September 2012
RESIDENTIAL RESEARCH

RESIDENTIAL MARKET UPDATE

Knight Frank

Recession, re-shuffle and record prices

Prices in prime central London hit a new record high in August. Meanwhile there were some mixed messages on the economy, a ministerial re-shuffle and an announcement of major new housing plans

Key facts

Prime central London prices climbed 0.5% in August, taking the annual rise to 9.9%

UK house prices rose by 1.3% in August, but are down 0.7% year-on-year

Recession milder than feared, GDP fell by 0.5% in Q2

Prime Minister announces range of new housing measures

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"The government has rightly recognised that getting the construction sector moving could boost growth, help employment and deliver much needed housing."

Gráinne Gilmore, Head of UK Residential Research

UK housing market and economic overview

There have been mixed messages from the UK economy in recent weeks. There was upbeat data from manufacturers in August, suggesting that while activity levels were falling, they were doing so at a much more modest pace than in previous months. The UK's service companies, which range from banks to restaurants and which account for the majority of economic output in the UK, also reported the strongest rise in activity since March.

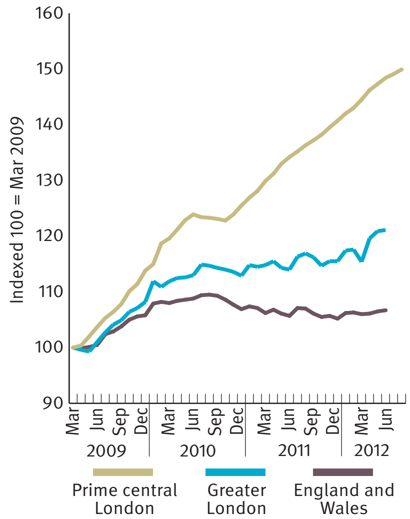
As predicted, official figures on the state of the UK economy in the second quarter were revised up last month. The data now shows a 0.5% rather than a 0.7% decline in GDP, signalling that the recession is less severe than originally feared. But the OECD revised down its forecast for 0.5% growth in the UK economy this year to show a 0.7% fall.

A new report from the World Economic Forum gave the UK a boost, lifting it up the rankings for "global competitiveness" from 10th to 8th place. The competitiveness rankings are compiled by measuring 12 key factors, from the state of a country's infrastructure to the effectiveness of its health and education systems.

Yet there was dire news from the UK construction sector last month, as new orders plunged at the fastest rate since the height of the financial crisis in 2008/09. Construction accounts for only 7% of the UK's GDP, but the government has rightly recognised that getting this sector moving again could boost growth, help employment and deliver much needed housing and infrastructure.

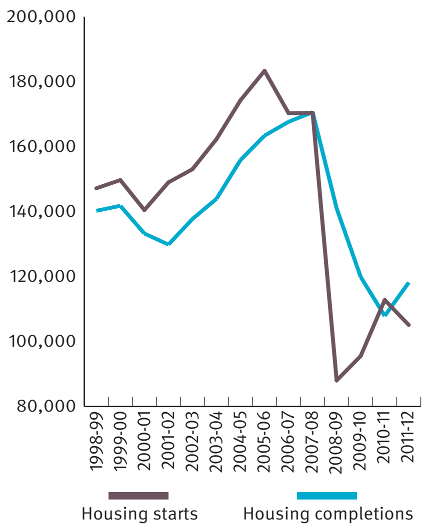
Mark Prisk, the new housing minister (and former Knight Frank surveyor), certainly has a tough task ahead. The fundamental gap between demand for and supply of new homes in the UK has been widening for much of the last decade. Mr Prisk starts

Figure 1
How house price growth compares
(monthly price growth – indexed)



Source: Knight Frank Residential Research, Nationwide

Figure 2
How housebuilding rates have declined
Housebuilding in England



Source: Knight Frank Residential Research, CLG

THE STEADY RISE OF PROPERTY PRICES IN PRIME CENTRAL LONDON CONTINUED IN AUGUST.

his new job as another raft of **new housing measures** was announced by the Prime Minister including allowing developers to set aside affordable housing requirements on stalled developments. This move will release 75,000 homes, the Government said. To put this in perspective, some 118,000 homes were completed in England in 2010-11, well below the average rate of 140,000 over the last decade, and far below the previous housing minister's call for 200,000 new homes a year.

There are also proposals for the government to underwrite £10 billion of funding for new homes, as recommended in the Montague Review, and £40 billion for infrastructure. Homeowners will also be given more leeway to build extensions and there will be an extension to the 'Firstbuy' scheme to help first-time buyers get a mortgage. Details are still thin on the ground, but keep an eye on Global Briefing, our research blog, for updates.

There were some surprises from the housing market last month, with figures from Nationwide showing that average house prices across the UK rebounded by 1.3% during August. It is worth noting though, that monthly house price data is notoriously volatile. Prices are down 0.7% on an annual basis.

Prime market performance

The steady rise of property prices in prime central London continued in August. Average values increased by 0.5% during the month, matching July's rise and taking luxury property values in London's central postcodes to a new record high. Yet July and August marked a slowdown in the rate of price growth, with annual growth easing from 12% at the start of the year to 9.9% now.

It is notable that prices continue to rise despite some potential setbacks in the market. Not least among these is the increased stamp duty charge for buyers of property worth £2 million or more, and the uncertainty surrounding the tax treatment of such properties purchased through offshore companies. The value of prime country property in England fell in the second quarter, and the annual decline is now at 4.8%. Prime country house prices in Scotland are down 4% year-on-year.

Rental market

Average UK rents rose by 1% in July, taking the annual increase to 2.9%. In contrast, rents in prime central London are on a gentle downward trajectory. Rents are now down 1.7% year-on-year, with a bigger annual fall of 2.8% for rental properties let for more than £1,500 a week.

Rents are being hit by lower business confidence and the Eurozone crisis. But despite the dip in rents, activity continues apace, with new lettings volumes up 18% in the three months to August compared to the same period last year.

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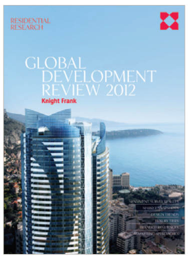

Global Development Review 2012

The London Review Autumn 2012

Prime Central London Sales Index August 2012

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