

PRICE GROWTH EASES

House price growth across the UK has started to slow amid tougher mortgage lending rules and the prospect of interest rate rises. Gráinne Gilmore examines the latest data.

Key facts October 2014

House prices across the UK fell by 0.2% in September, taking the annual increase to 9.4%, down from 11% in August

Prime central London house prices rose by 0.4% in September; annual growth slowed to 7.4% from 7.7% in August

Prime central London rents rose by 0.2% in September, taking annual growth to 1.6%

Prime country house prices in England & Wales rose at an annual rate of 4.7% in Q3 2014; Scottish prime property up 1.4% on the year



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UK housing and economic overview

The growth seen in house prices over the last 12 to 18 months has shown signs of easing, with the Nationwide reporting the first fall in UK average house prices in 16 months in September. The annual pace of growth has slowed from 11% to 9.4%, and there are still large regional variations, with prices in Greater London up 21% year-on-year.

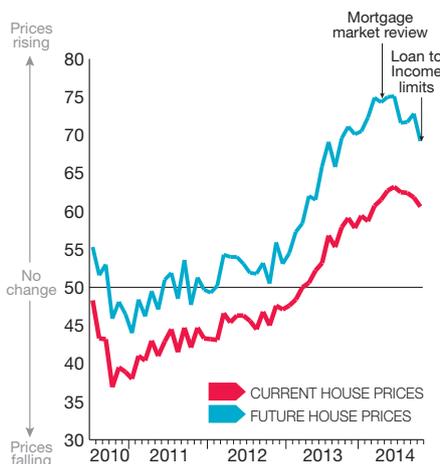
The pace of growth in prime central London is also slowing, with the annual rate of growth easing to 7.4% last month, down from 8.1% in June.

We have recently released our [forecasts](#) for the coming years, showing that the general easing in price growth will continue in 2015 and 2016. The prospect of interest rates rises, increased mortgage controls and rising house price to income ratios will start to apply more of a brake to the market.

The recent softening in house price rises has been quite well signposted, not least by the Knight Frank/Markit House Price Sentiment Index (HPSI) which is seen as a bellwether for the market. This index has fallen from its record high since June this year, as shown in the chart below.

Sentiment moderating

Expectations for current and future house prices

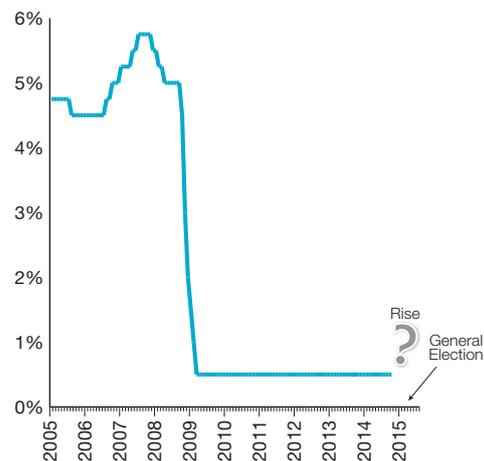


Source: Knight Frank/Markit

Yet the prospect of interest rate rises may have receded marginally in the short-term amid the worsening economic conditions in the Eurozone. There are fears that Germany, the largest economy within the 18-nation single-currency area, may slip into recession, proving that six years on from the collapse of Lehman's, Europe is still struggling to regain some sort of economic normality.

While the UK's economic growth is set to outperform many other countries this year, the slowdown in Europe is expected to have a knock-on effect, especially in the manufacturing sector. This, as well as the fact that inflation is running under the 2% target rate, may well stay the Bank's hand on raising interest rates for a little while.

Bank of England Base Rate



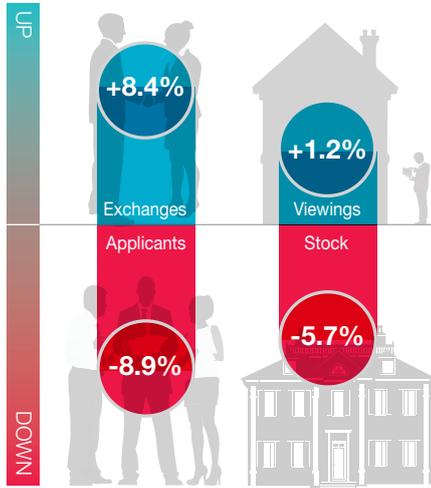
Source: Bank of England

Lower than expected inflation data could also delay a rate rise. The Consumer Price Index (CPI), the measure of the rise in the cost of living, was up 1.2% on the year in September, below expectations for a reading of 1.4% and far below the target rate of 2%.

