RESIDENTIAL RESEARCH

UK RESIDENTIAL MARKET UPDATE

POLICY & PROPERTY

The EU Referendum is starting to dominate most discussions about the economy and the real estate sector, however other policy changes have had a notable impact on the residential market in recent weeks, with transactions reaching a record high in March.

Key facts May 2016

House prices rose by 0.2% in April, taking the annual average rise in prices across the UK to 4.9%

Prime central London prices remained unchanged in April, with an annual growth rate of 0.5%

Average UK rents are up by 2.6% on the year in March, and by 3.7% in London

GRÁINNE GILMORE
Head of UK Residential Research

"The market is not only feeling the effect of the run-up to the EU Referendum, but also the effect of policy changes."

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Economic and housing market overview

The EU Referendum is starting to dominate most discussions about the UK economy, but it is worth listening to the mood music emanating from the economy.

A slowdown in activity has led several key economic and business bodies to revise down their forecasts for GDP.

The CBI has said that the UK economy will grow by 2% this year and next, down from its previous forecast for 2.3% growth in 2016 and 2.1% in 2017, while the IMF now expects 2.2% growth in both years.

The forecasts assume that the UK stays in the European Union, so they reflect underlying trends. However, there is an argument that the "wait and see" approach currently being taken by many businesses and investors in the run up to the vote on June 23 will leave a permanent imprint on the economy, even if activity rebounds after a vote to stay in.

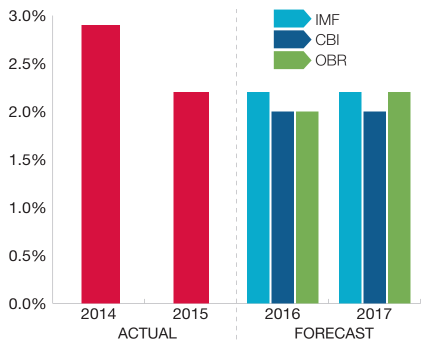
While a slightly slower rate of growth is expected, the UK is still forecast to outperform the wider EU area where an average growth of 1.7% is expected this year.

In the housing market, monitoring the "wait and see" effect of the EU Referendum, with some buyers and sellers choosing to hold off making a move until the outcome is clear, is more challenging given other policy changes.

The key change has been the introduction of the extra 3% stamp duty payable for the purchase of additional homes. The rule came into force on April 1, and as a result there was a rush of activity in March as buyers sought to complete their purchase and thereby avoid paying the extra tax. This took transaction levels to a record high. As can be seen from the chart below, such sharp increases usually unwind in the following months, and this is what we expect to see in May and June.

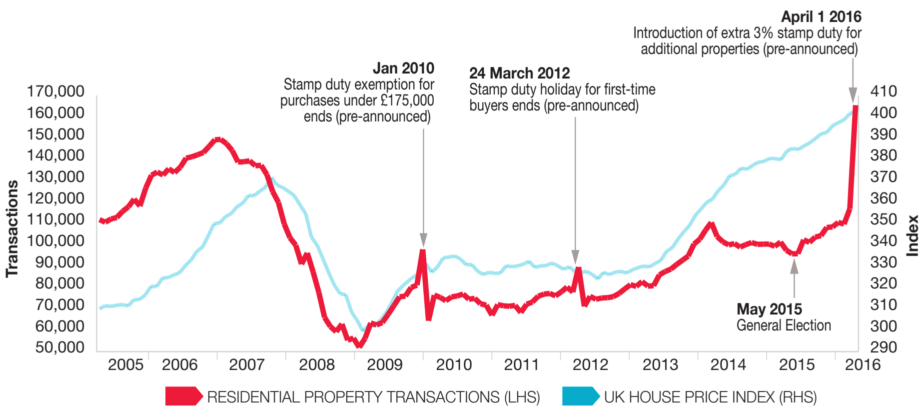
Yet even as activity levels start to normalise, the horizon period for low interest rates seems to be expanding, with some in the markets not pricing in a rate rise until 2020. Low mortgage rates will continue to underpin pricing, alongside the continuing imbalance between housing supply and demand.

