

UK House Price Index

+3.0%

UK house price inflation (YoY)

34%

First-time buyer share of sales in 2022

£7.5k

Increase in income required for a first-time buyer to buy a 3-bed home

Executive summary

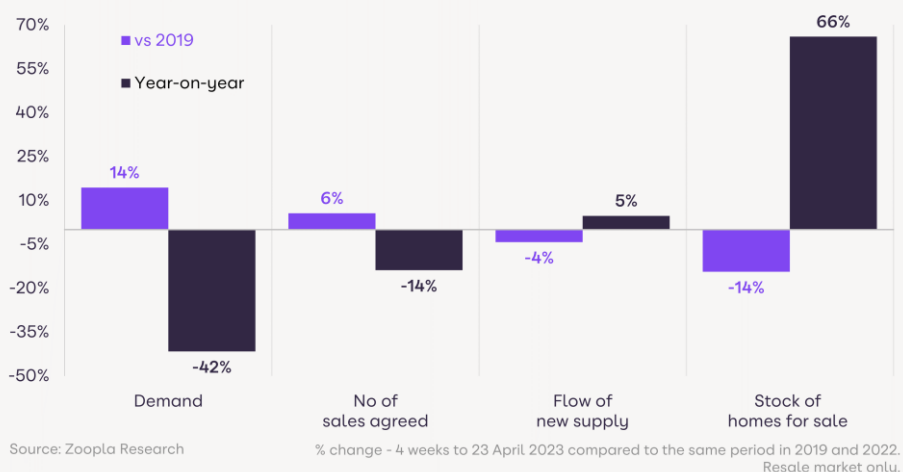
- Annual house price growth slows but the worst of the month-on-month price falls are now behind us
- Demand continues to recover as the number of new sales grows
- First-time buyers (FTBs) were the largest buyer group in 2022 and look set to be a strong source of new sales again in 2023
- 3-bed homes remain the most in-demand property for FTBs (40%) but there is a clear shift in FTB demand towards 2-bed flats
- Income to buy a 3-bed FTB home has increased by £7,350 since 2020 but this varies by geography
- The housing market is more balanced than for some years and sales could exceed 1m over 2023 if current trends continue.

“The worst of the pricing adjustment in the housing market appears to be behind us. House price growth will slow further over 2023 and dip into negative territory. More important is that transaction volumes continue to grow.”

Richard Donnell

Executive Director - Research

Market activity down YoY but continues to improve vs 2019



+66%

YoY change in stock of homes for sale which boosts choice and potential for sales

Soft landing for sales market continues to play out

Our leading indicators of housing market activity and pricing show a steady and sustained recovery in demand and continued growth in the number of new sales agreed. House price inflation continues to slow but a major price re-correction remains a very low probability.

Demand for homes reached its highest level this year after the Easter break and is 14% higher than 2019 levels but still 42% down on this time last year. The stock of homes for sale continues to expand and is now 66% higher than a year ago. Greater availability of homes for sale is boosting choice and the number of new sales being agreed is 6% up on 2019 but in line with the 5-year average. The market remains on track for 500,000 sales in H1 2023.

The number of new sales agreed is strongest in Scotland, the North East and London. This reflects more attractive affordability levels in the former areas and with London having recorded weak price inflation over the last 6 years which has improved affordability.

Worst of the monthly house price falls now behind us

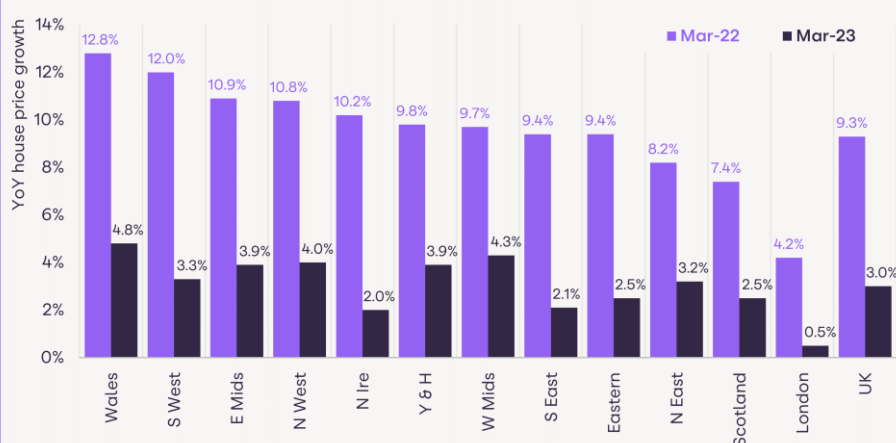
Annual house price growth¹ has slowed to +3% with prices continuing to register modest quarter-on-quarter price falls of up to -0.7% across all regions and countries of the UK. There are early signs that the level of monthly price reductions are now reducing and the main adjustment in pricing is behind us. Our UK index is likely to register low negative annual growth by the summer and end the year at -1%.

