

## PRICE MOMENTUM EASES

Average UK house price growth slowed again in January, as did the pace of price rises in the prime central London market. All eyes are now on the election build-up as the political parties start to lay out their stall for housing policies, including housebuilding, taxes and the private rented sector. Gráinne Gilmore examines the latest data.

### Key facts February 2015

The annual rate of UK house price growth slowed to 6.8% in January, down from 7.2% in December

Average property prices in prime central London dipped by 0.1% in January, taking the annual rate of growth to 4.6%

Prime central London rents rise by 3.4% year-on-year, the highest rate of growth in 3 years

Complete pre-election round-up of housing policies in Knight Frank's new house price forecasts report



GRÁINNE GILMORE  
Head of UK Residential Research

"The General Election is now taking centre stage – housing will be a key battlefield for votes on May 7th."

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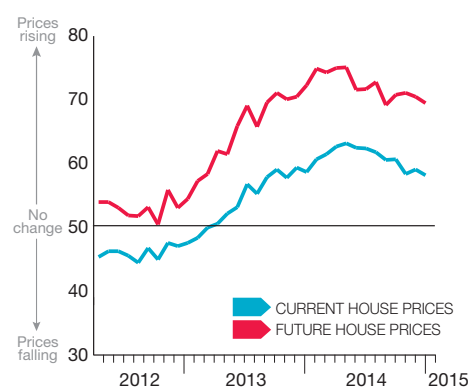
### UK housing and economic overview

The threat of interest rate rises has receded again as the Bank of England Governor Mark Carney last week warned that the country could be entering a period of deflation. Falling real prices would mean there is little impetus for policymakers to lift interest rates from their current record low of 0.5%. As a result, mortgage rates are falling again, but the full impact of cheaper loans is being tempered by new mortgage regulations introduced last year. Buyers still have to access large deposits, and the historical rise in house prices means meeting affordability ratios still remain a challenge.

Instead, the pace of house price growth continues to moderate, with average values in the UK and in prime central London, easing in January. Across the UK, buyer demand has moderated since last summer, despite falling unemployment and a growth in wages. This is also reflected in the latest Knight Frank/Markit house price sentiment index (HPSI) which shows a slowdown in expectations for house price growth over the next year, as shown in chart opposite.

The election is now taking centre stage and many of the main parties have made housing a priority in their campaigning – meaning it will be a key battlefield for votes on May 7th. Brandon Lewis, the housing minister, Emma Reynolds, the shadow housing minister and

### House Price Sentiment Index

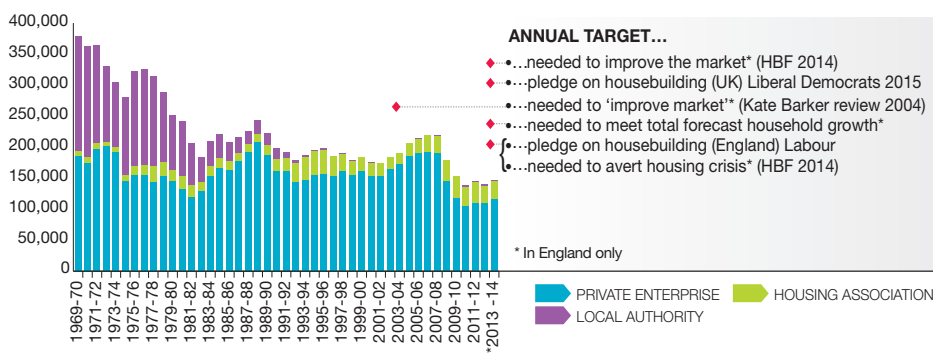


Source: Knight Frank Residential Research / Markit

housing spokespeople from all the main parties share their housing goals with Knight Frank in our pre-election forecast update. It is notable that housebuilding targets, property taxes and the private rented sector are some of the key areas of contention.

The need for more homes to be built is highlighted by the chart below. Labour, the Lib Dem's and the Conservatives continue to tussle about the idea of a "mansion tax", with Brandon Lewis, the housing minister, dubbing it a pledge under the "politics of envy". Data analysis by my colleague Tom Bill shows that houses bought in London for £250,000 in 1995 could now be liable for such a £2m+ mansion tax if it is introduced.

