

LOCALISED MARKET

Average UK house price growth slipped a little in September, but the annual rate of growth remains above 5%. However, this masks key regional differences in market performance, with higher growth in and around UK cities, including many London boroughs in zones 2-6.

Key facts October 2016

The annual rise in UK house prices was 5.3% in September, down from 5.6% in August, according to Nationwide data

Prices in prime central London are down 2.1% on the year, after a 0.4% decline in September

House price sentiment eased slightly in October, but remains well above the post-Brexit vote low

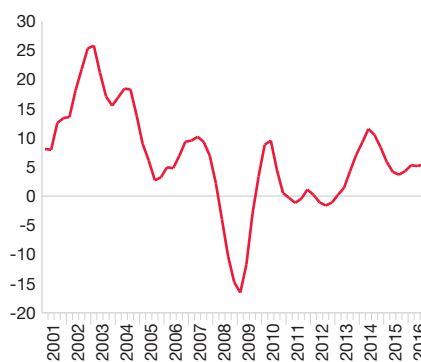
Prime Scottish house prices fell by 0.3% in Q3, taking the annual decline to 0.2%

Economic and housing market overview

House prices are up by 5.3% across the UK according to Nationwide, slightly down from the 5.6% increase seen in August.

Average UK house prices

Annual % change

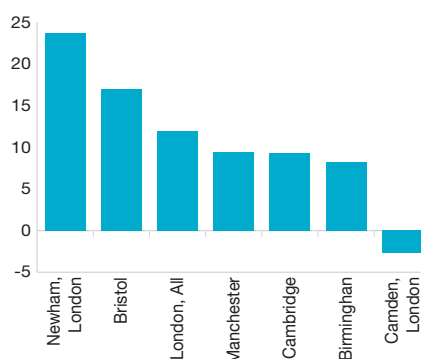


Source: Knight Frank Research/Nationwide

However, this headline figure for the UK masks a continued multi-speed market – recent data from the ONS showed that while the borough of Newham in London saw one of the largest annual rises in house prices in the year to August 2016 at 23%, just a short distance away, the borough of Camden saw average prices fall 3% on the year.

Multi-speed market

Average house price annual % growth



Source: Knight Frank Research/ONS

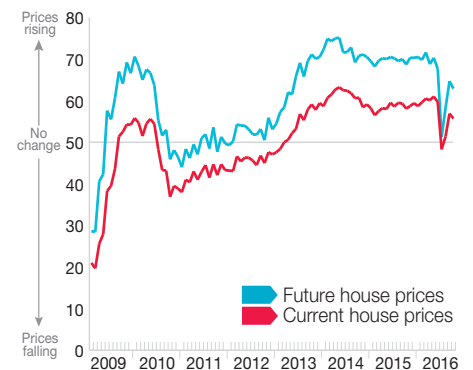
The UK economy is showing resilience after the vote to leave the EU, although sterling has come under increasing

pressure after the central bank cut interest rates and policymakers seemed to commit to a 'hard Brexit'. Inflation has also risen, to 1% in September, on the back of higher raw material prices, however the ONS said there was little sign that this was currently feeding through to consumer prices.

The housing market is being underpinned by the on-going fundamentals of undersupply and ultra-low mortgage rates. October's House Price Sentiment Index (HPSI) underlines the bounce-back in households' expectations for house prices.

Post-Brexit confidence

House Price Sentiment Index



Source: Knight Frank Research / IHS Markit

As the chart shows, while the overall HPSI reading eased slightly in October, it remains well above the dip seen in the immediate aftermath of the vote to leave the EU. As the plan for leaving becomes clearer and starts to be put into force, there may be further periods of uncertainty in the wider economy, but the housing market has so far adapted to this major shift in direction for the country.

The need for more housing in areas of high demand across the UK continues to be a hot topic for policymakers and housebuilders. As such, the industry is anticipating the release of the Government's White Paper on housing, which aims to outline an action plan to further boost development. Once it is released, Knight Frank will analyse its contents on our [research blog](#).



GRÁINNE GILMORE
Head of UK Residential Research

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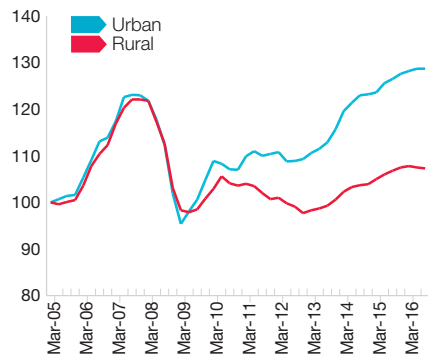
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UK RESIDENTIAL MARKET UPDATE OCTOBER 2016

Prime urban outperformance

index 100 = Mar 2005



Source: Knight Frank Research

Prime market update

Property prices in prime central London fell by 0.4% in September, the eighth consecutive month that values in central London have declined. Prices are now 2.1% lower than they were a year previously.

