RESIDENTIAL RESEARCH

UK RESIDENTIAL MARKET UPDATE

NARROWING OF THE NORTH – SOUTH DIVIDE?

Price growth is becoming more homogenous across the country the latest data shows. Meanwhile, with the election now less than two months away, the effects are being felt in the housing sector, with a "two-speed market" emerging in prime London. Gráinne Gilmore examines the latest data.

Key facts March 2015

UK annual house price growth slowed to 5.7% in February, down from 6.8% in January, according to Nationwide

Prices in prime central London rose by 0.1% in February, but the annual rate of growth slowed from 4.6% to 4%

Prime central London rents climbed by 0.2% last month, taking annual growth in rents to a 3-year high of 4%

House price expectations across UK fall to 18-month low

GRÁINNE GILMORE
Head of UK Residential Research

"Politicians are putting more thought into the private rented sector. This is to be expected after a record annual jump in the number of households in the private rented sector in the year to April 2014."

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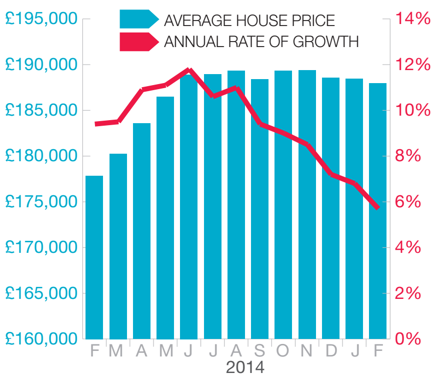
UK housing and economic overview

The momentum in house price growth is easing, especially in London and the South East. According to the latest data from Nationwide Building Society, average UK prices showed a slowing in the annual rate of price growth, to 5.7%, down from around 12% last summer.

This is not to say that price growth is slowing at the same rate all over the country, in fact we will likely start to see growth rates become more homogenous across the country.

UK house price growth slowing



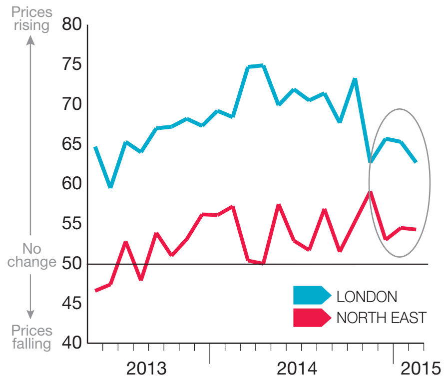
Source: Nationwide

The narrowing of the "North/South price growth gap" has been illustrated in the latest House Price Sentiment Index, where the margin between the readings for London and the North East is close to a two-year low, meaning that the proportion of households in the North East reporting house price rises is now much closer to the proportion of households reporting increases in London.

As the election approaches, parties are starting to share more details on their plans for housing in the coming Parliament. The Conservatives last week pledged to double the number of "cut-price" homes for first-time buyers from 100,000 to 200,000 by 2020. You can find more details of all the parties' policies in Knight Frank's pre-election matrix in our latest forecast report. This matrix will be continually updated as more policies emerge.

Narrowing North/South divide

HPSI London vs North East

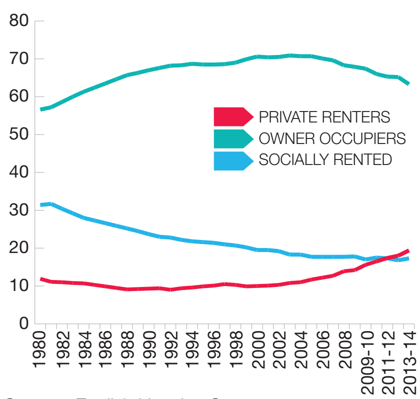


Source: Knight Frank Residential Research / Markit

As can be seen from the current matrix, politicians are certainly putting more thought into the private rented sector. This is perhaps less of a surprise in light of the new data from the English Housing Survey which showed a record annual jump in the number of households in the private rented sector in the year to April 2014. One in five households are now privately rented, and we expect the growth trend to continue.

