PRESS RELEASE

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Halifax UK Housing Market Outlook for 2017

Expected Annual House Price Inflation for 2017: 1% to 4% by year end

- Slower economic growth, pressure on employment and a squeeze on spending power, together with affordability constraints, are expected to reduce housing demand during 2017.
- Nonetheless, UK house prices should continue to be supported by an ongoing shortage of property for sale, low levels of housebuilding, and exceptionally low interest rates.
- Overall, annual house price growth nationally is most likely expected to slow to 1-4% by the end of 2017. The relatively wide range for the forecast reflects the higher than normal degree of uncertainty regarding the prospects for the UK economy next year.
- Reduced housing demand is likely to result in lower house sales as more people respond to weaker economic conditions and the deterioration in housing affordability by not buying or moving home.
- The Buy to Let sector is expected to cool further in 2017 as a result of impending tax changes and stricter underwriting criteria.
- The relatively adverse housing affordability position in London suggests that price growth will slow more sharply in the capital than elsewhere in the UK during 2017.

Halifax's housing economist, Martin Ellis, provides his thoughts on the housing market for the year ahead:

"The housing market is critically dependent on how the wider economy evolves. We consider it most likely that the UK economy will soften over the course of 2017. This is most likely to result from the weakening of sterling pushing up import costs and dragging on purchasing power, both for consumers and as a determinant of business investment spending.

"Slower economic growth in 2017 is likely to result in pressure on employment with a risk of a rise in unemployment. This deterioration in the labour market, together with an expected squeeze on households' spending power – as inflation picks up and outpaces earnings growth later in the year – is likely to curb housing demand. These factors, combined with increasing affordability constraints, particularly in London and the South East, are likely to result in a further easing in annual house price growth during the coming year, continuing the trend seen since the spring of 2016.

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"The level of uncertainty around any economic forecast is higher than usual at present. It's very difficult to predict the likely path for both consumer and business confidence during 2017, due to a wide range of possible outcomes regarding the extent of the expected worsening in labour market conditions and the size of the squeeze on purchasing power.

"Despite the high level of uncertainty, UK house prices should continue to be supported by the shortage of property for sale, low levels of housebuilding, and exceptionally low interest rates. Overall, annual house price growth nationally is most likely expected to slow to 1-4% by the end of 2017. This relatively wide range for the forecast reflects the higher than normal degree of uncertainty regarding the prospects for the UK economy next year.

"The expected slowdown in house price growth is likely to be accompanied by a decline in activity with reduced housing demand resulting in lower levels of house sales as more people respond to weaker economic conditions and the deterioration in housing affordability by not buying or moving home.

House Price Growth in 2016

"House price growth started 2016 very strongly with the annual rate[1] rising to a peak of 10.0% in March and quarterly price growth reaching 3.0% in February. A rush to beat the introduction of a higher rate of stamp duty on purchases of second homes and investment properties in April resulted in additional upward pressure on prices early in the year.

"A steadily growing economy, with increasing employment and strengthening household finances, has supported housing demand during 2016. Very low mortgage rates, which have fallen further over the year, have also assisted.

"Another key feature of the market has been the ongoing, and acute, shortage of properties for sale. The stock of homes available for sale has been at, or close to, record lows throughout the year[2].

"Housebuilding levels also remain historically low, although the latest figures provide some encouragement. Completions and starts in England in 2016 Quarter 3 were respectively 7% and 9% higher than in 2015 Quarter 3[3].

"The lack of supply – both in terms of new homes and secondhand properties for sale – has been an important factor pushing up prices at a relatively robust pace during 2016.

"Whilst house prices have continued to rise at a relatively rapid pace in 2016 – supported by these demand and supply factors – the annual rate of growth has been on a downward trend since the spring. In particular, heightened affordability pressures, resulting from a sustained period of house price growth in excess of earnings rises, have contributed to the recorded slowdown in house price inflation.

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Activity in 2016

"House sales in 2016 are expected to total around 1.2 million in 2016[4]; similar to the levels recorded in both 2014 and 2015 and approximately one-third lower than 10 years ago (1.7 million in 2006). The increase in stamp duty in April on second home and Buy-to-Let purchases has heavily distorted the monthly pattern of home sales during 2016. Sales have largely stabilised in recent months albeit at a lower level than a year ago, with home sales during the three months from August to October 8% lower than in the same period last year, according to the latest figures.

Interest Rates

"A near-term interest rate cut is now highly unlikely unless the economy shows signs of deteriorating significantly. The bar required for a rate rise, however, is high.

"The recent decline in sterling is expected to push up inflation due to the resulting increase in import prices. November's Inflation Report, however, outlined the MPC's willingness to tolerate a temporary period of above target inflation so that it can support employment by keeping rates at their current level. It would probably take evidence of inflationary pressure becoming entrenched for the MPC to decide on a rate increase.

"When the time finally comes for the first rise in official interest rates – most likely not until 2018 at the earliest – the Bank of England is expected to adopt a cautious approach, partly due to concerns about many households' ability to make higher repayments on their debts. Interest rates are, therefore, likely to rise at a gradual pace.

Buy to Let

"The Buy-to-Let (BTL) sector has grown rapidly in recent years with annual increases in the number of BTL loans to fund house purchase of 21% and 17% in 2014 and 2015 respectively. The rise in stamp duty for BTL investors in April 2016, and the forthcoming tapering of mortgage interest tax relief for higher rate taxpayers that is due to start in 2017, have contributed to a marked slowdown in 2016. The number of BTL loans in the first nine months of 2016 was 3.5% lower than in the same period of 2015.

"A tightening in underwriting criteria through higher interest cover ratios and stressed mortgage rates – already implemented by some lenders and likely to become more widespread as a result of possible regulation – are set to further limit demand in 2017.

"The BTL sector is therefore expected to cool further in 2017. The long-term case for investing in housing, however, remains strong with the sector set to continue to offer attractive rates of return compared to alternative investment classes despite these developments.

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Regions

"The geographical breakdown of UK house price trends over the past year provides a clear indication of persistent regional disparities. In particular, strong price momentum has been seen across the South of England (led by a +10.2% rise in the South East), which contrasts with falling prices in Scotland (-1.9%) and relatively subdued trends across the North of England (below +5%).

"Despite signs of cooling market conditions in the capital during 2016 – the annual rate of house price inflation in London has nearly halved from 14.5% in 2015 Quarter 4 to 7.9% in 2016 Quarter 3 – annual house price growth has remained above the UK average (+5.7% in 2016 Quarter 3).

"House prices in relation to average earnings are at an historical high in the capital; at nine times annual average earnings. Additionally, mortgage affordability in London is worse than its long run average; the only region in the UK where this is so. This relatively adverse affordability position suggests that price growth will slow more sharply in London than elsewhere during 2017. Outside London, there are few signs of significant stresses and imbalances at present, limiting the risk of a sharp slowdown elsewhere.

"Momentum has already flattened in the most expensive areas of London during 2016, even if double-digit annual price growth has been maintained in most other boroughs. There is a risk of some price falls in parts of London, particularly in the most expensive central locations, in 2017. The recent fall in the value of the pound could, however, provide a renewed boost to the top end of the central London market by making it cheaper for overseas buyers."

- ENDS -

[1] Source: Halifax House Price Index. Annual rate as measured by the latest 3 months compared with the same 3 months a year earlier
[2] Source: Royal Institution of Chartered Surveyors' (RICS) monthly report
[3] Source: DCLG
[4] Source: Forecast by Halifax based on data from HMRC, seasonally-adjusted figures

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