

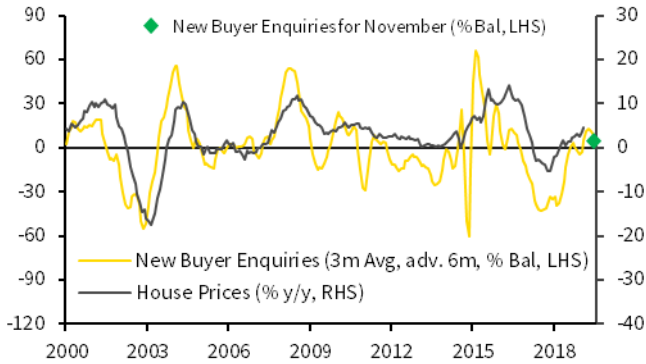
Housing Economics Unlocked - Market Indicators

Q1 2025



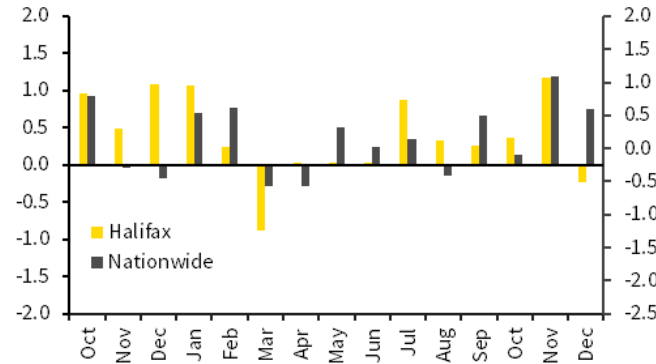
House Price Indicators

House Price Growth and RICS New Buyer Enquiries



Sources: RICS, Nationwide

Monthly Change in UK House Prices (% m/m)



Sources: Halifax, Nationwide

House Price Data (% y/y)

		N'wide	Halifax	ONS
2023	Dec	-1.8	1.9	-2.7
2024	Jan	-0.2	2.3	-1.9
	Feb	1.2	1.6	-1.4
	Mar	1.6	0.4	-0.3
	Apr	0.6	1.1	0.4
	May	1.3	1.6	0.7
	Jun	1.5	1.8	1.2
	Jul	2.1	2.4	1.7
	Aug	2.4	4.3	2.6
	Sep	3.2	4.6	2.7
	Oct	2.4	4.0	3.0
	Nov	3.7	4.7	3.3
	Dec	4.7	3.3	-

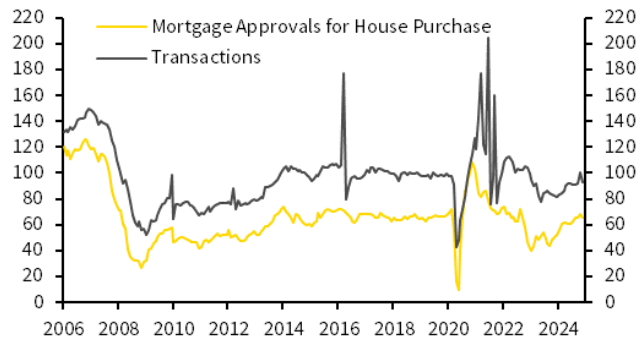
Overview

Annual house price growth ended 2024 at between 3% and 5%, buoyed by strong gains in November and December. That could partly reflect buyers pushing to complete sales ahead of April's stamp duty increase.

In any case, house prices probably won't accelerate in 2025. The RICS measure of new buyer enquiries weakened a little in December – pointing to waning demand growth – while mortgage rates have edged up too.

