

HOUSING TAKES CENTRE STAGE

The Governor of the Bank of England underlined the importance of housebuilding in the latest Inflation Report. Meanwhile, residential prices continue to rise in most corners of the country, although the pace of growth varies across the UK

Key facts May 2014

UK house prices rose by 1.2% in April and are up 10.9% year-on-year, according to Nationwide

Prime central London residential values are up 7.5% on an annual basis

Average rents in prime central London rose by 0.3% in April, and are down 1.2% year-on-year

House price sentiment remains near record highs across the UK



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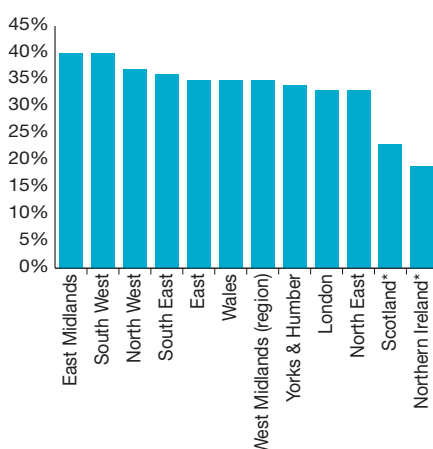
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Regional picture

House prices are continuing to strengthen across the country, with the largest rise in values seen in Greater London and the South East. The “ripple effect” from the centre of London has been underpinned by rising buyer demand. A return of economic confidence has not only sparked a return of buyers in the capital, but also all across the country, and this is reflected in the volume of sales as shown in the chart below.

Annual rise in residential sales volumes, UK

Annual rate of growth, 3 months to January 2014

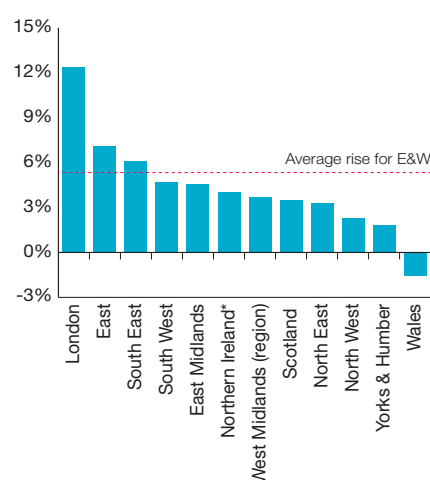


Source: Land Registry/Registers of Scotland/NISRA
*latest available data

In turn, this increased activity has pushed up prices, although the largest increases in values over the last year have been weighted towards the South of England.

Annual price growth by region

Year to March 2014 (% price change)

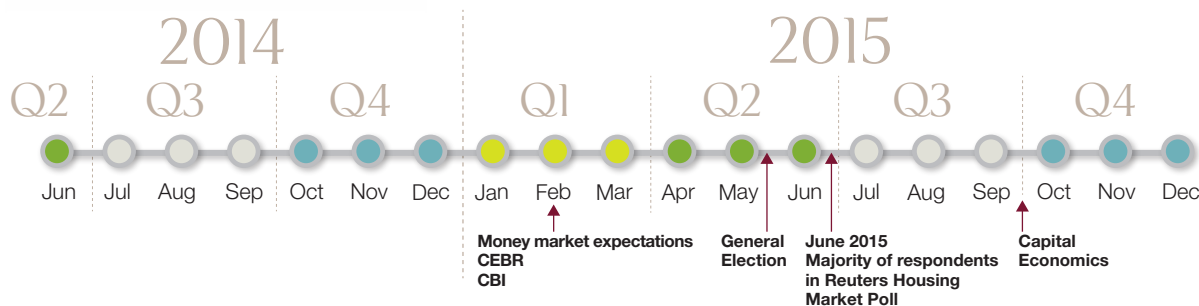


Source: Land Registry/Registers of Scotland/NISRA
*year to December 2013

The economic news is likely to continue improving, with the Bank of England confirming in this week's Inflation Report that it expected the country's GDP growth to reach 3.4% this year, up from 1.9% in 2013. Governor Mark Carney also highlighted the annual shortfall of 120,000 houses being built across the UK, the first time this issue has been explicitly mentioned during the Inflation Report for some time.