Despite these factors, it is now all but a foregone conclusion that interest rates will be rising next year – which will directly impact homebuyers and homeowners with variable rate mortgage deals, and which will have an indirect effect on market sentiment.

Ups and downs in the prime country house market

Q3 2014 vs Q3 2013



Source: Knight Frank Residential Research

Prime markets

Prices in prime central London rose by 1% in Q3 2014, the slowest rate in nearly four years, underlining how the market is pausing for breath after 47 months of

growth. There are also signs that demand levels have cooled slightly amid some political uncertainty over the "mansion tax" in the run up to next year's general election.

The prime country house market slowed in Q3 with price growth easing to 0.3%, down from 1.1% in Q2. Year on year, the number of exchanges was up 9% in Q3, but one signal of future activity – applicant numbers, were down by 9% in Q3 compared to the same period in 2013.

In Scotland, where prime market activity has bounced back after the referendum decision, prices rose at an annual rate of 1.4% in Q3. In Edinburgh, prices are up 4.9% year-on-year reflecting the strong fundamentals in activity.

However, there is concern about the how the new 'stamp duty' regime, which will come into force in April next year, will affect the market.

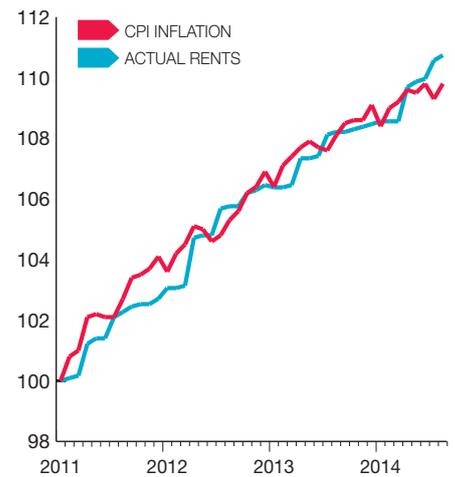
Rental market

Prime central London rents are continuing to rise, up 1.6% year on year in September, the highest rate of growth in two and a half years. Average UK rents climbed by 2.4%

year on year in August, boosted by the season as many tenants choose the end of summer/early Autumn to move into new accommodation.

For more detail on trends on the growing private rented sector, visit [Global Briefing](#), the Residential Research blog.

UK average rents



Source: ONS / Knight Frank Residential Research

Knight Frank Residential Market Forecast Q4 2014

| | 2014 | 2015 | 2016 | 2017 | 2018 | 2019 | 2015-2019 |
|---|-------|------|------|------|------|------|-----------|
| Mainstream residential sales markets | | | | | | | |
| UK | 8.5% | 3.5% | 2.5% | 3.0% | 4.0% | 4.0% | 18.2% |
| Prime residential sales markets | | | | | | | |
| Prime Central London | 6.7% | 0.0% | 4.5% | 5.0% | 5.0% | 6.0% | 22.1% |
| Prime Outer London | 10.5% | 3.0% | 5.5% | 5.0% | 5.0% | 5.0% | 25.8% |
| Residential rental markets | | | | | | | |
| UK Mainstream | 2.0% | 2.2% | 2.3% | 2.3% | 2.4% | 2.4% | 12.1% |
| Prime Central London | 4.0% | 3.5% | 3.3% | 3.3% | 3.0% | 3.0% | 17.1% |
| Prime Outer London | 0.5% | 4.0% | 3.3% | 3.0% | 2.8% | 2.8% | 16.8% |

Source: Knight Frank Residential Research

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[Retirement Housing 2014](#)



[House Price Sentiment Index \(HPSI\) Sept 2014](#)



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