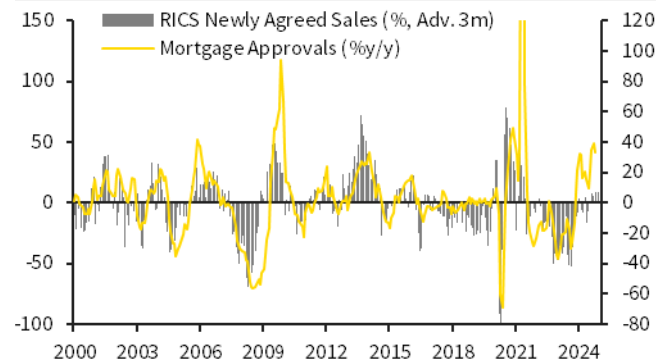
Housing Market Activity Indicators

Mortgage Approvals & Housing Transactions (000s per Month)



Sources: Bank of England, HMRC

Agreed Sales and Mortgage Approvals



Sources: RICS, Bank of England

Activity Data (000s)

		House Purchase Mge. Approvals	Housing Transactions
2023	Nov	50.2	82.0
	Dec	52.2	81.7
2024	Jan	56.1	83.0
	Feb	60.4	84.7
	Mar	61.5	86.6
	Apr	61.3	89.7
	May	60.7	92.2
	Jun	60.8	91.6
	Jul	62.6	91.1
	Aug	65.0	91.1
	Sep	65.7	91.8
	Oct	68.1	100.6
	Nov	65.7	92.6

Overview

After surging in October, housing transactions and mortgage approvals pulled back in November. Given the timing, this is unlikely to have been due to October's stamp duty announcement and was more likely due to lower interest rates.

A further spike in transactions would be typical ahead of April's stamp duty change. But activity will probably cool to more "normal" levels by Q2.

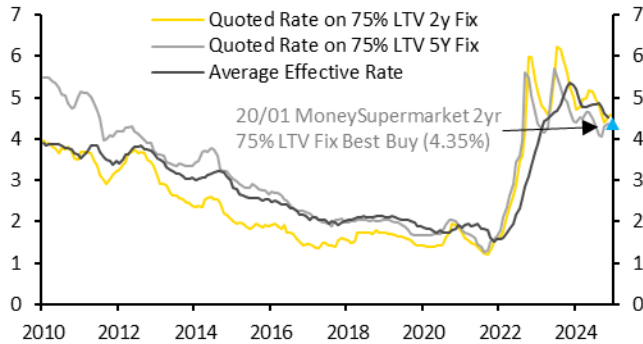
Housing Economics Unlocked- Credit Conditions and Economy

Q1 2025



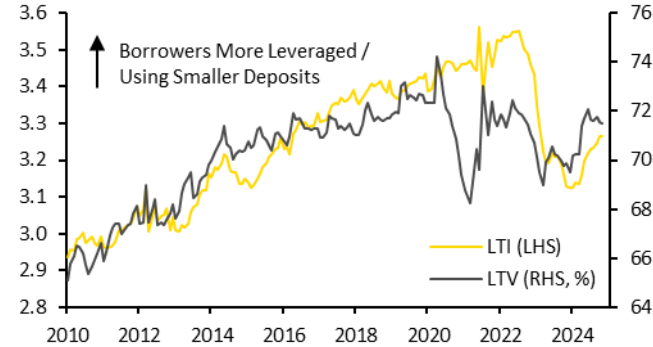
House Purchase Credit Conditions Indicators

Quoted and Effective Mortgage Interest Rates* (%)



Source: Bank of England

Loan to Value & Loan to Income Ratios



Source: UK Finance

Credit Conditions Indicators

Data for new loans only	Latest	3m Ago	1 Year Ago
Avg. Effective Rate on New Mortgage**	4.52%	4.86%	5.37%
75% and 90% LTV Interest Spread*	0.76%	0.82%	0.66%
Loan to Value Ratio** (Mean, New Loans)	71.5%	71.6%	69.9%
Loan to Income Ratio** (Mean, New Loans)	3.27x	3.23x	3.13x
Mortgage Rate Spread over Bank Rate**	-0.23%	-0.14%	0.12%

Latest Dates: *Dec 2024, **Nov 2024

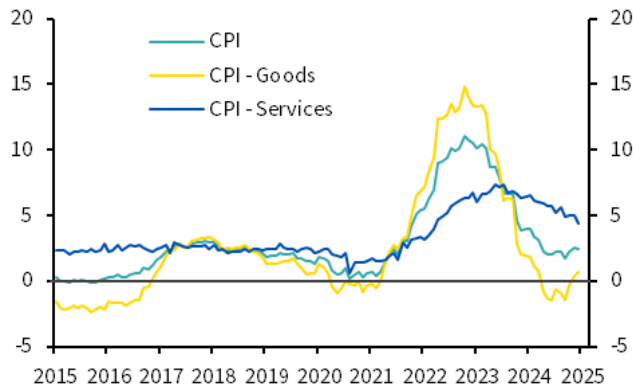
Overview

Despite recent turmoil on the Gilt market, mortgage interest rates remained broadly steady in December. This behaviour is discussed in detail on Slide 3.

