RESIDENTIAL RESEARCH

RESIDENTIAL MARKET UPDATE SEPT 2013

Knight Frank

The big bank rate question

Policymakers and markets can't agree on when they think the bank rate will rise, although on current forecasts they will remain at historically low levels for another two years. In the meantime, pent-up demand from first-time buyers is coming forward to the market. Gráinne Gilmore examines the latest trends.

Key facts – September

Average UK house prices rose by 0.6% in August, and are up 3.5% year-on-year

Value of prime central London property increased by 0.6% month-on-month, taking the annual rise to 7%

Proportion of mortgages granted to first-time buyers **hits an 8-year high**

Planning applications for private units across UK have risen by 30% between May and August compared to same period in 2012

The "mansion tax": Knight Frank's latest research explains the facts and figures

For the latest news, views and analysis on the world of prime property, visit Global Briefing or @kfglobalbrief

UK housing market and economic overview

When will the bank rate start to rise from its historically low rate of 0.5%? This is the question that has been vexing the markets and Bank of England policymakers. The Bank Governor Mark Carney used his first public speech in late August to emphasize that the bank rate would not move before the unemployment 'rate' sinks below 7% (from the current rate of 7.8%). This is expected to happen at some point in 2016.

The money markets are still factoring in a rate rise in mid-2015 however. While an earlier rate rise may be less comforting news for borrowers, it is not bad news. It is a sign that analysts are anticipating a better than expected economic recovery, which would benefit all corners of the UK.

Dr Carney is at pains to point out that the Bank, not the markets, sets the base rate. There is increasing evidence that the message is getting through – a recent survey by the central bank showed that only around 29% of people expected a rate rise over the next 12 months, the lowest proportion since November 2008.

Increased confidence that rates will remain steady for some time has helped release pent-up demand for housing, as potential buyers feel that they are on steadier ground to make longer-term decisions. They are also benefitting from record-low mortgage rates, as shown below. This has resulted in a real pick-up in market sentiment – and this has been reflected in the number of first-time buyers entering the market. The Council of Mortgage Lenders reported that first-time buyers accounted for 45% of house purchase loans in Q2, the highest proportion since they began recording this data in 2005.

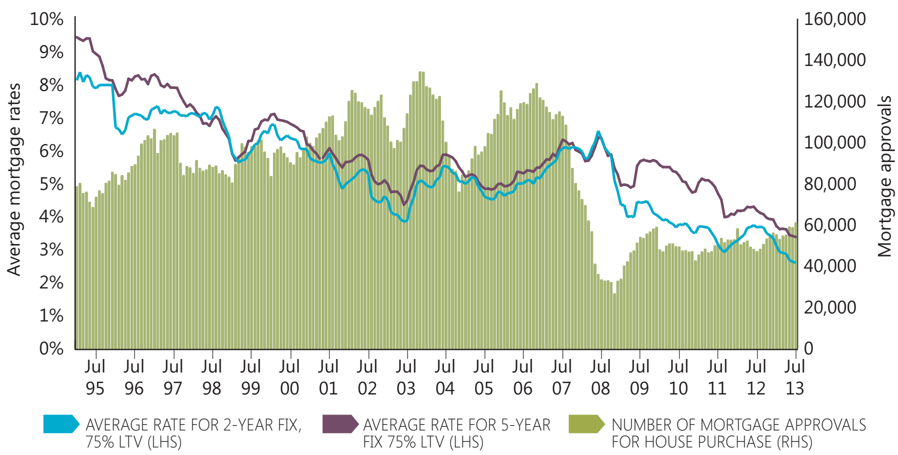
In addition, the first part of the Government's Help to Buy Scheme – the equity loan, has boosted activity in the new-build market, with 12,500 reservations so far for new-build homes across the UK. Data obtained from DCLG shows that these reservations have been evenly spread across the regions, not just centred on the stronger markets of London and the South East. There is also evidence that the scheme is starting to filter through to house building activity. The number of housing starts was up around 30% in Q2 compared to the same period in 2012. **Knight Frank research suggests that house building levels will continue to rise.** Our analysis of detailed data from Barbour ABI and Glenigan

GRÁINNE GILMORE
Head of UK Residential Research

"Increased confidence that the UK economy has turned a corner, as well as record-low mortgage rates, have helped release some of the pent-up demand for housing"

Follow Gráinne at @ggilmorekf

Mortgage rates are at record lows



Source: Bank of England

RESIDENTIAL RESEARCH

RESIDENTIAL MARKET UPDATE SEPT 2013

"Average values of properties in London's most sought-after postcodes rose by 0.6% in August, taking the annual rise to 7%."

on planning applications submitted across the UK shows that since the introduction of Help to Buy, house builders and developers have sought permission has been sought to build around 30% more private units than in the same period last year.

The effect of this pick up in confidence, and low mortgage rates (which have also been propelled by Funding for Lending) has been a rise in average house prices across the UK. Values are up by 3.5% year-on-year, according to the Nationwide Building Society, climbing by 1.4% in the three months to the end of August alone.

The national average does not tell the whole story however. The regional differences in the housing market are still stark, with London prices leading the way. Recent data from the ONS showed that price growth in London and the South East was the driving force behind the UK average growth of 3.1% in the year to June. Stripping out these regions left the UK average price growth at just 1%, far behind inflation as well as the annual growth in average wages.

Prime market performance

As conference season gets underway, there may be more discussion of a "mansion tax". Knight Frank's latest research report is an in depth look at the facts and figures behind the headlines. Read Taxing High Value Properties in full.

Meanwhile prices in prime central London are continuing to advance, although at a slightly slower pace than the wider London market. Average values of properties in London's most sought-after postcodes rose by 0.6% in August, taking the annual rise to 7%. But just as the UK regional markets are varied, so are the different areas of prime central London, with some central areas including Belgravia and South Kensington showing no growth or only modest 0.1% growth during the month. This suggests that there is increased resistance to price growth at the top of the market, while prices for sub-£2.5m properties continue to grow apace.

Prime country house prices were down 1.2% on an annual basis in Q2, while Scottish country house prices remained unchanged on the year.

Rental market

Increased buying activity is putting downward pressure on rents, which rose by just 0.2% in July, taking the annual change to 1.8%.

In prime central London, rents have continued to decline, dropping by 0.2% in August. However, they are just 4.6% lower than the peak of the market in September 2011, and are still 22% higher than the market trough in the second half of 2009 despite the uncertainty in financial sector employment market in London. Activity in the market remains strong, and this, coupled with the increased demand for corporate lettings thanks to the expansion of the technology, media and telecoms sector, suggests the outlook for the market is positive.

RESIDENTIAL RESEARCH

Gráinne Gilmore
Head of UK Residential Research
+44 20 7861 5102
grainne.gilmore@knightfrank.com

PRESS OFFICE

Daisy Ziegler
+44 20 7861 1031
daisy.ziegler@knightfrank.com

RECENT MARKET-LEADING RESEARCH PUBLICATIONS

The Wealth Report 2013

The London Review Summer 2013

House Price Sentiment Index (HPSI) August 13

Prime Central London Sales Index August 2013

Knight Frank Research Reports are available at **www.KnightFrank.com/Research**