RESIDENTIAL RESEARCH

UK RESIDENTIAL MARKET UPDATE

THE MARKET IN 2016

This year may have delivered a series of political surprises, but these have had a limited effect on the housing market so far. As we move into 2017, economic uncertainty may weigh on the market, but it is property taxes which continue to shape the residential landscape, as well as the undersupply of housing and ultra-low mortgage rates

Key facts December 2016

Average annual house price growth across the UK slowed to 4.4% in November, according to Nationwide

Prices in prime central London fell 4.8% in the year to the end of November…

…however new buyer registrations rose 28% between September and November compared to the same period in 2015

Average UK house prices are forecast to rise by 14% across the UK over the next five years

GRÁINNE GILMORE
Head of UK Residential Research

"Transaction levels were skewed this year by the introduction of the extra 3% stamp duty for additional homes in April."

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Economic and housing market overview

House prices across the UK are rising on an annual basis, although the rate of growth is starting to slow and there are still large regional variations. As we move into 2017, economic uncertainty may weigh on the housing market, but the key fundamentals of the market remain – namely property taxes, a shortage of housing, and ultra-low mortgage rates.

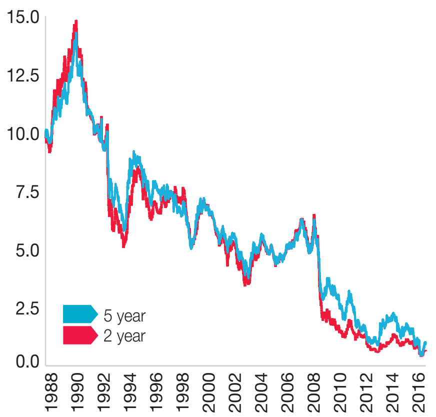
Transaction levels were skewed this year by the introduction of the extra 3% stamp duty for additional homes, which started in April, as the chart below shows.

The Bank of England's rate-setting committee voted to keep the base rate unchanged at 0.25% in December, keeping interest rates pegged at historically low levels.

The same can be said of mortgage rates. While some jostling and competition between lenders has led to the withdrawal of a few deals, there are still many home loans available at interest rates which are lower than many have ever experienced.

This is because swap rates, the money market rates which determine the price of fixed-rate lending, are also near historic lows.

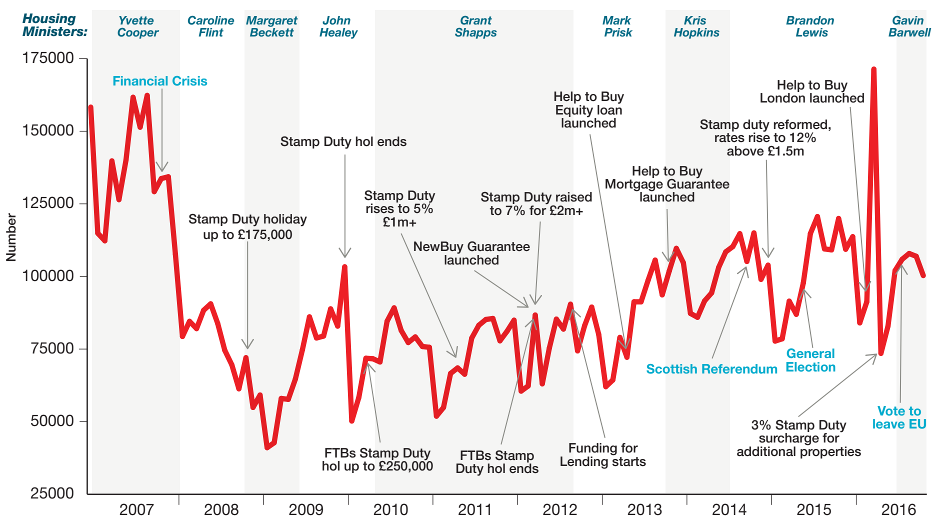
Swap rates near record lows
Annual % change



Source: Knight Frank Research

This low-rate environment is to some extent helping underpin the market at present, as is the lack of supply of new homes. While the delivery of new-build

UK housing transactions and policy changes
(E&W) 2007-2016



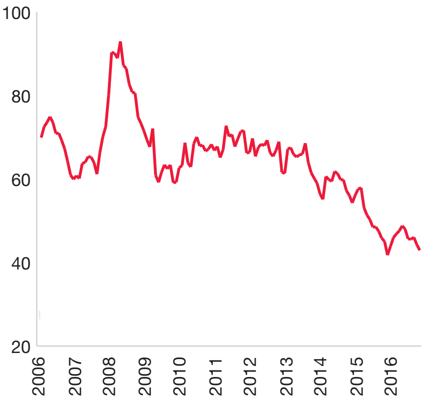
Source: Knight Frank Research/HMRC

housing has risen sharply in the last few years, there is still a historical shortfall to address, especially in highly urbanised areas. The problem of a shortage of new-build stock is compounded by the lack of second-hand housing available for sale too.

