

TO RAISE OR NOT TO RAISE

Attention is focused on Bank of England rate-setters as they prepare to deliberate whether to raise rates the highest level in more than nine years, though they will still be ultra-low by historical standards.

Key facts July 2018

Average UK house price growth was 2% in June, down from 2.4% in May

Prime central London prices slipped 0.4% in June, taking the annual decline to -1.8%

Average UK rents rose by 1% in the year to June, the same rate of growth as in May

Rents in prime central London rose by 0.8% in the year to June, the first annual rise since January 2016

Economic and housing update

Every piece of economic data released in the last few weeks has been pored over for clues as to what it might mean for the Bank of England's rate decision on August 2nd. Economists are split on whether the central bank will move rates. The table below shows how the data is being interpreted.

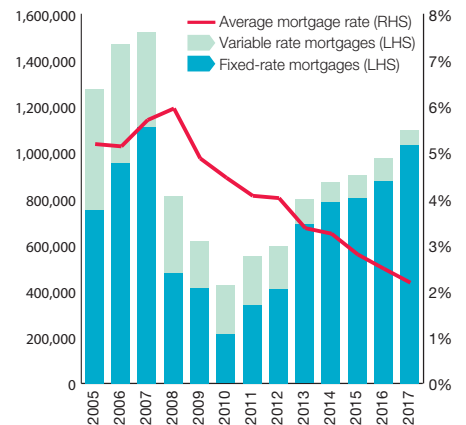
Will interest rates move in August?

	STAY SAME	RISE
MAY VOTE	7	2
INFLATION	CPI 2.4% for June (expected 2.6%)	
EMPLOYMENT		Low unemployment
ECONOMY		GDP up 0.3% in May
HIGH ST SPENDING	Retail sales down 0.5% in June (expected +0.2%)	Spending up 2.1% in Q2, strongest quarterly rise since 2004
WAGES	Slower than expected 2.5% in 3 months to May	

for more than nine years. Even if the rate rise doesn't come this summer, expectations are high that there will be one, if not two rate rises this year.

What will this mean for mortgage holders? Many borrowers who have taken out a loan in the last year or 18 months will see no immediate change to their monthly mortgage payments, as around nine in ten of all new mortgages and re-mortgages taken out over the last four years have been fixed-rate deals.

Proportion of fixed vs variable rate mortgages UK, new purchases and re-mortgages



Source: UK Finance

In total, some 4.7 million owner-occupiers have variable-rate mortgage deals, according to data from UK Finance. This accounts for 27% of all homeowners across the UK (with or without mortgages).



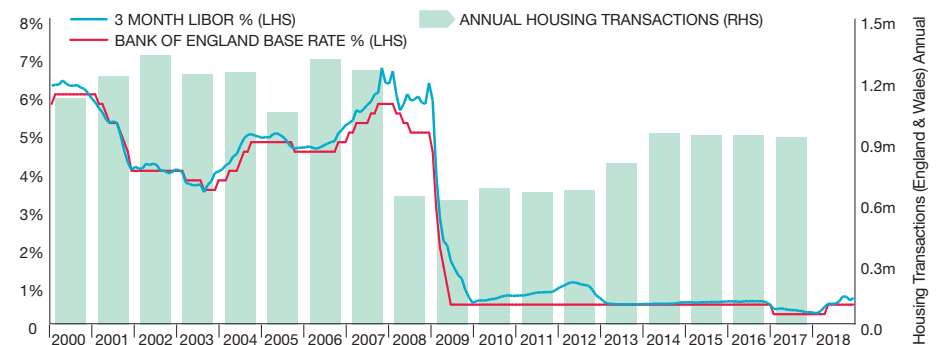
GRÁINNE GILMORE
Head of UK Residential Research

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Bank of England base rate, 3-month Libor rate, housing transactions



Source: Knight Frank Research/ Molior/ HMRC

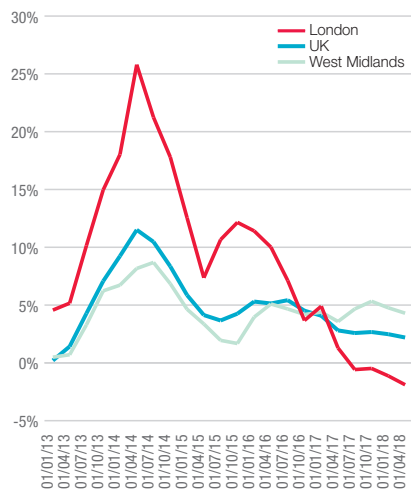
These borrowers will see a rise in their monthly payments, however this will depend on the details of their mortgage. For someone who recently took a £250,000 home loan on a tracker mortgage pegged at 1.3% above the base rate, a quarter-point rate rise will add £52 to their monthly repayments, or around £625 over the course of a year.

At present, the average repayment (capital and interest) on a homeowner mortgage in the UK accounts for around 18% of household income, UK Finance data shows.

It is worth noting that, while a quarter point rate rise may have a limited immediate impact on many mortgage borrowers, the hike will likely be seen as the first of a series of rises – albeit spread out over several years. The changes will be felt when borrowers come to the end of their fixed-rate deal, as mortgage rates will then be reflecting new, higher interest rates.

Meanwhile, house price growth moderated again in June to 2% on average across the UK. However, the regional differences remain stark, with average pricing in London down 1.9% in the year to the end of June, while prices in the West Midlands are up 4.2%.

Annual average house price growth



Source: Knight Frank Research, Nationwide

Prime market update

Average house prices in prime central London declined by 1.8% in the year to June, though the dip in pricing for £5m+ homes was more modest, at -0.3% for homes valued between £5+ and £10m, and -0.5% for homes priced at £10m+. Average residential values in prime outer London were down 3.8% on the year.

In the country, prime residential prices rose by 0.5% in the three months to June, taking the annual change to 0.7%. Town houses saw the biggest rise at 1.9%, compared to cottages with 1.2% growth, and manor houses with 0.7% growth.

Prime Country residential pricing

Year to Q2 2018

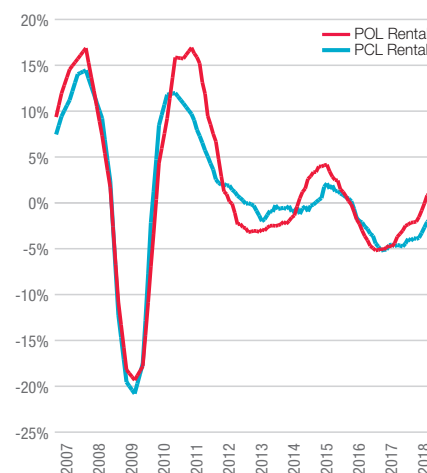


Source: Knight Frank Research

In the prime central London lettings market, there was rental growth in June for the first time since February 2016. This has been underpinned by supply dynamics, with the stock of available homes shrinking.

Average rents across Great Britain rose 1% in the year to June. Supply levels are constrained in many markets, amid rising demand, which is expected to underpin rental growth in many regions in the coming months.

Rental growth for existing homes in prime London



Source: Knight Frank Research



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