

UK house prices reach new record but cost of living crisis threatens growth

Bank of England's interest rate rise and soaring household costs will hit affordability, says Halifax

Mark Sweeney

Halifax said affordability remains at historically low levels as house price rises continue to outstrip growth in earnings. Photograph: SJ Images/Alamy

UK house prices reached a record high in January according to Halifax, but the lender warned growth is likely to slow "considerably" this year as household finances come under increasing pressure.

The price of the average UK home reached a record high of £276,759 in January, up £24,500 over the year, and £37,500 higher than two years ago. However, house price growth slowed to just 0.3% in January, the smallest monthly increase since June last year, in a sign that the [pandemic-fuelled boom](#) could be fading.

"While the limited supply of new housing stock to the market will continue to provide some support to house prices, it remains likely that the rate of house price growth will slow considerably over the next year," said Russell Galley, a managing director at Halifax.

Halifax, which has previously said that the housing market "defied expectations" last year, said affordability remains at historically low

levels as price rises continue to outstrip growth in earnings.

Last week, the Bank of England [raised interest rates](#) for the second time in three months, as it sought to temper inflation, which is running at a 30-year high of 5.4%, with analysts expecting further rises later this year.

Homeowners are also facing a dramatic increase in living costs, including higher energy and food bills, rising phone and broadband charges, and increased national insurance payments from April.

"This situation is expected to become more acute in the short term as household budgets face even greater pressure from an increase in the cost of living and rising interest rates begin to feed through to mortgage rates," said Galley. "Despite record levels of first-time buyers stepping on to the ladder last year, younger generations still face significant barriers to homeownership as deposit requirements remain challenging."

In the final four months of last year house price growth ran at more than 1% each month, before January's dip, said Halifax. [House prices](#) remain 9.7% up in average compared with January last year.

"Deposits will be key to the level of house price inflation this year," said Anthony Codling, the chief executive of the property data site Twindig. "Those with a big deposit will be able to rise above the living and mortgage cost rises, those without will not unfortunately. The deposit poor will also find it harder to save as living costs rise."

Halifax said Wales had the strongest start to the year of any nation or region, with annual house price inflation of 13.9% compared with last January, to an average of £205,253.

Northern Ireland house prices rose by an average of 10.2% to

£170,982, while Scotland was up 8.9% year on year to £192,698, a dip on December.

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In England, the north-west was once again the best-performing region, up 12% year on year to £213,200, with the second highest annual growth rate in the UK.

London remains the weakest-performing region with annual growth of 4.5% in January, a third monthly increase double the rate recorded in December and the strongest performance in a year.

The annual rate of growth in average UK house prices was unchanged in January at 9.7%.