

POLICY AND POLITICS IN 2016

Average UK property prices remain broadly stable, and this stability is likely to be underpinned by a further period of ultra-low interest rates and a solid, although slowing, economic recovery. The political outlook is less clear as an EU Referendum draws closer.

Key facts February 2016

Average UK house prices rose by 0.3% in January, and are up 4.4% year-on-year

Prime central London prices rose by 0.1% last month to take annual growth to 1.2%

Prime Central London rents dipped by 0.3% in January

Price growth for prime property in some regional hubs continues to outperform the wider prime country house market



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“Expectations for a UK rate rise have been pushed forward again after central bank data showing muted inflation and wage growth, and a slight slowdown in forecast GDP growth”.

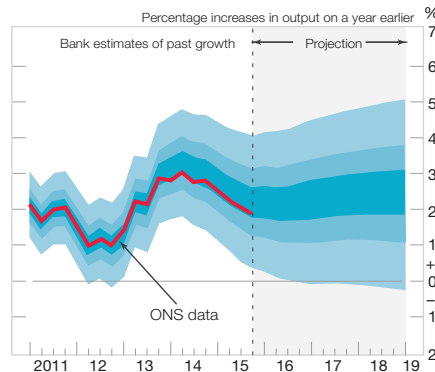
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Economic and housing market overview

The Bank of England left interest rates unchanged for the 83rd consecutive month in February. There was little surprise in this, but the data released by the Bank when announcing its decision has led economists and markets to change their expectations about when rates may start to rise. Whereas many had forecast a rise around the middle of the year, the verdict is now that rates are on hold until the final quarter of the year, if not 2017.

Bank of England forecast for GDP



Source: Bank of England Inflation report

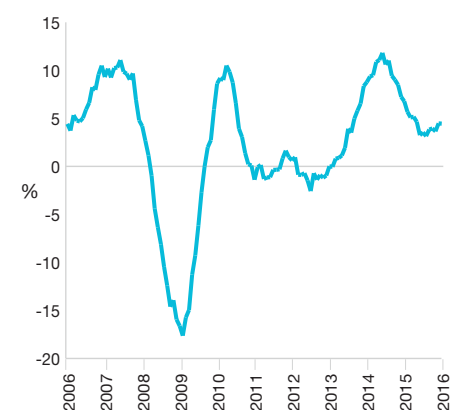
This change was prompted by the Bank's forecasts, showing muted inflation and wage growth in the coming years as well as a downgrade in forecast GDP growth.

The central bank now expects 2.2% GDP growth this year, instead of 2.5%. The slower growth is attributed to global economic conditions, not least the effect lower oil prices are having on many economies around the world.

However, senior bank officials were clear that the UK economy was still experiencing a "solid recovery", and that the fall in oil prices was a "net good" for UK consumers, helping boost consumption and therefore wage growth.

Overall, average UK house prices rose by 0.3% in January according to Nationwide, taking the annual rate of growth to 4.4%.

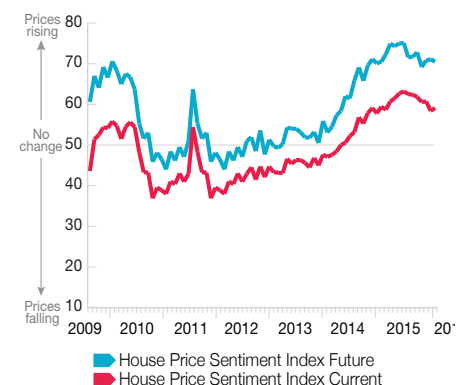
Annual UK average house price change



Source: Knight Frank Research / Nationwide

Households expect prices to continue rising this year according to the latest House Price Sentiment Index (HPSI) from Knight Frank & Markit Economics. Any reading above 50 on this index, which is a bellwether for house prices, suggests prices are rising, or are set to rise. The future index has now been above 50 for 35 consecutive months.

