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**UNDER EMBARGO UNTIL 00:01am on 4 DECEMBER 2015**

## Halifax UK Housing Market Outlook for 2016

**Expected Annual House Price Inflation for 2016: 4% to 6% by year end**

- Increasing difficulty in getting on the housing ladder, together with the increasing prospect of a rate rise, is expected start to put the brakes on house price growth during 2016.
- Annual house price growth nationally is expected to slow to 4%-6% by the end of 2016.
- In 2015, activity levels have remained modest by historical standards. A continuing shortage of supply is likely to continue to act as a significant constraint on activity in 2016.
- Price growth is expected to slow more sharply in London than elsewhere. All regions are expected to experience price rises in 2016.
- House price growth is expected to be broadly in line with income growth beyond 2016 as steadily rising interest rates increase the affordability constraint on demand.
- Levels of housebuilding remain low, but we expect improvements over the medium-term. This would help to bring demand and supply into better balance, helping to constrain upward pressure on house prices.

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

"There is little reason to expect any fundamental shift in the key market drivers in the immediate future. As a result, the substantial imbalance between supply and demand is likely to persist, maintaining upward pressure on house prices in 2016.

"On average, UK house prices look expensive compared to incomes but valuations are supported by the low levels of property for sale, low levels of housebuilding, and exceptionally low interest rates.

"Nonetheless, with house prices continuing to increase more quickly than average earnings, it is increasingly difficult to get on the housing ladder. This ongoing development, combined with the growing prospect of an interest rate rise, should start to put the brakes on house price growth during the course of 2016. Annual house price growth nationally is expected to slow to 4-6% by the end of 2016.

"A continuing shortage of supply is likely to continue to act as a significant constraint on activity over the coming year. Sales in 2016 are expected to be modestly higher than this year, but to remain well below the peak of 1.6 million in 2006.

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## Growth

“House price growth has been robust throughout 2015. The quarterly rate of increase was 2.8% in October, according to the latest figures; a little above the 2.5% average over the first nine months of the year. The annual rate<sup>1</sup> stood at 9.7% in October – the highest annual rate since August 2014 (9.7%) – with the annual rate in a narrow band between 8% and 10% all year.

“Improving economic conditions – continuing growth and rising employment – and strengthening household finances, assisted by increasing real earnings for the first time for several years, have boosted housing demand during 2015. This has been supported further by very low mortgage rates which have fallen over the year.

“Strengthening demand has combined with very low supply – both in terms of new build and secondhand properties for sale – to drive strong underlying house price growth. New instructions<sup>2</sup> by home sellers declined in October for the ninth successive month. This contributed to the stock of homes<sup>2</sup> available for sale falling to a new record low.

## Activity

“While house price growth has been robust, activity levels have remained modest by historical standards. House sales were very weak during the first five months of 2015. Strengthening demand has, however, been finally filtering through into higher sales levels in recent months.

“UK home sales<sup>3</sup> in 2015 Quarter 3 were 4% higher than in the preceding quarter. The volume of mortgage approvals for house purchases<sup>4</sup> – a leading indicator of completed house sales – also increased by 4% between Quarter 2 and Quarter 3. This suggests that the recovery in sales will continue, at least in the short-term. Overall, sales nationally in 2015 are likely to be very similar to 2014’s 1.22 million.

## Interest Rates

“Interest rate movements are likely to have a significant bearing on house price developments in 2016 and beyond. Indeed, the receding prospect of an imminent rate rise accompanied by further falls in mortgage rates during the year – together with weaker housing supply than expected – has been one of the key reasons why house price growth has been stronger during 2015 than we initially predicted.

“The tone of the MPC’s recent communications has reinforced the perception that the Committee sees little urgent need to raise rates. Uncertainty around the timing of the first rate increase remains considerable. This relates not only to uncertainties around the economic outlook, such as the impact of renewed fiscal consolidation, and downside risks in the global economy, but also to the challenges involved in judging how the MPC is likely to react to developments.

“When the time finally comes for the first rise in official interest rates, the Bank of England is likely to adopt a cautious approach to raising rates due to concerns about households’ ability to make higher repayments on their debts. Interest rates are, therefore, likely to rise at a gradual pace.

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## Regions

“House price growth in the UK during 2015 – as in 2013 and 2014 – has been led by London. There has, however, been an easing in price growth in the capital from 21% in 2014 Quarter 3 to 13% in 2015 Quarter 3.

“Price growth in the capital has fluctuated significantly over the past 18-24 months as the market has responded to a number of sometimes competing trends; pre-election nervousness, management of loan to income caps as a result of FPC direction on lending and the changes in stamp duty.

“Mortgage affordability in London is now worse than its long run average; the only region in the UK where this is so. This suggests that price growth will slow more sharply in London than elsewhere during 2016. All regions are expected to experience continuing price rises over the coming year.

“Cash transactions account for around one-third of all home purchases in England and Wales. There are significant regional variations around the national average with cash sales representing the smallest proportion of total sales in London (27%) and the highest in the South West (40%)<sup>5</sup>.

## Medium-Term Outlook

“A number of important factors will affect house price growth beyond 2016. Increases in Bank Base Rate are expected to contribute to a slowing in the pace of house price growth over the medium-term. Gradual rate rises and increasing incomes should nonetheless keep mortgage payment affordability manageable for the overwhelming majority.

“Levels of housebuilding remain well below those required to keep up with the pace of household formation, but we do expect improvements over the medium-term. An upward trend in housebuilding would help to bring demand and supply into better balance, helping to constrain upward pressure on house prices.

“A greater focus on house price stability by policymakers should also help to prevent a future build-up of mortgage debt threatening financial stability and assist in curbing house price growth over the medium and longer-terms.

“House price growth is expected to be broadly in line with income growth beyond 2016 as steadily rising interest rates increase the affordability constraint on the market.”

**ENDS**

<sup>1</sup> Measured by the latest 3 months compared with the same 3 months a year earlier

<sup>2</sup> Source: Royal Institution of Chartered Surveyors' (RICS) monthly report

<sup>3</sup> Source: HMRC, seasonally-adjusted figures

<sup>4</sup> Source: Bank of England, seasonally-adjusted figures

<sup>5</sup> Source: CML 'Cash Transactions: the myths and the reality', 5 November 2015

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