

# UK Cities House Price Index

May 2019

- UK city house price inflation running +1.8%.
- Fastest price growth in most affordable cities – Liverpool +5.0% and Belfast 4.6%.
- The income to buy for a first-time buyer has fallen in the most expensive cities. The level and change in the income to buy explain recent trends in the development of price growth and the outlook.

## Price growth weakens across southern England

UK city house price growth is running at +1.8% as the rate of price inflation continues to lose momentum. The annual growth ranges from a high of 5.0% in Liverpool to -4% in Aberdeen. Residential values continue to fall in London and Cambridge while the rate of growth weakens across southern England.

These trends are a result of market fundamentals. Specifically, evolving affordability dynamics and the impact of successive tax changes since 2015. Together, these have impacted buying power and demand for housing, hitting high priced cities more than others.

**Table 1 - UK 20 city index summary, May 2019**

Month	3 month change	%yoy	Average price
Dec-18	-0.3%	1.3%	£251,300
Jan-19	-0.2%	1.3%	£251,200
Feb-19	0.0%	1.0%	£251,600
Mar-19	0.5%	1.0%	£252,500
Apr-19	1.4%	1.5%	£254,800
May-19	1.8%	1.8%	£256,200

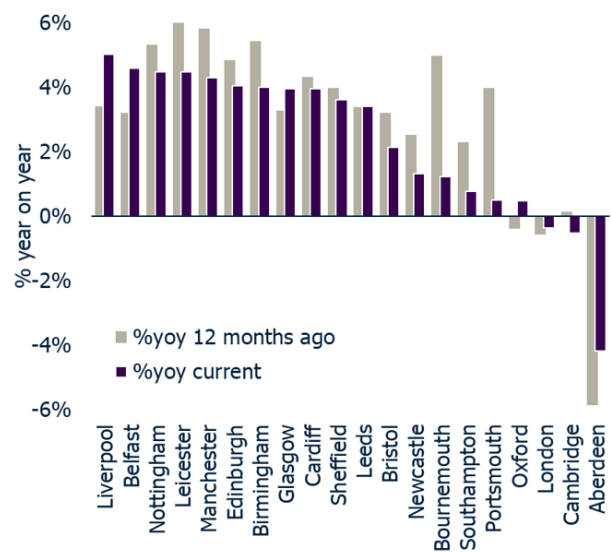
Source: Zoopla House Price Indices, powered by Hometrack

## Income to buy average £54,400

This report examines the development of housing affordability for first time buyers. They are the largest group of buyers, accounting for 36% of sales. We find that the gross household income required by a first-time buyer to buy a typical city home has increased over the last 3 years by £4,500, or 9% to £54,400.

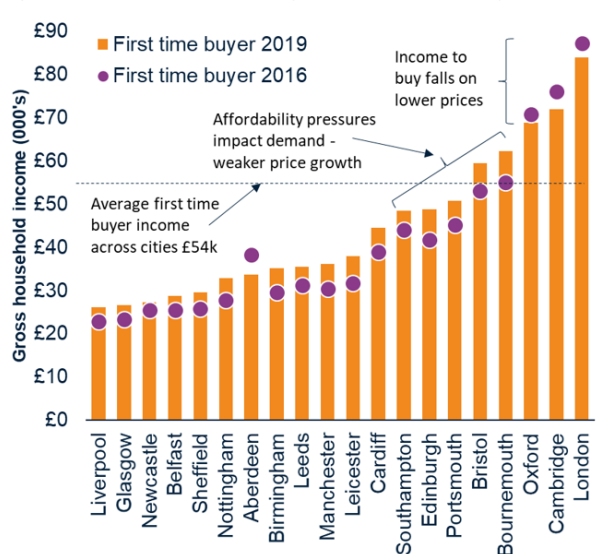
The income to buy ranges widely from a low of £26,000 in lower value cities such as Liverpool and Glasgow to a high of £84,000 in London (Fig. 2).