Change in current and future value of property (HPSI)



Source: Knight Frank Research / Markit

However, the outlook for 2016 must take into account the policy changes and political decisions which will be made this year, not least another change to the

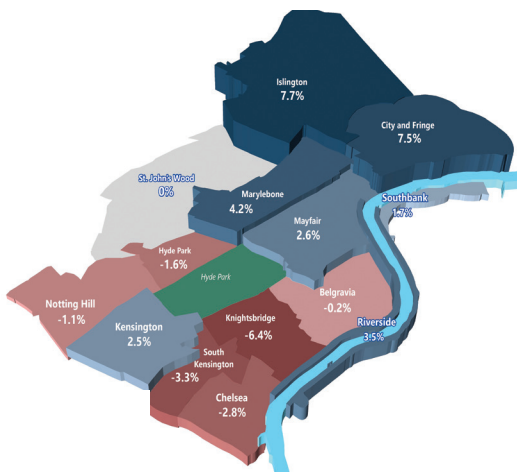
stamp duty regime in April, the Mayoral Elections in London in May and a possible decision on whether the UK should stay in the European Union. As seen following the stamp duty changes in December 2014, and last year's General Election, the market can adjust to political and policy changes, but periods of uncertainty can take their own toll on market activity.

Prime market update

Prime central London property prices edged up by 0.1% in January, taking the annual increase to 1.2%, although the market remains localised, as shown in the map, with growth ranging from 7.7% in Islington to -6.4% in Knightsbridge.

Price growth in prime central London

Year to January 2016



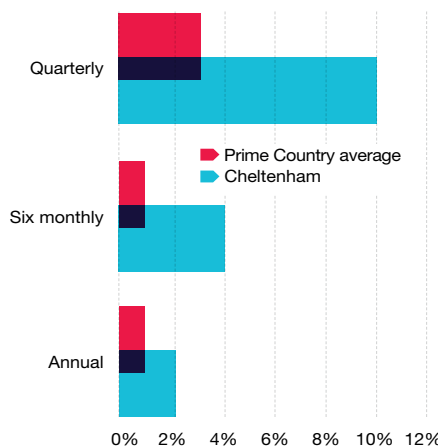
Source: Knight Frank Research

Sales volumes also picked up towards the end of 2015, reflecting vendors responding to the recent trends in the market around pricing, especially in light of the stamp duty changes brought into force in late 2014. Viewing levels also increased in January, although the price-sensitive nature of the market is also shown in a slightly higher fall-through in sales volumes, with

a 7% increase in the number of properties withdrawn from sale in 2015 compared to 2014.

Urban outperformance

Cheltenham outperforms prime country average (to Q4 2015)



Source: Knight Frank Research

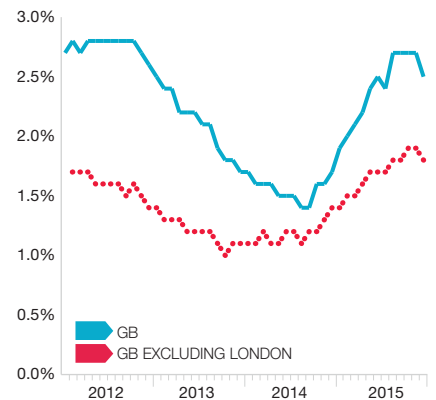
In the country market, prices rose by 3.1% in 2015, but several key urban markets outperformed this growth, with 10.6% growth in prime markets in Cheltenham, 6.6% in Bristol and 4.5% in Bath during the year. Prime prices in Oxford rose by 1.3%, but this followed around 6% growth in 2014. Key to the outperformance in these towns has been good transport links, especially to London, good schools and amenities. In Oxford, around one in ten buyers are relocating from London or the wider South East. There could be a further flurry of activity in the coming months as buyers purchasing additional properties seek to beat the April 1st deadline at which point extra stamp duty will be levied on these transactions.

Rental market

Average UK rents rose by 2.5% in Great Britain in 2015 according to latest figures from the ONS.

Annual rate of growth in rents (GB)

Year to December 2015



Source: Knight Frank Research / ONS

Amid the changes to stamp duty for additional property purchases, and the intended exemption for large-scale investors, there is increasing focus on institutional investment in the private rented sector. This is examined in more detail in the private rented sector update and the Tenant Survey.

Prime central London rents slipped by 0.3% in January, taking the annual rate of growth to 0.2%.

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