UK Residential Property Market Update

December 2022

House prices suffer mini-Budget hit in November

The impact of the mini-Budget continued to reverberate in November, with the largest monthly fall in house prices since the early days of the pandemic.

As interest rate expectations surged in the weeks after September's tax-cutting announcement, sentiment in an already-slowing market took a hit.

While the arrival of Rishi Sunak as prime minister has calmed nerves, it will take time to feed through to the UK property market.

The -38% net balance for new buyer enquiries reported by RICS was the seventh consecutive contraction, although it was notably better than last month's -53%.

The net balance score represents the difference between the number of respondents that saw an increase in the month and those that saw a decrease.

Supply remains tight, which will decrease downwards pressure on prices for now. New sales instructions registered a net balance of -9%.

House prices reverse

Average house prices fell 1.4% month-on-month, which was the biggest fall since June 2020, according to Nationwide. It came after a 0.9% drop in October. This saw annual house price growth slow to 4.4%, from 7.2% in October.

Halifax recorded a larger fall, with a drop of -2.3% in November (versus -0.4% in October). This saw the annual rate of growth drop to 4.7% (from 8.2%).

Borrowing costs retreated in November after reaching a peak in the days after the mini-Budget, but the period of ultra-low lending is over.

Mortgage lending data confirmed that the number of mortgages issued in the month after the mini-Budget was the lowest since the early days of the pandemic.

-2.3%

Month-on-month fall in UK house prices

Source: Halifax

Despite a stabilisation in borrowing costs since, we expect more downwards pressure on prices after Christmas and believe they will fall by around 10% over the next two years.

The Autumn Statement reversed previous chancellor Kwasi Kwarteng's stamp duty cut, which could stimulate transactions in the medium term.

The nil rate band will revert to £125,000 from £250,000 (which represented a maximum £2,500 saving) and benefits that could save first-time buyers upwards of £10,000 will also be reversed but not until April 2025.

In effect, it means the government has announced a 28-month stamp duty holiday.

However, in the short-term, the recent political volatility and economic concerns have affected homeowner sentiment.

The IHS Markit Household

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Sentiment Survey, where a score below 50 indicates falling prices, recorded its weakest performance since the first summer of the pandemic in November.

At 43, the index score for people's expectations of the value of their homes in 12 months' time was the weakest since May 2020. In respect of the current value of their homes, an index reading of 47.7 was the lowest since August 2020.

Prime London Sales

In the wider prime market in London, demand is still relatively strong, but the recent mortgage market volatility has led to fewer offers being made.

While the number of new prospective buyers was 26% above the five-year average in November (excluding 2020), the number of offers made was 17% lower.

On the supply side, the number of new sales instructions was 5% higher. The figures point to the understandable anxiety felt by buyers but don't show a notable fall in demand.

£5m+ sales outside London have hit a 15-year high

Prime London Lettings

Rental value growth in prime London markets continued to slow in November as the disparity between supply and demand narrowed.

The average increase in prime central London (PCL) was 17.4% over the 12-month period, while a rise of 15.3% was recorded in prime outer London (POL). It left rents 22.1% above their pre-pandemic level in PCL and 20% in POL.

Even though growth is slowing, there are few signs that life is getting easier for prospective tenants in the capital due to stock levels that are down by about a third on the five-year average.

The Country Market

Sales in the £5m+ country house market hit a 15-year high in the 12 months to October, driven by strong domestic demand.

There were 168 sales above £5m+ in the UK outside of London, an increase of 112% versus the five-year average, whole-market data shows.

Meanwhile, the prime regional market came back to life in November after a collective intake of breath saw buyers pause in the weeks following the mini-Budget.

This resulted in higher than usual offer activity in November after a dip in October, with offers accepted up 9.5% versus the five-year average.

QUARTERLY PRICE CHANGE

	THREE MONTHS TO OCTOBER
PCL SALES	-0.5%
POL SALES	0.2%
PCL LETTINGS	4.0%
POL LETTINGS	4.6%

	Q4 2022
PRIME COUNTRY HOUSE INDEX	-0.9%
EDINBURGH CITY INDEX	0.0%
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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