

STEADY AS SHE GOES

The General Election result delivered confidence to the housing market, and while activity is rising, price growth remains relatively steady so far. The rental market is moving much more quickly, with prime London rents climbing at the fastest annual pace since 2011, and average UK rents growing at the strongest rate in two years. Gráinne Gilmore examines the latest data.

Key facts June 2015

UK house prices rose by 0.3% in May, but annual growth slows to 4.6%

Prime central London prices rose by 0.3% in May, and at an annual rate of 2.3%

Prime central London rents climbed by 4.2% year-on-year

House Price Sentiment Index eases in May, suggesting no immediate 'post-election bounce'



GRÁINNE GILMORE
Head of UK Residential Research

“For home buyers with a sizeable deposit at their disposal, monthly mortgage costs have never been less expensive, but barriers to climbing onto the property ladder still remain.”

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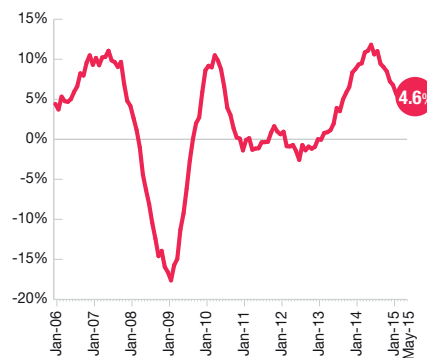
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UK housing and economic overview

The annual rate of house price growth eased again in May, down to 4.6% from 5.2% in April according to Nationwide. This compares to annual growth of 11.1% seen in May last year, as shown in the chart below.

House price growth eases

Annual change in house prices, UK

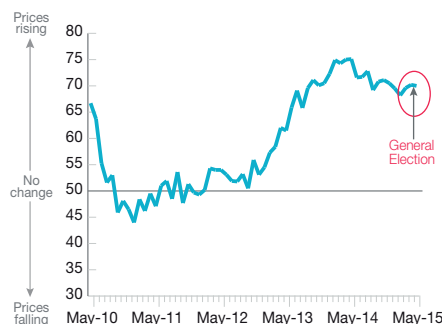


Source: Macrobond

The Nationwide index is based on mortgages approved, so is a first indication of trends after the results of May's General Election. While average prices rose month-on-month, there was little sign of a large bounce in prices, although it is expected that in the months to come, the certainty provided by the election result could help underpin steady price growth.

Future house price expectations steady

House Price Sentiment Index, May 2015, UK



Source: Macrobond

The lack of an immediate boost to prices being provided by the General Election was also signalled in the latest [House Price Sentiment Index \(HPSI\)](#), the monthly market indicator produced by Knight Frank and Markt Economics. This showed that while households across the UK expect the future value of their home to rise, the election result did not prompt a jump in the pace at which they expect prices to increase, as shown in the previous chart.

The overall outlook for the UK economy is relatively benign in the short to medium-term. The prospect of interest rate rises still seems some time away as inflation hovers close to zero. Indeed, for home buyers with a sizeable deposit at their disposal, it has never been cheaper to service a mortgage, with some five-year fixed-rate deals at under 2%, and average rates around 3%.

Mortgage rates fall

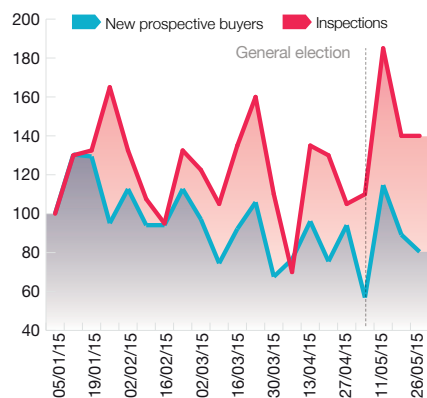
Bank of England, average mortgage rates, 5-year fix, 75% LTV



Source: Macrobond

However, these deals are not so plentiful for those with smaller deposits. Add to this the new mortgage rules which make it trickier to get a home loan, as well as affordability issues, and it is clear there are still obstacles for some buyers trying to climb onto the housing ladder, although there is also support in the form of government interventions such as stamp duty reform and Help to Buy.

