property for Sale, England and Wales



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



“ The UK property market is naturally undergoing a period of correction.

Huge distortions in stock levels, supply and prices during the post-lockdown buying frenzy are steadily rebalancing. Overheated regional markets (e.g. Wales) look set to undergo a period of price correction while others, such as London, that were out of favour with buyers are heading into a period of growth. Rents have been soaring in London over the last year or so due to increasing scarcity of properties to let, and this is good news for investors. In fact, the typical London rental yield has now surpassed 6% and is still in a rising trend.

For many years, low rental yields in London (especially central London) have hampered investment. Low returns coupled with increased regulation and taxes for buy-to-let landlords led to underinvestment in this crucial part of the Private Rented Sector, which is why we see lack of supply (and the consequential rent hikes) that we do today. Clearly, the only viable path to offering more choice and stabilising rents is greater supply. Higher yields will help, but a more investor-friendly approach by central and local government would surely go a long way further. Mayors and radical pressure groups who champion rent caps and further extensive regulation are simply going to scare away investors and make matters worse.

Raising interest rates won't help either. Build-to-rent schemes will be hampered by more expensive borrowing costs and, since the hike in building materials, they will need to borrow more. Moreover, the mantra from the Bank of England

that borrowing costs must rise to tame inflation is complete nonsense (and they know it). We are currently experiencing predominantly cost-push inflation.



Increasing the UK interest rate has almost no effect on international commodity prices (other than making our domestic production more expensive). I suspect that what they are trying to do is make their huge backlog of Gilts in their Asset Purchase Facility (which ballooned during the lockdowns) easier to sell (cheaper) and shore up the value of the pound (the pound has lost 16% vs. the US dollar since January). They also know full well that this path guarantees a recession for the UK (with lots more unemployment).

However, the good news is, as I stated last month, UK property can weather this storm. Rental yields are considerably higher than borrowing costs and this fundamentally underpins the value of property. Moreover, real mortgage interest rates are still hugely negative (around -11%). So, in brief, an investor can get a 6% return (gross) on a loan + deposit and inflation will erode the outstanding debt at the rate of inflation less interest. Roughly speaking, that's about a 50% reduction in the outstanding debt (in today's money) over five years. Meanwhile, the capital value of the underlying property is likely to have increased.

Just remember that Alice in Wonderland economics™ favours the indebted and punishes the prudent saver.

Doug Shephard
Director at Home.co.uk



UK Asking Prices

Scotland	Sep-22
Average Asking Price	£217,473
Monthly % change	1.3%
Annual % change	2.8%

North East	Sep-22
Average Asking Price	£189,438
Monthly % change	1.9%
Annual % change	7.4%

Yorks & The Humber	Sep-22
Average Asking Price	£245,871
Monthly % change	0.5%
Annual % change	7.1%

North West	Sep-22
Average Asking Price	£258,633
Monthly % change	0.5%
Annual % change	7.9%

West Midlands	Sep-22
Average Asking Price	£303,253
Monthly % change	-0.7%
Annual % change	6.7%

East Midlands	Sep-22
Average Asking Price	£289,280
Monthly % change	-0.2%
Annual % change	5.9%

East	Sep-22
Average Asking Price	£409,639
Monthly % change	-0.8%
Annual % change	3.0%

