

STATE OF PLAY

A change of Government comes as average UK house prices continue to moderate. Meanwhile, pent-up demand is still building in prime London and country markets.

Key facts August 2019

Prime central London prices dipped 0.2% in July, taking the annual change to -4.8%

Average UK house prices rose 1.2% in the year to May, down from 1.5% in April, according to the ONS

Prime central London rents were up 0.5% in July, with an annual change of -0.5%

Average UK rents rose 1.3% in the year to June

Economic and housing market insight

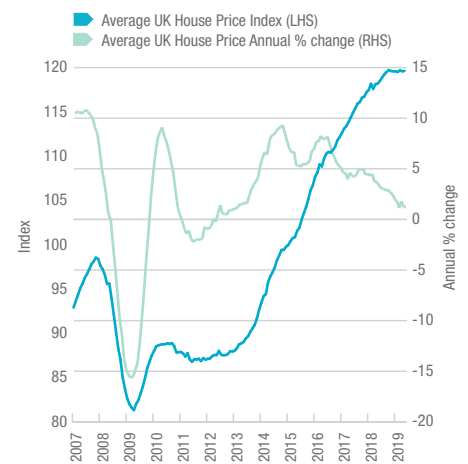
The new prime minister Boris Johnson put housing firmly on his 'to-do' list within 24 hours of being appointed in his first address to Parliament. While Brexit planning will be a top priority, the government will also want to make an impact on other key issues, while the prospect of another election looms.

The ministerial reshuffle saw Esther McVey appointed as the tenth housing minister in ten years (as shown below). However, the industry disappointment of yet another change in leadership from a policy point of view was somewhat offset by the fact that Ms McVey will have a seat at the cabinet table, underlining the importance of housing to the new Government.

Robert Jenrick replaced James Brokenshire as secretary of state for Housing, Communities and Local Government, and it has also been reported that Sir Edward Lister, a housing and planning veteran who has been helping Mr Johnson with his leadership election campaign during a leave of absence as Chairman of Homes England, may be staying on to advise the prime minister. This adds up to a hefty housing presence in the Government.

The prime minister has also hinted at plans to reform stamp duty, although as yet there is little indication as to what the changes, if

Average UK house prices



Source: Knight Frank Research/ONS

any, could look like. Another key question for policymakers is Help to Buy, and whether there will be any change to plans to end the scheme in 2023.

As Parliament starts its summer recess, the PM will be looking ahead to early September, when there is every chance of an emergency Budget, which may outline any housing proposals in more detail.

Policymakers are now looking at a housing market where price growth continues to moderate, with average values up by 1.2%

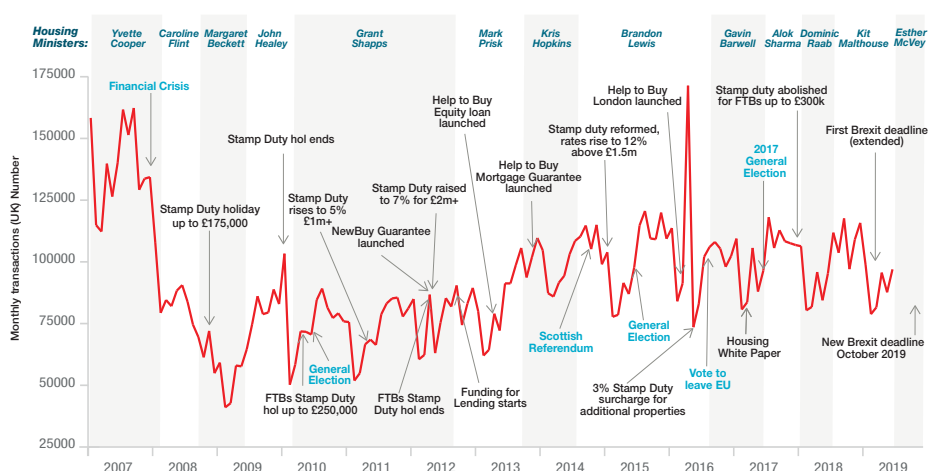


GRÁINNE GILMORE
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“The PM’s reshuffle and his choice of advisers means a relatively hefty housing presence in number 10.”

