RESIDENTIAL MARKET UPDATE

Knight Frank

Multi-speed market

Prime central London goes from strength to strength while the divisions across the rest of the UK mainstream market become more apparent. Will the Chancellor's plans to re-invigorate the market be enough?

Key figures

House prices rose by 0.4% in November, and are up 1.6% on an annual basis

Prime central London prices rose to a new record high in November, rising by 1%, taking annual growth to 12.6%. They are 6.2% above the previous market peak

Prime country house prices were down 1.2% in the third quarter

Chancellor tinkers with stamp duty and REITs in Autumn Statement and draft Finance Bill

Divergence in sentiment about house prices among those in different regions according to Knight Frank/Markit HPSI, reflecting the "multi-speed" market

UK housing market and economic overview

Average UK house prices rose by 0.4% in November, continuing the monthly volatility of modest gains and losses seen over the last year. Prices are up 1.6% year-on-year, although this comparison is flattered slightly by a sharp fall in prices at the end of 2011. The average price of a house has remained between £160,000 and £170,000 since August 2009.

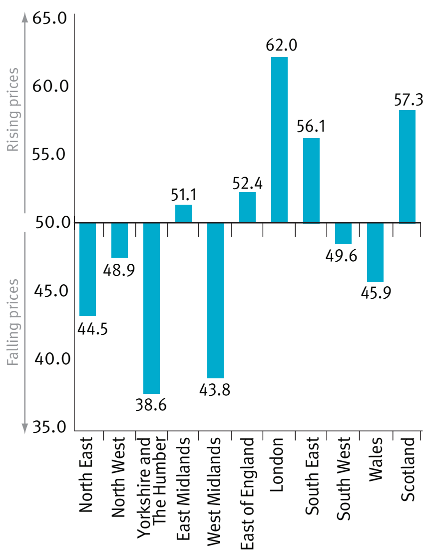
But within this average, the picture across the UK is varied. Prices in Greater London have risen by 1.3% over the last year and prices in East Anglia are also up 0.8%. But prices have fallen in eight of the 13 regions, with Northern Ireland suffering the largest decline of more than 9% over the last year. These regional variations in price performance are set to continue over the next year, according to the Knight Frank/Markit House Price Sentiment Index (HPSI), which is a lead indicator of house prices. As figure 1 shows, households in Scotland and London are most optimistic about house prices with those in Yorkshire and the Humber expecting the biggest declines.

Set against this are prices in prime central London, which continue to hit new record highs. The crisis in the Eurozone, which has recently taken a new turn, has boosted demand for luxury property in London, which is seen as a safe haven.

Back in the UK, a raft of gloomy economic data prompted the Bank of England to keep interest rates on hold at 0.5% for yet another month in December with little sign of an imminent rise. Chancellor George Osborne also delivered a downbeat Autumn Statement which was, in effect, a second tranche of March's austerity budget.

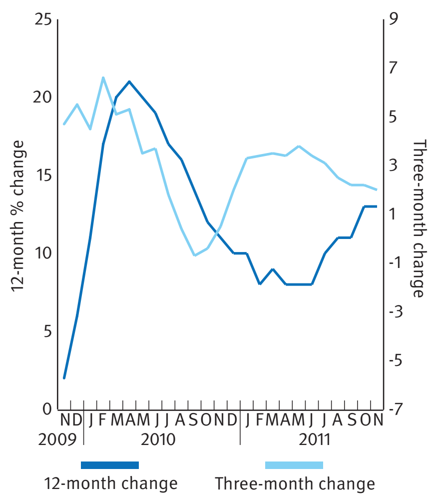
After huge downgrades in forecasts for the UK's economic growth, Mr Osborne said that spending cuts would have to continue beyond 2015, indicating that household incomes, especially in areas of the country heavily dependent on the public sector, would continue to be hit.

Figure 1
House price expectations over next 12 months
Future House Price Sentiment Index (HPSI)



Source: Knight Frank/Markit
NB: A score of 50 equates to no change, above or below representing growth or decline respectively.

Figure 2
12-month and three-month price change
Prime central London average residential price change



Source: Knight Frank Residential Research

Gráinne Gilmore
Head of UK Residential Research
+44 (0)20 7861 5102
grainne.gilmore@knightfrank.com

"DESPITE TALK OF A HIGHER STAMP DUTY RATE ON HOMES WORTH MORE THAN £1 MILLION, THE CHANCELLOR MAINTAINED THE 5% RATE."

But Mr Osborne also unveiled new measures to get the housing market moving – namely a £1 billion government guarantee for borrowers buying a new-build home. Under the scheme, lenders will offer 95% mortgages, but the developer and government will offer guarantees to cover 9% of the loan should the house be sold at a loss. The aim is to help 100,000 home movers or first-time buyers. In addition, a £400 million fund to Get Britain Building is expected to enable 16,000 extra homes to be built, but there are concerns that the new planning regime could put the brakes on new development as the new rules bed down. And while all extra development is helpful, it will go only a little way to address the structural long-term shortage of housing in the UK.

There was also a blow for first-time buyers, as the Chancellor said that the stamp duty relief on offer for purchases up to £250,000 would not be extended past March next year. Despite talk of a higher stamp duty rate on homes worth more than £1 million, the Chancellor maintained the 5% rate.

There were more changes early this week in the draft Finance Bill, which relaxed the rules for Real Estate Investment Trusts (REITs) by scrapping the 2% charge levied on companies entering such a scheme, and widening the number of stock exchanges on which REITs can be listed.

One factor worth noting is that, in the Chancellor's sums within the Autumn Statement, there was an assumption that receipts from stamp duty in 2015-16 and 2016-17 will exceed those hit during the property boom in 2007-08. He is expecting receipts will rise to £10.2 billion and £11.4 billion respectively, up from current levels of £6 billion. It is hard to see transactions rising to pre-credit-crunch levels in such a short time frame.

Rental market

Rents and rental yields in the UK market continued to rise in the three months to October, although at a more moderate pace than earlier in the year, according to the latest data from RICS. Demand continues to outstrip supply as a lack of mortgage availability drives potential buyers into the rented sector.

In prime central London, rents slipped for the second month in a row in November, falling by 0.2%. But rents in the £500 to £1,500 a week bracket continued to rise, and underlying demand remains strong, suggesting that rents, which are 27% higher than the post-credit-crunch trough, will resume their climb in the months to come.

Prime market performance

The demand for prime property in central London is undimmed, driving prices to a new high and marking the 13th consecutive month of price rises. Values rose by 1% in November, gathering pace from the 0.7% rise in October. Prices are now 12.6% higher than they were in November last year. We forecast that prices will grow further next year, although at a slightly more modest pace.

Prime country prices have held up, showing a fall of less than 2% year-on-year in the third quarter.

For more updates on all aspects of prime residential property, visit Global Briefing

Residential Research

Gráinne Gilmore
Head of UK Residential Research
+44(0)20 7861 5102
grainne.gilmore@knightfrank.com

Press Office

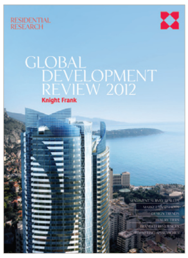
Daisy Ziegler
+44 (0)20 7861 1031
daisy.ziegler@knightfrank.com

Recent market-leading research publications

The Wealth Report 2011

Super-prime London Report 2011

Prime London expands 2011/2012



Global Development Review 2012

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