

## PRICE MOMENTUM EASES

Several key price indices are showing a slowdown in the pace of house price growth, although activity levels remain relatively buoyant especially compared to the market 18 months ago. Average property values in prime central London rose for the 45th consecutive month in July, and rents in this area also registered the first annual growth since early 2012. Gráinne Gilmore examines the latest data.

### Key facts August 2014

**UK house prices rose by 0.1% in July**, and are up 10.8% year-on-year according to Nationwide Building Society

**Prime central London property prices rose by 0.3% in July**, taking annual growth to 7.9%

**Prime English country house prices climbed by 5.2% in the year to the end of June**, while prime Scottish property prices rose by 2.8%

**UK house price sentiment dipped** for the second month in July



**GRÁINNE GILMORE**  
Head of UK Residential Research

“The slight slowing in momentum coincides with a renewed focus on the housing market from policymakers.”

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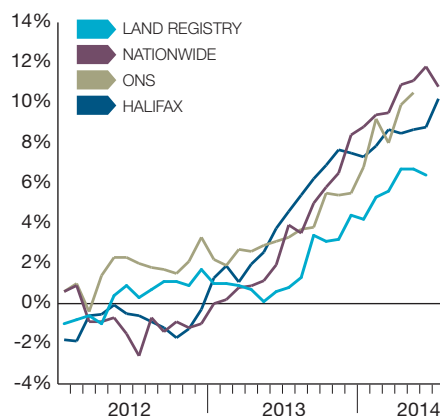
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### UK housing market and economic overview

The housing market is showing signs that it is pausing for breath, with the Land Registry index showing no rise in prices in June, and data from Nationwide Building Society showing just a 0.1% increase. The various house price indices all show slightly different levels of annual growth, given their different methodologies, as the chart below shows. The rate of growth across the country also remains polarised, as the map on page 2 highlights.

#### How the price indices compare

Annual growth



Source: Land Registry, Nationwide, ONS, Halifax

The Knight Frank/Markit house price sentiment index also indicates that price growth is easing, with the index charting households’ future price expectations remaining notably lower than May’s record high. In fact, the measure of Londoners’ expectations for the value of their property over the next year fell for a third consecutive month in July. While those living in the city still expect prices to rise, they anticipate more modest rises than they did earlier in the year.

The slight slowing in momentum coincides with a renewed focus on the housing market from policymakers, with Mark Carney, the Bank of England Governor, warning last month that house price rises and rising levels of debt

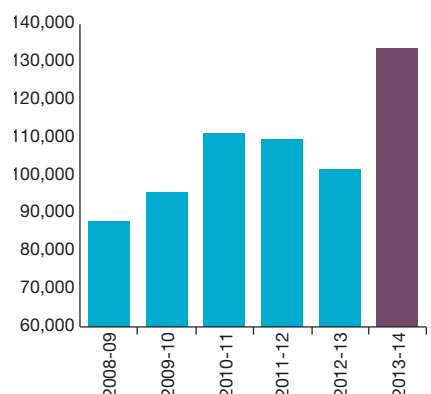
could tip the country back into recession. Moody’s, the credit rating agency, also warned that house price declines could negatively impact the UK’s economic growth.

Amid their stark warnings, some banks have moved to curb their mortgage lending, with Lloyds, the UK’s biggest mortgage lender, lowering its lending limit for first-time buyers using the Help to Buy Equity Loan to £150,000, down from £500,000.

Help to Buy, which has helped around 40,000 people in total to buy a home, is still a hot political potato however, with the Organisation for Economic Cooperation and Development (OECD) warning that the scheme should be curbed to constrain house price growth. Yet there is a tension here, as the Equity Loan part of the Help to Buy scheme, which has helped around 27,000 people to buy a home, is seen to be playing a part in increasing development volumes by enabling nascent demand. This in turn is providing much needed housing supply in the UK.

Our survey of housebuilders across the UK, published in detail in our recent [Housebuilding Report](#), showed that the extension of the Help to Buy Equity Loan to 2020 had a positive impact, resulting in more developers considering bigger schemes.