Stamp duty reforms continue to exert the biggest influence on the market in the capital, although there are early signs that demand is strengthening as higher purchase costs are reflected in asking prices.

There are, however, wide regional variations, as shown in the map below, with annual price growth ranging from -9.8% in Chelsea to 4.8% in the City.

In the prime country house market annual growth eased to 0.5% in the year to the end of September, down from a high of 5.2% in 2014. This moderation in price growth is largely a result of recent stamp duty increases being factored in to asking prices and offers.

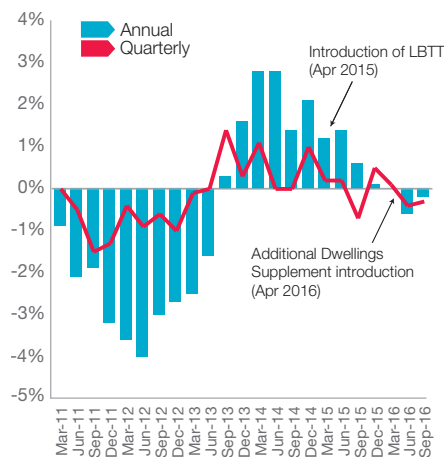
The strongest markets continue to be affluent towns and cities which

have outperformed their more rural counterparts, although the differential has narrowed in the last six to 12 months.

In Scotland, higher purchase costs in the form of Land and Buildings Transaction Tax continue to put pressure on prices in the prime market, although demand remains robust. While it remains too early to discern any long-term impact, 'Brexit' has also added another layer of complexity to this market.

Prime Scotland price change

Annual and quarterly price growth



Source: Knight Frank Research

Rental market

Average UK rents rose by 2.3% in the year to August, down marginally on the 2.4% growth seen in the year to July. Rental prices increased in all English regions over the year, with the biggest rise coming in the South East (3.4%).

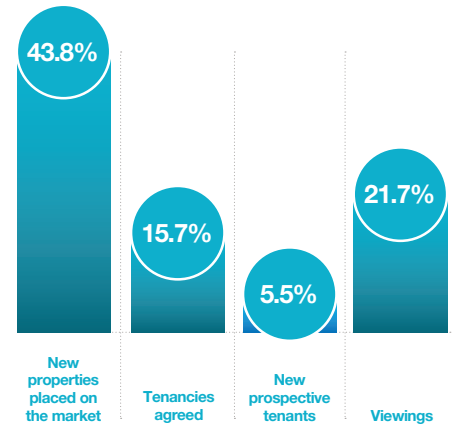
In prime London, uncertainty in the sales market has contributed to a sharp increase in the number of properties being listed for rent, with the number of new properties coming onto the market 43.8%

higher in the three months to August compared with the same period in 2015.

This contributed to a 4.7% decline in prime rents over the year to September.

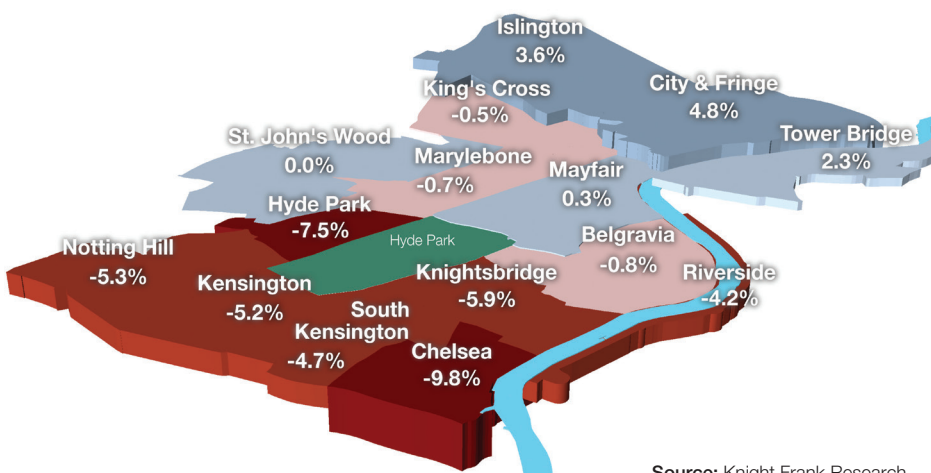
PCL lettings market key indicators

Three months to August 2016 versus 2015



Source: Knight Frank Research

Price growth in prime central London, by area, year to September 2016



Source: Knight Frank Research



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RESIDENTIAL RESEARCH

Gráinne Gilmore

Head of UK Residential Research

+44 20 7861 5102

grainne.gilmore@knightfrank.com

PRESS OFFICE

Jamie Obertelli

+44 20 7861 1104

jamie.obertelli@knightfrank.com



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