Overview: The growth in UK property prices continues but at an even lower rate than previous quarters. The reported statistics are still showing no indication of exuberance at the national level. The recent slowdown in property price inflation in London and metropolitan areas affected the corresponding exuberance indicators that are now farther away from the explosive threshold. This follows from the introduction of tax changes and incentives to buy-to-let properties earlier in the year, and the result of the EU referendum in the UK in June (Brexit).

Since the previous release of the Observatory, house prices have increased in all regions with the exception of Northern Ireland, where property prices have actually declined by 0.2% for the first time since 2016Q1. We note that the rates of house price inflation vary quite considerably across regional markets. While the growth of London property prices has slowed down even further relative to the previous quarter (the value of the statistic is now around 0.3%), property price inflation in regions contiguous to it (Outer South East and East Anglia) has started to build up. The rate of house price growth in East Anglia, for instance, has been the highest among the regions of the country for the last two consecutive periods.

Overall, regions that have recorded the highest property price inflation rates are East Anglia (3%), Outer South East (1.3%) and Wales (1.2%), while Scotland and London are the areas with the lowest house price growth over the period: 0.2% and 0.3% respectively.

The results of our forecasts suggest that house prices in the national and all regional property markets will grow this year. For the UK national market, the considered forecasting models predict a slowdown in the rate of house price inflation to 3.5% in 2017 (we note that the value of the corresponding statistic in 2016 was 4.4%). Although house prices are expected to grow at a lower rate than last year, the two main factors responsible for the positive forecasted growth in the housing market are (i) the sound domestic economic conditions (mainly a healthy growth rate of consumption), and (ii) the fall in the real mortgage rate (mainly due to the recent rise in inflation rate).

When it comes to the regional housing markets, the predicted patterns of property price behaviour vary across regions. We note that expectation about the future interest rate increases, which is an important determinant of housing dynamics in London but not in the other regional markets, puts a downward pressure on the house price growth in this region. According to the forecasting results, housing inflation in London will slow down in the first quarters of 2017, but the growth in property prices is predicted to build up towards the end of the year. Overall, the forecasts indicate a 3.9% growth in London property prices in the course of 2017. The forecasts predict a similar pattern of house price behaviour in the regions contiguous to London, including Outer Metropolitan, Outer South East and South West. We note that the property market of East Anglia, which is currently growing faster than any other regional market of the country, is predicted to slow down in 2017, but still remain the market with the highest housing inflation (the forecasts suggest that house prices in this region will grow by 5.7% over the year).