### Housing starts, England



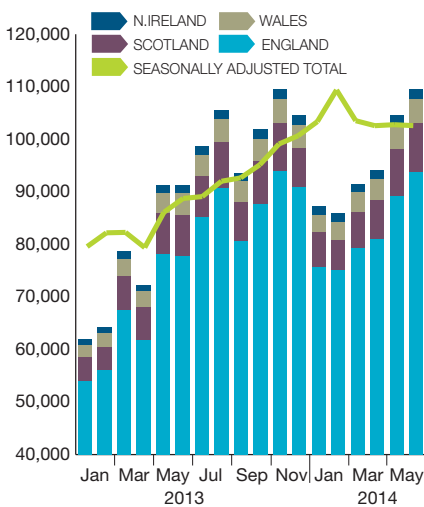
Source: DCLG

This has been reflected in official data, with a 35% increase in housing starts in England in the year to April 2014, compared to the same period a year earlier.

Sales activity remains at much higher levels than in 2012/13, rising across the board, indicating a welcome relaxation in the “stickiness” in some parts of the market, although family house markets, especially in London, are still experiencing a bottleneck of demand.

## Residential property transactions

Over £40,000+



Source: HMRC

## Prime markets

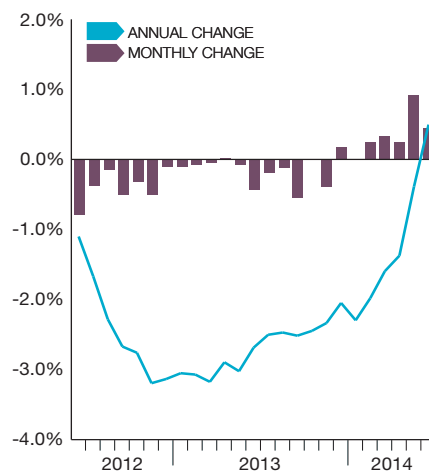
Prices in the prime central London market rose by 0.3% in July, the most modest increase in prices in eight months. The annual rate of growth also slipped from 8.1% to 7.9%, with five areas within prime central London seeing price growth of less than 1% over the last quarter. Moving further out, the prime outer London index, which includes areas such as Canary Wharf and Wandsworth, showed a 12.1% annual rise in prices in the year to the end of July.

Prime English country house prices rose by 5.2% in the year to the end of June, helped by buyers from London who have sold up in the capital in favour of moving to a smaller town or more rural setting. But it is notable that prices for properties in slightly more urban settings, which usually suggests proximity to transport links, have outperformed rural properties, rising by 5% over the last six months, compared to a 2.7% rise for homes situated deeper in the country. Prime Scottish house prices have risen by 2.8% in the year to the end of Q2, and while there has been a welcome rise in stock, there are some signs that buyers are becoming more cautious in the run up to next month's referendum.

## Rental market

Average rents have risen 1.4% over the last year across the UK, but in the prime central London market, which has seen declining rents for several years, there has been a turnaround. PCL rents rose by 0.4% in July, taking the annual change in rents to a 0.5% rise – the first annual increase in rents in two years.

## Prime Central London rental index

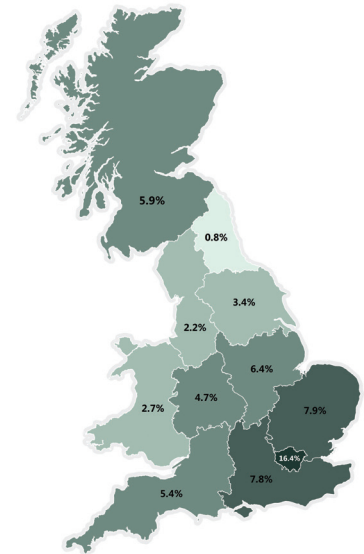


Source: Knight Frank Residential Research

In the large-scale institutional market, average initial gross yields across key city markets were 6.4% in Q2 2014, down from 6.6% in Q4 2013. For more information, read the [Private Rented Sector index in full](#).

## Patchwork market: Annual average property price changes

to end of June 2014 (Land Registry)



Source: Land Registry / Knight Frank Residential Research



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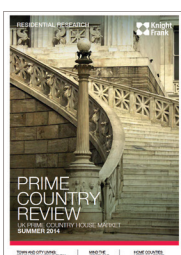
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