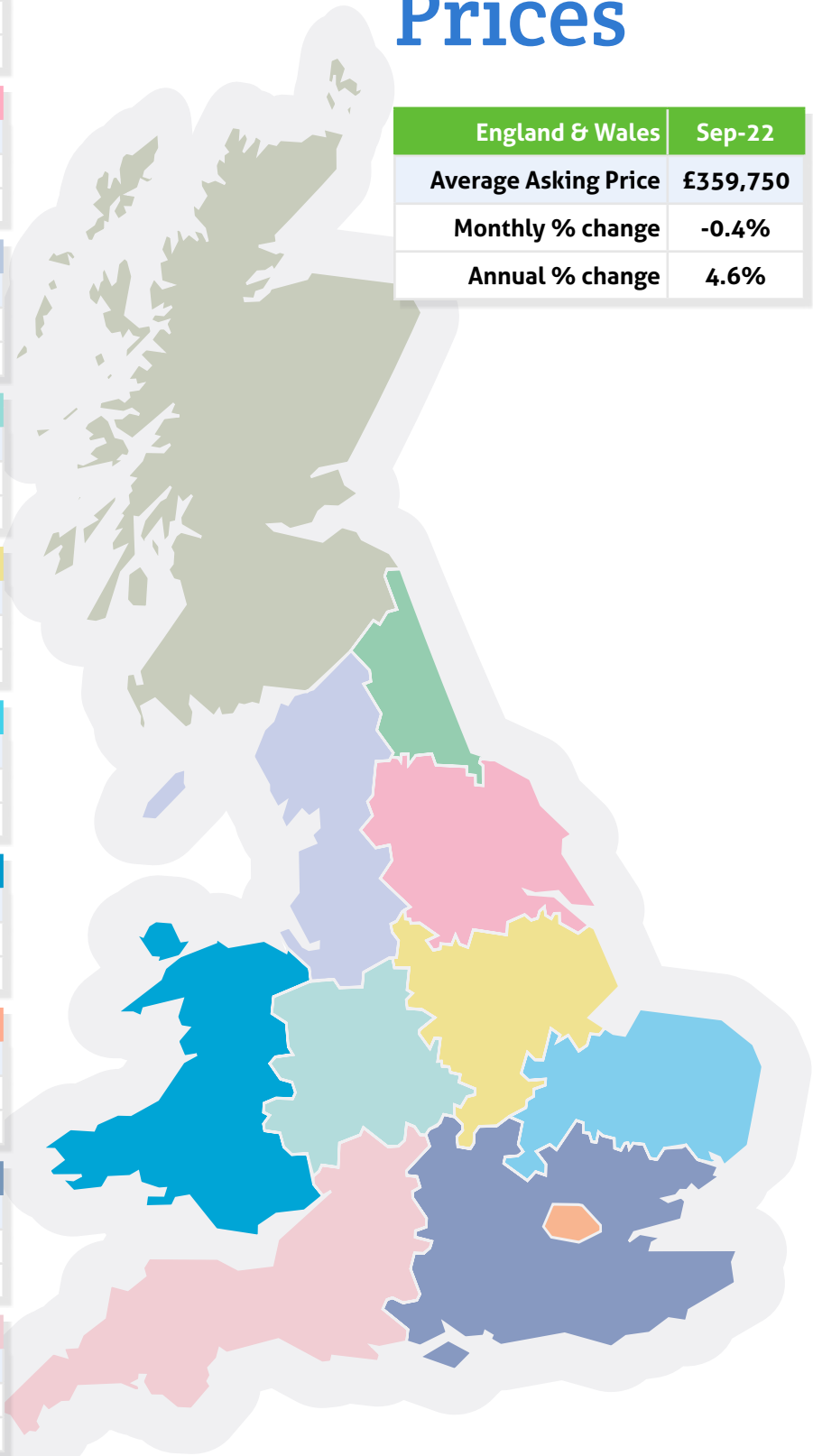
Wales	Sep-22
Average Asking Price	£263,834
Monthly % change	-0.7%
Annual % change	7.9%

Greater London	Sep-22
Average Asking Price	£557,548
Monthly % change	-0.8%
Annual % change	1.4%

South East	Sep-22
Average Asking Price	£454,440
Monthly % change	-0.6%
Annual % change	2.6%

South West	Sep-22
Average Asking Price	£390,443
Monthly % change	-0.7%
Annual % change	7.6%

England & Wales	Sep-22
Average Asking Price	£359,750
Monthly % change	-0.4%
Annual % change	4.6%



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



UK Time on Market

Scotland	Sep-22
Average Time on Market	185
Typical Time on Market	51
Annual % supply change	15%

North East	Sep-22
Average Time on Market	138
Typical Time on Market	59
Annual % supply change	13%

Yorks & The Humber	Sep-22
Average Time on Market	113
Typical Time on Market	53
Annual % supply change	17%

North West	Sep-22
Average Time on Market	139
Typical Time on Market	63
Annual % supply change	14%

West Midlands	Sep-22
Average Time on Market	132
Typical Time on Market	57
Annual % supply change	17%

East Midlands	Sep-22
Average Time on Market	101
Typical Time on Market	51
Annual % supply change	19%

East	Sep-22
Average Time on Market	122
Typical Time on Market	57
Annual % supply change	21%

