Residential Market Review

APRIL 2022

Key Statistics

Average UK property price £273,762

Annual UK property prices increased 9.6%

Annual property price in Wales increased 13.9%

Asking prices hit record high of £354,564

Detached house prices annual increase 1264%

Homes with 4+ beds hit biggest price growth of +£23,619

Residential Market Overview

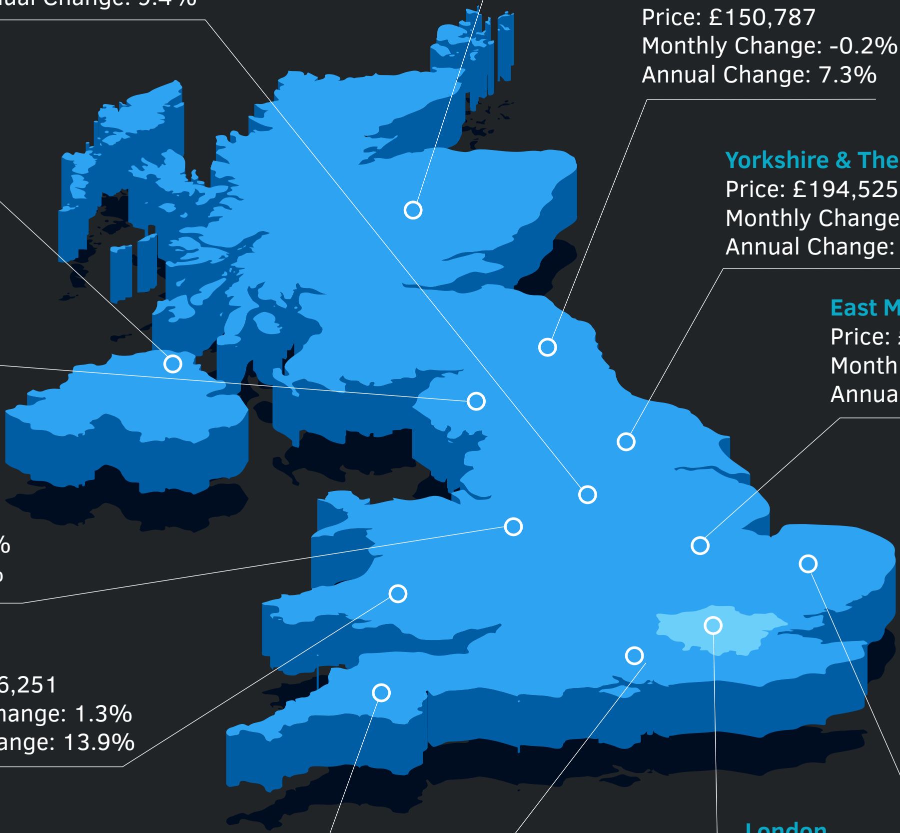
The new supply of homes for sale has slowly increased as sellers look to lock in price gains, which is anticipated to continue in the coming months as higher demand and rising prices trigger homeowners to sell. Despite this, stock remains constrained, continuing to push prices. Changes to local economic conditions, property types and working practices are all helping to impact the range of value growth recorded across the UK.

Property type	December 2022	December 2021	Difference
Detached	£431,680	£383,313	12.6%
Semi-Detached	£263,812	£238,660	10.5%
Terraced	£221,680	£203,395	9.0%
Flat or maisonette	£224,186	£213,332	5.1%
All	£273,762	£249,690	9.6%

Transactions

Month and year	Non-seasonally adjusted	Seasonally adjusted
February 2013	64,360	79,480
February 2014	85,940	105,350
February 2015	78,540	95,530
February 2016	91,310	106,360
February 2017	83,670	100,660
February 2018	81,730	97,710
February 2019	81,580	96,850
February 2020	82,830	97,200
February 2021	121,260	141,700
February 2022 (Provisional estimates)	96,250	112,240

Regional Overview



Scotland
Price: £182,786
Monthly Change: 2.2%
Annual Change: 10.8%

England
Price: £291,560
Monthly Change: 0.1%
Annual Change: 9.4%

North East
Price: £150,787
Monthly Change: -0.2%
Annual Change: 7.3%

Northern Ireland
(Quarter 4-2021)
Price: £159,151
Monthly Change: 0.1%
Annual Change: 7.9%

