The growth rate of UK property prices has been falling over the last year. The annual growth rate currently stands at 1.3%. This is the lowest growth rate of national housing prices since 2013 Q1. Furthermore, property prices in Greater London have fallen by 3.3% since the historical maximum of 2017 Q1. We highlight that house prices have increased in all other regional markets with the exception of Outer Metropolitan, where property prices have actually declined by 1.4%. 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: Northern Ireland (5.6%), East Midlands (3.9%), Wales (3.8%) and Yorkshire and Humberside (3.7%).

**House Price Uncertainty (HPU) Index.** Over the last two quarters, the house price uncertainty (HPU) index computed by the Lancaster University UK Housing Observatory has increased by nearly 80%. This unique index employs text analysis techniques to capture uncertainty about the housing market echoed in the media. This index has historically shot up to an (up-to-that-point) maximum ahead of economic recessions (1990-91 and 2008-09), and reached a second-ever highest value right after the EU referendum (please [click here](#) for further information about its construction, evolution over time since 1982, and relationship with economic variables). While the index dropped during the first half of 2018 to a value close to 100, it has started rapidly increasing in the second half of the year, standing at 184 as of today. Uncertainty generated by (i) the domestic political situation, (ii) the negotiations with the EU about the withdrawal agreement, and (iii) the outcome of Brexit and its consequences are having a direct impact on the housing market.

**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 2019. We forecast a growth rate of the national property prices of about 1.7% in the fourth quarter of 2019. Since the EU referendum, we have observed a continued decline of house price inflation in the UK (the national house price growth is currently 1.3% relative to levels above 5% before the referendum). Moreover, some regions started to experience negative annual growth rates during 2018 (for example, London have experienced negative growth rates over the last year, while prices were growing at around 10% before the referendum). These declining rates are now expected to accentuate and spread more widely across other regions in 2019 (the North, Outer Metropolitan, Outer South East and Northern Ireland), although they will slowly recover towards the end of the year.

There are several factors driving the prediction of a small increase in the UK national house prices. The most important of which is that overall economic conditions in the UK remain subdued. In particular, the adverse development of households’ real incomes and consumption. The persistent

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1 We note that starting from 2018 Q2 we report the actual growth and forecasts of house prices in nominal rather than in real terms as it had been done up to 2018 Q1.
low productivity experienced by the UK economy is having a detrimental effect in the internal demand market. Other factors include the higher cost of borrowing due to a tightening of monetary policy in response to the increase in inflation rate and increased uncertainty over the domestic political situation.

**Summaries of previous quarterly releases can be found in the section**

'Data Releases Archive’