

## POLICY FOCUS

Annual house price growth continued to moderate across the UK in November, with large regional variations in the change in values. Monetary policy was unchanged in December, marking another full year of ultra-low interest rates, while property taxes for some purchasers are set to be adjusted again.

### Key facts December 2015

**UK house prices rose by 0.1% in November**, taking the annual change to +3.7%

**Prime central London prices fell by 0.3% in November**, taking annual growth in prices to 0.9%

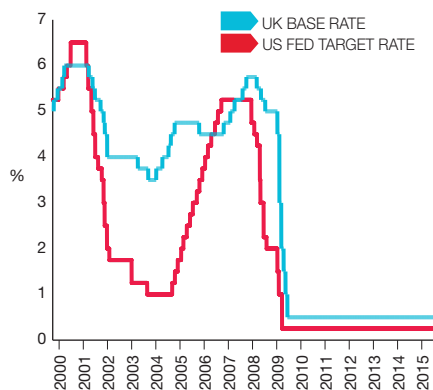
**Average rents in prime central London fell by 0.3% on the month**, taking the annual rise in rents to 1.2%. Gross yields are at 2.95%

**Households' expectations for house prices** remain positive, although there are still notable regional variations

### Housing market and economic overview

The Bank of England kept interest rates on hold at 0.5% again in December, marking another full year of ultra-low base rates. Economists are not expecting the first upward move until later next year. All eyes will now be turning to the US to see if the Federal Reserve Bank raises rates this month.

### Interest rates



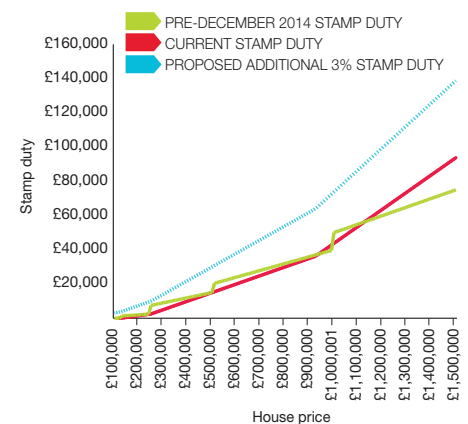
Source: Knight Frank Research

Despite the intensifying discussions about when interest rates will start to rise, mortgage rates are still near record lows as mortgage lenders vie for new business. However, with additional regulation coming in the form of the EU Mortgage Credit Directive from March next year, upward pressure may soon start to be exerted on home-loan pricing.

The UK monetary policy landscape may remain unchanged for now, but property tax policy has been adjusted once again.

In his Autumn Statement in late November, the Chancellor outlined plans for an extra 3% stamp duty payable on buy-to-let investments and second homes in England, Wales and Northern Ireland. The detail has not yet been issued – the initial consultation is due to be published next month. Until this happens, it is hard to draw firm conclusions, but landlords will likely review their holdings in conjunction with the change of policy around mortgage interest relief which is being phased in from 2017.

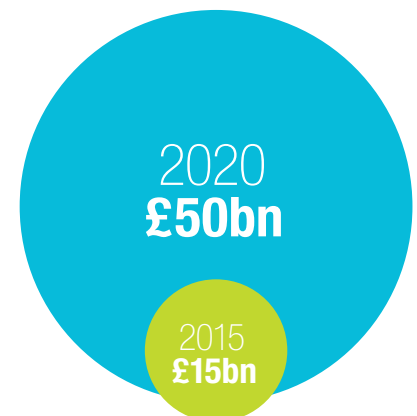
### Stamp duty



Source: Knight Frank Research

There has been speculation that rents could be pushed up as a result of the extra 3% stamp duty charge, but competition within the local rental market is likely to inhibit any sharp rises as landlords will need to stay competitive with their near neighbours to avoid void periods. Buy-to-let investors will also be able to continue offsetting all stamp duty against capital gains tax when they sell their property.

In the second homes market, there is likely to be a short-term boost to activity as buyers look to complete before the rules come into force on April 1st 2016.



Current and expected investment in the private rented sector by large scale investors

Source: Knight Frank Research



GRÁINNE GILMORE  
Head of UK Residential Research

“With additional mortgage regulation coming in March 2016, upward pressure may soon start to be exerted on home-loan pricing.”

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# UK RESIDENTIAL MARKET UPDATE DECEMBER 2015

The Treasury is examining how to ensure that large-scale investors in the private rented sector are exempt from the additional stamp duty, a signal of its support for this part of the market. Knight Frank research suggests investment in this sector could treble by 2020, as shown on page 1.

Looking to the future for house prices, Knight Frank forecasts cumulative 20.3% growth across the UK and 20.5% in prime central London to the end of 2020.

