

Mortgage lending under the spotlight

UK house prices rose 0.2% in February, but less than encouraging mortgage lending data could weigh heavily on the performance of the market. Gráinne Gilmore examines the figures.

Key facts

Average UK house prices rise 0.2% in February, but remain unchanged year-on-year

Prime central London property prices rise by 0.9% in February, and are up 8.4% on an annual basis

Prime central London rents fell by 0.1%, and are down 3.1% year-on-year

Housing market sentiment buoyant in February, according to Knight Frank/Markit HPSI

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“A key activity indicator for the UK’s services sector rose at the fastest pace in five months in February, indicating that the economy could be on track for positive growth in the first quarter of 2013.”



Gráinne Gilmore, Head of UK Residential Research

UK housing market and economic overview

The close attention currently being paid to mortgage lending data is not surprising. Constrained credit is seen as one of the key factors weighing on the performance of the UK mainstream property market. In fact, new regional house price data shows that prices fell in every region in the UK apart from London and the South West in 2012 (figure 1), underlining the extent to which the market in the Capital is propping up average house price performance figures across the country.

But there was disappointment in the mortgage market last week after weak initial data was released by the Bank of England on its Funding for Lending scheme (FLS), under which the Bank extends cheap credit to high street banks so they can lend the money on to mortgage borrowers and small businesses.

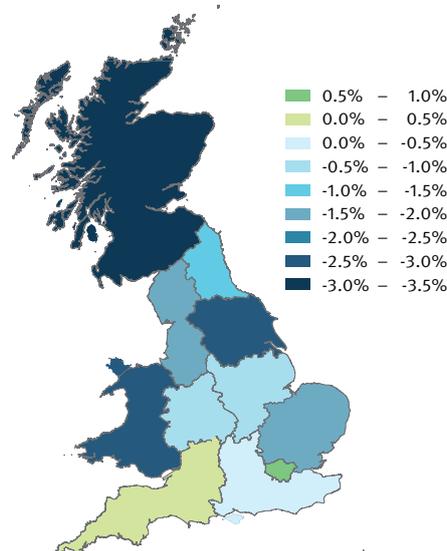
The Central Bank’s own data showed that net lending by banks which took part in the scheme actually fell by £2.4 billion in the final

three months of last year (figure 2). The Bank of England says that it may take longer for the funds to filter through the lending system, but the next tranche of data for Q1 2013 will come under much scrutiny.

Separate data from the Council of Mortgage Lenders suggests that lending did not get off to a great start in January, with a 3% fall in gross mortgage lending year-on-year. However, the FLS has had some influence on the mortgage market as the security provided to banks by the availability of the funding has led to a fall in loan rates. However lenders are still looking for substantial deposits for the mortgage deals with the very best rates, and in some cases are charging large arrangement fees too.

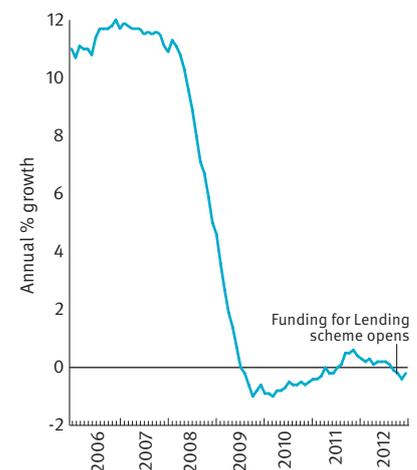
The wider economic picture is brightening marginally however, new data out this month suggests. A key activity indicator for the UK’s dominant services sector rose at the fastest pace in five months in February, indicating that the economy could be on track for positive, albeit modest, growth in the first quarter of the year.

Figure 1
Regions over the last 12 months
UK house price growth



Source: Knight Frank Residential Research

Figure 2
Funding for Lending – Is it working?
Lending to UK-resident households and businesses (FLS measure)



Source: Knight Frank/Markit

“PRICES IN PRIME CENTRAL LONDON CONTINUED TO CLIMB IN FEBRUARY, RISING BY 0.9% ON THE MONTH.”

This will be some consolation to George Osborne, the Chancellor, ahead of next week’s Budget, where he will have to explain the recent decision of a leading ratings agency to strip the UK of its top-level AAA rating.

There are also hopes that the Chancellor will provide some final clarity on the [annual residential property tax \(ARPT\)](#) for £2m+ homes owned by companies ahead of the new rules coming into force in April. The Chancellor may also address the talk of a ‘mansion tax’, which has turned into the byword for political tussles between the three main parties. Mr Osborne pledged not to introduce an annual tax on properties as mooted under the Lib Dem ‘mansion tax’ plan during last year’s budget.

Prime market performance

Prices in [prime central London](#) continued to climb in February, rising by 0.9% on the month. This takes the annual rise to 8.4%, up from 8.1%. As revealed in [Knight Frank’s Wealth Report](#), London’s price performance last year placed it in 16th place in a league of 80 global luxury property destinations around the world. For more details, visit the [Wealth Report](#).

Activity in the central London market has been robust since the draft Finance Bill gave some clarification on the ARPT, which helped offset the downturn in sales seen last year between March and December. But total sales for £2m+ properties in the year to April are expected to be 15% down on last year, given the higher 7% stamp duty and the new ARPT rules. In contrast, transactions in the sub-£2m band are expected to be up 5%. Prices in this range are also outperforming, with values for sub-£2.5m properties rising by 1.7% in February alone.

Meanwhile, the continued decline in sterling is attracting increased interest from buyers from the Eurozone and Asia.

[Prime English country house prices](#) are also attracting more interest from overseas buyers, with the modest declines in capital values enhancing the appeal for those buying in currencies other than the pound. Prime country prices are down around 3% on the year, according to the latest quarterly data. [Prime Scottish house prices](#) are down 2.7%, although the market in Edinburgh has seen a marked upturn in activity, helping push prices up by a modest 0.6%.

Rental market

Average UK rents fell slightly in February, for the third consecutive month, but are still more than 3% higher than February 2012 as constrained mortgage lending exacerbates the competition for rental properties across the country.

Rents in [prime central London](#) are down 3.1% year-on-year, however, this market is much more sensitive to the uncertainty in the banking sector and concerns over the future of the Eurozone. But despite an overall decline of 0.1% in rents in February, some areas started to see some rental appreciation during the month, including Belgravia and Kensington. Activity levels have risen noticeably in the first two months of the year, with 14% more tenancies agreed than in the same period in 2012, suggesting that landlords may see some growth in rents this year. This chimes with the improved business confidence and activity measures which are being reported for the UK economy as a whole.

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