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Housing Transactions by Minister (2007–2019)



Source: Knight Frank Research/HMRC

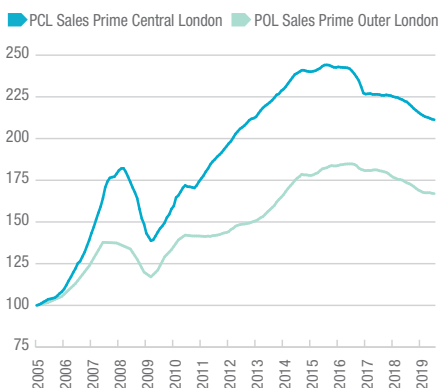
on the year to the end of May according to the latest data from the ONS, down from 1.5% in April. Yet, the markets remain highly localised, with some cities including Birmingham (4.2%), Plymouth (7.2%) and Cardiff (5.9%), still seeing stronger growth. Meanwhile, in many prime markets, pent-up demand continues to build.

Prime markets

Average property values in prime central London fell by 0.2% in July, taking the annual change to -4.8%, a moderation from the 5.1% decline seen in March. In prime outer London, average prices are down 3.7% on the year, compared to an annual decline of 4.8% in December last year.

Prime London price indices

Re-based 100=01/2005

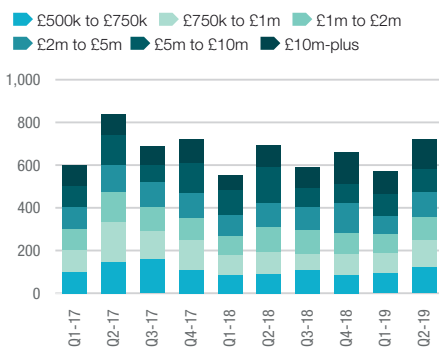


Source: Knight Frank Research

Despite a decline in overall activity in prime London in recent years, there was a pick-up in sales in central London homes in Q2, especially at the top end of the market for homes worth £10m or more as shown below. The number of new applicants – those registering their interest in buying a home – continues to rise.

Prime London sales volumes pick up

Quarterly transaction volumes by price band



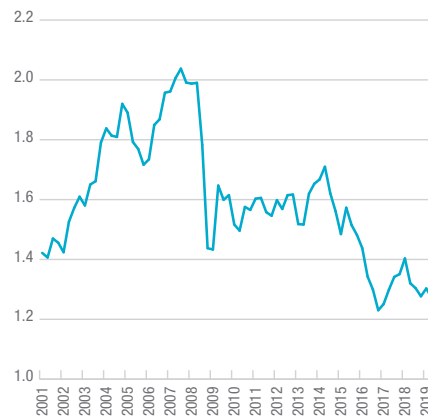
Source: Knight Frank Research/LonRes

Analysis by Knight Frank shows that London is showing the largest relative price discount for buyers purchasing in US dollars or currencies pegged to the dollar compared to other major global cities such as New York, Singapore, Vancouver and Sydney. Price declines and currency movements are underpinning this trend.

Compared to five years ago, prime London prices are on average nearly 30% lower for US Dollar buyers, and the adjustment in London is so significant that these buyer groups are seeing a 12% discount compared to only 12 months ago.

Currency effects

US Dollar vs Pound



Source: Knight Frank Research/Macrobond

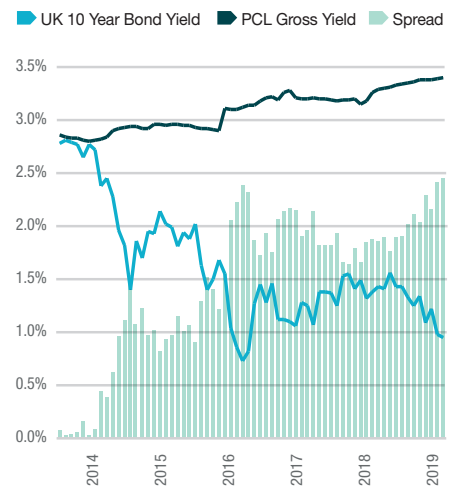
Liam Bailey, global head of research at Knight Frank, said: "There is clear evidence of money waiting to be invested in the London market from key global hubs."

In prime country markets, average prices ticked up by 0.1% in Q2, taking the annual change to -2.3%. As in the prime London market, the number of new applicants continues to rise, but this is set against a decline in new homes being put up for sale. Any political clarity is likely to release both demand and supply in this market.

Rental markets

Compared to the annual 5% decline seen at the end of 2017, rental declines in the prime London market have been moderating over the last year. The annual change in prime central London rents was 0.1% in July, while there was no change in prime outer London rents. This upward movement, coupled with price declines over the same period, have pushed yields to the highest level in five years.

Best relative yield in PCL for 15 years



Source: Knight Frank Research

Across the UK, average rents rose by 1.3% in the year to the end of June.

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