

A LOOK BACK... AND FORWARD

Average house price growth moderated in 2017, with average values up 2.5% in the 12 months to December, compared to 4.4% a year ago. Meanwhile, in prime central London, price declines moderated. Looking ahead, current trends will continue, although the market remains localised, with forecasts for price changes in the regions ranging from -0.5% to +2% in 2018.

Key facts Dec 2017

Average UK house prices rose 0.1% in November and are up 2.5% on the year, according to Nationwide

Prime central London prices slipped by 0.1% in November, but the annual rate of decline continues to moderate, now standing at -2.2%

Overall transaction volumes fell 6% in the year to November compared to the same period last year, but are at similar levels to 2015

House prices forecast to rise by 1% across UK next year

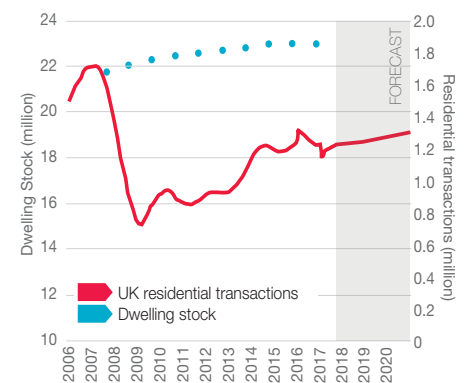
Economic and housing market overview

A snap general election, the first interest rate rise in a decade and continuing Brexit negotiations – 2017 has been an eventful year. While uncertainty among buyers and vendors has been a factor in the housing market, it is one of only several fundamentals steering pricing and activity trends.

Stamp duty has been a key influence in some parts of the market, and this year the Government raised record sums in the property tax levied on residential transactions. After five major changes to stamp duty since 2011, the level of income raised from prime market transactions has increased substantially, causing a slowdown in activity in some areas, especially in more discretionary markets.

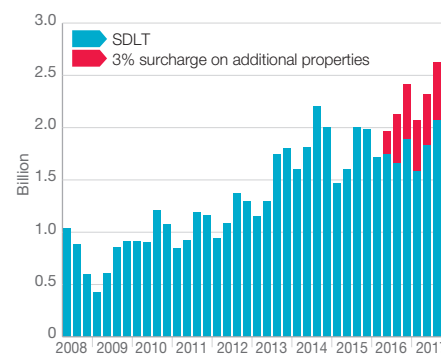
struggling to save for a deposit. There have been calls for some similar tax breaks for home movers, and especially downsizers, in order to help maintain 'churn' in the second-hand housing market, and ensure the most efficient use of housing space.

Residential transactions and total number of homes, UK



Source: Knight Frank Research/HMRC/DCLG

Stamp Duty Receipts, England, Wales and NI

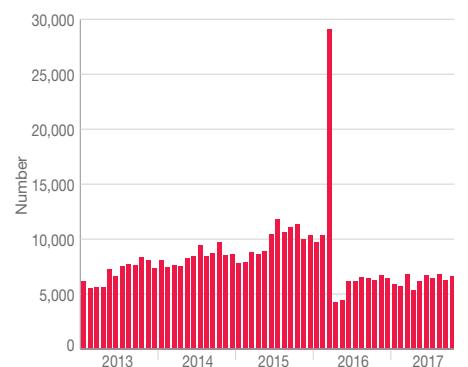


Source: Knight Frank Research/HMRC

However, there was also a welcome change to stamp duty this year, with the Chancellor's announcement in last month's Budget that first-time buyers would be exempt from stamp duty up to £300,000, applicable as long as they were purchasing a home worth less than £500,000.

This will help ease the path to homeownership for first-time buyers

Mortgages for Buy to Let purchases



Source: Knight Frank Research/UK Finance

The introduction of the extra 3% stamp duty surcharge for additional properties, coupled with the start of withdrawal of some **mortgage interest relief** for buy-to-let landlords, has also had an impact



GRÁINNE GILMORE
Head of UK Residential Research

“Despite a General Election and Brexit, the housing crisis has also dominated the political agenda in 2017.”

