

Housing market gains momentum

Growth in average UK house prices picked up in the final months of 2013, although the pace of growth differs across the regions, with values still falling in real terms in the North of England. Meanwhile prime country house prices registered their first full year of growth since 2010. Gráinne Gilmore examines the data.

Key facts January 2014

House prices rose by 1.4% in December, taking the annual increase to 8.4%

Average prices in prime central London rose by 0.8% in December, taking the 2013 increase to 7.5%

Prime country house prices rose by 3.5% in 2013, with a 1.4% increase in Q4

Prime Scottish house prices climbed by 1.6% in 2013

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UK housing market and economic overview

House prices had a strong showing in the final three months of 2013, rising by 1.4% in December alone, according to Nationwide's figures. Different house price indices are currently showing a range of house price growth, as can be seen in figure 1 below, but there is no doubt that there is now a significant upward impetus for house prices. [Knight Frank's House Price Sentiment Index](#), produced in conjunction with Markit Economics, rose to a record high in December. Yet even with the growth so far, prices at a nationwide level remain 5% below their pre-crisis peak, and there were still price falls in real terms in the North of England in 2013.

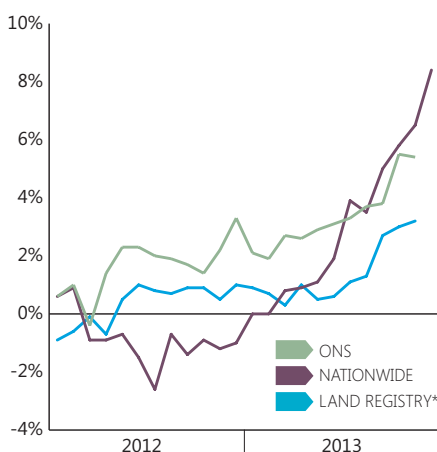
The UK economy is showing signs of turning the corner, with PricewaterhouseCoopers forecasting that economic expansion here will outpace that in all other major European countries in 2014. Employment growth also continues to surprise to the upside, with the

Recruitment and Employment Confederation (REC) reporting that demand for permanent staff has risen to the highest level since 2007. These factors have boosted confidence among consumers to make large-scale financial decisions. The Government's multi-billion pound Help to Buy scheme has also played a part in opening up the mortgage market to those with modest deposits, as well as giving a fillip to confidence across the housing market.

However, the scale and rapidity of recent house price rises has prompted debate. The Royal Institute of Chartered Surveyors (RICS), whose latest figures showed that house price expectations among surveyors hit a 17-year high in December, warned that the pace of recent price increases may not be sustainable in some areas unless more housing stock comes to the market. Some economists have even called for the Help to Buy scheme to be scrapped in light of such rapid price growth.

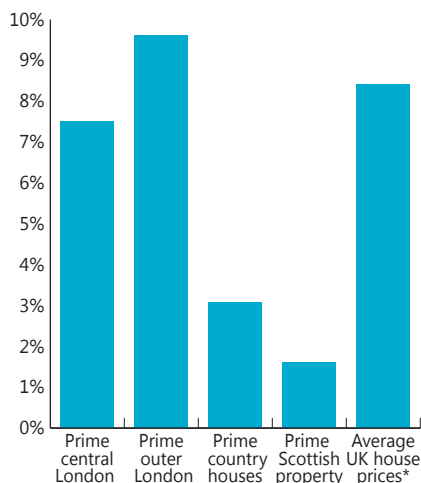
Mark Carney, the Governor of the Bank of England, is sanguine about the recent growth

FIGURE 1
How the price indices compare
UK mainstream house price growth (annual)



Sources: Knight Frank Residential Research, Nationwide, ONS, Land Registry
*England and Wales

FIGURE 2
Price performance in 2013



Source: Knight Frank Residential Research
*Nationwide



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"Price growth in prime central London was outpaced by growth in the Greater London market in 2013, the first time this has happened since the financial crisis."

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“House prices had a strong showing in the final three months of 2013, rising by 1.4% in December alone, according to Nationwide’s figures.”

in house prices. Earlier this month he told MPs on the Treasury Select Committee that the housing market was not a threat to financial stability as mortgage approvals and sales were in effect picking up from the post-crisis lows. “We have had acceleration from quite a low level,” he said, arguing that the Bank would be monitoring credit: “Any time we see a sharp increase in credit growth we take an interest.”

The scale of the growth in market activity was underlined by new Bank of England figures showing that the number of mortgages approved for house purchase hit a five-year high in November.

Prime market performance

Prices in prime central London rose by 0.8% in December, taking the annual increase in prices to 7.5% in 2013, down from an 8.7% increase in 2012. There are significant differences in the pace of price growth in different areas however, with the City and Fringe posting nearly 16% growth in 2013, and Marylebone posting a 12.3% increase, compared with 2.7% in Chelsea and 5.8% in Mayfair. Overall growth in prime central London is now being outpaced by growth in the Greater London market, the first time this has happened since the financial crisis. Recent data from Nationwide showed that

house price growth in the Greater London area was around 15% last year.

In the prime country house market prices rose in 2013, climbing by 3.1%, the first time prices have risen over the calendar year since 2010. However price performance was largely determined by the value of the property, with homes worth between £1 and £2 million rising by 5.5% on the year, compared to a 1.5% increase for properties worth between £2 and £3 million. At the top of the market, price growth is even more robust, with a 6.7% increase in average prices for homes valued at more than £5 million. There is more detail in the latest Prime Country House Index. This trend is also mirrored in the prime Scottish country house market where prices rose by 1.6% last year. The strongest price growth in 2013 was in the sub-£1 million market, with average growth of 2.3%, while prices fell by a modest 0.3% for homes worth between £2 million and £3 million.

Rental market

Average UK rents fell by 0.7% in November last year, but were still up 1.6% on the year. Rents in prime central London fell by 0.4% in December, taking the annual decline to 2.3%. But the outlook is brighter for rents this year as the financial sector has picked up, as has interest from corporate relocation agents. There is more detail on this in the latest Prime Central London Rental Index.

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