2018 Q1 Summary

The UK real property prices continue to fall: the housing prices have declined by 0.15% over the last year. 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 (-3.7%), followed by Scotland (-2.4 %), Outer Metropolitan (-0.7%), and Outer South East (-0.6%). However, the other regional markets in the UK continue to undergo a period of house price growth. We note that the regions that have experienced the highest real property price inflation rates in the course of the last year are Northern Ireland (5%), Wales (3.3%), West Midlands (2.2%), and East Midlands (1.8%).

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 and the growth of real income, observed in the last quarter, the ratio has not declined substantially. 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 house prices in the national and the majority of regional markets will grow in the course of 2018. The national real property prices in the UK will rise by more than 2% by the first quarter of 2019. The forecasts predict a similar pattern of house price behaviour in all regions with the exception of the Outer Metropolitan. According to the forecasting results, the property prices in this region will be declining during the first half of 2018, however the growth in housing prices is predicted to build up towards the end of the year.

There are several factors driving the prediction of a positive growth in the UK real house prices. The most important of which is the fall in the real mortgage rate (mainly due to the recent rise in inflation rate). Other factors include the marked growth in the households’ real incomes observed in the last quarter of 2017 and the restricted supply of new houses. We note that both the number of housing starts and housing completions has been continually declining throughout the last year.

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