Current annual growth ranges from +4.8% in Wales to +0.5% in London, less than a third of the levels recorded this time last year. At a localised level we are recording modest year-on-year price falls of up to -2.1% across 6 local authorities in inner London and Aberdeenshire. All other areas continue to register positive annual growth rates but at a much slower rate than a year ago as a modest repricing process continues to run its course.

¹ The Zoopla house price index is powered by valuation and analytics business Hometrack. It is not an index of asking prices. It's a quasi-repeat sales index using one of the largest monthly samples of data on sales agreed and mortgage valuations.

More information is here <https://reports.hometrack.com/uk/insight/uk-house-price-index/>

Momentum in annual house price inflation falls quickly



Source: Zoopla House Price Index

£230k

Average price a FTB wants to pay for a 3-bed home

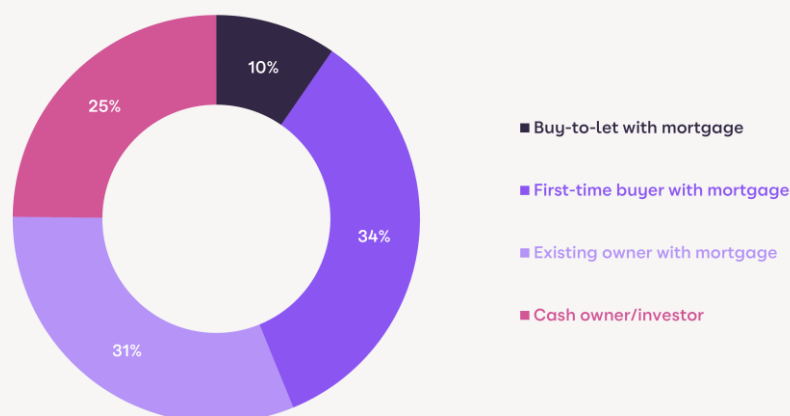
First-time buyers were the biggest buyer group in 2022

The resilience of homebuyers in the face of higher mortgage rates has been impressive but not wholly unexpected as a result of tougher affordability testing for new borrowers since 2015.

First-time buyers (FTBs) have also proven resilient. We estimate that FTBs using a mortgage accounted for over 1 in 3 sales last year (34%). This made them the largest group of home buyers followed by existing owners using a mortgage (31%) and cash buyers (25%).

While higher mortgage rates should hit FTB demand the hardest, the majority (c75%) of FTBs come from the private rented sector where they are facing steep increases in rental costs - up 11% or £1,120 over the last year alone. A chronic scarcity of homes for rent - with a third fewer homes available than the long-run average - is pushing more FTBs into considering home ownership as mortgage rates fall to 4.5%. The main constraints are access to a deposit and the right level of income to afford a mortgage which varies widely across the country.

First-time buyers the biggest buyer group in 2022



Source: Zoopla Research, UK Finance

FTB income to buy increases by £7,350 for a 3-bed home

Zoopla tracks the type and price of homes that FTBs want to buy and can calculate the household income and deposit required for a purchase². The average asking price of a 3-bed home for a FTB is £230,000 and £210,000 for a 2-bed property.

The rapid growth in house prices over the last 3 years means the household income to buy a 3-bed FTB home has increased by an average of £7,530 to a required household income of £55,900. The increase for 2-bed homes is lower, up £4,900 to an income of £51,000.

