The growth rate of UK property prices has been falling over the last two quarters. The annual growth rate currently stands at 2.2%. This is the lowest growth rate of national housing prices since 2013 Q2. Furthermore, property prices in Greater London have fallen by nearly 2% over the last year. However, house prices have increased in all other regional markets. Overall, the regions that have experienced the highest property price inflation rates in the course of the last year are not in the South of the country: East Midlands (4.4%), West Midlands (4.2%), Wales (4%), and Scotland (3.1%).

**New! House Price Uncertainty (HPU) Index.** The UK Housing Observatory has created this new series that will contribute to the analysis of the housing market and general economic conditions in the UK. HPU is an index of search results from five large newspapers in the UK (please click here for further information about its construction, evolution over time since 1982, and relationship with economic variables). This index proxies for movements in house price uncertainty. We have now incorporated this series to the set of variables we employ in our forecast models because it helps improve their out-of-sample forecasting power.

Furthermore, we note that HPU increased ahead of the EU Referendum and reached an all-time high right after the referendum took place (2016 Q3). Although the index eventually dropped, it has remained at a high level ever since. Its current level (140) is still high for historical standards, and signals potential downside risks in the UK housing market and the overall economy.

**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 the growth rate of house prices in the national and the majority of regional markets will continue to drop in the course of 2018 and the first half of 2019. We forecast a growth rate of about 1.7% in the second quarter of 2019. The forecasts predict a similar pattern of house price behaviour in all regions with a much stronger patter in Greater London. According to the forecasting results, the property prices in this region will experience negative growth, they will continue to decline during 2018 and the first quarter of 2019, however the growth in housing prices is predicted to build up towards the end of the following year.

Although the UK house prices are expected to grow at a lower rate than last year, the two main factors responsible for the slow, but positive, forecasted growth in the UK house prices are: the fall in the real mortgage rate 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'

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1 We note that from this release onwards, we will report the actual growth and forecasts of house prices in nominal rather than in real terms as it had been done up to now.