Despite the generally positive tone of the Bank's quarterly update on the economy, there was little sign that it is set to raise interest rates before Q2 next year. There are several reasons for this – although the

When will the Bank of England start to raise interest rates? Forecasts

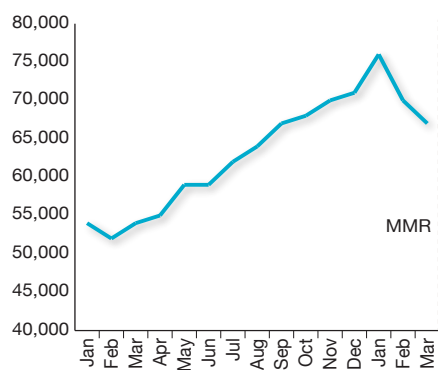


1%-
1.25%

OBR forecast
for bank base
rate end of 2015

economy is growing, the rate of growth has been slightly slower than expected. On the flip side, there is little inflationary pressure at present. In fact it is housing which is creating the most concern in terms of inflation. But the central bank will have no doubt examined the recent data showing that the new mortgage lending rules introduced under the Mortgage Market Review (MMR) could be acting as a partial natural brake on the market, with initial data showing a slowing in mortgage lending over the last few months.

Number of loans approved for house purchase Monthly, UK



Source: CML

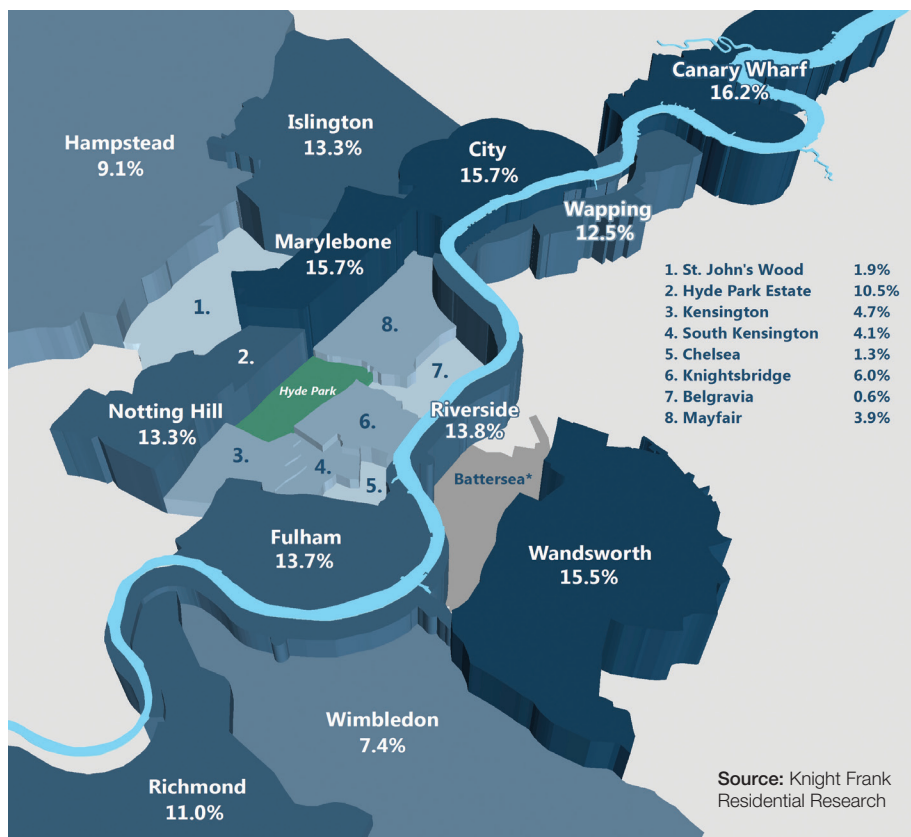
Prime markets

The multispeed nature of the prime London market is illustrated in map above. The average price growth for prime outer London was 11.5% in the year to the end of March, compared to 7.5% in prime central London, and within these markets, there was a wide divergence in price performance, with values in Belgravia up just 0.6% on the year, compared to Canary Wharf, where prices have risen by 16.2%.

Average values in the prime country market have started to rise, recording an increase of 4.5% in the year to the end of Q1 2014. After rising and falling at the same pace in the run up to, and the aftermath of the

Prime London house price changes, year to end April 2014

*Battersea not included due to insufficient historical data



Source: Knight Frank Residential Research

financial crisis, urban and rural prices have now diverged, with homes in more urban areas rising twice as fast as those in rural areas, with a gain of 8.2% over the last year, compared to 4.1% for rural homes.

Rental market

Rental growth across the UK slowed to 0.9% in the year to March. Rents are still falling on an annual basis in the prime central London market, but climbed by 0.3% in April, the second monthly increase. Yields remained at 2.83%. Rents are broadly flat in prime outer London, while rents in the Home Counties are down 4.3% on the year.



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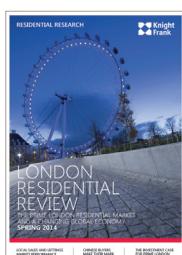
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