

Market Synopsis

Bringing you the latest updates from the housing market.



Commentary

By ARK Director, Victoria Tomlinson

Welcome to the latest edition of ARK's market synopsis report, covering market outcomes to the end of June 2023.

We have now reached mid-point of the year, and the market landscape has changed since our last update on the housing market. In Summary:

- New build prices remain more resilient compared to existing homes
- 42% of sellers are now accepting discounts of more than 5% off the asking price
- Average house price fell by -0.1% in June, a third consecutive monthly decline
- Annual rate of house price growth fell to -2.6%, from -1.1% in May
- Typical UK property now costs £285,932 (vs peak of £293,992 last August)
- All regions except Northern Ireland recorded annual price falls in Q2
- Southern England sees most downward pressure on property prices.



Source: Halifax

The average UK house price fell slightly in June, down by around £300 compared to May (-0.1%) with a typical property now costing £285,932. This was the third consecutive monthly fall, albeit it a modest one.

The annual drop of -2.6% (-£7,500) is the largest year-on-year decrease since June 2011. With very little movement in house prices over recent months, this rate of decline largely reflects the impact of historically high prices supported by the temporary Stamp Duty cut.

- Average house price **£285,932**
- Monthly change **-0.1%**
- Quarterly change **+0.3%**
- Annual change **-2.6%** house prices last summer – annual growth peaked at **+12.5%** in **June 2022** – supported by the temporary Stamp Duty cut.

Average house prices are actually up by +1.5% (£4,000) so far this year, with most of that growth coming in the first quarter, following the sharp fall in prices we saw at the end of last year in the aftermath of the mini budget.

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These latest figures do suggest a degree of stability in the face of economic uncertainty, and the volume of mortgage applications held up well throughout June, particularly from first-time buyers.

With that said the housing market remains sensitive to volatility in borrowing costs. Concerns about persistent inflation have led to a significant increase in the cost of funding. Coupled with base rate rising by another 50bp, this contributed to a big jump in typical mortgage rates over the last month.

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.

Source: Nationwide

Annual house price growth remained similar to last month, with a reading of -3.5% in June (May-3.4%).

Long term interest rates have increased sharply in recent months, in response to data indicating that underlying inflation in the UK hasn't moderated as expected. This has led to an expected increase in the Bank Rate from Bank of England, and for it to remain higher for longer.

The sharp increase in borrowing costs will have a significant impact on housing market activity, but this is yet to be seen in the near term.

With house prices remaining high relative to earnings, deposit requirements are still a significant barrier for those looking to enter the market.

Looking at the regional landscape, Northern Ireland saw a 0.7% year-on-year price rise. All English regions saw a slowing in the annual rate of growth when compared with the last quarter. Scotland saw a slight improvement, with annual rate of growth rate at 1.5% from -3.1% in the last quarter, whereas for Wales annual house price growth slowed further from -0.7% to -1.7%.

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Source: Hometrack

In June, Hometrack reported mortgage rates increasing by over 1%, and now averaging between 5-6%, compared to <4.5% in Spring.

The total new agreed sales for the first 5 months of 2023 recovered to within 2% of the 5-year average. This improvement has led to a small increase in the 3-month rate of house price growth, reversing the quarterly price falls recorded over Q4 2022 and Q1 2023.

Although quarterly price falls have slowed, the annual rate of growth continues to slow rapidly with a reading standing at +1.2%. Regionally, house price growth ranges from +2.5% in Wales to - 0.8% in Northern Ireland.

The momentum in sales over the first half of the year is not going to be maintained into the second half of the year, as higher mortgage rates will impact buying power and squeeze more buyers out of the market. Moreover, UK house prices remain on track to fall by up to 5% over 2023.

Looking ahead, mortgage rates look to remain above 5% over the coming months.

The number of homes for sale is back to pre-pandemic levels. Further expansion in homes for sale, would boost supply. This would increase choice and create room for negotiations on price.

The drive to move home continues to be influenced by a range of demographic and lifestyle factors. With rising living and housing costs, owners will continue to review their housing needs, some may move through choice and other's due to necessity.

Mortgage rates increasing over 5%, will test how well the housing market holds. The longer rates stay over 5%, and closer to 6%, the increased hit to buying power will result in lower prices and sales volumes.

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Source: RICS

In June, for new buyer enquiries, the national net balance slipped to -45%, down from a reading of -20% last month thus marking an eight-month low.

For newly agreed sales, the headline net balance fell to -34% this month (from -8% last month). June's return represents the most downbeat figure since December last year.

Looking at near-term (the next three months) sales expectations weakened to a net balance of -36% (a four-month low). On a twelve-month view, a net balance of -31% of survey participants foresees sales declining. This adds further evidence of the negative impact of rising interest rate expectations on market sentiment.

Looking at supply, new sales instructions reportedly held somewhat steady this month (net balance -1% vs +14% previously). For house prices, the national net balance fell to -46% in June, from a figure of -30% last month.

When viewed at a more local level, all English regions are seeing house prices retreat. House prices remain more resilient across Northern Ireland and Scotland.

For the 3-month and 12-month outlook, national house price expectations are now firmly negative.

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Source: Rightmove

Average new seller asking prices fall by £82 (-0.0%) this month to £372,812 – the first this year, and the first seen in June since 2017.

There has been an increase in fixed mortgage interest rates over the last few weeks following high inflation rates. However, Rightmove suggests the immediate impact on activity has been limited. Over the last two weeks, no effect on demand has been seen but there has been a modest impact on sales activity.

Buyer enquiries are still 6% higher than the same two weeks in the more normal market of 2019, while the number of sales agreed during this period is 6% lower.

The significant changes in the mortgage market over the last four weeks has created disruption and uncertainty among movers.

Rightmove further goes to state “in the last four weeks, the average mortgage rate for a 5-year fixed 85% Loan-To-Value (LTV) mortgage has jumped from 4.56% to 5.20%.” This means that at the current average asking price a buyer would be expected to pay an additional £117 per month if repaying the mortgage over a 25-year term.

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