The deposit to buy a 3-bed FTB home has risen by £4,650 to £34,500 while for a 2-bed home is £3,000 higher at £31,500.

² assuming a borrower takes an 85% loan to value mortgage that is 3.5x household income which reflect current averages.

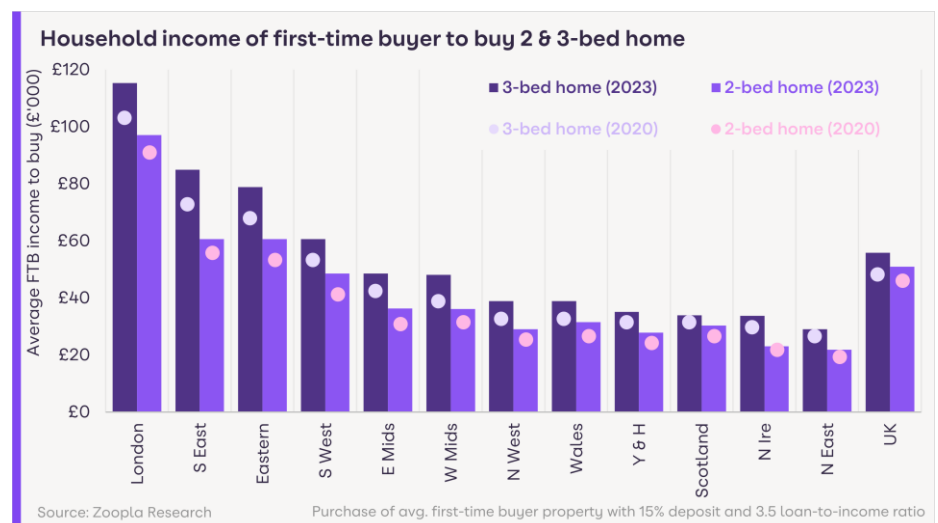
20%

Boost to buying power taking a 35-year mortgage but costing 48% more in interest payments

FTB affordability worsens most in southern England

The impact of higher house prices on FTB affordability is not uniform and depends upon the level of house prices and how much they have changed over the last 3 years. FTBs have faced bigger price increases in southern regions more than northern regions. The chart below compares the income to buy for a 2 and 3-bed first-time buyer home in 2023 and 2020 revealing a wide disparity in affordability.

In higher-value markets such as London and the South East, the income needed to buy a home has increased by up to £12,150 for 3-bed homes since 2020. The greatest increase in the income needed to buy a 2-bed home is £7,300 in the South-West and East of England. In lower value markets the increase has been more modest as the pricing of FTB homes is generally lower. It is no surprise that market activity is holding up better across the north of England, Wales and Scotland where housing is more affordable than southern England.



FTB options to manage affordability pressures

Faced with increased buying costs, FTBs have several strategies they could employ either individually or in combination. The first is to try and save a larger deposit or borrow more from the 'bank of mum and dad', where that is an option. This will be a growing challenge for renters where rising rents will be absorbing a greater share of income creating less ability to save for a deposit and thus driving increased urgency to buy where possible.

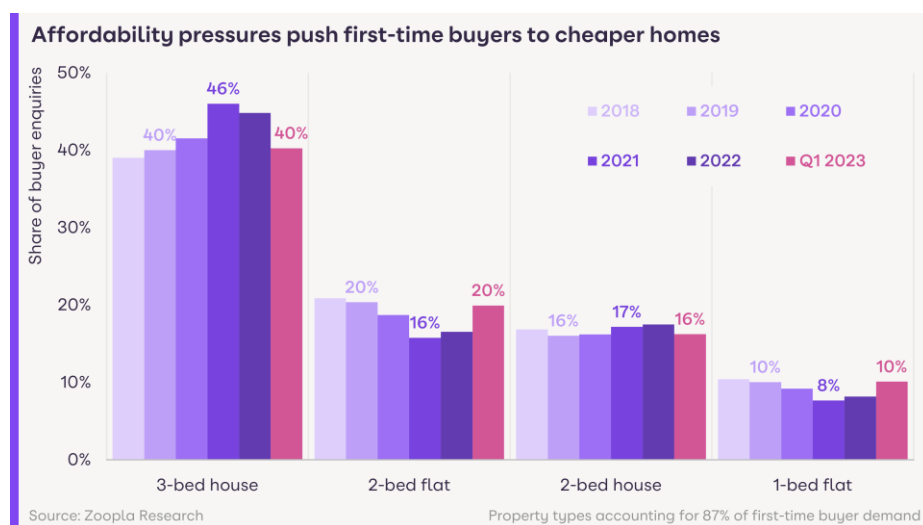
Another option is to take a mortgage with a longer term and gain extra buying power. Historically, home buyers have taken out mortgages with 25-year terms, but there has been a steady increase in the proportion of mortgages with terms over 30 years. Taking a 35-year loan would provide a home buyer with a 20% boost to buying power compared to a 25-year loan. However, the cost of this choice is paying 48% more in mortgage interest payments over the life of the loan.

