

POLICYMAKERS MAKE HOUSING A PRIORITY

The Bank of England is given new powers to curb mortgage lending as the Governor warns that interest rates may move sooner than expected. Meanwhile the prime central London market is 'pausing for breath' while prime rents start to rally.

Key facts June 2014

UK house prices rose by 0.7% in May and are up 11.1% year-on-year, according to Nationwide. Land Registry reports a 6.5% rise to April 2014.

Prime central London residential values are up 7.8% on an annual basis

Average rents in prime central London rose by 0.2% in May, and are down 1.4% year-on-year

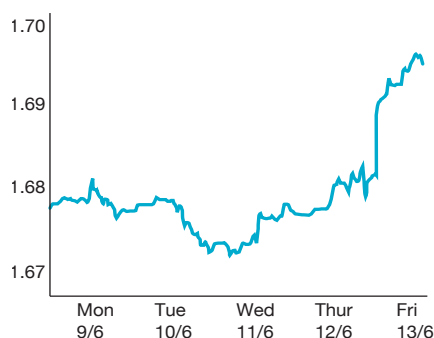
House price sentiment or future growth remains near record highs across the UK

UK housing market and economic overview

Housing has moved up the agenda over the last year. Not only among politicians as they start to wind up to next year's general election, but also at the Central Bank. Mark Carney, the Bank of England Governor, last night said that interest rates could start rising sooner than financial markets expected (the market was pricing in the first rise in Q2 2015). An earlier rate rise could weigh on housing sentiment, bringing home the reality that rate rises, after five years at a record low, will now start their inexorable move upwards.

This will have an impact on mortgage borrowers on variable rates, as well as prospective buyers who have yet to negotiate a mortgage deal. However it is arguably more important to consider how high rates will rise. The markets are pricing in an increase to around 2.25% during 2017. The announcement was enough to push sterling to near five-year highs against the dollar however.

Exchange rates: US dollars per £1 sterling



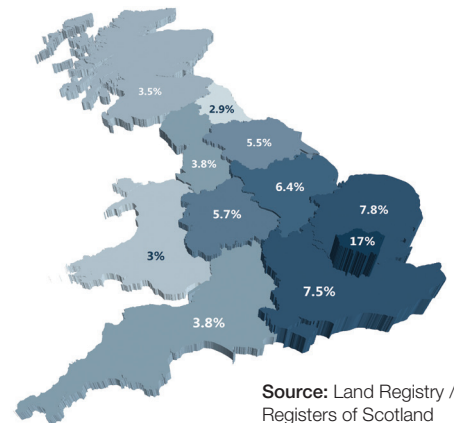
Source: Knight Frank Residential Research / Macrobond

The Chancellor George Osborne was also speaking last night, and while he said there was "no immediate cause for alarm" on house prices rises, he added that "if London prices were to continue growing at these rates that would be too fast for comfort."

It is no coincidence that he focused on London prices, as can be seen in map below, prices here and in the wider south east region are far outpacing the growth seen in the North of England.

Annual % price change by region

April 2013 - April 2014 (Scotland year to Q1 2014)



Source: Land Registry / Registers of Scotland

Although mortgage lending levels are much lower than at the peak of the market, there is concern about the rising number of mortgages being extended at more than three or four times a borrower's earnings. As a result the Chancellor handed the Bank of England a remit to directly intervene in the mortgage market to impose thresholds on how much people can borrow relative to their income.

The Bank has always had the power to suggest such thresholds, and there is no guarantee it will use its new, "direct", powers – the real crux of the Chancellor's announcement may have been the signal it sent. Between lending curbs and higher interest rates, mortgage borrowing may be more difficult to access. Mortgage lending is already declining in the wake of the tough new MMR regulations introduced in April.

However, it must be remembered that cash buyers now account for more purchases than either new buyers using a mortgage or homemovers using a mortgage, accounting for well over a third of all transactions. They will be unaffected by any of these moves.



