# Outlook for UK house prices

**Forecasts for UK house prices under deal and no-deal Brexit scenarios**

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- As Brexit approaches, the type of exit will impact the fortune of house prices in the UK in the medium term.
- If the UK exits on 31 October with a deal, we expect house prices to stabilise in 2019 and to rise by 1.3% in 2020.
- On the other hand, a no-deal Brexit on Halloween could cause house prices to fall by between 5.4% and 7.5% across the different UK regions in 2020.


The UK's housing market has been stuck in the slow lane since 2016, with annual house price growth slowing to 0.9% in June 2019, from a rate of 8.2% three years previously according to data from the Land Registry. Changes to stamp duty introduced in 2014 and 2016 – which raised the costs for buyers of higher-value homes and second properties – and the uncertainty of Brexit, have put the market on the back foot.

The slowdown has been good news for first-time buyers looking to get on the property ladder, especially in areas of the country facing shortages of available housing such as the South East and London. House prices in these markets have now been falling for more than a year.

Buyers are taking a cautious approach to purchasing decisions, with many opting to wait for a resolution to the Brexit saga. A potential no-deal represents the worst case scenario for homeowners; a sudden departure from the European Union could have significant repercussions for the UK's economy and housing market.

After a long period of muted activity in the housing market, the Brexit deadline of 31 October is a symbolic Rubicon – when the UK decides to either exit the EU with no-deal; or accept a form of withdrawal agreement allowing for an orderly transition out of the European Union. With some uncertainty potentially resolved on that date, the outlook for house prices depends on the prevailing scenario.

It is still possible that an intervention in the form of a further delay could push the exit date back, leading to weeks and perhaps months of continuing uncertainty and a lack of buyer confidence. But even a delay would largely return to the same binary choice between a deal and a no-deal.

## Our house price forecasts in a deal scenario

Our first scenario assumes that Brexit is resolved smoothly, either with a deal in time for the 31 October deadline or through a very brief delay that results in the ratification of a withdrawal agreement. The key feature is that the UK does not leave the EU without a deal.

In this scenario, the UK's economy enjoys a small uplift, with GDP growth rising to 1.5% in 2020[1].

### Table 1. House price growth in our deal scenario

| | 2018 | 2019 | 2020 |
|---|---|---|---|
| East Midlands | 4.3% | -0.6% | 1.4% |
| East of England | 1.5% | 0.0% | 1.7% |
| London | -0.4% | -4.7% | -0.2% |
| North East | 0.5% | 0.3% | 2.0% |
| North West | 3.2% | 1.6% | 2.1% |
| Northern Ireland | 5.1% | -1.2% | 0.6% |
| Scotland | 2.9% | 1.4% | 1.4% |
| South East | 0.6% | 0.4% | 1.1% |
| South West | 3.1% | 0.5% | 0.9% |
| Wales | 4.5% | 0.6% | 1.6% |
| West Midlands | 4.4% | -0.6% | 0.9% |
| Yorkshire and the Humber | 2.9% | 1.1% | 2.4% |
| **UK average** | **2.7%** | **-0.1%** | **1.3%** |

Source: *Land Registry, KPMG analysis*

In this case, we expect there to be little change in house prices during 2019, with an average fall across the UK of just 0.1%. The fall in London's house prices will continue throughout 2019 to reach 4.7% for the year as a whole. The North West will be the strongest performer in 2019, with house prices increasing by 1.6%. Looking at next year, the region with the strongest price rises will be Yorkshire and Humberside, where house prices will increase by 2.4%. On average, we expect the pace of house price growth to accelerate to 1.3% across the UK in 2020, representing a modest recovery on 2019.

Valuations are the main drivers for house prices in this scenario, with the biggest corrections taking place in regions where valuations are already stretched.

[1] See our forecast section in the September Economic Outlook for details

## Our house price forecasts in no-deal scenario

An alternative is that the UK leaves the EU without a deal on October 31. We modelled this scenario taking into account the potential impact of Brexit on local economies[2], with larger falls in house prices experienced by the more heavily affected regions.

### Table 2. House price growth in our no-deal scenario

| | 2018 | 2019 | 2020 |
|---|---|---|---|
| East Midlands | 4.3% | -1.5% | -5.4% |
| East of England | 1.5% | -1.1% | -6.4% |
| London | -0.4% | -4.8% | -7.0% |
| North East | 0.5% | -1.3% | -6.5% |
| North West | 3.2% | 0.3% | -6.1% |
| Northern Ireland | 5.1% | -2.2% | -7.5% |
| Scotland | 2.9% | 0.7% | -6.0% |
| South East | 0.6% | -0.6% | -6.7% |
| South West | 3.1% | -0.4% | -5.9% |
| Wales | 4.5% | -0.3% | -5.4% |
| West Midlands | 4.4% | -1.3% | -5.8% |
| Yorkshire and the Humber | 2.9% | -0.2% | -5.7% |
| **UK average** | **2.7%** | **-1.1%** | **-6.2%** |

Source: *Land Registry, KPMG analysis*

The initial impact of a no-deal scenario on the UK's property market is a larger fall in 2019 of 1.1% on average, followed by a more significant decline in average house prices of 6.2% in 2020, with the variation across regions reflecting the differences in exposure to a no-deal.

