

# UK Residential Property Market Update

## June 2022

### *UK house price growth cools as pandemic drivers fade and living costs mount*

Price growth slowed in May and buyer demand in the residential property market softened, as the impact of pandemic-inspired trends such as the 'race for space' continued to fade.

Nationwide said the average cost of a home increased by 11.2% on an annual basis in May, compared to 12.1% in April. Halifax put the annual rate of house price growth at 10.5% compared with 10.8% a month earlier.

It was the second consecutive month that both indices had registered a decline, suggesting house price growth has now peaked.

With the cost of borrowing rising – the Bank of England (BoE) has raised interest rates a quarter point to 1.25% the highest level in since January 2009 – we expect demand to weaken as the cost of living mounts and supply improves throughout 2022 reducing annual house price growth to single digit by the year's close.

Adding to the sense that the residential property market is

entering a period of moderation, new buyer enquires had a net balance of -7% in May compared with +8 in April, according to RICS.

This ended eight consecutive months of growth. However, Knight Frank data suggests demand is proving resilient, with new prospective buyers 42% above the five year-average (excluding 2020) in May in the UK.

RICS latest sentiment survey also reported that new instructions were broadly flat in May, keeping supply tight and upwards pressure on pricing.

However, Knight Frank data shows

# 67,000

Mortgage approvals at a two-year low

Source: Bank of England

more sellers in both the country and Prime London markets have decided to act now putting further downwards pressure on prices.

In IHS Markit's household sentiment index, scores for current house prices (compared with last month) and future house price (expectation for 12 months' time) retreated in May.

The score for current value slipped from +61 in April to +59, while future value was +64 in May compared with +66 a month earlier. While a reading over 50 represents strengthening sentiment, it is the second consecutive month that both scores have softened.

Mortgage approvals for purchase, a future indicator of demand, dipped below the pre-pandemic 12-month average in May, and at 67,000 approvals was at a two-year low.

Mortgage rates continue to tick up and leading indicators suggest there is more to come. Swap rates are

a reliable barometer for the path of mortgage rates and the 5-year swap had moved from 2.15% at the end of March to 3.13% ahead of the BoE's latest decision.

### Prime London Sales

Despite the economic uncertainties, the prime London property market is currently in a sweet spot. Demand in the capital has recovered from the depths of the pandemic as the UK economy fires up.

The number of new prospective buyers registering in London last month was the third highest figure in a decade. Meanwhile, supply is finally picking up as the economic warnings mount and owners sense prices may be peaking, with the number of new sales instructions in May the sixth highest figure in ten years.

With demand and supply both high, the inevitable result is more transactions. Indeed, the number of offers accepted in May was the highest monthly figure in a decade.



Supply is building in the country market

### Prime London Lettings

A frustrating period for tenants looks likely to continue this summer in the prime London lettings market, however there are some signs supply may be loosening slightly.

One reason for this is that more owners are letting out their property after failing to achieve their desired price in the sales market.

Another cause is the higher churn of tenants as a growing number of workers are changing jobs or leaving the UK altogether.

One in five workers are likely to

quit their jobs in the next 12 months, according to PWC. The so-called "great resignation" will happen as more workers seek improved pay and a greater sense of fulfilment.

### The Country Market

Demand and prices surged in property markets outside of the capital during the pandemic as people reassessed how and where they lived.

However, stock levels failed to keep pace with demand and sellers were left frustrated as a lack of purchase options created a vicious circle of low supply. Now, there are signs that normality is creeping back.

The ratio of new prospective buyers (demand) to new instructions (supply) was 7.1 in May outside of London, which was the lowest reading since December 2020.

It was largely the result of growing supply. The number of new sales instructions outside of London in May was the sixth highest figure in a decade.

#### QUARTERLY PRICE CHANGE

##### THREE MONTHS TO MAY

PCL SALES	0.9%
POL SALES	1.6%
PCL LETTINGS	4.8%
POL LETTINGS	4.3%

##### Q1 2022

PRIME COUNTRY HOUSE INDEX	3.5%
EDINBURGH CITY INDEX	2.5%
PRIME SCOTTISH INDEX	0.0%

Source: Knight Frank Research

### Please get in touch with us

If you are looking to buy, sell or would just like some property advice, we would love to hear from you.



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