40%

Demand for 3-bed homes from FTBs in Q1 2023

Some FTBs shifting focus to smaller, cheaper homes

The other option is to focus on buying cheaper and lower-cost homes. Lower mortgage rates in recent years have enabled FTBs to purchase larger, typically 3-bed homes. Higher mortgage rates and prices are pushing some FTBs to adjust their requirements, particularly in areas where prices have increased the most since 2020. Three-bed homes are still the most in-demand property type but buyer interest has fallen back to 40% in Q1 2023 while demand for 1 and 2-bed flats increases. Outside London, the average asking price for a 2-bed flat (£200,000) is 29% lower than a 3-bed house (£280,000).



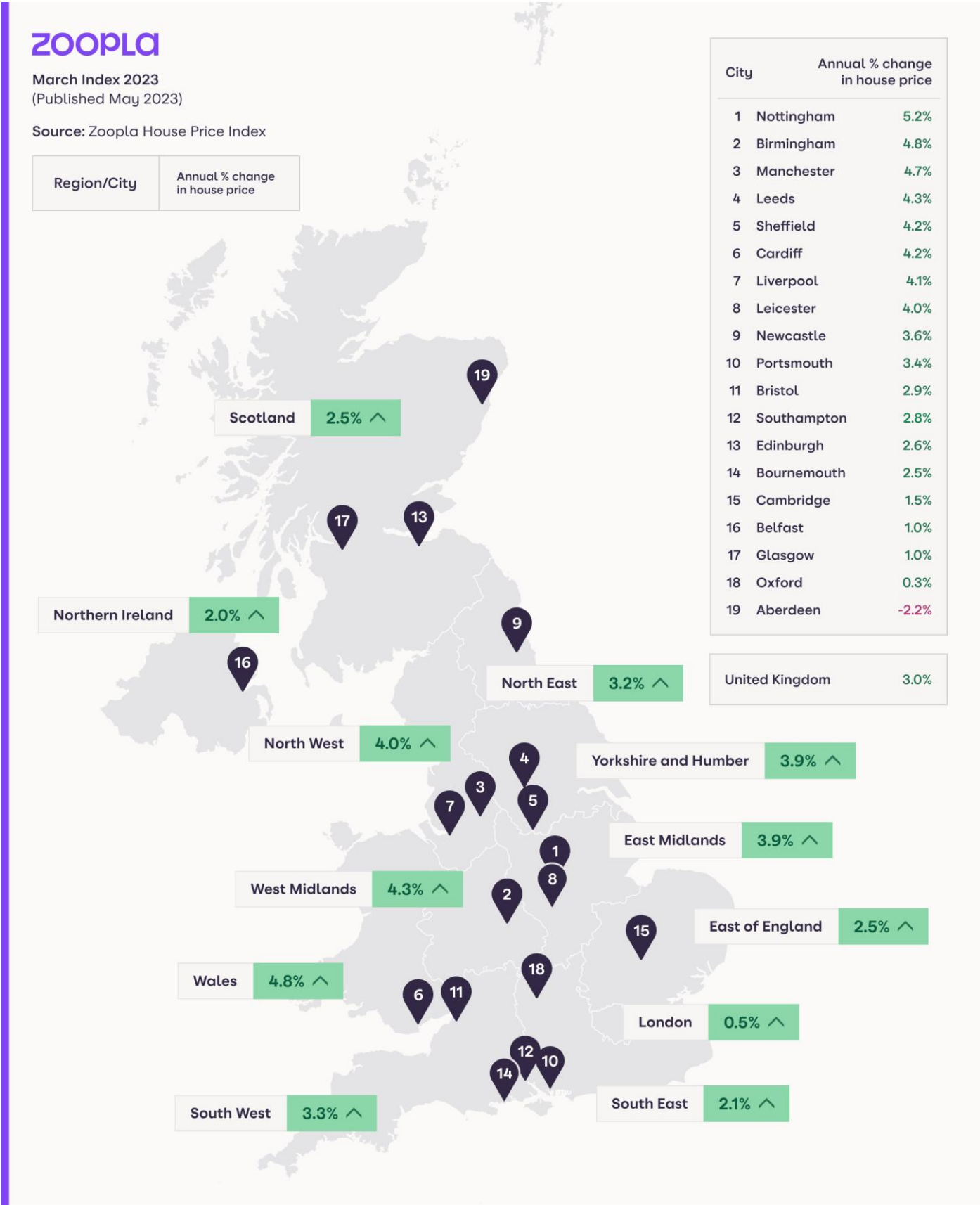
The ability for more people to work from home will encourage some FTBs to also look further afield to get the size of home they want at the right price. This explains why we haven't seen a bigger shift in what FTBs want to buy. It means demand for homes in suburbs of towns and cities with good access to transport into major employment centres will be holding up, as will price rises. Our house price index shows house price growth remains above average (over 5%) in areas such as Oldham in the North West which is accessible to Manchester, Wolverhampton in the Midlands which is accessible to Birmingham, and Selby in Yorkshire which is accessible to Leeds.

