

POST-BUDGET MARKET UPDATE

The Chancellor focussed on buy-to-let landlords, non-doms and the planning regime in his summer Budget. Meanwhile, residential price growth continued to ease across the UK, as rental growth strengthened. Gráinne Gilmore examines the latest data.

Key facts July 2015

UK house prices fell by 0.2% in June, taking annual growth to 3.3%, down from 4.6% in May

Prices in prime central London rose by 0.5% in June, as annual growth eased to 2%

Prime country house prices are up 2.3% year-on-year

House price sentiment index, bellwether for market, ticked up in June

UK housing and economic overview

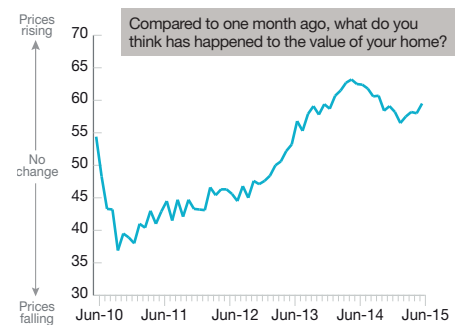
House prices continued to ease in June according to figures from Nationwide Building Society, with average prices slipping by 0.2% during the month. This took annual growth to 3.3%, with 7.3% growth in London. The picture on prices is not entirely clear however. Halifax's monthly house price data showed a 1.7% rise in prices in June.

Additionally, the house price sentiment index, produced by Knight Frank and Markit Economics, a forward indicator for house price movements, ticked up slightly in June after falling in May.

move could also drive up rents if costs are passed on, but competition in the market will likely curb such increases.

House price sentiment rises

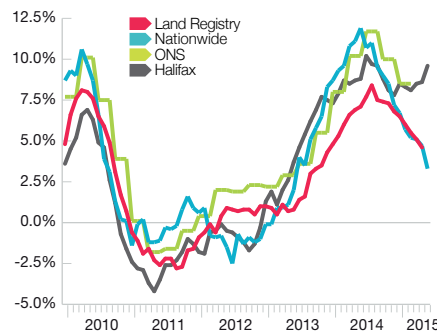
House Price Sentiment Index, June 2015, UK



Source: Knight Frank Residential Research / Markit Economics

Annual change in house prices, UK

Annual change in house prices, UK



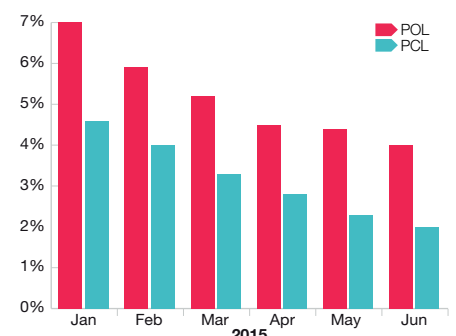
Source: Knight Frank Residential Research / Macrobond

The Chancellor also changed the rules surrounding non-domiciled residents in the UK, cutting the timeframe for those claiming non-dom status to 15 years and scrapping the inheritance of non-dom status. There was also a change to rules for those holding property in an offshore company, meaning that they will be liable for inheritance tax.

Additionally, the chancellor announced plans to increase the tax free allowance for inheritance tax for couples who pass on their home to their children. The increase will be tapered from 2017 eventually rising to £1m in 2020-21. An allowance will be put in place to protect downsizers.

Prime London price growth eases

Annual change in values in prime central and prime outer London



Source: Knight Frank Residential Research



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“The government has ramped up pressure on local authorities around planning, emphasising that increasing the supply of new homes is high on its “to do” list.”

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While the market is underpinned by record low interest rates, there are still issues around accessing mortgage finance and affordability which are having an impact.

For owner-occupiers, the summer Budget did not include major reforms to property taxes, however buy-to-let landlords who pay higher rate tax will see the mortgage interest relief they can claim cut from 2017, falling to 20% by 2020. The move came just days after the Bank of England flagged concerns that rising interest rates could pose a challenge to some landlords in its Financial Stability Review.

The new rules could see landlords reviewing the offers they make on new property as they will have to factor in the new tax environment. There has been some speculation that the

The Government has also ramped up pressure on local authorities around granting planning under its new planning reforms, underlining that it places the supply of new housing high on its “to do” list.