Overall, credit availability remains solid. Average LTIs rose further, while average LTVs have held steady. And Moneyfacts data point to particularly strong product availability in January.

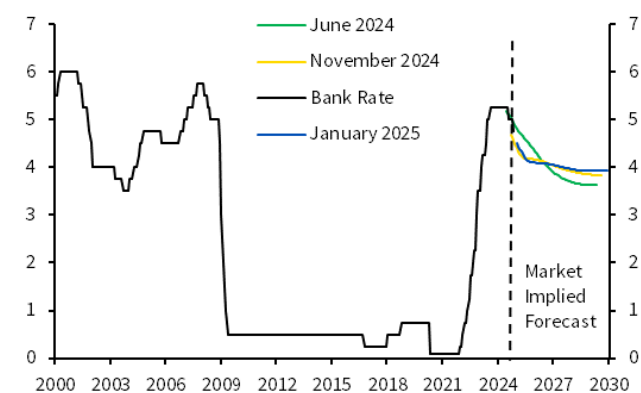
Key UK Economy Indicators

UK Inflation Breakdown (%/y)



Source: ONS

Bank Rate and Forward Interest Rates (%)



Sources: Bank of England, Aviva Calculations

UK Economic Indicators

	Latest	3m Ago	1 Year Ago
Bank Rate* (%)	4.75%	5.00%	5.25%
GDP Growth** (% 3m y/y)	0.8%	0.8%	0.5%
Average Weekly Earnings Growth** (% y/y)	5.6%	3.9%	6.6%
CPI Inflation* (% y/y)	2.6%	1.7%	8.7%
Unemployment Rate** (%)	4.4%	4.1%	4.2%

Latest Dates: *Dec 2024, **Nov 2024

Overview

CPI inflation edged down in December to 2.5%, below expectations. Encouragingly, was driven in part by lower than expected services inflation, which fell from 5% in November to 4.4% in December.

This positive inflation surprise left the medium-term outlook for rates broadly in line with the November 2024 reading.

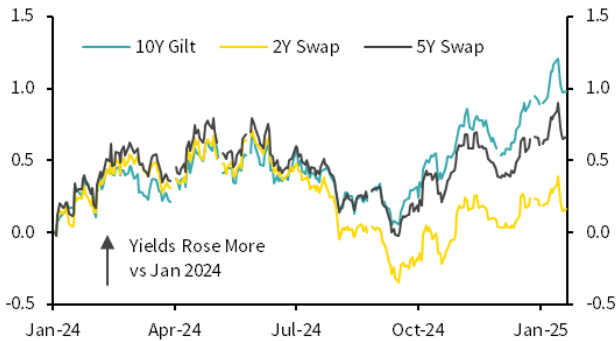
Housing Economics Unlocked - Housing Valuations & Forecasts

Q1 2025



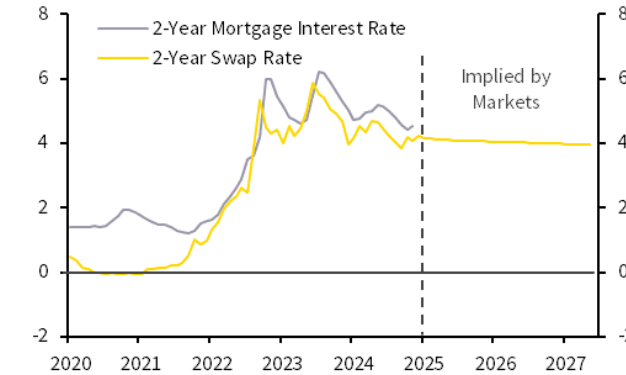
Housing **Affordability and Risk** Indicators

Rise in 10Y Government Bond Yield, 2Y & 5Y OIS Swap Rates since Jan 2024 (%)



Source: Bank of England

Mortgage Interest Rate and 2-Year Swap Rate (% , Market Implied at 20 Jan 2025)



Sources: Bank of England, Aviva Calculations

Overview

Gilt yields have dominated the headlines, but the largest rises were at longer durations. Shorter duration swaps, which determine mortgage pricing, have seen smaller movements. This explains why mortgage rates have been fairly flat despite recent market turmoil.

