

Green shoots emerging?

Against a slightly less gloomy economic backdrop there are signs that confidence in the housing market is starting to recover, further aided by the Government's Help to Buy scheme. Meanwhile, prices in prime central London climbed again in May. Gráinne Gilmore examines the data.

Key facts

UK house prices fell by 0.1% in April, but are 0.9% up year-on-year

Prices in prime central London rose by 0.7% in April, taking the annual rate of growth to 7.7%

Prime central London rents edged down by 0.1%, taking the annual decline to 3.2%

House price sentiment remains buoyant in May

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"The Bank of England emphasised that the slightly more upbeat outlook for the UK was dependent on the more widespread global economic recovery also continuing apace."



Gráinne Gilmore, Head of UK Residential Research

UK housing market and economic overview

The economic picture brightened slightly this month as the Bank of England revised up its forecast for economic growth for the first time since before the financial crisis. In its latest [Inflation Report](#), the central bank said it expects GDP growth to come in at 1.2% this year. It added that it expects inflation to recede more quickly than it previously thought. But it emphasised that the slightly more upbeat outlook was dependent on the more widespread global economic recovery also continuing apace. Despite this more upbeat assessment, the economy is not yet out of the woods, as evidenced by three members of the Bank's rate-setting committee voting to further increase QE. They were outvoted, but it signals that they believe the UK economy needs another monetary boost.

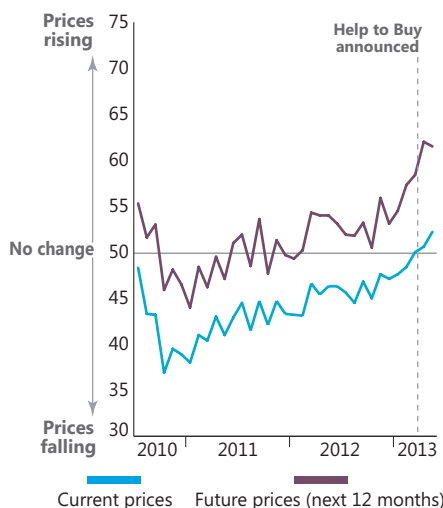
The residential property market also caught the eye of Mervyn King, the outgoing Bank of England Governor, this week, as he

warned that the Government's multi-billion [Help to Buy](#) scheme should not be allowed to continue indefinitely. At present, the scheme is due to last for three years.

Indeed the technicalities of the Help to Buy scheme have been a hot topic of debate in recent weeks, with Andrew Tyrie, the Treasury Select Committee chairman, becoming exasperated at the lack of detail on the second part of the scheme – the Mortgage Guarantee – calling it a "work in progress". But while the debate continues about the Government's handling of the small-print, the property industry has welcomed the injection of liquidity into the mortgage market via the Help to Buy Equity Loan, with housebuilders reporting a sharp rise in interest among buyers as a result.

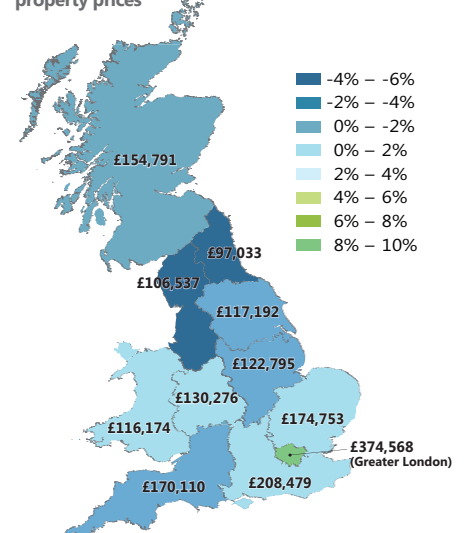
The rise in confidence among homeowners and buyers was immediately picked up in April's [Knight Frank/Markit House Price Sentiment Index](#) (figure 1) which showed that households in every region across the UK expected the value of their home

Figure 1
Rising confidence
House price sentiment index



Source: Knight Frank Residential Research / Markit House Price Sentiment Index

Figure 2
Price movements
Average annual price growth and average property prices



Source: Knight Frank Residential Research / Land Registry / Registers of Scotland

PRICES IN THE PRIME CENTRAL LONDON MARKET CONTINUED TO CLIMB IN APRIL, MARKING CONSISTENT MONTHLY PRICE RISES SINCE NOVEMBER 2010.

to rise over the next 12 months. This trend continued in May. As has been the case for many months, homeowners in London expect the biggest rises over the coming year. Those in the North of England and Wales expect much more modest house price movements between now and May 2014.

Such regional differences in expectations certainly reflect the 'patchwork' nature of house price performance over the last few years. As the map on page 1 shows, average prices have grown most in Greater London over the last year, with the latest Land Registry figures indicating a near 10% rise in the year to March. This has pushed the average price of property in the capital up by nearly £33,000 to £374,568 over the last year.

The renewed optimism in the housing market was also borne out in the latest RICS survey of agents, which showed that new buyer interest rose to the highest level in three years in April.

Prime market performance

Prices in the prime central London market continued to climb in April, marking consistent monthly price rises since November 2010. Prices rose by 0.7% during the month, taking the annual rise to 7.7%. Prices are now nearly 20% higher than the previous market peak in March 2008. Activity remains buoyant, with viewings up

45% in the first four months of the year compared to the same period a year ago. While sales volumes are up overall year-on-year, transactions for properties priced between £2m and £5m dipped in the 12 months to April compared to the same period a year before, as examined in the latest London Review.

Prime country house prices bounced back at the start of the year, rising by 0.4% in Q1. But on an annual basis, prices are down 3.2% compared to Q1 2012.

Rental market

Average rents across the UK rose by 0.2% in April and are up 3.9% year on year as demand continues to outstrip supply in many areas. Greater London leads the way, with rental growth of nearly 8%, while other regional areas have seen more modest growth. However, moving into prime central London this picture is reversed, as rents for luxury London homes are on a downward trajectory. Average rents edged down by 0.1% in April and are down 3.2% year on year, reflecting how this market is more closely aligned to the City jobs market – a sector which has been turbulent since the financial crisis. Despite the fall in rents, activity in this market still remains strong, with the number of new tenancies agreed up 30% in the first four months of the year compared to the same period last year.

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