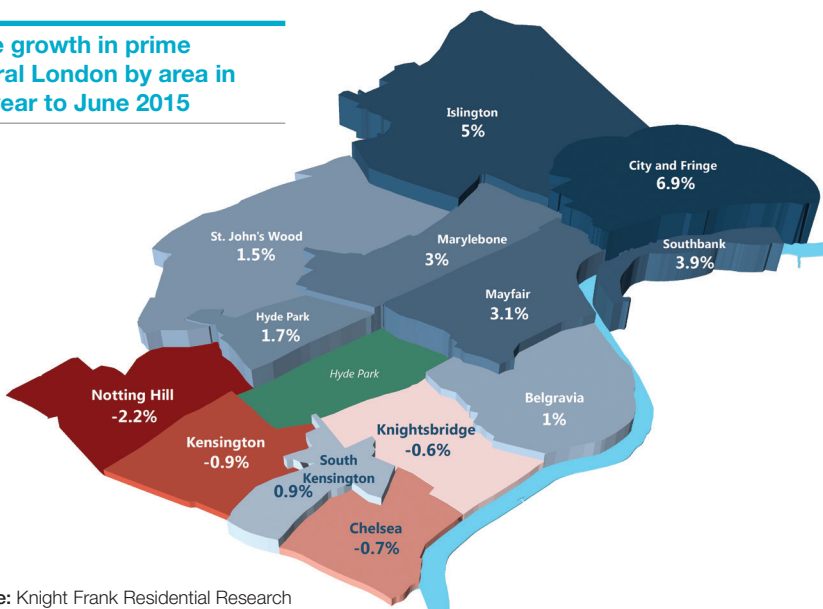
Prime markets

Price growth in the prime central London market slowed to 2% in June although the market remains localised, as shown in the map below. Islington, the City and East and Southbank saw price rises of 5%, 6.9% and 3.9% respectively, compared to a 2.2% annual fall in Notting Hill. In prime outer London, prices are up 4% year-on-year.

The markets are still absorbing the change to stamp duty introduced in December, with buyers showing a greater sensitivity to pricing.

This trend is also being seen in the prime country market. While there was a release in pent-up demand in the wake of the election, there was also a rise in stock levels, mitigating the effect increased demand had on prices. However some city markets continue to outperform,

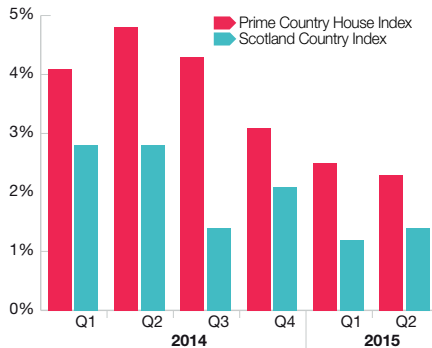
Price growth in prime central London by area in the year to June 2015



Source: Knight Frank Residential Research

Prime country market slows

Annual change in values in the prime country and prime Scottish property market



Source: Knight Frank Residential Research

with notable price growth in Bath, Bristol and Winchester.

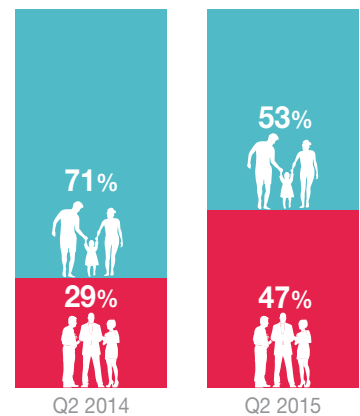
This mirrors the position in the Scottish market, with annual prime price growth in Edinburgh of 3.4% higher than that in the wider country market of 1.4%. Buyers in the prime market in Scotland are now having to factor in higher Land and Buildings Transaction Tax charges, and this has weighed on activity.

Rental markets

Rents rose by an annual rate of 2.4% in June across the UK. Rents in prime central London have risen by 3.4% over the last year, however this growth has been overtaken by the increase of 4% seen in the Home Counties, where a resurgence in corporate demand has boosted rents.

Corporate demand picks up

As a % of total tenancies commenced across the Home Counties (Q2 2014 v Q2 2015)



Source: Knight Frank Residential Research

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