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Residential Property Review

July 2023



RICS survey shows demand falling

Activity in the residential sales market deteriorated in June, according to the latest UK Residential Survey by the Royal Institution of Chartered Surveyors (RICS), with negative net balance readings returned across many indicators.

New buyer enquiries fell to a net balance of -45%, compared to -20% recorded in May, the lowest such reading since October 2022. Similarly, newly agreed sales dropped from -8% in May to a net balance of -34% in June, making it the most downbeat figure since December 2022.

On the supply side, new sales instructions held steady in June, with respondents recording a net balance of -1%, compared to +14% in May. Despite this, the average number of homes available for purchase remains very low on a longer-term historical comparison, the report notes.

Simon Rubinsohn, RICS Chief Economist, commented, *"The latest increase in interest rates and the impact this has already had on mortgage rates is clearly visible in the key RICS metrics regarding buyer enquiries [and] sales."*

Rising mortgage costs make defaults more likely

Banks and building societies expect the level of mortgage defaults to increase over the next quarter, according to a report from the Bank of England (BoE), but lenders are strong enough to withstand the rise in customer defaults.

Since successive rate rises have taken Bank Rate from 0.1% in December 2021 to 5% last month, households have been under increasing pressure to keep pace with their mortgage costs. An estimated 4.5 million homes have already seen repayments increase.

As fixed-rate mortgage deals expire and people renew their loans, many more will be affected. Indeed, monthly payments are expected to increase by at least £500 a month for nearly one million households by the end of 2026, the BoE has warned, potentially leading to a significant rise in customers defaulting on repayments.

Rental market surge in demand

Tenant demand is still soaring, newly released data shows, while the number of landlords advertising new properties has fallen sharply.

Private rental prices paid by tenants in the UK rose by 5.1% annually in June, according to figures released by the Office for National Statistics. This is slightly higher than the 5.0% recorded in the year to May 2023.

Rental prices increased by 5.1% annually in England, 5.8% in Wales and 5.5% in Scotland. In England, the West Midlands led the way (+5.4%), while the North East recorded the lowest rise (4.4%). London's annual percentage change of 5.3% was the highest annual rate since September 2012.

Separately, respondents to the latest RICS survey returned a net balance for landlord instructions of -36%, the most negative reading for this metric since May 2020.

House prices headline statistics

House Price Index (May 2023)	149.9
Average House Price	£285,861
Monthly Change	0.0%
Annual Change	1.9%

*(Jan 2015 = 100)

- Average house prices in the UK increased by **1.9%** in the year to May 2023
- On a non-seasonally adjusted basis, average UK house prices were stagnant between April 2023 and May 2023
- The average price in London was **£525,629**.

Source: The Land Registry
Release date: 19/07/23
Next data release: 16/08/23

House prices Price change by region

Region	Monthly change (%)	Annual change (%)	Average price (£)
England	-0.4%	1.7%	£303,557
Northern Ireland (Quarter 1 - 2023)	-1.8%	5.0%	£172,005
Scotland	3.0%	3.2%	£192,518
Wales	0.6%	1.8%	£213,374
East Midlands	0.3%	3.4%	£247,242
East of England	-0.8%	0.0%	£345,710
London	-1.2%	0.8%	£525,629
North East	-1.0%	4.0%	£158,779
North West	-0.2%	2.7%	£211,790
South East	-0.9%	1.5%	£388,873
South West	-0.2%	1.0%	£323,765
West Midlands Region	0.5%	2.2%	£248,166
Yorkshire and The Humber	-0.4%	1.2%	£204,588

Average monthly price by property type – May 2023

Property Type	Annual Increase
Detached £449,975	2.3%
Semi-detached £274,943	1.4%
Terraced £233,140	1.6%
Flat / maisonette £231,404	2.3%

Source: The Land Registry
Release date: 19/07/23

Housing market outlook

“How deep or persistent the downturn in house prices will be remains hard to predict. Consumer price inflation is likely to come down in the near term as energy and food prices look set to reverse their steep rises, but core inflation is clearly proving stickier than originally expected. With markets now forecasting a peak in Bank Rate of over 6%, the likelihood is that mortgage rates will remain higher for longer, and the squeeze on household finances will continue to put downward pressure on house prices over the coming year.”

Kim Kinnaird, Director, Halifax Mortgages

Source: Halifax July 2023

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All details are correct at the time of writing (20 July 2023)

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