#### **RESIDENTIAL RESEARCH**

# UK RESIDENTIAL MARKET UPDATE



# NEW RATE REALITY

The Bank of England's base rate cut was accompanied by measures to encourage the effects of the cut to be passed straight to borrowers. Meanwhile UK house price growth remained steady, while average values in prime central London dipped again in July.

## Economic and housing market overview

The Bank of England's rate-setting committee made its first move in more than seven years this month. Contrary to strong indications in the past, the move was not a base rate rise, but a cut to a new ultra-low rate of 0.25%.

The central bank's move was accompanied by three other measures – an extension of quantitative easing, a scheme to purchase corporate bonds, and a Term Funding Scheme (TFS), which will allow banks and building societies who lend into the 'real economy' – to homeowners and businesses – access to even cheaper money.

The rate change came in the wake of closely-watched business surveys which suggested that the Brexit vote had delivered a knock to confidence, investment intentions and trading activity. However, the Bank's own verdict on the economy stopped short of forecasting a recession, although it did heavily revise down its GDP growth forecast for next year from 2.3% to 0.8%. It also expects unemployment to rise.

While the moves by the Bank of England seem to echo those taken after the financial crisis, there is one big difference. Banks are now much better capitalised than in 2008 and 2009, so there is still an appetite to lend. After the financial crisis there was an abrupt withdrawal of credit.

#### Expectations for house prices By region, HPSI



Source: Knight Frank Research/ IHS Markit

#### Mortgage lending by type Number of mortgage deals



#### ource. ONL

In fact, the rate cut means that mortgage rates, some of which are already at record lows, could edge slightly lower. This could further encourage buyers, especially firsttime buyers with access to a deposit, as they can now lock into rates which will guarantee low monthly rates for years. This is underlined by new data from the CML showing the number of mortgages taken out by first-time buyers in July rose to the highest level since 2007.

In terms of price growth, the data from the housing market reflects the regionalised nature of the market. Prices are slipping in prime central London, while annual growth remains steady in the rest of the UK.

#### Prime price growth

Annual % change in PCL, Scotland and the prime country market



#### Source: Knight Frank Research

### Key facts August 2016

Average UK house prices rose 0.5% in July, taking the annual rate of growth to 5.2%, up from 5.1% in June

Prime central London prices were 1.5% lower at the end of July compared to July 2015

Mortgage lending to first-time buyers rises to the highest level since 2007 in July

Bank of England base rates are cut to a new record low of 0.25%



GRÁINNE GILMORE Head of UK Residential Research

"Buyers with access to a deposit can lock into ultra-low rates for years, helping boost the number of first-time buyers to a 9-year high in July."

#### Follow Gráinne at @ggilmorekf

For the latest news, views and analysis on the world of prime property, visit <u>Global Briefing</u> or <u>@kfglobalbrief</u> However, it will probably take another few months for the data to price in the scale of any Brexit impact. There is more detail on all aspects of the residential and rural markets in Knight Frank's <u>new Post-Brexit</u> market update and Risk Monitor.

#### Prime market update

Average prices in <u>prime central London</u> fell by 1.5% over the year to the end of July, down from a recent peak of 8.1% in June 2014, although the headline figure hides areas of outperformance as shown on the map below. The decision to leave the European Union has provided a backdrop of short-term uncertainty that is affecting behaviour. However, the primary factor curbing demand, and prices, remains stamp duty.

In the prime country house market annual growth eased to 1.3% in the year to the end of June, down from a high of 5.2% in 2014. Prices slipped by 0.2% in the second quarter, just ahead of the EU referendum. However, since then transactions have largely continued while the number of viewings conducted is only slightly behind the same period last year.

Elsewhere, prime property prices in Scotland fell by 0.6% annually as the market continues to adjust to higher rates of taxation. Activity levels were up year-onyear, suggesting that underlying demand remains strong.