Yorkshire & The Humber
Price: £194,525
Monthly Change: -1.5%
Annual Change: 5.9%

North West
Price: £199,791
Monthly Change: -0.3%
Annual Change: 9.6%

East Midlands
Price: £235,503
Monthly Change: 1.8%
Annual Change: 11.6%

West Midlands Region
Price: £235,809
Monthly Change: -0.1%
Annual Change: 10.3%

Wales
Price: £206,251
Monthly Change: 1.3%
Annual Change: 13.9%

East of England
Price: £341,629
Monthly Change: 1.4%
Annual Change: 11.5%

London
Price: £510,102
Monthly Change: -1.8%
Annual Change: 2.2%

South West
Price: £307,468
Monthly Change: -1.1%
Annual Change: 10.9%

South East
Price: £378,311
Monthly Change: 0.5%
Annual Change: 11.1%

Why buyers need an estate agent now more than ever.

The UK is currently experiencing its highest inflation rate since the early 1990s. This increase in prices has primally come about by the combination of an increase in demand for goods and services from consumers following lockdown last year together with global supply chain disruptions.

Most economists weren't too concerned about this increase in the inflation rate as the very same thing happened in the early 1990s following the Credit Crunch with a similar rise in demand and supply chain issues. Thankfully, back in the early 1990s, inflation returned to lower levels quite quickly. However, the situation in Eastern Europe now could change matters.

So, let's look at all the factors and what it means for the property market.

The crisis in Eastern Europe has sparked even further rises in crude oil, (which diesel and petrol are made from) gas and grain prices as pressure on supply chains around the world increases.

In my previous articles, we suggested UK inflation would rise to around 7% in the spring and drop back to 5% in the autumn and as we entered 2023, be approximately 3% to 4%.

Yet, with these issues, inflation could rise to 8% to 9% by late spring and still be around 6% to 7% in autumn, well above the Bank of England's target of 2%.

With wages rising at only 3% to 4% and inflation at 7%+, household incomes, in real terms, will fall.

This is because 'real' UK household incomes characteristically have been the most consistent lead indicator of growth (or a drop) in house prices. This is because growing inflation erodes the value of money you earn, which reduces its buying power. When the cash in your pocket has a lower spending power, people tend to spend less when they buy (and rent) a home (and vice versa).

Next month, Income Tax thresholds will be frozen, and National Insurance contributions are increasing. Collectively, all these issues will create a drop of around 2% to 2.5% in the real disposable incomes of Britain's households in 2022 (real disposable income – somebody's take-home wages after tax and then the effects of inflation are considered).

Will people be more anxious to spend their money?

With less money in people's pockets, people's inclination to spend the money they do have could also be curtailed. People's savings are at an all-time high, yet many will decide to sit on the cash, instead of spending it, especially as consumer confidence has dropped to minus 26 on the GfK index (whatever that means – but in all seriousness though – more on that below).

Next, the price of petrol is very high compared to a year ago.

The average price of unleaded petrol is £1.51/litre today, quite a jump from the £1.21/litre a year ago. But, here is an interesting fact, petrol was a lot more expensive (in real terms) in 2011 than today. In TODAY's money, a litre of unleaded petrol in 2011 would be the equivalent of £1.79/litre.

We have some way to go before we get to those levels – and again, the economy (and property market) kicked on quite nicely after 2011.

What are people spending on their rent and mortgages?

Housing costs – owner occupiers were spending on average 17.3% of their household income on mortgages in 2015, yet in 2021 this had risen, albeit to 17.7% – not a huge increase.

Council house (social) tenants have seen a drop in their rent from 29.2% in 2015 to 26.7% in 2021, whilst private tenants from 36.4% in 2015 to 31.2% in 2021.

Interesting that private tenants are proportionally 14.29% better off in 2021 than in 2015.

How we spend our money – the average UK home spent 4.2% of their household income on energy in 2021, and that is due to rise to 6.3% after April (and probably 7% in October). Yet, as a country, we spend 9% of our income on restaurants and hotels and 8% on recreation and culture. As with all aspects of life, it will mean choices, and maybe we will have to forego some luxuries?

Just before we move on from this aspect of the article, again I appreciate I am talking in averages. Many people with low incomes suffer from fuel poverty and they will find the increases in energy prices hard – my thoughts go out to you.

