

THE GENERATION GAP

Average UK house price growth remains modest, while in prime central London, there is price growth in some areas after more than 18 months of declines. Meanwhile, policy-makers are focused on the intergenerational housing gap.

Key facts May 2018

Average house prices ticked up by 0.2% in April, taking the annual rate of growth to 2.6%

Prime central London prices edged down by 0.3%. The annual change is at -1.2%

Average rents rose at an annual rate of 1.1% in April across Great Britain

The Bank of England base rate remains unchanged at 0.5%

Economic and housing market update

Attention is already turning to the August meeting of the Bank of England’s base rate setters. There are expectations that, having held rates steady at 0.5% this month, they will move to raise rates to 0.75% at the end of the summer.

While a quarter point rise would lift the base rate to a nine-year high, interest rates will still be at a record low on a long-term basis, as shown in the chart below.

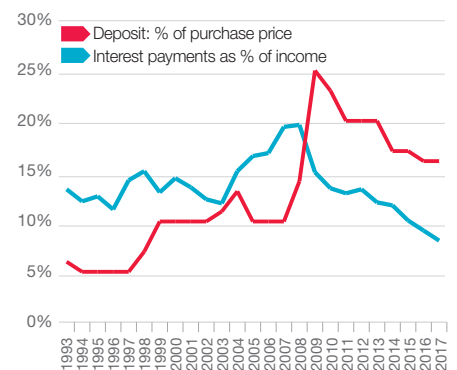
Swap rates, the money market rates that determine fixed-rate mortgage pricing, are already starting to rise on the expectation of an increase, but mortgage rates will remain modest in the short to medium-term.

The nature of mortgages on offer is also changing.

There is an increasing range of mortgages that are designed to bridge the “deposit gap” for younger buyers by offering up to 95% and even 100% of the value of a new home. However, in a change from the home loans on offer before the Global Financial Crisis of 2008/09, many of these mortgages need to be guaranteed by another party, perhaps a relative with certain levels of capital.

As can be seen from the chart, first-time buyers are now paying an average 16% deposit on a new home, equal to around £26,000, according to data from UK Finance.

First-time buyers: Deposits and repayments



Source: Knight Frank Research / UK Finance

The government has marked bridging the generational gap in the housing market as a key priority, illustrated by the scrapping of stamp duty for first-time buyers who are purchasing a home worth up to £300,000 and the reduction in costs for those buying homes up to £500,000.

In the new-build market, around 80% of homes purchased through the Help to Buy



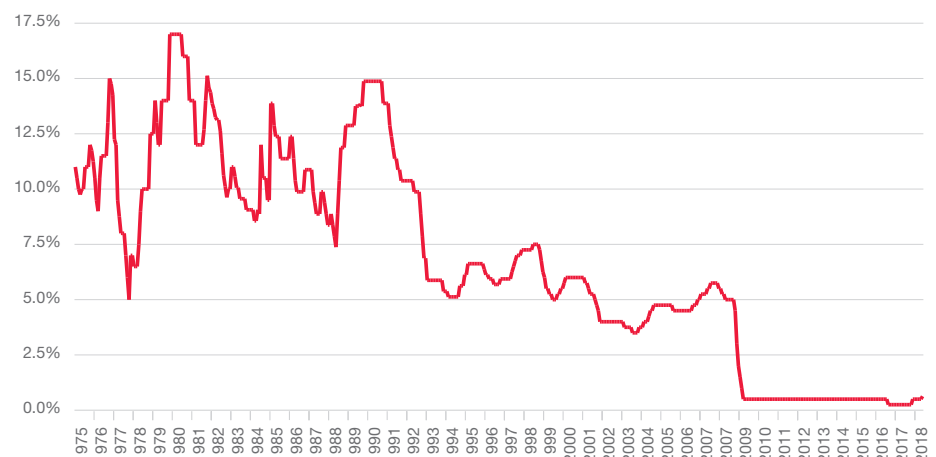
GRÁINNE GILMORE
Head of UK Residential Research

“The average first-time buyer is paying around £26,000 for a deposit, some 16% of the value of their first home ”

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Bank of England base rate 1975-2022



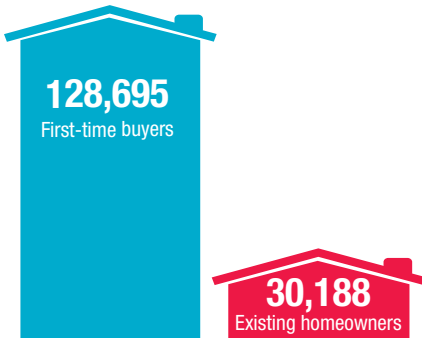
Source: Knight Frank Research / BOE

UK RESIDENTIAL MARKET UPDATE MAY 2018

Equity Loan scheme have been to first-time buyers. This scheme to bridge the deposit gap is due to end in 2021 – and there are calls for more clarity on how this will happen.

