

HOUSE PRICE GROWTH EASES, BUT SIGNS OF PENT-UP DEMAND CONTINUE

Average annual house price growth in the UK slowed to 0.6% in May amid continued Brexit uncertainty, but sentiment surveys of agents and homeowners suggest increased optimism in their outlook for the market. Meanwhile, demand continues to build in the prime markets.

Key facts June 2019

Average UK house price growth was at 0.6% in May, after a dip of 0.2% during the month

Prime central London prices fell 0.3% in May, showing an annual decline of 5%

UK rents rose by 1.2% on average in the year to April

Average rents in prime central London are up 0.2% on the year

Economic and housing market update

Average UK house price growth slowed to 0.6% in May, from 0.9% a month earlier. The average price of a home is now £214,946, according to Nationwide.

The move towards moderation has remained largely consistent over the last few months, with the market characterised by modest annual growth of up to 2% since September.

The separate ONS measure of house prices shows how the market remains regionalised, with stronger annual price growth in the Midlands and North of England, as well as in Scotland and Wales, than across the South of England.

to wait for more clarity over Brexit before making decisions.

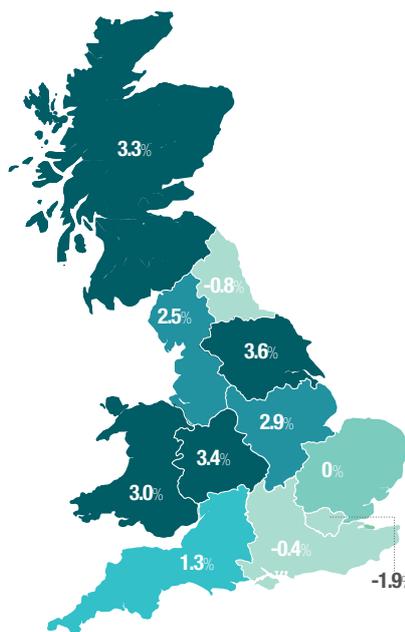
There are now signs these buyers are committing to purchases, and the number of home loans granted for house purchase rose to £4.3 billion in April, higher than the six-month average of £3.8 billion, according to Bank of England mortgage lending data.

In prime markets too, there are continued signs that demand is building (discussed in more detail below). Applicant levels – those registering their interest in buying a home – are still rising, suggesting that as soon as there is some decision on the way forward on Brexit, the market could experience a noticeable ‘relief rally’.

The data also highlights that homeowners and agents may be looking beyond Brexit, or are at least reflecting the relief of the Brexit extension. The IHS Markit measure of future house price sentiment, which measures what homeowners believe will happen to the value of their property over the next 12 months, has risen over the last two months, as shown in the chart below.

House price growth

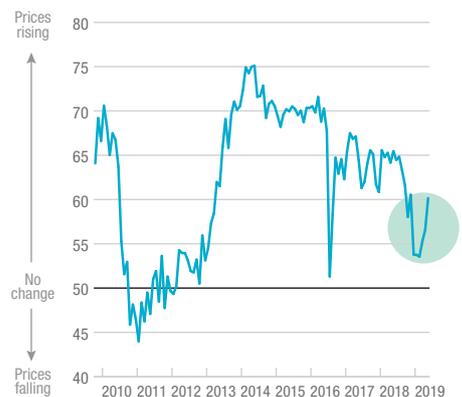
% annual change in mainstream house prices



Source: ONS

Sales remain robust for well-priced properties. During the first quarter there was also an increase in discretionary buyers active in the market, though many chose

Future house price sentiment



Source: IHS MARKIT

Meanwhile, the RICS survey of property agents shows that there is an expectation that sales volumes will rise over the next 12 months.



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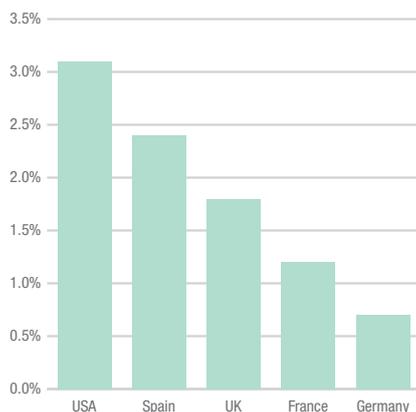
“Even with the political uncertainty around Brexit, the UK’s economy is operating at a better-than-expected pace”

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Even with the political uncertainty around Brexit, the UK's economy is operating at a better-than-expected pace. Current annual GDP growth of 1.8% in Q1 means that the UK is outperforming other economies.

However, in a move which suggests that the economy is operating at a steadier pace, the Bank of England recently revised up its forecast for the UK economy this year from 1.2% to 1.5%. Coupled with near record-low unemployment, and recent rises in wage growth, the economic landscape is helping offset some of the political uncertainty.

Annual GDP Growth Q1 2019 compared



Source: Knight Frank Research

Prime markets

Buyers in prime central London are positioning themselves for life after Brexit. The number of offers made in the first three months of 2019 was at its highest level in more than a decade, while new applicant levels were at the highest level for Q1 since 2014. Accordingly, exchanges rose 6% between January and April versus last year, Knight Frank data shows.

Prime property prices in regional markets in England and Wales fell by 0.8% over the first three months of 2019, taking the annual change in values over the 12 months to March to -1.8%. It remains the case that there are variations in price performance depending on location with prime markets closest to the capital feeling the effects of a weaker London market. Values in North Surrey, for example, fell by nearly 3% annually.

Highest number of offers in PCL in more than 10 years



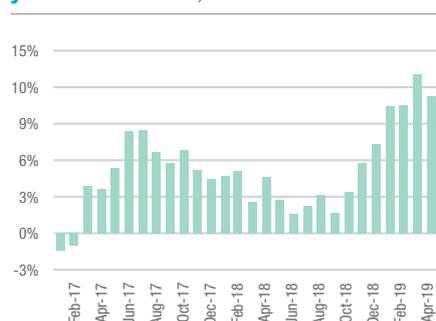
Source: Knight Frank Research

In Scotland, values in prime markets were 2.3% higher year-on-year. Edinburgh was the stand-out performer with annual growth standing at 7.6%. The city remains the fastest growing prime market tracked by Knight Frank in the UK as demand continues to outstrip supply.

Rental markets

Average rents in Great Britain rose 1% in the 12 months to January, unchanged from December 2018. In contrast to the central London sales market, prime rents in central London were 0.2% higher over the year to January. The number of tenancies agreed in PCL and POL increased 11% in the year to April versus the previous 12-month period. Demand has risen in recent months as some buyers respond to political uncertainty by renting.

Strongest Q1 activity levels in five years



Source: Knight Frank Research

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