

LOOKING TO THE FUTURE

House prices ticked up in February in both the wider UK market and in prime central London. Meanwhile, the Office for Budget Responsibility laid out its outlook for the market in the years to come.

Key facts March 2017

Average UK house prices rose by 0.4% in February, taking the annual increase to 4.5%

Prime Central London prices rose by 0.1% in February, taking the annual change to -6.6%, amid recovering transaction levels

Prime Country home prices were broadly flat in 2016, but with areas of outperformance, for example, Winchester (5.8%) and Exeter (5.2%)

UK households' sentiment on house prices held steady in March



GRÁINNE GILMORE
Head of UK Residential Research

“The House Price Sentiment Index remained in positive territory in March, meaning households perceived the value of their home rose over the course of the month, and that they expect the value of their home to continue to rise in the next 12 months.”

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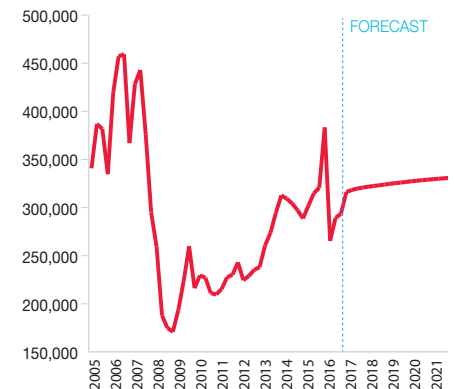
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Economic and housing market overview

This month's Budget made little mention of housing. This was perhaps less surprising given the recent [Government Housing White Paper](#), which laid out the Government's ideas on how to address the pressing issue of boosting supply across the country. The likelihood is that the outcome of this White Paper, which is essentially a consultation document, will be shared at the Budget in the Autumn.

However, the recent Budget did highlight some of the assumptions the Office for Budget Responsibility (OBR) is making about the future direction of travel in the housing market, which in turn serve as the basis for policy decisions. The OBR

OBR housing transaction forecasts



Source: Knight Frank Research/HMRC/OBR

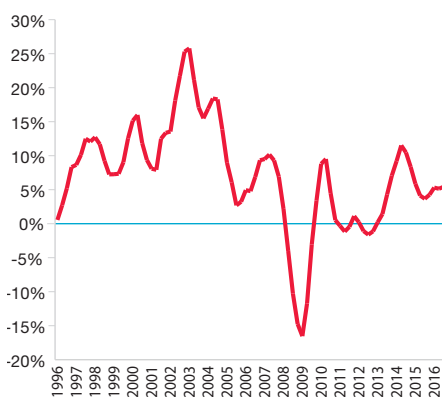
expects that average UK price growth will slow to around 4% next year and will then remain at this level for the next three years.

At present, price growth is at around 4.5% in February according to the Nationwide. The ONS measure of house prices shows 6.4% growth in the year to January.

In terms of transactions, the OBR expects a gradual rise in the number of property sales in the coming years, but does not see the market returning to pre-crisis levels of activity by 2021.

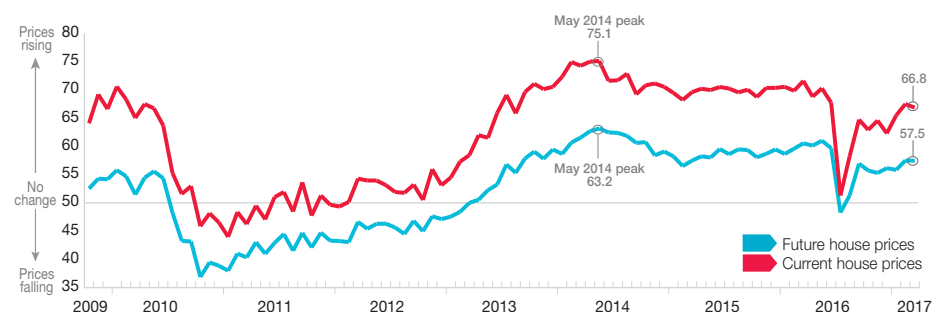
Meanwhile, during the month, [house price sentiment](#) remained broadly steady, with both the current and future readings above 50. This means that households across the UK perceive that the value of their home rose during the month, and that they expect

Annual change in UK house prices



Source: Knight Frank Research/Nationwide

Change in current and future HPSI



Source: Knight Frank Research / IHS Markit

UK RESIDENTIAL MARKET UPDATE MARCH 2017

its value to rise over the next 12 months. The higher the index reading, the stronger the rise. As the chart below shows, while the index is steady above 50, it remains on page one the readings seen before the vote to leave the EU in June last year.