Summary and outlook

The worst of the pricing adjustment in response to higher mortgage rates appears to be behind us. House price growth will slow further over 2023 and dip into negative territory. More important is the fact that transaction volumes continue to grow. The housing market is arguably more balanced between supply and demand than it has been for some years. It's clear that there is a range of demographic and social factors continuing to motivate households to move home. If sellers continue to be realistic on pricing, then there is a chance for up to 1.1m sales in 2023 which would be a very positive outcome.

House Price Index - Country, region and city summary

Note: The Zoopla house price index is a repeat sales-based price index, using sold prices, mortgage valuations and data for agreed sales. The index uses more input data than any other and is designed to accurately track the change in pricing for UK housing.



Zoopla House Price Index, city summary, March 2023

Source: Zoopla House Price Index. Sparklines show last 12 months trend in annual and monthly growth rates - red bars are a negative value - each series has its own axis settings providing a more granular view on price development.

	Average price	%yoy Mar-23	%yoy Mar-22	Monthly trend	Annual trend
United Kingdom	£259,700	3.0%	9.3%		
20 City Composite	£295,100	2.4%	7.8%		
Nottingham	£201,200	5.2%	11.6%		
Manchester	£219,000	4.7%	10.9%		
Liverpool	£155,300	4.1%	11.8%		
Birmingham	£205,700	4.8%	9.8%		
Leicester	£225,000	4.0%	11.1%		
Leeds	£207,300	4.3%	9.9%		
Sheffield	£170,300	4.2%	10.3%		
Cardiff	£253,500	4.2%	9.7%		
Bournemouth	£344,500	2.5%	11.6%		
Portsmouth	£285,200	3.4%	10.6%		
Bristol	£334,700	2.9%	10.8%		
Southampton	£261,300	2.8%	9.3%		
Belfast	£165,900	1.0%	9.9%		
Newcastle	£148,900	3.6%	7.2%		
Cambridge	£465,000	1.5%	7.3%		
Glasgow	£141,900	1.0%	8.1%		
Edinburgh	£267,200	2.6%	5.2%		
London	£521,700	0.5%	4.2%		
Oxford	£452,500	0.3%	7.9%		
Aberdeen	£139,100	-2.2%	-1.3%		

Source: Zoopla House Price Index. Sparklines show last 12 months trend in annual and monthly growth rates - red bars are a negative value - each series has its own axis settings providing a more granular view on price development.

House price index
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