**Fig.1 – City price inflation – current and 12 months ago**



Source: Zoopla House Price Indices, powered by Hometrack

**Fig.2 – Gross income to buy as a first-time buyer**



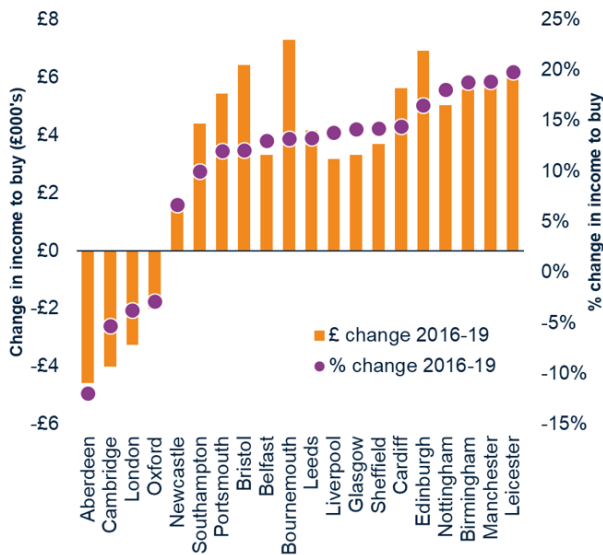
Source: Zoopla Research using current average prices – for assumptions see end of report

Note: All price changes are quoted in nominal terms. Hometrack's House Price Indices are revisionary and not seasonally adjusted.

### Income to buy falls across 4 cities

The income to buy across the three most expensive cities has fallen 5% since 2016 (Fig. 3). This is a result of a small fall in prices and a 0.5% decline in average mortgage rates since 2016. The income to buy in Aberdeen has fallen by 12% due to a sizable fall in average prices since 2015.

**Fig. 3 – Change in income to buy 2016-2019**



Source: Zoopla Research

### Affordability an important market fundamental

The income to buy has increased across all other cities since 2016 by as much as 20% in Leicester and 19% in Manchester. This is a result of above average house price inflation over the last 3 years.

Looking at the prospects for housing demand and house price growth moving ahead, it is more important to focus on the absolute income to buy. Fig. 2 shows this remains at or below the national average in all cities outside southern England, except for Edinburgh.

### Higher prices result in fewer buyers

There is a clear link between the income to buy and recent developments in house price inflation. In simple terms, the higher prices rise, the greater the income to buy and this reduces the number of potential buyers. The net result is weaker demand, fewer sales, lower price growth and, in some areas, price falls.

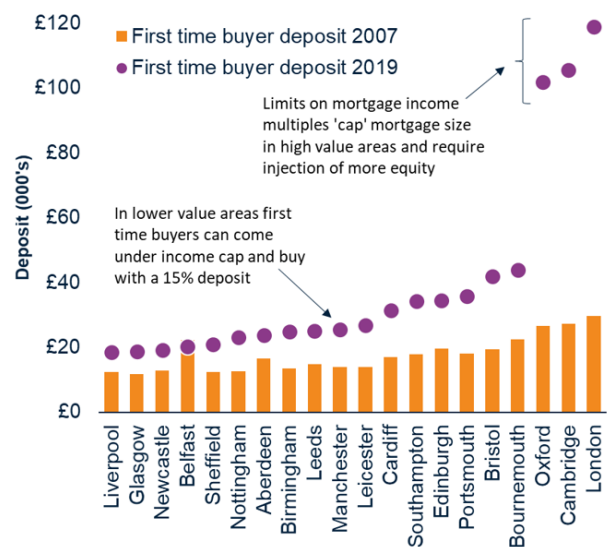
It is no surprise that housing sales have declined across southern England and price growth has weakened. Price falls are concentrated in the highest value markets across south eastern England.

