2017 Q4 Summary

The UK real property prices have declined by 0.2% during 2017. However, the decline in house prices has not been homogenous across regions. Over the last year, Greater London recorded the lowest real house price inflation among regional property markets in the UK (-3.3%), followed by the North (-2.7%), Outer Metropolitan (-1.7%), and Yorkshire and Humberside (-1.1%). On the other hand, some of the other UK regions continue to undergo a period of sustained house price growth. We remark that the regions that have experienced the highest real property price inflation rates in the course of 2017 are West Midlands (2.3%), South West (1.9%), East Midlands (1.7%), and North West (1.1%).

Financial Stability. With regards to the exuberance indicators, the reported statistics show no signs of exuberance at the national level. None of the regional market indicators are close to the explosive threshold either. The risk of any of those markets to enter in an exuberance phase is therefore very low at the moment (the estimated probability that any of those markets enter a phase of exuberance is below 10%).

The Price-to-Income Ratio continues to be high for historical standards, close to its all-time high in 2007. Despite the decrease in London house prices, the ratio has not declined substantially due to the fall in real income. This indicator will therefore continue to be a source of concern as pressure on indebted households does not show signs of easing off.

Forecasts. The prediction of the UK Housing Observatory is that real property prices in the UK will rise by about 0.7% in 2018. Since the EU referendum, we have observed a continued decline of house price inflation in the UK, and some regions started to experience negative annual growth rates during 2017 (London, the North, Yorkshire, Outer Metropolitan, Wales, Scotland and Northern Ireland). These declining rates are now expected to accentuate and spread more widely across other regions in 2018, although they will slowly recover towards the end of the year.

There are several factors driving the prediction of a small increase in the UK national real house prices. The most important of which is that overall economic conditions in the UK remain subdued. In particular, the adverse development of households’ real incomes and consumption. The persistent low productivity experienced by the UK economy is having a detrimental effect in the internal demand market. Other factors include the higher cost of borrowing due to a tightening of monetary policy in response to the increase in inflation rate and the tightening of the labour market. Finally, housing supply is expected to be more dynamic than what it has been in the past.

Summaries of previous quarterly releases can be found in the section 'Data Releases Archive’