Future cuts expected by markets are now fully priced into current mortgage rates, implying they are as low as they will go. But with markets volatile, pricing will still move up or down if rate expectations shift in the future.

Looking ahead, soft external house price growth forecasts combined with solid forecast wage growth imply improving affordability. This could hint at stronger than expected house prices in 2025 and 2026.

The main risks come from interest rates, in both directions. While a majority have already seen their monthly payments rise since 2022, a large group of hold-outs remain. Our modelling suggests that 50bps fewer cuts would be tolerated well by the market, but larger shifts are a risk.

UK Forecasts

External Forecasts for 2024 and 2025 (%/y)*

House Prices

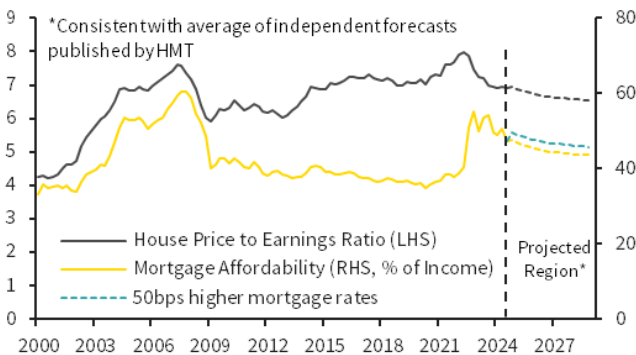
	2024	2025
Capital Economics	3.2	3.5
Pantheon	4.0	4.0
Beacon	4.2	-0.8
CEBR	1.8	2.9
Experian	3.7	2.9
Heteronomics	3.2	2.0
ITEM Club	-0.2	1.0
NIESR	1.7	0.1
Oxford Economics	3.7	1.2
Average	2.8	1.9

Economy

	2024	2025
Average Earnings	4.7	3.4
GDP Growth	0.9	1.3
CPI inflation	2.5	2.5
Bank Rate	4.75	3.80

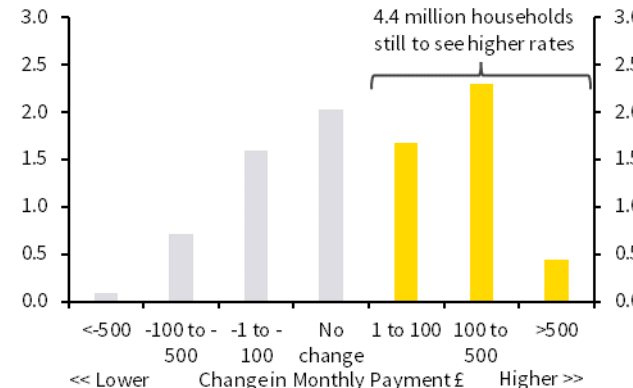
*2026 forecasts not yet released by HMT

House Price-to-Earnings Ratio and Mortgage Affordability



Sources: Bank of England, ONS, Nationwide, Aviva Calculations

Households Forecast Change in Mortgage Payments by Size of Change (2025-2027, million)



Source: Bank of England

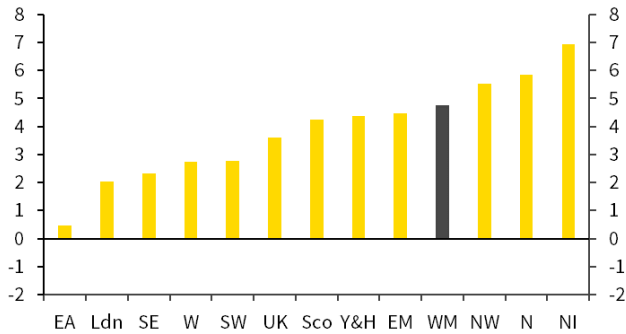
Housing Economics Unlocked - Regional Indicators

