RESIDENTIAL MARKET UPDATE

Knight Frank

The Chancellor, the Governor and the OBR

These key policymakers and analysts have given their opinion on the housing market in recent weeks – there is a full round-up below. Meanwhile price growth in prime central London begins to slow as momentum builds up in the rest of the UK market. Gráinne Gilmore examines the latest trends.

Key facts – December 2013

House prices rose by 0.6% in November, and are up 6.5% on the year

Average prices in prime central London up 0.2% in November; annual growth slows to 6.9%

Expectations for house prices rises remain near record highs

Capital Gains Tax rules tweaked in Autumn Statement

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UK housing market and economic overview

The UK housing market was centre stage last week, as the Chancellor and the Office for Budget Responsibility (OBR) both gave their verdicts on its performance. The Chancellor framed his argument around fairness, introducing new rules which will mean that non-resident investors will pay Capital Gains Tax (CGT) on any profits they make when selling a UK property.

The move was well trailed, so did not take anyone by surprise, except the fact that it will not come in to force until 2015, and will only apply to gains made after this point. The move brings the UK tax regime into line with many other countries, and while it may weigh on demand to some extent, it is unlikely to have a significant impact on the market in the near to medium term as the total tax burden for those purchasing a property still compares favourably to other global cities. As shown in figure 2, the expected tax take from the move is relatively modest in the first few years.

The Chancellor also announced moves to cut the exemption from CGT for those who have moved from their primary residence from 3 years to 18 months from next April. This could prompt some extra activity in the run up to next April as those who are renting out their initial property, especially "accidental landlords" who couldn't sell their home when they moved, seek to dispose of their property before they become liable to pay tax on any gains, or to cut their final tax bill. However this should be a 'one-off' rise in activity, and the stronger demand should absorb the increased stock coming onto the market in many areas.

The Chancellor also highlighted some changes to the planning system which should help address the log-jam being experienced in many parts of the country. For our full response to the Autumn Statement, visit Global Briefing, the Residential Research blog.

The OBR also focused its attention on the housing market – indicating that Help to Buy was exerting upward pressure on house prices. Certainly the announcement of the

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"There could be a rise in mortgage rates next year as the withdrawal of the FLS starts to exert upward pressure on funding costs."

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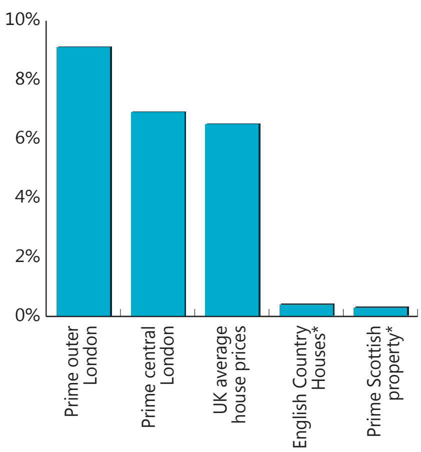
FIGURE 1
2013 round-up
Average annual price growth in year to Nov



Source: Knight Frank Residential Research, Nationwide
* year to end Q3

FIGURE 2
Expected revenue raised from CGT levy for non-residents

Source: HMRC

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"Average prices in prime central London continued to rise in November, but at the slowest pace seen in almost four years."

multi-billion pound scheme to help unglue the mortgage market had an immediate impact on the sentiment of households back in March. Since then the take-up of the Equity Loan has been robust yet the funds available for this part of Help to Buy will help around 74,000 purchasers over 3 years, equal to around 11% of the current average number of transactions each year. The second, and much larger part of the scheme, the mortgage guarantee, has sparked much interest among homebuyers since it was launched in October, but there are reports of strict lending criteria being imposed by lenders. It will be interesting to see the initial figures for mortgage granted under the scheme when they are released in the coming months.

Help to Buy may be in full swing, but earlier this month, the Bank of England unexpectedly closed down "Funding for Lending" for mortgage lenders a year early, announcing that it would close at the end of 2013. FLS was a measure by the central bank to provide cheap funding to lenders in a bid to encourage them to extend funding to homebuyers and homeowners. The move is expected to have a limited impact on mortgage lending, as lenders are now much better capitalised than they were when FLS was introduced. However, there could be a rise in mortgage rates next year, as the withdrawal of the cheap funding starts to exert upward pressure on funding costs – and therefore loan rates.

Mark Carney, the Bank Governor, also pointed out this month that homebuyers and homeowners should start to think about rising interest rates. We have analysed what this could mean for the market in our forecasts.

Prime market performance

Average prices in prime central London continued to rise in November, but at the slowest annual pace seen in almost four years. The annual rate of growth, some 6.9%, has now been leap-frogged by growth in wider London where prices are up 10% on the year to the end of Q3, according to Nationwide.

Prices of prime country houses are starting to stabilise after years of modest declines. However the market remains very granular, with not only location, but price bracket having a big influence on price performance. There is more detail in the latest Country House report. Despite the moderation in price declines, the gap between Prime london and country house prices is at its greatest for several decades, as explored in the latest Prime Country Review.

Rental market

Average UK rents climbed by 0.2% in October, and are up 1.9% on the year – marking a slower rise than inflation. Rents in prime central London continued to decline in November, slipping by 0.3% during the month and marking a 2% annual decline. However, the pick-up in confidence around the financial sector in the capital, coupled with the continued momentum of the economic recovery, indicates that rents could start to rise next year, as outlined in our forecasts.

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