2017 Q3 Summary

We highlight two significant developments in the housing market since the previous release of the UK Housing Observatory. First, UK property prices have increased by 0.7% in the last quarter. This figure reverts the negative house price inflation of the previous quarter, which was the first fall in prices since 2012 Q3. Second, the increase in house prices has not been homogenous across regions. Notably, in London and Yorkshire&Humberside property prices have actually declined in the last quarter by 0.7% and 0.5%, respectively. Moreover, we remark that London has experienced two consecutive quarters of negative property price inflation, which did not happen since 2009 Q1, at the height of the financial crisis.

The rest of the regional markets in the UK continue to undergo a period of house price growth, and we note that the regions that have recorded the highest property price inflation rates over the last quarter are East Midlands (2.1%), the North (1.8%) and Outer South East (1.6%).

Financial Stability. The moderate growth in the UK national property prices over the last quarter has not significantly altered the risk that this market exhibits a period of exuberance in the near future. Our indicators are still far away from the critical threshold that denotes that the market is in an ‘explosive’ phase.

The suggestion that the risk of the housing market being in a ‘bubble’ is low is further corroborated by the analysis for each of the regions. 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 continuing negative growth in London house prices, the ratio has not declined substantially due to the fall in real income. This indicator will therefore remain to be a source of concern as pressure on indebted households does not show signs of easing off.

Forecasts. The results of our forecast exercise suggest that UK house prices will continue to grow but at a slower rate than last year: national house price growth over the next 4 quarters is predicted to be 2.4% compared to the annual growth of 4.6% recorded in 2016 Q3. The factors that contribute to the sustained increase in prices are: (i) the reduction in the real mortgage rate, and (ii) the decrease in the supply of new houses observed in the last quarter. On the other hand, the factors that put downward pressure on prices are: (i) the decline in the growth rate of the consumption expenditure, and (ii) the negative market expectations regarding future interest rate dynamics.

With regard to the regional housing markets, the predicted patterns of property price behaviour vary considerably. This quarter’s one-year-ahead forecasts indicate that all property markets will continue to experience house price growth, with the exception of London and Yorkshire&Humberside. According to the forecasting results, these regions will experience a declining property market at the end of 2017 and at the start of 2018. However, the rates of property price inflation are predicted to build up towards the end of 2018.