The chart below shows the number of homes typically on offer at estate agency branches across the country – the downward trend is evident. This has been exacerbated in recent years by rising stamp duty charges, encouraging more homeowners to remain in situ rather than moving house, which in turn is making it difficult for those who want to move up or down the housing ladder. The lack of housing on the market is also putting a floor under pricing in many areas.

Stock of housing for sale

Average stock per surveyor per branch

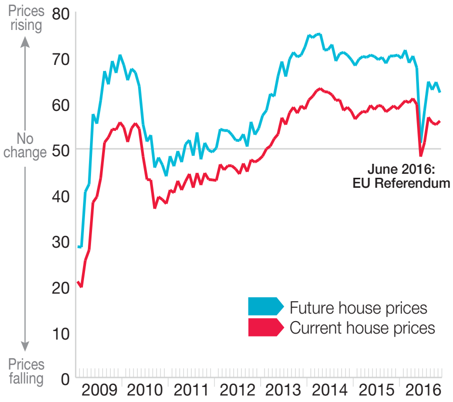


Source: Knight Frank Research / RICS

Consumer confidence has bounced back to some extent after the UK's vote to leave the EU. As the chart shows, the House Price Sentiment Index (HPSI), released every month by Knight Frank and Markit Economics, shows that while households' expectations for house price growth are not as strong as they were at the peak of the market in 2014, they have settled firmly back in positive territory after the Brexit vote.

House Price Sentiment settling post-Brexit vote

House Price Sentiment Index



Source: Knight Frank Research / IHS Markit

However there are still a range of global and domestic factors which could have an impact on prime and mainstream markets in the short to medium term, something we investigate more fully in our Risk Monitor, published alongside the latest Knight Frank forecasts.

Prime market update

Prices in prime central London (PCL) fell by 4.8% in the year to the end of November, but in terms of pricing, the split between PCL East and West is still pronounced, as shown in the map below. This gap in price trends is expected to continue, as explained further in our most recent forecasts. Transactions levels in the three months to November were down 25% compared to the same period last year, but there have been signs of increased demand amid a 23% increase in the volume of new buyers over the same time period.

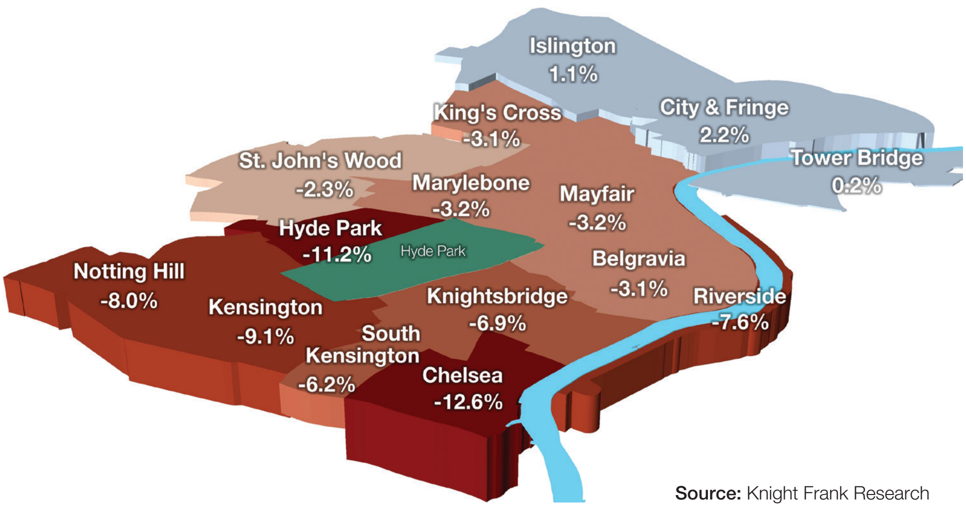
Prices in the prime country market are up 0.5% on the year in Q3 while in Scotland, prime country house prices slipped by 0.2% on the year in Q3, while values in the prime Edinburgh market were up by 1.6%.

Rental market

Average rents across the UK rose by 2.3% in the year to October. Rents across Greater London rose by an average of 2.6%. However a rise in stock levels across prime central London has led to a 5.2% decline in rents in this area in the year to November.

Property investors have already seen an extra 3% stamp duty for additional homes introduced and, from April next year, the mortgage interest relief offered for buy-to-let home loans will begin to taper off, which could lead to some investors reviewing their portfolios, and in some cases bringing their properties back to the market.

Price growth in prime central London, by area, year to November 2016



Source: Knight Frank Research

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