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"An earlier than anticipated rate rise could weigh on housing sentiment, bringing home the reality that rate rises, after five years at a record low, will now begin their inexorable move upwards."

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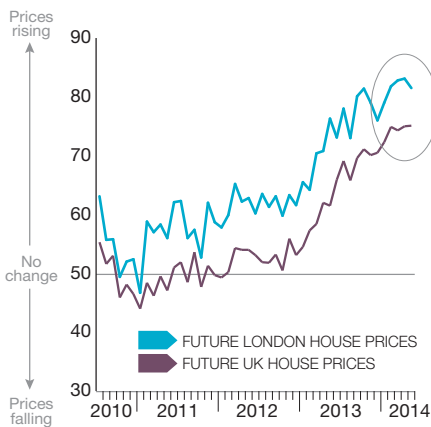
The Chancellor also pledged to try and address the housing supply crisis, including a requirement that local councils put forward 90% of brownfield land for housing. He also said he would be working with the Mayor of London to boost housing supply in London. He will create housing zones in the Capital – areas of brownfield land where planning restrictions will be removed. The aim is to speed up the delivery of 50,000 new homes.

This came as the International Monetary Fund (IMF) sounded the alarm about global housing markets, as record low interest rates have fed into price rises up past historical averages. As shown in our recent Global House Price Index, the UK has seen the 12th biggest growth in residential property prices compared to 53 other countries in the year to March. In Q1 last year, it was ranked 34th.

Housing sentiment remains high, with a continuation of the growth seen since last March, when better economic news started to emerge into the market, as well as the announcement of the Government's multi-billion pound Help to Buy scheme.

Rising sentiment

House Price Sentiment Index, May 2014



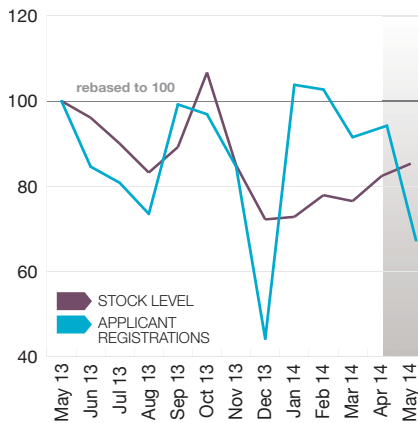
Source: Knight Frank / Markit Economics
NB: A score of 50 equates to no change, above or below representing growth or decline respectively

However the index reading for London fell in May, suggesting that Londoners are tempering their expectations for increasing values over the next year.

Prime markets

Average prices in prime central London rose by 0.8% in May, taking the annual increase to 7.8%. However this growth is largely being driven by homes worth up to £2 million. There are signs of growing caution among buyers in the market, especially at the top end, with the number of viewings undertaken before a property is sold rising by 70% year-on-year. Applicant volumes have also eased, as shown in chart below. The pace of annual growth for super-prime London homes, worth £10m+, is now around 3%, down from 6% in May 2013 and 9% in May 2012.

Applicant registrations for prime central London property drop in May



Source: Knight Frank Residential Research

Prime country house prices are up 4.5% on the year, the fastest rate of growth seen since 2010, with some areas registering notable outperformance, such as Virginia Water (16.7%), Bristol (9.9%), Cobham (9.9%) and Bath (9.1%), underlining the attraction of more urban

locations on the fringes of London and in cities further afield. Prime property in urban areas have risen by an average of 8.2% since Q1 2013, while homes in more rural locations have climbed by 4.1% over the same period.

Prime property prices in Scotland rose by 1.1% in the first three months of this year, taking the annual growth rate to 2.8% in the year to Q1 2014.

Rental market

Prime rents are starting to gain traction, while mainstream UK rents are softening. Applications are rising for rental property across the prime central London market, and rents rose by 0.2% in May, narrowing the annual decline to 1.4%. In the Home Counties, applicant numbers also rose in the first three months of the year, increasing by 38% compared to Q1 2013. This helps rents edge up by 0.7% in the first three months of the year. Average rents across the UK have risen by a modest 0.6% in the year to April.



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