Supply outpaces demand in prime central London (rebased to 100)



Source: Knight Frank Residential Research

Prime markets

Prices in prime central London eased to the slowest rate of annual growth in May than at any time since late 2009. However, the six-monthly and quarterly rates of growth, both at 0.7%, hit the highest level

since the beginning of 2015, suggesting that the slowdown in price growth may be bottoming out.

While confidence has returned to the market after the election, the number of inspections – the pre-cursor to instructions to sell – have risen faster than the number of new applications, as shown in the chart to the left, suggesting that supply is more than keeping pace with demand. This could weigh on the rate of growth in the coming months. Growth also remains localised across the prime central London market as shown on the map below.

Prime country home prices across England and Wales rose by an average of 2.5% in the year to March, while values in Scotland rose by 1.2%.

Meanwhile, new research in Knight Frank's latest Prime Country Review, shows that location really can boost value – with homes situated in National Parks commanding an average price premium of 43% compared to properties in the

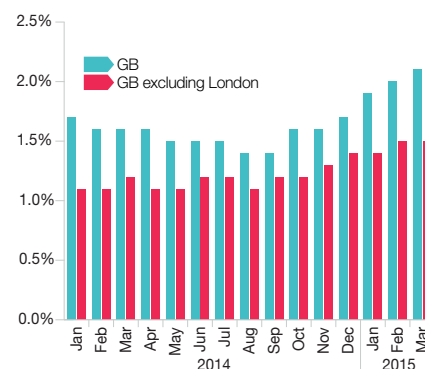
surrounding county. Houses in Areas of Outstanding Natural Beauty command an even higher 48% price premium. For more details, read the Prime Country Review in full.

Rental markets

Prime central London rents continued to climb in May, reaching 4.2% annual growth. Average rents across the country are also on an upward trajectory as demand for rental accommodation remains strong.

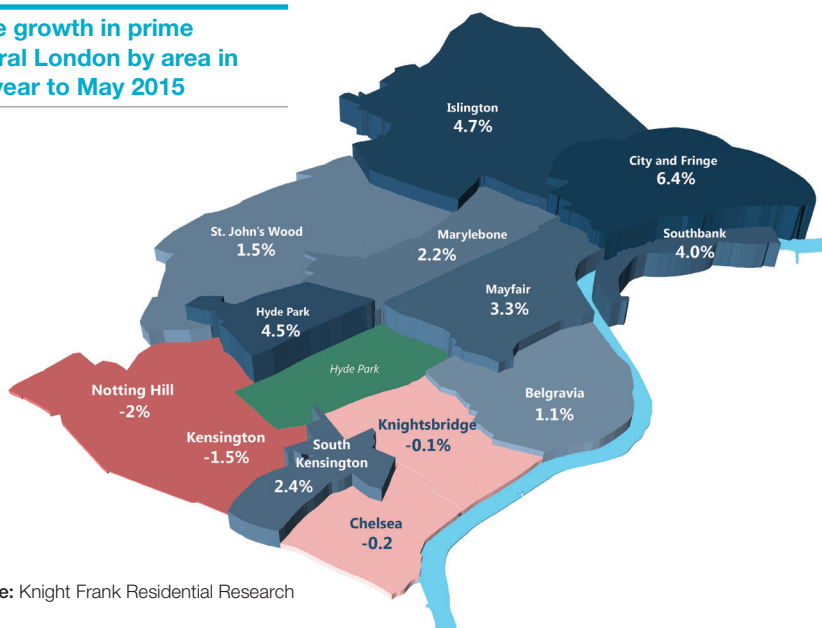
Rents are rising

Annual rental growth, %, Great Britain



Source: ONS

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



Source: Knight Frank Residential Research

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