Overview: The growth in UK property prices continues, and at a higher rate than in the previous quarter (1.1% in 2017Q1 compared to 0.7% in 2016Q4). Since the previous release of the Observatory, house prices have increased in all UK regions with the exception of the property markets of the North, Wales and East Anglia. Areas with the highest property price inflation rates are Greater London (2.4%), South West (2.3%) and West Midlands (2.2%), while the North and Wales are the two regional markets which recorded the largest fall in the house prices over the period, by 0.8% and 0.4% respectively. Interestingly, the housing market of East Anglia, which had recorded the highest property price inflation for the past two consecutive periods, has now experienced a 0.2% decline in property prices. This decline was the first time since 2012Q3.

With regards to the exuberance indicators, despite the overall growth in house prices, the reported statistics show no signs of exuberance at the national level.

The results of our forecast exercise suggest that UK house prices will continue to grow this year mainly due to (i) the restricted supply of new houses, and (ii) the fall in the real mortgage rate. However, house price growth is predicted to be smaller compared to 2016 (2.5% vs 4%) mostly because of negative market expectations regarding future interest rate dynamics and the slowdown in the growth rate of the consumption expenditure.

With regard to the regional housing markets, the predicted patterns of property price behavior vary considerably. According to the forecasting results, housing inflation in London and in the regions contiguous to it, Outer South East and South West, will continue to rise in the course of 2017. In particular, the forecasts indicate a considerable 5.7% growth in London property prices over the year. On the other hand, the forecasts predict a negative growth in the property prices of Northern Ireland, the North, Wales and Yorkshire & Humberside.

This quarter’s one-year-ahead forecasts present a scenario where the South will continue to experience sustained house price growth while the rest of the country will experience a stagnated or declining property market. The results in the next quarter will be important to see if this split in the housing market –South/rest of the UK, is confirmed.