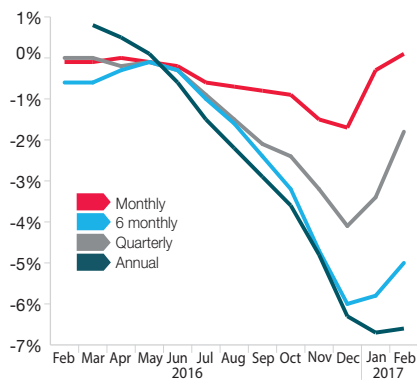
Prime market update

Values in prime central London (PCL) fell by 6.6% over the year to February 2017, as the market continued to adjust to stamp duty increases.

This process appears to have led to a rise in transaction levels, as prices begin to align with buyer expectations. Knight Frank sales volumes in PCL, for example, were higher in the six months to February 2017 than over the equivalent period in each of the previous two years.

Furthermore, a marginal price rise of 0.1% was recorded in February, suggesting that the rate of annual price falls has begun to

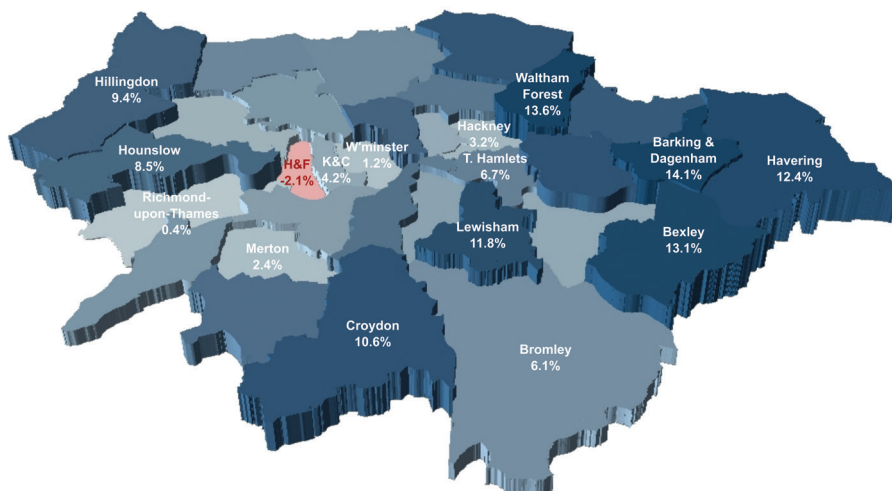
Prime growth in prime central London
Feb 2017



Source: Knight Frank Research

London price growth

Annual, 2016



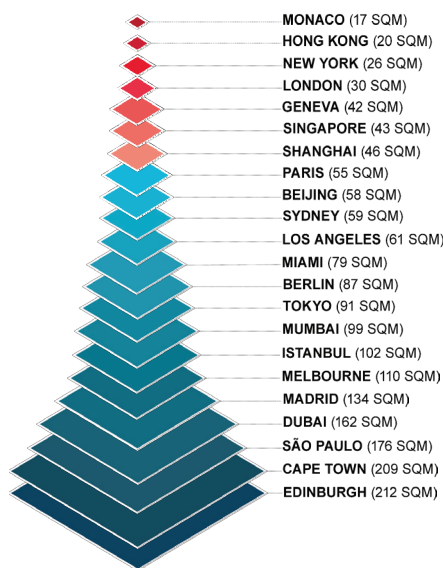
Source: Knight Frank Research

slow. This reinforces our expectation that growth will be flat in 2017.

Amid increased levels of demand the Knight Frank 2017 Wealth Report confirmed that London remains a key global city.

In the prime country market, values remained broadly stable in 2016, falling by 0.4% on the year. But the picture is highly localised, with prime markets in cities including Winchester (5.8%) and Exeter (5.2%) outperforming.

How much does \$1m buy?



Source: Knight Frank Research

Rental market

Average rents rose by 2.1% across the UK in the year to February 2017, according to the ONS. Regionally, the

South East (3.3%) saw the biggest rise in rents annually, followed by the East of England (2.8%).

In the prime market, for existing properties, rents in London declined by 5.1% over the year to February. A rise in stock levels, as higher purchase taxes dampen the sales market, has been weighing on rental growth. However transaction activity remains strong amid continuing demand for rental property.



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