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INDEPENDENT FINANCIAL ADVISERS

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Residential Property Review

February 2022



Promising signs in the UK housing market

Following a record-breaking 2021, continuing strong numbers of agreed sales and approved mortgages suggest transactions are likely to stay high over the next few months.

Net mortgage debt by individuals decreased slightly to £3.6bn in December 2021, according to the Bank of England. However, agreed sales and approved mortgages both remained ahead of pre-pandemic levels, the former being 11% above its 2017-19 average, according to TwentyCi.

Although new instructions remained in negative territory, the latest net balance (-8%) is the least negative since April 2021, according to the Royal Institution of Chartered Surveyors (RICS), a sign that persistently high buyer demand may soon come up against marginally higher available stock. Moreover, new instructions rose above the 2017-19 average in the last week of January, the first time this has happened since May 2021.

The rental market looks strong too, with rents rising by 7.4% nationwide in the year to November 2021, according to Zoopla. South West England saw the strongest rental growth (9.6%).

The Bank of England's decision to increase Base Rate to 0.5% will have little immediate impact on existing homeowners on fixed-rate mortgages, analysts expect. Instead, it is first-time buyers, many of whom rely on higher loan-to-value mortgages which are more sensitive to rate changes, who could be harder hit.

Demand climbs higher across the board

UK Housing demand in January was 49% higher than the previous four year average, according to Zoopla, as pandemic trends spilt over into 2022.

Buyers' desire for family houses soared even higher than during the final six months of the Stamp Duty holiday, signalling that the race for space, that characterised much of 2021, has not yet run its course. Last month, demand for family homes outside London was four times higher than the five-year average.

Flats were also popular at the start of 2022, with demand reaching its highest level for five years, propelled by the return of workers to the office.

Gráinne Gilmore, Head of Research at Zoopla, commented, *"Even after nearly two years, the pandemic-led 'search for space' is one of the factors creating record demand for homes this month. The market is also being boosted by office-based workers re-thinking where and how they are living amid more hybrid working models."*

Housebuilders think build costs will keep rising

More than nine in 10 housebuilders expect the cost of building work on homes in England to increase in 2022, with a quarter predicting building costs will *'increase significantly'* according to Knight Frank's latest survey.

Nearly half of survey respondents said that last year's build cost increases had already had a significant impact on their businesses. Similarly, 56% said that build costs were the primary factor adding pressure to their bottom line.

The increased cost of materials (65%) is seen as the main cause of rising build costs, ahead of Brexit-related complications (15%) and labour challenges (8%).

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House prices headline statistics

House Price Index (Dec 2021)*	144.1*
Average House Price	£274,712
Monthly Change	0.8%
Annual Change	10.8%

*(Jan 2015 = 100)

- Average house prices in the UK increased by **10.8%** in the year to December 2021
- On a non-seasonally adjusted basis, average house prices in the UK increased by **0.8%** between November and December 2021
- House price growth was strongest in South West England where prices increased by **13.6%** in the year to December 2021.

Source: The Land Registry
Release date: 16/02/22
Next data release: 23/03/22

House prices Price change by region

Region	Monthly change (%)	Annual change (%)	Average price (£)
England	1.1%	10.7%	£293,339
Northern Ireland (Quarter 4 - 2021)	3.0%	10.7%	£159,109
Scotland	-1.8%	11.2%	£180,485
Wales	2.0%	13.0%	£204,835
East Midlands	1.1%	12.1%	£235,004
East of England	0.4%	11.7%	£339,502
London	0.2%	5.5%	£521,146
North East	-1.5%	5.9%	£147,214
North West	0.6%	10.2%	£200,172
South East	1.6%	12.6%	£380,237
South West	1.9%	13.6%	£314,037
West Midlands Region	2.6%	11.5%	£238,238
Yorkshire and The Humber	1.8%	9.8%	£196,877

Average monthly price by property type – Dec 2021

Property Type	Annual Increase
Detached £437,452	15.3%
Semi-detached £262,751	11.1%
Terraced £223,068	9.7%
Flat / maisonette £223,489	10.8%

Source: The Land Registry
Release date: 16/02/22

Housing market outlook

"Despite record levels of first-time buyers stepping onto the ladder last year, younger generations still face significant barriers to home ownership as deposit requirements remain challenging. This situation is expected to become more acute in the short-term as household budgets face even greater pressure from an increase in the cost of living and rises in interest rates begin to feed through to mortgage rates. While the limited supply of new housing stock to the market will continue to provide some support to house prices, it remains likely that the rate of house price growth will slow considerably over the next year."

Russell Galley, Managing Director at Halifax

Source: Halifax, February 2022

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All details are correct at the time of writing (17 February 2022)

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