Interest rates – higher inflation is generally brought under control using higher interest rates, meaning mortgage payments will be higher.

First, 79% of homeowners with a mortgage are on a fixed rate, so any rise won't be instantaneous. Yet, there will be a bizarre side effect from the issues in Eastern Europe. Surprisingly, though the current situation in Eastern Europe, by its very nature, will bring greater UK inflation, it will also probably defer the Bank of England raising interest rates. This means mortgage rates won't increase as much as the bank won't want to exacerbate any pressures to the UK economy in 2023/24 caused by the conflict.

The stock market had priced an interest rate rise to 2% by the end of 2022. We suspect this will now be

no more than 1% to 1.25% by Christmas, slowly going up in quarters of one per cent every few months. The crisis in Eastern Europe might even come to be seen as a defence for higher inflation throughout 2022, all meaning everyone's mortgage will be less.

Next, looking at Consumer Confidence Indexes – these indexes are fickle things. We prefer to look at the Organisation for Economic Co-operation and Development Consumer Confidence Index as it has a larger sample range and a longer time frame to compare against. Looking at the data from the mid 1970s, the drop in consumer confidence is big, yet nothing like the drops seen in the Oil Crisis of the mid 1970s, Recession of the early 1980s, ERM crisis of 1992 and the Global Financial Crisis of 2008/09. Also, when compared to the other main economies of the world (G7), the UK has always bounced back much more quickly from recessions when it comes to consumer confidence.

What about house prices in 2022/23?

Increasing energy prices, rising inflation, an increase of sanctions, and a probable drop in consumer confidence and spending in the aftermath of the conflict will knock the post-pandemic recovery globally, which will lead to a recession around the world, including the UK.

A recession is when a country's GDP drops in two consecutive quarters. For the last 300 years, there has been a direct link between British house prices and GDP – (i.e. when GDP drops, UK house prices fall). Yet in 2020, the British GDP dropped by nearly 12%, yet house prices went the other way.

But, let's look at what would happen if house prices did drop by the same extent they did in the Global Financial Crisis of 2008/09.

House prices in dropped by 17.5% in the Global Financial Crisis, the biggest drop in house prices over 16 months ever recorded in the UK.

The average value of a property today is £227,123.

Meaning if house prices dropped by the same percentage in the next 16 months, an average home locally would only be worth £187,376.

On the face of it, not good – until you realise that it would only take us back to house prices being achieved in September 2016.

Yes, that will mean if they do drop in price, the 8.9% of homeowners who have moved home since September 2016 would lose out if they sold after that price crash. But how many people move home after only being in their home for a few years? Not many!

The simple fact is that 91.1% of homeowners will be better off when they move if house prices crash.

The simple fact is, the circumstances of 2009 that caused the property crash are entirely different to 2022 (no lending by the banks, higher interest rates and increasing unemployment compared to today's increased lending, ultra-low interest rates and low unemployment environment).

With all that's happening in the world we might see a rebalancing of the property market later in 2022 and could see the odd month with little negative growth in house prices, yet it will be nothing like 2009.

The expected fall in household spending could be counterbalanced by UK businesses' plans to invest more in their businesses (with last year's tax breaks on investing), which will create even more jobs.

Who knows what the future holds?

Overvaluing or a slowing market? The statistics you need to know.

As everyone has been hearing, the property market has been thriving for the last 18 months.

It has been very much a seller's market, especially in 2021. Yet as we enter the second quarter of 2022, we have noticed a slight rebalancing of the property market, more towards buyers, something that is good news for everyone (sellers and buyers) locally.

In 2020, it took on average 72 days from the average property appearing on the property portals (i.e. Rightmove, Zoopla etc) to the property going sold (STC).

Yet, last year, this was reduced to 51 days.

So, what's the issue with the property market being on fire?

Well, that was last year, and things have changed slightly since.

Of the properties for sale, nearly 25% of houses have been on the market for more than 12 weeks.

That doesn't sound a lot, yet that is an eternity in this market!

So, why are there so many properties on the market in still for sale after all this time… it usually comes down to one thing… the practice of 'overvaluing'.

So, before we explain what overvaluing is, let us give you some background.

Many agents (not just ourselves), in 2021, were achieving top prices for property with multiple offers becoming the standard. The property they were selling was only available to buy for days before the owner obtained multiple offers that were not only at a satisfactory level, yet more than they ever dreamed likely.