UK GDP growth



Source: Knight Frank Research

Policy impacts on property transactions UK residential property transactions & UK house prices



Source: Knight Frank Research, HMRC, Nationwide

Prime market update

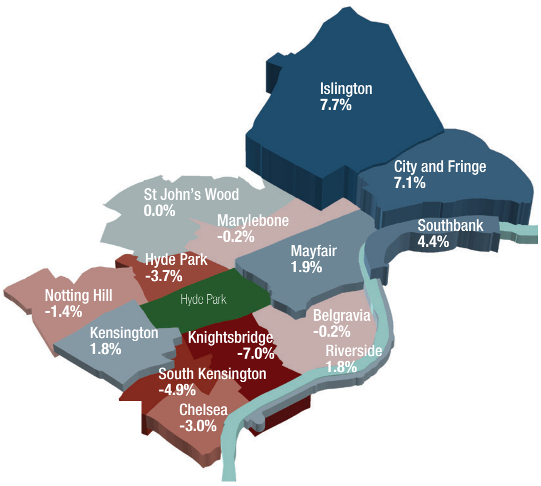
Property prices in prime central London were unchanged in April, while annual growth slipped to 0.5% the lowest rate in six and a half years. The higher stamp duty rate for second homes and buy-to-let property, which came into effect on April 1, dampened demand over the course of the month.

Indeed, while the number of sales in March was 52% higher than in March 2015, the number of sales in April fell by almost a half year-on-year, highlighting the extent of the activity that took place before the April deadline.

In prime outer London, prices grew by 3.1% in the year to March 2016, marginally down on the rate of 5.2% recorded in the year to March last year.

Price growth in prime central London

Year to April 2016

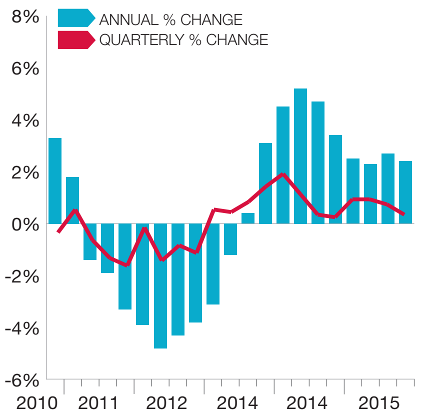


Source: Knight Frank Research

In the country market, house prices rose by 0.3% on average in the first quarter of 2016, taking annual growth to 2.4%. Similarly to the mainstream market, the prime market outside of London remains highly localised with stronger performance in areas with good schools, amenities and transport links back to the capital, something we examine further in our Prime Country Review.

Price change

Annual and quarterly change in prime country property values



Source: Knight Frank Research

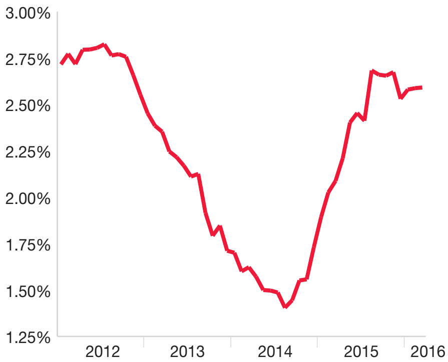
Knight Frank data shows there was a 46% increase in the number of sales to Londoners in the prime country market over the first quarter of 2016 compared to the previous year.

Rental market

Prime central London rents* fell by 0.4% in February, the seventh consecutive monthly decline. As a result, annual rental growth in prime central London was -1.8% in April, the lowest rate in two years. The decline in rental growth has been less marked in lower price brackets where demand has been stronger.

Average UK rents rose by 2.6% over the 12 months to March 2016, according to the latest figures from the ONS. Rental growth was positive in all English regions over this time, with the strongest growth in London at 3.7%.

UK annual rental value growth



Source: Knight Frank Research/ONS

*A measure of rents for existing, rather than new-build properties

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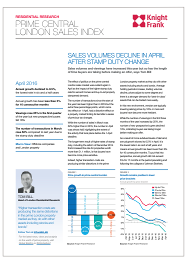
Prime Central London Sales Index - Apr 2016


Prime Country House Index Q1 2016


UK Housing Market Forecast - Mar 2016


EU Referendum Update - 2016

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