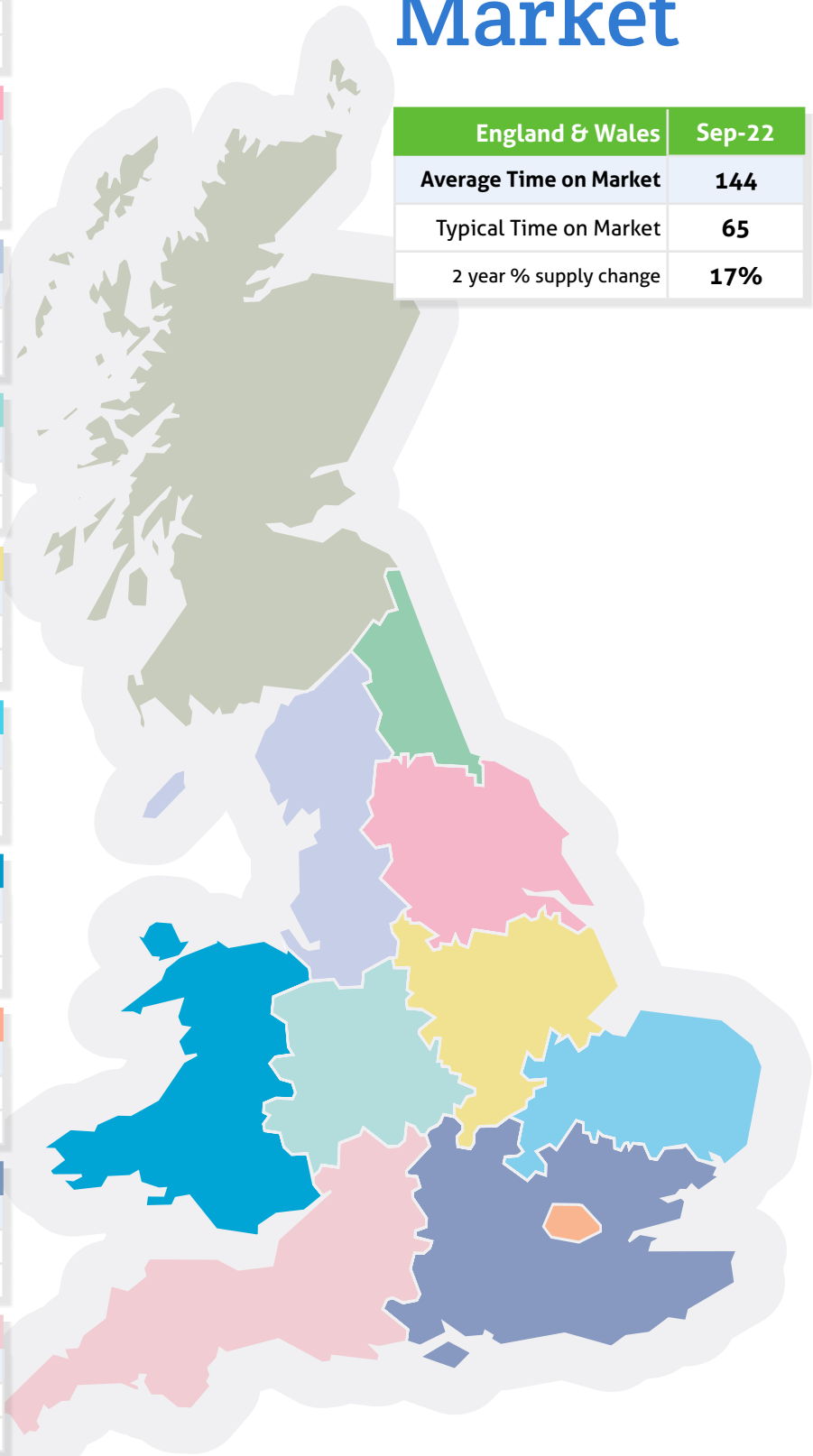
Wales	Sep-22
Average Time on Market	131
Typical Time on Market	60
Annual % supply change	22%

Greater London	Sep-22
Average Time on Market	185
Typical Time on Market	81
Annual % supply change	11%

South East	Sep-22
Average Time on Market	132
Typical Time on Market	60
Annual % supply change	18%

South West	Sep-22
Average Time on Market	121
Typical Time on Market	53
Annual % supply change	26%

England & Wales	Sep-22
Average Time on Market	144
Typical Time on Market	65
2 year % supply change	17%



Source: Home.co.uk Asking Price Index, September 2022. 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:
<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:

- Friday 14th October
- Wednesday 16th November
- Wednesday 14th December