Although this was great news for homeowners, this caused fewer homes to come onto the market in the last six months in, as people were afraid to put their home on the market without having a property to buy.

With fewer properties coming onto the market, some estate agents have become more and more desperate to get a larger slice of this smaller property market. It has seen an unwelcome side of the estate agency profession, the estate agency practice of 'overvaluing'.

While 'overvaluing' is nothing new, the custom has been generally limited to a small number of estate agents. Yet now, it's become more prevalent and creates uncountable distress and pressure for some homeowners.

Many homeowners want to sell quickly to get the property of their dreams. Yet, in many cases, when they do put their property on to the market, they don't sell quickly enough because of this 'overvaluing' (even with the fantastic current property market conditions).

To give you an idea of the issue…

Over 50% of homes put on the market in the last 30 days have not sold.

There are thousands of families having their dreams dashed by 'overvaluing.'

Therefore, let us look at exactly what overvaluing is, why it's on the rise and most importantly, the harm overvaluing causes to homeowners like yourself.

Why do agents overvalue?

You would think the most important thing in estate agency is all about finding the best buyer for your home, at the best price, who can make the move with the least amount of hassle.

To us it is, and to many other estate agents, it is as well. Yet, to some agents, sales aren't the essential objective. Instead, it is having a vigorous catalogue of properties to sell to generate more future leads.

Deprived of an endless number of new properties for sale, the enquiries estate agents receive will significantly drop, leaving them high and dry without any buyer (or seller) leads, the lifeblood of estate agents.

Therefore, some (not all), but some estate agents will feed on a homeowner's appetite to get the highest possible price for their home by giving them an over-inflated suggested asking price to market their property at (i.e. 'overvaluing').

If one estate agent can get you an extra £30,000 for your home, you will take it, won't you?

The suggestion of pushing the asking price of your home for 10%, 15% even 20% could be seen by many as a temptation too good to miss. Yet once you are on the market, the agent is trained to slowly get you to reduce your asking price over a lengthy sole agency agreement. The problem is that the home of your dreams might have sold by the time you reduced your price in 3 months. Also, 'Which' reports in 2017 and 2019 proved you ended up getting less for your home when it did eventually sell (which means you lose money) and finally, the agents know homeowners perceive it's a hassle to swap agents (which it isn't).

But estate agents only get paid when they sell the house; why do they overvalue?

Would it surprise you that some Estate Agency chains pay their staff a commission when they put the property on to the market, not when it sells? So, their team overinflate their suggested asking prices to get that commission.

Over the last 18 months, with the rising property market, there has undoubtedly been a valid reason for pushing the envelope on the asking price. Yet, if every house like yours is on the market or sold subject to contract at £300,000 to £320,000, yours isn't going to achieve £355,000, let alone £375,000 – even in this market.

With a high percentage of homes still for sale after a month, the market is starting to level out and if you are keen to sell, then let us give you some advice.

How does overvaluing impact your property sale?

Research has shown that if the asking price is initially set too high, it will be ignored by people surfing Rightmove and Zoopla.

When the property is eventually reduced because it has the stigma of being on the property market too long (begging the question of potential buyers that there may be a problem with the property itself hence no interest?), often when it does eventually sell, it will sell for less than what it would have done if it were priced correctly from day one (as per the two reports from Which in 2017 and 2019).

Of course, on the other hand, setting the asking price below its market value means potentially leaving money on the table needlessly – hence the need for a good agent.

Putting your home or buy-to-let investment up for sale at the right price from the beginning is the key to selling within the best time frame and for the best price to a serious and motivated buyer.

Ask a handful of estate agents to value your home, ask them to back up any valuation of your home with cold hard comparables of similar properties to yours.

Find your comparables by searching ALL the property portals (i.e. Rightmove, Zoopla, Boomin, OnTheMarket).

If you only take away one thing from this article, when you search the portals for comparables, make sure you include under offer/sold STC properties, as that will triple the comparable evidence.

Thus, by doing your homework and then working with a dependable, trustworthy and experienced estate agent, who will help to ensure that your property is put on the market to get you, the homeowner, the best price from day one without over cooking it (so you don't lose out), you will be just fine.

If you're looking for a trusted local estate agent to help you navigate your property sale in the current market, contact our friendly team today.

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