

UK Cities House Price Index

October 2016

- City level house price growth holding steady at 8.4%.
- An 86% uplift in house prices since 2009 has pushed the price to earnings ratio in London over 14x, more than double the UK average of 6.5x.
- Most cities have price to earnings ratio in line with long run average and room for price growth.

City house price growth outstrips UK

City level house price inflation is running at 8.4% as the upward momentum in house price continues. Bristol remains the fastest growing city (10.6%) but the rate of growth is slowing. Aberdeen continues to register a year on year price falls (-8.1%).

The impetus for house price growth is shifting from the affordability constrained cities in southern England to cities in the midlands and the north of England where affordability remains attractive.

Table 1- UK 20 city index summary, October 2016

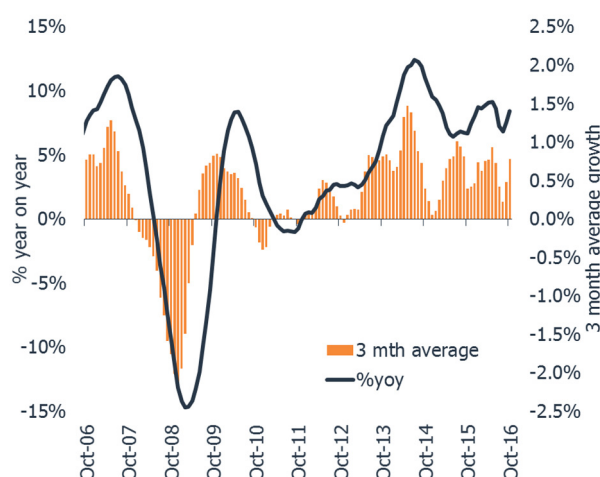
Month	3 mth. change	%yoy	Average price
May-16	2.8%	9.1%	£234,800
Jun-16	2.2%	8.6%	£235,700
Jul-16	1.3%	7.2%	£235,600
Aug-16	0.7%	6.8%	£236,400
Sep-16	1.5%	7.5%	£239,100
Oct-16	2.3%	8.4%	£241,200

Source: Hometrack House Price Indices

Price to earnings ratio in London at record high

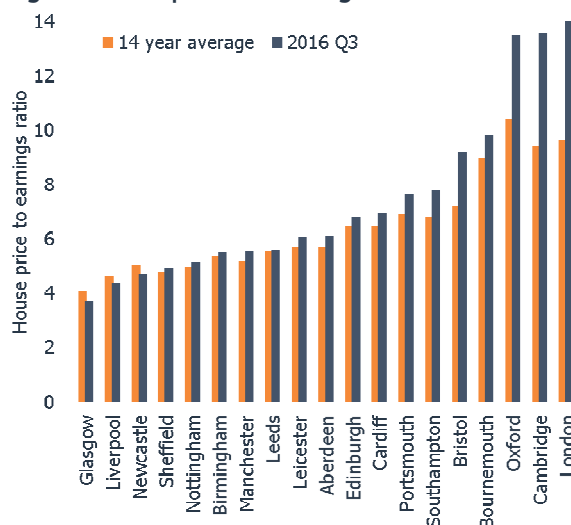
An update of city level affordability reveals that the price to earnings ratio ranges from 3.7x in Glasgow to 14.1x in London, compared to a UK average of 6.5x. London has the highest price to earnings ratio on record as a lack of supply and strong demand fuelled by low mortgage rates has resulted in an 86% increase in house prices since 2009, far in excess of earnings growth. Cambridge and Oxford also have double digit price to earnings ratios which are well ahead of the average over the last 12 years.

Fig. 1 – 20 city house price index (%yoy / 3m ave.)



Source: Hometrack House Price Indices

Fig. 2 – House price to earnings ratio -cities



Source: Hometrack House Price Indices

Note: All price changes are quoted in nominal terms. Hometrack's house price indices are revisionary and not seasonally adjusted.

City affordability in line with long run average

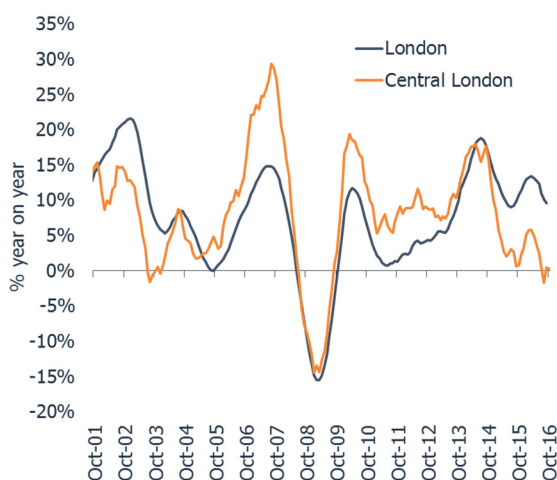
Affordability across other cities is more in line with the long run average, although strong house price growth in Bristol in the last 2 years has pushed the price to earnings ratio to 9.2x. Three cities have price to earnings ratios that are below the long run average, namely Glasgow, Liverpool and Newcastle where house price growth is starting to increase off a low base.

As affordability levels become stretched, fewer households can participate in the market which will lead to reduced levels of turnover and a resulting slowdown in the rate of house price growth.

London growth close to 3 year low

The year on year rate of house price growth across London has slowed close to its lowest level for 3 years (9%). We expect growth to slow to low single digits in the next 6-12 months as demand softens in the wake of a raft of fiscal policy changes aimed at overseas buyers and investors as well as concerns over the impact of Brexit on the economy. The Hometrack Central London index which covers the top 5% of the London market by value and is already registering 0% house price growth.

Fig. 3 – London v Central London price growth



Source: Hometrack House Price Indices

Where next?

In the short term we expect regional cities to continue to drive house price growth. Many of these cities have seen relatively limited house price growth in the last 6 years and have significant upside for house price inflation (table 2). This is subject to the outlook for the economy, borrowing costs, earnings growth over 2017 as the Brexit process is started. We will focus on the outlook for 2017 in more detail in the next edition of the index.

Table 2- City level summary, October 2016

City	Current price	%yoy Oct 2016	% uplift from post downturn low
Bristol	£259,400	10.6%	61%
London	£482,800	9.1%	86%
Portsmouth	£218,600	8.3%	42%
Cardiff	£193,000	8.0%	32%
Birmingham	£145,500	7.7%	25%
Manchester	£148,100	7.7%	25%
Southampton	£218,200	7.5%	42%
Oxford	£415,000	7.0%	72%
Bournemouth	£271,400	6.9%	42%
Nottingham	£138,300	5.6%	27%
Liverpool	£112,700	5.5%	15%
Sheffield	£129,300	5.5%	18%
Leeds	£153,100	5.5%	21%
Cambridge	£420,600	5.4%	84%
Leicester	£156,500	5.4%	28%
Glasgow	£114,700	4.0%	13%
Edinburgh	£203,200	3.5%	20%
Newcastle	£122,600	3.1%	12%
Belfast	£126,700	2.1%	22%
Aberdeen	£180,500	-8.1%	15%
20 city index	£241,200	8.4%	52%
UK	£203,700	7.0%	33%

Source: Hometrack House Price Indices

Hometrack

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