

## Looking to the future

**The economy is gaining momentum and house prices are rising, buoyed by increased confidence and government interventions in the market. As Knight Frank publishes its latest housing market forecasts, Gráinne Gilmore examines the latest trends in the market.**

### Key facts – November 2013

**UK house prices rose by 1% in October**, and are now 5.8% higher year-on-year

**House prices forecast to rise by 24%** between 2014 and end of 2018

**Average values in prime central London have risen by 6.8%** on an annual basis

**Prime country house prices have climbed by 1.8%** since January 2013

**Average UK rents have risen by 2.1%** over the last 12 months

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### UK housing market and economic overview

We have been compiling our new [housing market forecasts](#) over the last week or two, and during that time, the news from most corners of the UK economy has been growing increasingly positive. The closely-watched Purchasing Managers' Index (PMI) of activity in the services sector, a bellwether for the economy, soared to its highest level since 1997 in October, suggesting that the GDP figures for the final three months of 2013 are likely to meet or exceed expectations.

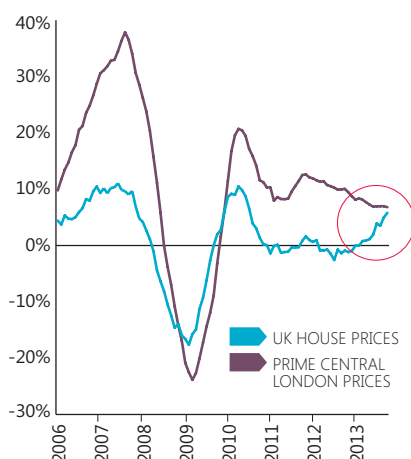
Construction activity is also picking up strongly, especially in the residential sector, with a 15.6% annual increase in private housebuilding in Q3. This pick-up in activity is a welcome boost to the massively undersupplied market, but is unlikely to be enough in the short-term to begin to re-balance the structural shortfall of new housing. There are also fears that new planning rules could actually serve to depress activity by housebuilders – explained in our [recent blog](#).

The improving outlook for the economy was underlined as the Bank of England upgraded its economic forecasts in the [latest Inflation Report](#). While the more positive noises from the central bank were encouraging, many economists said that it was still unlikely that the Bank would move to increase interest rates much before late 2015 or 2016. However, if the economy continues to go from strength to strength, and particularly if inflation starts to rise, an earlier bank rate rise cannot be ruled out.

In the housing market, buyer demand is rising far faster than housing supply at present. Buyer confidence has been boosted by this brighter economic outlook as well as government interventions in the mortgage market, such as Funding for Lending and Help to Buy. This is reflected in the recent record readings on the [Knight Frank/Markit house price sentiment index](#) (HPSI).

The rise in demand has led to increased transactions, with a 15% annual uplift in home sales in England and Wales in the three months to the end of July this year. There are signs that transactions will continue to rise, as

FIGURE 1  
**Annual UK house price growth starts to "catch up" with prime central London**



Source: Knight Frank Residential Research, Nationwide

FIGURE 2  
**Forecast price growth**



Source: Knight Frank Residential Research



GRÁINNE GILMORE  
Head of UK Residential Research

*"Our forecasts indicate that the average value of a UK home will reach £200,000 in mid-2016."*

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*“Average UK house prices rose by 5.8% in the 12 months to October, according to Nationwide.”*

CML data showed that mortgage lending in Q3 hit the highest level since 2007.

Demand is also underpinning price growth seen in recent months. Average UK house prices rose by 5.8% in the 12 months to October, according to Nationwide. In October last year, prices were 1% down year-on-year.

Yet the price growth seen over the last year is far from evenly spread. London is leading, with annual growth of 10% to the end of September, followed by East Anglia, where property has risen in value by an average of 6.6%. Move further north however, and prices are falling in real terms, with price growth of just 0.2% in the North, and 2.2% in Yorkshire & The Humber, below September’s 2.7% rate of inflation.

We expect prices to rise again next year in every region of the UK, and register some real, as well as nominal growth – as explained in our new [Housing Market Forecast](#). Over the next five years, we expect average UK prices to rise by 24%. Our forecasts, which are based on the Nationwide index, indicate that the average price of a UK home will reach £200,000 in mid-2016.

## Prime market performance

Prices in [prime central London](#) rose by 0.6% in October, taking the annual increase in values to 6.8%. This is a fall from 7% in September,

and 10.1% in October last year. Prices in the prime outer London market, which includes areas such as Fulham, Hampstead, Richmond and Canary Wharf rose by 8.4% in the year to September, outpacing prime central growth for only the second month in nearly four years. This reflects the “ripple effect” of price growth out of central London, as examined in the latest [London Review](#). We expect prime central London prices to rise by 4% in 2014, and average values of homes in prime outer London to climb by 7%. We have examined this in more detail in our new [forecasts](#).

[Country house prices](#) have risen by 1.8% since the beginning of the year, but the market is not only regionalised – with areas close to the capital seeing stronger price growth, but stratified by price band too, with the sub-£2 million market really driving price growth, as explained in more detail in the latest [Country House Price Index](#).

## Rental market

Average UK rents rose by 1.8% in the year to October, and are expected to end this year up by 2%. Next year, we forecast that rents will increase by 2%, with a cumulative 16% rise to the end of 2018. In [prime central London](#), rents are tipped to end the year down 2.5%, but as employment picks up in the capital, especially in the financial sector, this decline is expected to be partially reversed next year, with rents ending the year up 2%.

## RECENT MARKET-LEADING RESEARCH PUBLICATIONS



[The Wealth Report 2013](#)



[UK Prime Country House Index Q3 2013](#)



[House Price Sentiment Index \(HPSI\) Nov 13](#)



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