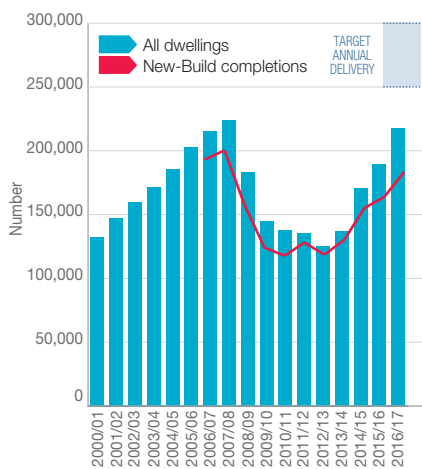
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with mortgage data indicating that fewer **buy-to-let landlords** are entering the market. However, there is, as yet, little sign that landlords are selling up in volumes large enough to have a meaningful impact on the market, with a lack of homes for sale characterising the market in many areas. Even if this trend does emerge, the increasing demand for rental property will further underpin the growth in the number of **professional landlords** in the **Build-to-Rent** sector.

New Housing Delivery: England

Net additions



Source: Knight Frank Research/DCLG

This year may have marked the first **interest-rate rise** in more than a decade, but mortgage rates are still historically low. This remains a key factor underpinning pricing, although affordability of housing is becoming a more pressing issue in some parts of the market. This is one reason why, despite a snap election and Brexit negotiations, **the housing shortage** has dominated the political agenda this year. Prime Minister Theresa May, the Prime Minister, has personally pledged to tackle the issue. The chart above shows the

scale of the task at hand. The number of new home completions will likely continue to rise next year, but will remain notably short of the 275,000 target.

Prime market update

Average prices in prime central London are down 2.2% year-on-year, marking the most modest rate of decline since August 2016. There are also signs of increased levels of demand. There was a 2.8% rise in the number of new prospective buyers registering between January and October 2017 compared to the same period last year, while viewing levels were up 8%. This comes amid falling stock levels, with the number of new listings at £2m+ down 17% between January and October compared to the same period last year, according to Rightmove.

The prime country market has been characterised by a lack of stock, which is putting a floor under pricing. Average values are up 0.2% on the year, however values in rural areas rose by 0.1% in Q3, while average urban values slipped by 0.6%. We expect this **trend to continue** as buyers increasingly perceive value in more rural markets.

Prime country house prices in Scotland are down 0.3% in the year to the end of Q3, while prime prices in Edinburgh are up 4.5%.

Rental market

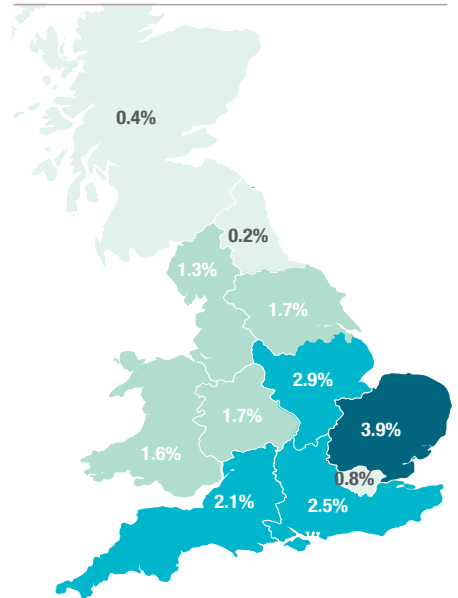
Prime rents in central London are down 2.4% on the year, but declines are starting to slow as supply becomes constrained.

In the Home Counties, rents are down 2.6% on the year.

Average rents across the Great Britain rose 1.6% year-on-year in September, according to the ONS.

Latest rental performance by region

Annual % growth year to October



Source: Knight Frank Research/ONS



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