### Housebuilding in a historical context Annual housing completions, UK



Source: DCLG \*\*estimate

**Prime markets**

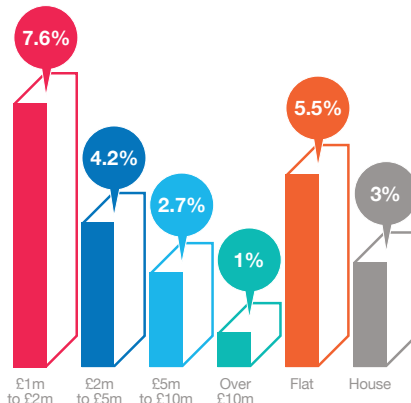
Prices in prime central London slipped by 0.1% in January, taking the annual rate of growth to 4.6%, the most modest change for five years. However, the pace of growth remains localised, as shown in the map below.

Across the rest of England and Wales, prime house prices rose by 3.4% last year. Again this market is regionalised, with key commuter towns such as Oxford outperforming, as well as key regional cities such as Bristol. There is increasing interest from buyers moving from London, keen to capitalise on the relative difference in pricing between the capital and the rest of the country. House prices in prime central London have risen by 73% since the start of 2009, prime country house prices have only edged up by 5% in that time.

The debate about “mansion tax” in the run-up to the election is having some impact on the prime markets however, weighing on activity for homes in the £2-£4m bracket. It is noticeable that the

pace of growth for homes worth less than £2m is currently much stronger than higher value homes.

**Prime central London prices by value and type 12 months to January 2015**



Source: Knight Frank Residential Research

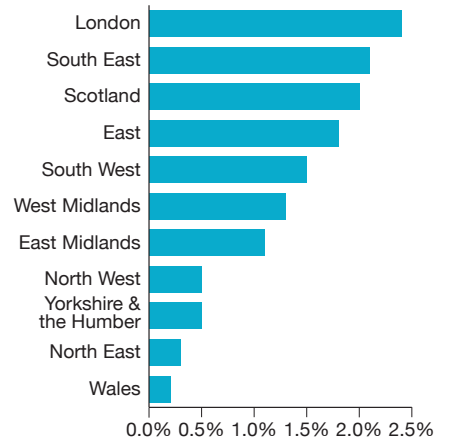
**Rental markets**

Average rents rose by 1.7% across the UK in 2014, according to new data from the Office for National Statistics. This is

well above the current CPI rate of inflation of 0.5%. However, rental increases in the mainstream market in London were the highest, at 2.4%.

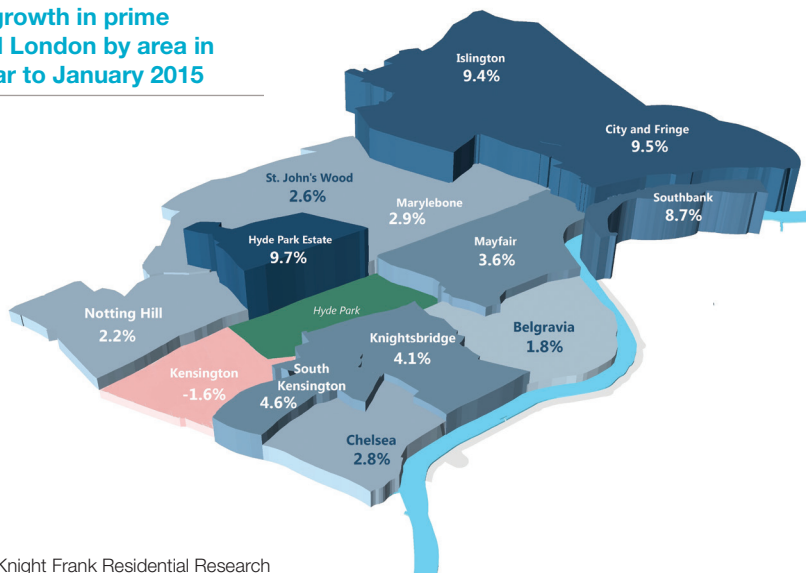
Rental growth in prime central London outpaced this with 3.4% growth year-on-year in the 12 months to January.

**Annual rental growth % 2014**



Source: ONS

**Price growth in prime central London by area in the year to January 2015**



Source: Knight Frank Residential Research



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