### Mortgage regulations cap buying power

Low mortgage rates and new mortgage regulations introduced in the wake of the global financial crisis are capping buyer power and re-enforcing these trends. Over the last 23 years city house prices have increased at an annual average rate of 7%, well ahead of the growth in incomes. This out-performance is largely a result of lower mortgage rates which averaged 5.5% for first time buyers between 1996 and 2007 and are now 2.4%. The boosting effect of lower mortgage rates on house prices has largely run its course.

Furthermore, mortgage affordability tests and loan to income limits are also capping buying power. This has the greatest impact in high value markets and forces households to inject increasing amounts of equity to fund purchases. This further restricts the number of households that can buy. It is one reason Help to Buy has been an attractive product for new home buyers.

**Fig. 4 – First time buyer deposit (£) 2007-2019**



Source: Zoopla Research

### Deposit levels vary widely

Figure 4 shows the deposit for an average first-time buyer based on the average loan to value in 2007, before the global financial crisis, and the current level. We show a 15% deposit in all cities except London, Oxford and Cambridge where we use a 25% deposit. This larger deposit for high value cities allows for the impact of loan to income limits. We assume the borrower can only take a mortgage that is up to 4x their income. In the highest value cities this means buyers must either buy a cheaper property or find a larger deposit. It impacts in markets where average capital values are above c£300,000.

### Weaker price inflation across southern England

The fundamentals of housing affordability and mortgage regulation mean we expect house price inflation to continue to slow across southern England. Our latest research report ‘How far have house price falls in London spread into regional markets – June 2019’ focuses in on these sub-regional trends where prices are falling across 40% of markets.

### Buying power supports price inflation in regional cities

Our analysis shows that affordability pressures are less acute in lower value cities and prices are rising at an above average rate. We expect this to continue over 2019 with price growth running ahead of the growth in earnings.

### House prices sensitive to mortgage rates

The analysis highlights the sensitivity of the housing market to higher mortgage rates. Short term movements in interest rates have typically impacted consumer sentiment and the demand for housing.

Lower mortgage rates have boosted household buying power over the last 25 years and it is hard to see rates moving any lower having plateaued at around 2.5% in late 2016. Modest increases in mortgage rates would increase the income to buy and impact housing demand, further limiting price inflation.

The good news for existing borrowers is that mortgage affordability testing means all recent buyers have had to prove they can pay much higher mortgage rates. The outlook for interest rates looks relatively benign at present but housing demand will remain sensitive to any material change in mortgage rates and housing affordability.

### About the analysis

This affordability analysis uses the current average price of housing in each city. We use the average loan to value and mortgage rate for first time buyers from UK Finance to calculate annual mortgage repayments for a 30-year term. We assume 30% of net household income is spent on mortgage costs and the mortgage amount is capped at 4x income. For the latest data, we assume a 15% deposit in regional cities and 25% in London, Oxford and Cambridge.

**Table 2 - City level summary, May 2019**

City	Current price	%yoy May-19	%yoy May-18
Liverpool	£123,000	5.0%	3.4%
Belfast	£135,400	4.6%	3.2%
Nottingham	£154,700	4.5%	5.3%
Leicester	£178,900	4.5%	6.2%
Manchester	£170,300	4.3%	5.8%
Edinburgh	£229,400	4.0%	4.8%
Birmingham	£165,800	4.0%	5.4%
Glasgow	£125,400	4.0%	3.3%
Cardiff	£209,800	3.9%	4.3%
Sheffield	£139,000	3.6%	4.0%
Leeds	£166,900	3.4%	3.4%
Bristol	£280,000	2.1%	3.2%
Newcastle	£128,200	1.3%	2.5%
Bournemouth	£293,300	1.2%	5.0%
Southampton	£228,200	0.8%	2.3%
Portsmouth	£238,700	0.5%	4.0%
Oxford	£407,300	0.5%	-0.4%
London	£482,200	-0.4%	-0.6%
Cambridge	£422,700	-0.5%	0.1%
Aberdeen	£158,800	-4.2%	-5.8%
20 city index	£256,200	1.8%	1.7%
UK	£219,200	2.1%	2.9%

Source: Zoopla House Price Index, powered by Hometrack