#### **Rental market**

Average UK rents rose by 2.4% in the year to June, slightly down on the 2.5% growth seen in the year to May and the 2.6% reported in April. Rental prices increased in all English regions over the year to June 2016, with the biggest rise coming in the South East (3.4%).

Prime central London rents were down 3.6% on the year at the end of July, as higher stock levels and uncertainty surrounding the outcome of the EU referendum weighed on growth. This trend was mirrored in the <u>Home Counties</u>, where rents fell by 0.8% annually over the year to June.

But despite a decline in rental growth, the expectation is that activity levels will rise over the summer and into the autumn led by a pick-up in corporate demand from executives being relocated for work.

#### Price growth in prime central London Year to July 2016



#### RECENT MARKET-LEADING RESEARCH PUBLICATIONS



	PRICE MODERAT	TRY MARKET
Key Insallines Item Q2 2016 Processory toos proc Mitgates and and	Proceedings and the set of the se	And a second sec
The second state process provide some	The part is framework to be it? Second 10, 100, march to a second right of 10% of 10\%	The encount content of the point of the second seco
innerheity somentety the estimate of the Art absorbed an air trainer damp Arty Margan control are to Received and	Texas on a contempt detect in the minimum content to the city of the partners wanting the content of the following. The bottles of search minimum content of search for the search of the content of the search for the search of the content of the search of	An annual sea An agus ach ann har an Anna An aithe ann a bhailt an An Anna Anna an Anna an Anna Anna Anna
Prove for server searchy properties present and an array of the	<ul> <li>By it has been adjusted from the set for a set for a set of the set of the</li></ul>	techa positiana atemati ortis fuebella demositia segli a fueroproduce
	Higher Jacobian Andreas a Mark of San Anton, Ang Antonian A Designed and the Antonian Antonian A Designed and the Antonian Antonian Antonia Market A Antonia A West, Antonian A West, Antonian A West, Antonian A West, Antonian A West, Antonian A Market A Mark, J. 15, Antonian A Market A Market A Mark, J. 15, Antonian A Market A Marke	Internet, Tacpittang alkan namat antari antaripat y antary temperinten antar to variant my temperinten as all 1.15 takine ther year permitti antarperint, anto ing temperinten antarperint statistic temperinten statistic temperinten
0	English and the second	The second states
	1	4 1 1 1 1 1 1 1 1 1 1 1 1 1 1 1 1 1 1 1
contrast to be in the in prime order. Insulation, where prime prime in here adapting the set of the set has a subject of the set of the set has a subject of the set		Ē

Prime Central London Sales Index - July 2016





Knigt

<u>UK Housing Market</u> Forecast - August 2016 The number of tenancies started across London via Knight Frank's corporate relocation service increased 72% in the three months to the end of June compared to the same period in 2015, while in the Home Counties the number of enquiries from relocation agents in July was at the highest level all year.

### Rental value growth in prime central London



Source: Knight Frank Research



#### RESIDENTIAL RESEARCH

Gráinne Gilmore Head of UK Residential Research +44 20 7861 5102 grainne.gilmore@knightfrank.com

#### PRESS OFFICE

Jamie Obertelli +44 20 7861 1104 jamie.obertelli@knightfrank.com



#### Important Notice

© Knight Frank LLP 2016 - This report is published for general information only and not to be relied upon in any way. Although high standards have been used in the preparation of the information, analysis, views and projections presented in this report, no responsibility or liability whatsoever can be accepted by Knight Frank LLP for any loss or damage resultant from any use of, reliance on or reference to the contents of this document. As a general report, this material does not necessarily represent the view of Knight Frank LLP in relation to particular properties or projects. Reproduction of this report in whole or in part is not allowed without prior written approval of Knight Frank LLP to the form and content within which it appears. Knight Frank LLP is a limited liability partnership registered in England with registered number OC305934. Our registered office is 55 Baker Street, London, W1U 8AN, where you may look at a list of members' names.

Knight Frank Research Reports are available at KnightFrank.com/Research