

Back to life, but back to reality?

House prices are rising on an annual basis across England, Wales and Northern Ireland, the latest official data shows. Yet the picture is still highly regionalised. As such, there are sharp differences of opinion over the Government's "one size fits all" Help to Buy mortgage guarantee. Meanwhile prices in prime central London continue to climb, and are now some 23% above their previous peak. Gráinne Gilmore examines the latest trends.

Key facts – October 2013

Average house prices rose by 0.9% in September, and are up 5% year-on-year*

Prime central London property values increased by 0.7% in September, and are up by 7% on an annual basis

Prime central London rents fell by 2.5% on an annual basis

Prime country house prices rose by 0.8% in Q3 2013, the strongest rate of growth since 2010

Value of prime Scottish property climbed by 1.4% in Q3, taking annual rise to 0.3%

*based on Nationwide data

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"Once inflation is stripped out, average UK house prices are around 16% lower than the 2008 market peak."

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UK housing market and economic overview

Average house prices across the UK are now higher than their previous market peak, data from the ONS showed this week.

Yet as the map below shows, the regional differences are stark, with London prices pulling the UK average upwards. It is interesting to note that once inflation is stripped out, average UK house prices are around 16% lower than the 2008 market peak.

Homebuyers and owners are arguably more interested in how house prices have performed in relation to their earnings, however, especially in an era when pay growth has failed to keep up with inflation. On this measure, the picture looks slightly different. While the house price to earnings ratio on an average home has fallen from 6.5 at the peak of the market, it is still some way above the long run average of 4.2, sitting close to 5.5.

Most homeowners, and many buyers with larger deposits, are benefitting from lower rates on their mortgages, meaning that overall affordability has improved in recent years.

The exceptions to the rule are those would-be buyers with smaller deposits who have found their modest down-payment to be an obstacle to their entry to the market since the financial crisis. The Government's [Help to Buy mortgage guarantee](#) (the second part of the Help to Buy scheme) was launched at the start of this month, nearly three months early.

The initial signs are that the mortgage deals for 95% loans are slightly cheaper than those which were already available on the market, with rates of between

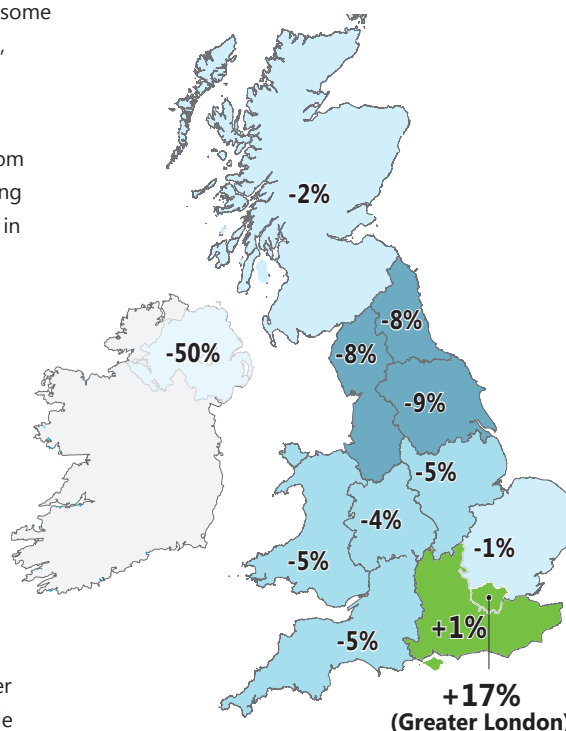
4.99% and 5.19% for a 2-year fix. But there are hopes that the new deals could stimulate more competition in the market. Indeed just this week, Clydesdale and Yorkshire Banks have launched a 3-year 95% LTV (non-Help to Buy) deal for first-time buyers at 4.99%.

[Help to Buy 2](#) (the short-hand name for the mortgage guarantee) has come under fire for increasing credit in the housing market when there are views that it may be over-heating in some areas.

The map below confirms that while there are areas of the country which have seen rapid growth in average prices since the market

Where have house prices surpassed their previous peak?

Average price compared to regional market peak



Source: ONS

“Country house prices are starting to gain some traction, recording the strongest rate of growth since 2010 in Q3.”

downturn, the picture is still highly localised. Transactions are also far below long-term averages in most areas.

Yet as more credit flows into the market, it is essential that housing supply also picks up. There are signs that Help to Buy 1 (the equity loan, aimed solely at new-build housing) is having the required effect, with [Knight Frank analysis](#) showing a 30% rise in planning applications over the summer after the scheme was launched in April. It is critical that the step up in supply continues, and that new housing makes it through the planning process. In response to worries over Help to Buy 2, the Chancellor has asked the Bank of England to monitor the scheme and flag up any concerns.

The Bank’s Financial Policy Committee will make its first assessment of the scheme in September next year, at which point it can adjust the fee which lenders pay or the £600,000 limit.

Prime market performance

Prices in [prime central London](#) climbed again in September, rising by 0.7% during the month and taking the annual increase in average values to 7%. The main driver for price growth continues to be the lower-end of the prime market, with houses priced at sub-£2 million recording the sharpest rise in values over the month. The performance across the geographical markets is also varied, with prices in the City and Fringe

market up by 2.3% in Q3, compared with a 0.2% fall in prices in Belgravia.

[Country house prices](#) are starting to gain some traction, rising by 0.8% in Q3, the strongest rate of growth since 2010. Prices are up by 0.4% year-on-year. As in prime central London, this performance is underpinned by the rise in value of sub-£2m houses. Average values in their price bracket have risen by 2.3% on the year, compared to a 1.1% drop in the average value of homes priced at £2m-£5m. [Prime Scottish](#) property values climbed by 1.4% in Q3, taking the annual rise to 0.3%.

Rental market

Average UK rents jumped in September, rising by 1.8% over the month and taking the annual increase to 2.1%. The highest pace of rental growth was in the South East, where average rents rose by more than 3% in September.

The picture in [prime central London](#) is different however, with the overall index of rents continuing to decline, albeit at a modest pace. Average rents fell by 0.1% in September, and are down by 1.2% year-on-year. There are signs that the market may be evening out, with a rise in tenant demand, coupled with a notable pick up in confidence and activity in the City jobs market in recent months. As firms in London begin hiring and business expansion starts in earnest, demand for prime rental accommodation ought to increase.

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