Q1 2025



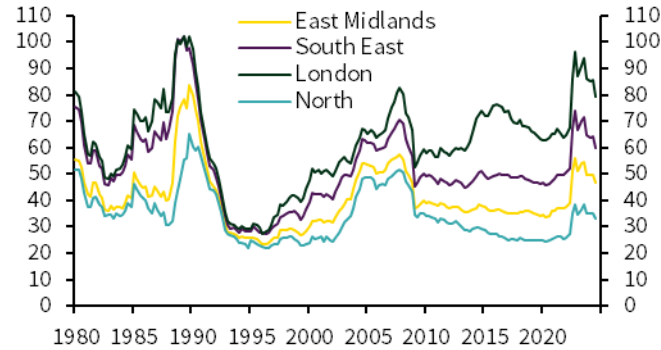
Regional Housing Market Indicators

Regional House Price Growth (%y/y, Q4 2024)



Source: Nationwide

Mortgage Affordability by Region (% of Average FT Post-Tax Pay)



Sources: ONS, Nationwide, Bank of England, Aviva Calculations

Regional Housing Statistics (Q2 2024)

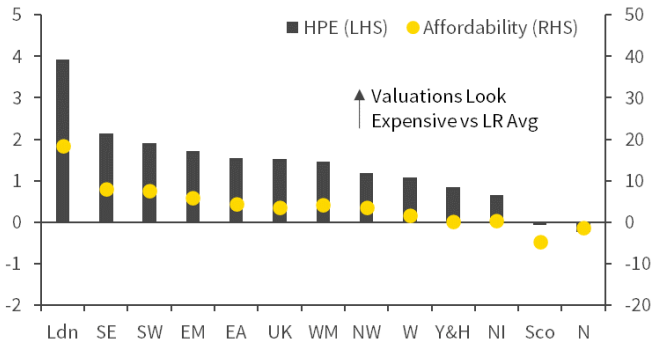
	Avg. Price £000s	Avg. Price (% y/y)	HPE Ratio	Afford. (% Income)
N	164.8	5.8	4.6	33.0
Y&H	209.1	4.4	5.6	41.1
NW	218.8	5.5	5.8	41.9
EM	236.7	4.5	6.6	46.5
WM	245.0	4.8	6.6	47.0
EA	273.4	0.5	7.0	50.6
SE	336.3	2.3	8.3	59.8
Ldn	524.0	2.0	11.3	79.2
SW	307.1	2.8	8.1	58.8
W	207.8	2.7	5.7	41.0
Sco	186.7	4.2	4.4	33.5
NI	199.3	6.9	5.2	39.3
UK	269.1	3.6	6.8	46.7

Overview

The 2024 recovery in regional house prices has been fairly broad based, with all regions seeing growth. But the southern regions underperformed the rest of the UK.

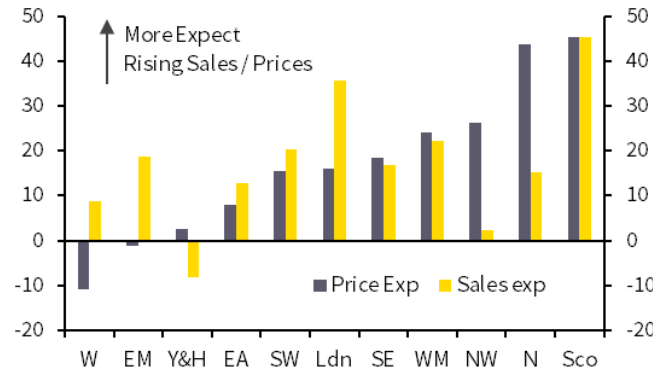
Southern underperformance isn't a huge surprise, given that those regions have the weakest valuation metrics. There has been improvement over time however, with around half of the 2022 deterioration in affordability having now reversed in the last two years.

House Price to Earnings and Mortgage Affordability by Region (2024 vs LR avg)



Sources: Nationwide, ONS, Bank of England, Aviva Calculations

Surveyors' Price and Sales Expectations (% Balance, Next 3m)



Source: RICS

All regions have higher house price to earnings ratios and slightly worse mortgage affordability compared to the long-run average. London and the southern regions continue to underperform on these indicators.

Nonetheless, fundamental indicators don't appear to be driving sentiment in the market. London and the South of England had a solid performance for price and sales expectations in December – and London's sales expectations for early 2025 were particularly strong.