## Sector Overview

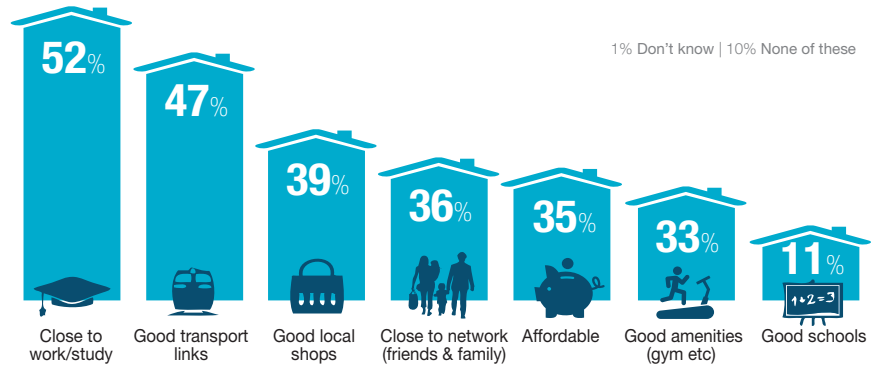
The market in prime central London has started to show signs of absorbing last December's change to stamp duty, with vendors responding to price sensitivity among buyers. Underlying demand is strong however, with a rise in viewing numbers in the prime central market in recent months. However the market remains localised in terms of price movements, as shown in the map.

Average values in the prime English country homes market rose by 0.7% in Q3, to take annual growth to 2.7%, while prime prices in Scotland up by 0.6% on the year.

Average rents across the UK rose by 2.7% in the year to the end of Q3, while rents in prime central London are up by 1.2% year-on-year.

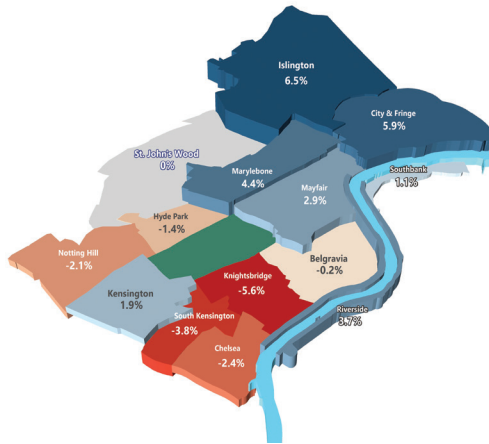
## Which factors are important when choosing a rental property?

% of respondents who identified each factor



Source: Knight Frank Tenant Survey 2015/16

## Price growth in prime central London by area in the year to November 2015

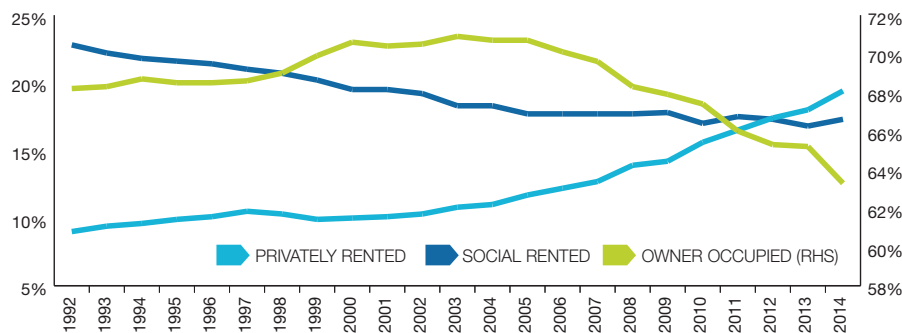


Source: Knight Frank Research

The growth of the rental sector in recent years is highlighted in Knight Frank's Tenant Survey, the largest survey of its kind ever conducted, with more than 5,000 respondents.

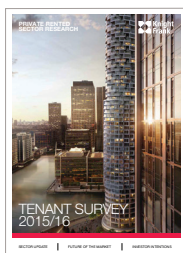
The survey shows that the main priority for tenants looking for a new property is proximity to work or study, followed by being close to good transport links, as shown above. However this result was reversed for tenants living in London, with 71% of tenants in the capital identifying proximity to transport as a priority.

## How the private rented sector has grown Changing Housing Tenure



Source: Knight Frank Research / DCLG

## RECENT MARKET-LEADING RESEARCH PUBLICATIONS



The UK Tenant Survey - 2015/16



Prime Central London Rental Index - Nov 2015



UK Housing Market Forecast - Nov 2015



Development Opportunities - 2015

Knight Frank Research Reports are available at [KnightFrank.com/Research](http://KnightFrank.com/Research)

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