While no regional market escapes unharmed in the event of a no-deal, London and Northern Ireland fare the worst, owing to their greater exposure to EU trade, with house prices in 2020 falling by 7% and 7.5%, respectively in these regions.

Taking this together, Table 3 shows the average house price in each of the two scenarios, by the end of 2020.

### Table 3. Average UK house prices by end of 2020

| | Deal | No-deal |
|---|---|---|
| London | 453,000 | 422,000 |
| South East | 327,000 | 299,000 |
| East of England | 296,000 | 269,000 |
| South West | 260,000 | 240,000 |
| West Midlands | 196,000 | 182,000 |
| East Midlands | 191,000 | 177,000 |
| North West | 167,000 | 152,000 |
| Yorkshire and the Humber | 164,000 | 150,000 |
| Wales | 164,000 | 151,000 |
| Scotland | 153,000 | 141,000 |
| Northern Ireland | 135,000 | 123,000 |
| North East | 129,000 | 116,000 |

Source: *Land Registry, KPMG analysis*

London is set to remain the region with the highest cash prices in 2021, with an average property costing £453,000 if Brexit proceeds smoothly. In the event of no-deal, this would drop to £422,000 by the end of 2020. Other regions feature smaller differences, although in all cases house prices are lower in the event of no-deal than in our deal forecast.

[2] We took the estimated regional impacts from Dhingra, S., Machin, S., & Overman, H. (2017). Local Economic Effects of Brexit. National Institute Economic Review, 242(1), R24–R36. https://doi.org/10.1177/002795011724200112

> Transactions volumes will likely fall much more than prices – making government housing delivery targets impossible to achieve and slowing new building across the sector.
>
> The level of leverage in the housebuilding sector is also much lower – meaning that volume housebuilders will be under less pressure to materially reduce prices. This helped create the downward spiral of prices in the global financial crisis.
>
> **Jan Crosby,**
> Head of Housing, KPMG in the UK

Overall, while our forecast represents a plausible response of house prices to the shock of no-deal, the overall impact is highly uncertain. It is possible that the demand for housing is further affected by a fall in confidence, with homebuyers becoming ever more reluctant to commit to house purchases over the coming year. For this reason we have looked at past episodes of house price falls across the different regional market as a guide to what could happen if market conditions become even more severe.

Since the start of the 1990s, the UK has suffered two major house price corrections. The first took place in the early 1990s, linked to the recession in 1991, when house prices for the UK fell by 20% between 1989 and 1993. The other major house price drop occurred during the global financial crisis in 2008. The most abrupt yearly falls during these periods were in 2008, when house prices fell by 15%, and in 1990, when prices fell by 11%. While we expect the correction to be milder this time, a further shock to buyer confidence could tip the overall market into a much deeper slump.

There are still good reasons to believe this time will be different. Compared to the run-up to the financial crisis of 2008, house prices are now lower in relation to earnings in most regions of the UK, having only risen substantially in London and the South East. Also, interest rates are nowhere near the levels prevailing at the time of the 1991 recession: at the start of 1991, the Bank of England base rate was 13.88%, compared to just 0.75% today. Mortgage payments are therefore substantially more affordable.

Overall, while a no-deal Brexit could dent property values in the short term, it may make less impact on one of the fundamental factors driving the market: the stock of regional housing. Housebuilders are expected to reduce the supply of new housing in some regions in the short term as a response to a deteriorating economic outlook. So, while there will be fallout from the initial economic shock following a no-deal Brexit, the market is expected to recover most ground in the long run to the extent the economy finds a new successful path.

Looking forward to 2020, next year promises to be a delicate year for the housing market. Even if Brexit can be resolved relatively smoothly, the travails of the global economy will impact growth in the UK, making prospects for house prices relatively subdued. One upside could come from government plans to change stamp duty. Potential changes include shifting the burden of stamp duty to the seller, exempting properties below £500,000 and reversing the surcharge for additional properties. If delivered in time for the Autumn Budget, this could lead to a significant increase in demand from buyers, providing a short-term boost to the housing market. Still, the Treasury may be unwilling to part with the revenues that stamp duty brings.

# Contact details

**Yael Selfin**
**Chief Economist, KPMG in the UK**
**T** +44 (0)20 7311 2074
**E** Yael.Selfin@KPMG.co.uk

**Dennis Tatarkov**
**Economist, KPMG in the UK**
**T** +44 (0)20 7311 2210
**E** Dennis.Tatarkov@KPMG.co.uk

**Weiye Kou**
**Economist, KPMG in the UK**
**T** +44 (0)20 7311 5073
**E** Weiye.Kou@KPMG.co.uk



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