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House Prices to Rise by Almost 30% by 2025, says PwC

Annual UK house price growth is projected to slow to around 3% in 2018 and is likely to remain around this level until 2025, according to new analysis from PwC. However, the average UK house price is estimated to rise from £221,000 in 2017 to around £285,000 by 2025 according to PwC's projections (and increase of 29%). Price growth at this pace means the ratio of house prices to earnings is likely to remain broadly stable, but still at high levels by historical standards.

In London, however, the average house price could drop by nearly 2% in 2018 compared to last year and house price inflation could continue to be negative in 2019.

Richard Snook, senior economist at PwC, commented: "UK house price growth remained resilient in 2017 despite a weakening economic backdrop, but has shown signs of moderating during the first half of 2018, particularly in London. Affordability in the capital has been stretched due to three factors: a high deposit saving hurdle, increased economic uncertainty relating to Brexit acting as a drag on international investment, and reduced numbers of housing transactions due to stamp duty changes.

"However, London house price growth should pick up again from 2020. We project the average price of a London home in 2022 to be £509,000, compared to £141,000 in the North East. This means the large affordability gap between the capital and other UK regions is set to remain."

Increased stamp duty for higher valued properties has been one of the factors dampening London house price growth recently. Rob Walker, head of real estate tax at PwC, said: "While, in theory, 95% of buyers are winners from the removal of the previous slab system, the increase in stamp duty for homes above this threshold appears to have contributed to an overall slowdown in the property market. High stamp duty rates are dissuading people from upsizing and downsizing which is affecting both ends of the market. Government should look at other options to kick start the housing market."

Past rises in UK house prices have been driven by a number of factors, but one of these has been a lack of new housing supply. PwC's new analysis at the local authority level across England suggests a clear link between a lack of new housing supply, relative to population growth, and local house price growth since 2011. This has been particularly marked in London and PwC estimates around 110,000 more homes would need to have been built between 2011 and 2016 to keep up with population growth.

Looking ahead, if the government can achieve its target of building 300,000 new homes a year in England by the mid-2020s, then this should exceed the increase in housing demand from projected population growth and therefore start to make up for the backlog caused from under-supply in recent years.

But PwC's local analysis suggests that many of these homes need to be built where demand is highest in London and the South East, as well as the East of England, to prevent a further worsening of affordability in those regions.

Snook added: "Local targets need to be set and met for house building, linked to supporting infrastructure development, as well as national targets. Building new homes in the wrong places will only perpetuate England's housing supply problems."

PwC has also analysed the recent marked trend towards fixed rate mortgages, which in 2017 accounted for 94% of new mortgages compared to only around 50% in 2010. At the same time, only around 28% of UK households now have a mortgage, as opposed to renting or owning their home outright. Combining these two factors, the firm estimates that only around 11% of all UK households would be immediately affected if mortgage interest rates rose, compared to around 24% in 2012.

John Hawksworth, chief economist at PwC, concluded: "The MPC has a finely balanced decision to make on interest rates in August. But they should not be overly concerned about small rate rises causing significant short-term economic damage, given our estimate that only around 11% of UK households would be immediately affected by any rise in mortgage rates."

However, despite the prediction that the north / south price gap will remain in place over the next few years, that gap will be closing, substantially in some regions. For example, in the five years from January 2018 to December 2022, PwC expects UK house prices to increase by 17.2% on average. But property prices in London are expected to only increase by 6% during that period, compared to 21.6% in the West Midlands (where the highest price growth is expected). Were this to happen, then the ratio between average house prices in London and the West Midlands would fall from 2.60 times more expensive in the capital at the start of this year, down to 2.26 times more expensive at the end of 2022. PIN