

## EMERGING CERTAINTY

### Key facts July 2016

**Average UK house prices rose by 5.1% in June**, up from 4.7% in May, according to Nationwide

**Prime central London prices slipped by 0.6%** in year to end of June

**UK rents rose by 2.5%** in 12 months to May 2016

**Mortgage rates remain near record lows** as Bank of England keeps base rate unchanged at 0.5%

### Economic and housing market overview

The three weeks since the UK voted to leave the EU have been marked by a rapidly changing political landscape and volatility in the financial markets. However last week's appointment of Theresa May as Prime Minister, and Philip Hammond as Chancellor, means that the markets do not have to cope with a further six weeks of political uncertainty during a Conservative leader election, which will be seen as a positive for all markets.

In addition, the Bank of England's decision to leave the base rate unchanged this month also delivers a hint of confidence in the UK economy, underlining that while there may be a need for more support via monetary policy in the future, there is no need for sudden or emergency measures.

Data on the housing market which reflects the post-Brexit landscape is only starting to emerge, the first notable set of figures came from RICS, which measures the market by

### Housing supply - existing homes

Number of homes on estate agents' books per branch (like-for-like)



Source: Knight Frank Research

surveying sentiment among estate agents in England and Wales.

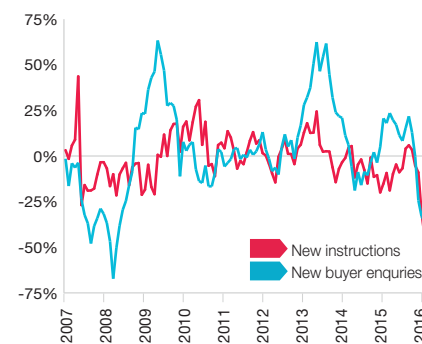
The data showed that there had been a month-on-month drop in new buyer enquiries in the wake of the vote, but this was also accompanied by a slowdown in new vendor instructions – the number of people putting their homes on the market, as shown in the chart on the left, underlining the lack of supply in the market.

This data reflects the number of agents saying that instructions and enquiries have fallen month on month, rather than capturing the scale of any declines in enquiries or instructions. It is also worth noting that the data is also reflecting a slowdown in activity after a surge in transactions pre-April 1st, as buyers rushed to complete purchases before the extra 3% stamp duty on additional properties was introduced.

In terms of supply, the chart below showing the average number of properties on sale at each branch of estate agencies (which is

### Market activity

New Buyer Enquiries and New Vendor Instructions



Source: Knight Frank Research



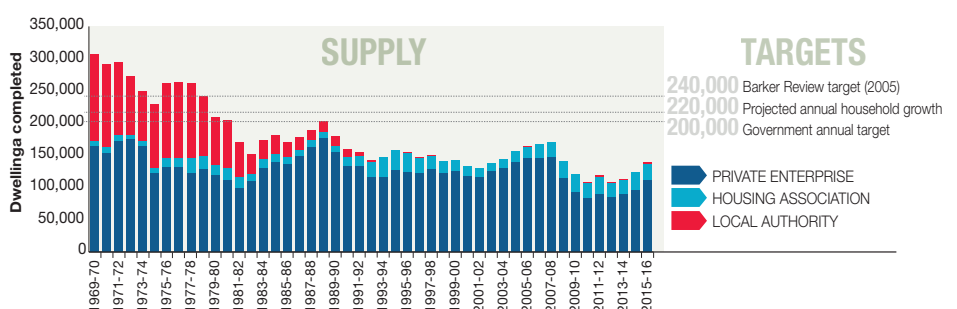
**GRÁINNE GILMORE**  
Head of UK Residential Research

“Increased political certainty as Theresa May settles into her role as PM alongside a new Cabinet, is a positive development for all markets.”

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### Housebuilding by provider – England 1969-2016



Source: DCLG / Knight Frank Research

**Mortgage rates near record-lows**

Average rate on 2-year fixed-rate  
75% LTV homeloan



Source: Knight Frank Research

calculated on a like-for-like basis) underlines how the demand/supply imbalance is still a key factor in the market.