Help to Buy Equity Loan, take-up

(to March 2018)



Source: Knight Frank Research

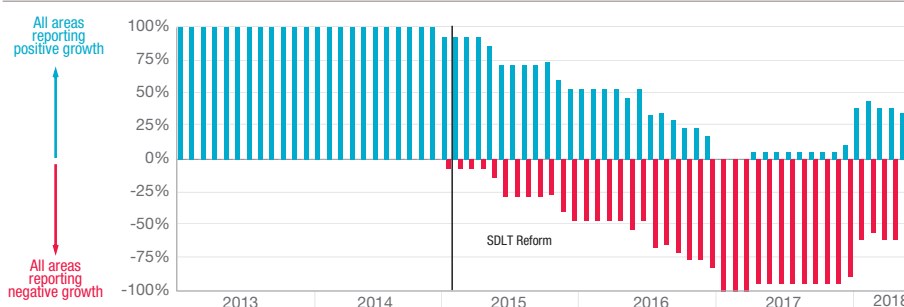
The increasing affordability pressures in some areas of the country are highlighted by the average house price to earnings ratio, which has risen from 5.1 in England and Wales in 2002 to 7.7 in 2017. However, this headline figure masks the regional divide, with HPE ratios ranging from 13.2 in London to 5.2 in the North East.

Prime market update

Prime central London prices dipped by 0.3% in April, taking the total decline since February to 2.4%. However, on an annual basis, prices are down by just 1.2%, while for properties priced at between £5 million and £10 million, values are up 1.2% on the year.

This price band also saw the biggest pick-up in transactions in the year to April, with overall transactions across prime central London up by around 6% in the 12 months to April, according to data from LonRes. Around a third of areas in prime central London are now seeing positive annual price growth.

Prime central London Proportion of markets reporting positive/negative annual growth

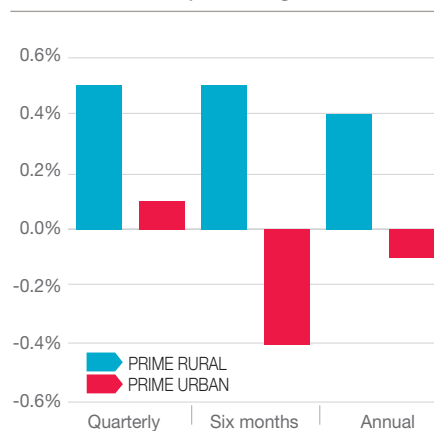


Source: Knight Frank Research

Prime residential prices outside of the capital were broadly flat in Q1, edging up by 0.2% on the year. However, the market is characterised by a split between price performance in urban and rural locations. While urban pricing has outperformed more rural locations for several years, there are signs that this trend is now reversing – although all movements in price remain small.

Urban house price values are now around 5% higher than the market peak in 2007 while average values for prime property in rural areas remain around 10% below peak values.

Rural revival? % price change



Source: Knight Frank Research

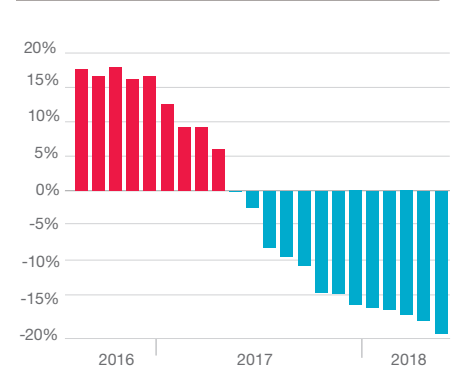
Prime Scottish property prices are also broadly flat, up 0.3% on the year, but there are signs that activity is picking up.

In the **lettings market**, average UK rents were up by an average of 1.1% across England, Wales and Scotland in the year to March, according to data from the ONS. Relatively low mortgage rates are helping offset some of the increased tax charges for many landlords because of the ongoing cuts to mortgage interest rate relief. In addition, an increase in ‘accidental landlords’ putting their homes up for rent rather than selling them has boosted supply, putting downward pressure on rents.

However, there are signs that this trend is already unwinding in **the prime central London lettings market**, with fewer new listings coming onto the market coupled with increased demand, which is likely to put upwards pressure on rents.

Prime central London lettings

Annualised % change in new listings (existing properties)



Source: Rightmove



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