Homeownership declines as private renting grows

% of households - England

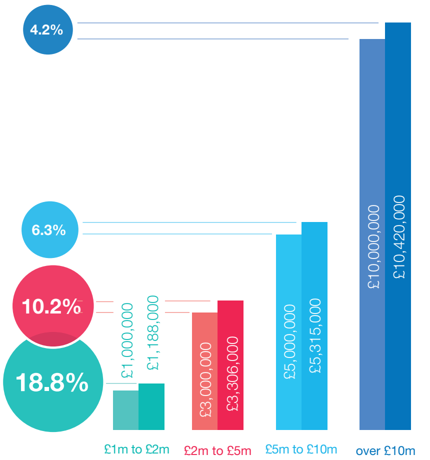


Source: English Housing Survey

Prime markets

Prices in prime central London rose for the first time in five months in February, boosted by price growth in markets with a higher proportion of properties that would not be subject to a proposed 'mansion tax'. The "two-speed market" is underlined by the difference in price growth at different price bands over the last two years.

Multi-speed market in prime central London Two-year price growth by price band



Source: Knight Frank Residential Research

The debate about "mansion tax" in the run-up to the election continues to have an impact on the prime markets, weighing on activity for homes in the £2m-£4m bracket. New analysis suggests that eight out of ten properties on the £2 million 'mansion tax' threshold will be located in areas of suburban London and the Home Counties, not in prime central London.

In the prime country house market, prices rose by 3.4% last year. The market is regionalised, however, with key commuter towns and regional cities outperforming. There is increasing interest from buyers moving from London, keen to capitalise on the relative difference in pricing between the capital and the rest of the country. This can be seen clearly in price performance in areas such as Cheltenham and Oxford.

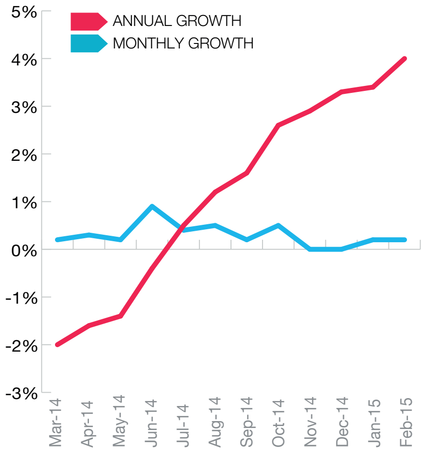
In Scotland, the Edinburgh market continues to lead from the front, with a 0.5% rise in prices in the final quarter of 2014, taking the annual rate of price growth to 4.2%. Activity remains robust and research shows that the city accounted for 48% of all £1m+ transactions north of the border in 2014.

In the wider Scottish prime country house market values rose by 1% in the final quarter of 2014 and by 2.1% on an annual basis.

Rental markets

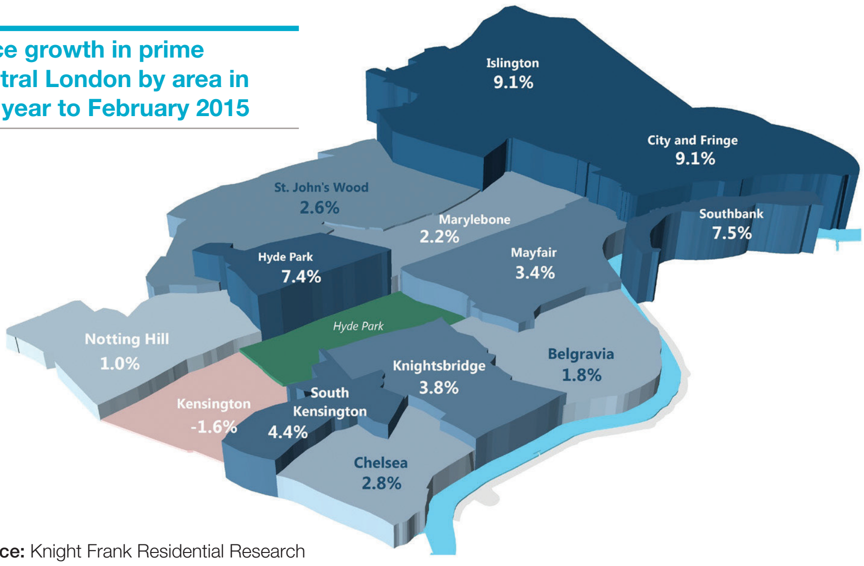
Rental values in prime central London continued their recovery in February, rising by 0.2%. Annual growth now stands at 4%, the highest level in more than three years. Activity is being curbed by the election, with many taking a wait-and-see attitude before committing to property decisions in the Capital.

Prime central London annual rental growth hits 3-year high



Source: Knight Frank Residential Research

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



Source: Knight Frank Residential Research

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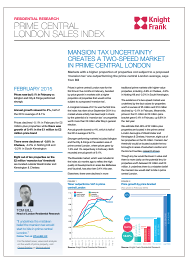

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