Focusing on new-build supply, the scale of the difference between the number of houses being built and those which are needed was underlined by a new report from the House of Lords, which highlighted that some 300,000 new homes were needed every year. The chart overleaf shows current development levels, and are examined in more detail in our recent [Housebuilding Report](#).

As ever with the housing market, there are regional disparities between the trends in the market, with demand perking up in the prime London market and some prime country markets around the country, as examined in more detail below.

But underpinning the mainstream market are some record-low mortgage rates for those who have deposits or equity, and given the recent signals from the Bank of England these rates may well stay at this level for some time yet.

**Prime market update**

Average prices in [prime central London](#) slipped by 0.6% in the year to the end of June, falling by 0.2% in June alone –

although this data largely covers the period before the EU Referendum vote. What has been seen since then in the prime market is a pick-up in transaction levels compared to the final week in May, although this was from a very low base. The weakness of sterling is also having a positive impact on the relative affordability of the London market for those buying in overseas currencies.

The variation in prices growth across local markets continues, as shown in the map below.

[Prime country house prices](#) fell by 0.2% in Q2, and the annual rate of growth eased to 1.3%, down from a high of 5.2% in 2014. While stamp duty changes have weighed on prices, there is still variation across the market, with price growth in urban markets outperforming more rural locations.

[Prime property prices in Scotland](#) fell by 0.4% in Q2, taking the annual decline to 0.6%. This is largely a reflection of the period in the run-up to the referendum, with some level of uncertainty a factor in the market. However activity levels were up year-on-year, with a 12% rise in new applicants compared to Q2 2015, and viewings up 30%. Prices in the [prime Edinburgh market](#) continued to rise in Q2, climbing by 1.4% between April and June

as evidence emerged that the market was starting to absorb the purchase tax changes (Land and Building Transaction Tax – LBTT) introduced last year.

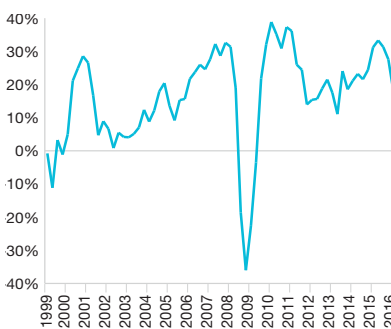
**Rental market**

Average UK rents rose 2.5% in the year to May, slightly down on the 2.6% growth seen in the year to April. Rental growth is expected to continue in the months to come, with 17% more surveyors expecting a rise rather than a fall over the next three months.

[Prime central London rents](#) were down 3% on the year at the end of June, reflecting much about the uncertainty in the run-up to the Brexit vote. The new Chancellor has underlined his understanding of the importance of the City of London retaining its access to the EU single market for financial markets – and this may help bolster confidence in the coming months. Rental prices may have slipped, but tenant demand remains strong, with viewings in June at the highest level since records began.

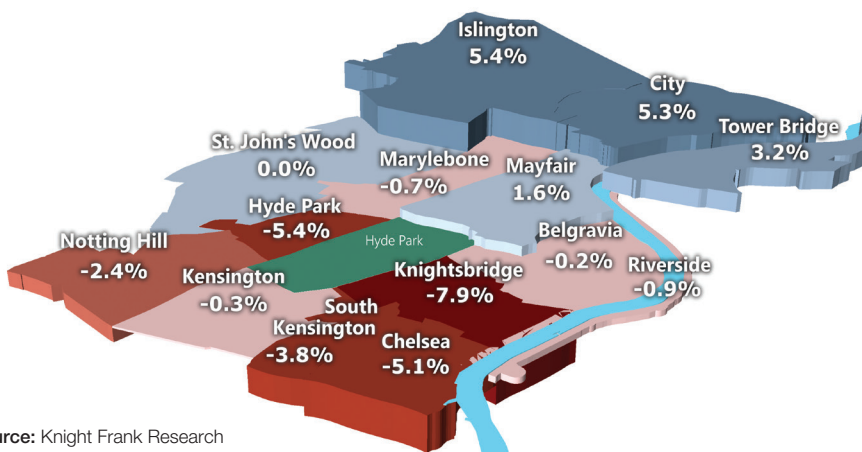
**Rents expected to rise**

Net balance, Rent Expectations



Source: Knight Frank Research

**Price growth in prime central London** Year to June 2016



Source: Knight Frank Research



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