

## BRICKS AND BREXIT

Political uncertainty is causing a “wait and see” effect in some parts of the market, but Knight Frank data signals pent up demand forming in some locations. Meanwhile, average UK house prices remained largely unchanged in February.

### Key facts March 2019

Annual house price growth was at **0.4% in February**, after a 0.1% fall during the month, according to Nationwide data

Prime central London prices declined **0.4%**, taking the annual change to -4.8%

Average UK rents rose **1%** in the year to January 2019

Rents climbed **1.4%** in prime central London in the year to February taking gross yields to a 7-year high

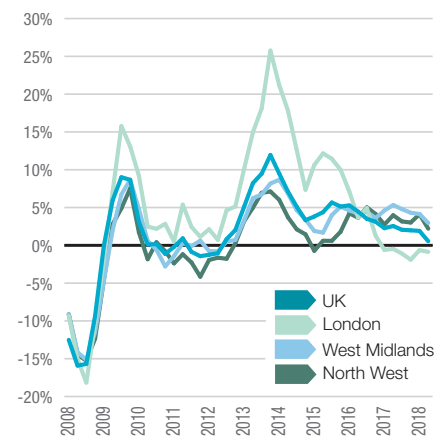
### Economic and housing market update

Brexit negotiations have moved into a new phase as Theresa May returns to the EU. The uncertainty around the UK’s future relationship with the EU has so far caused a “wait and see” effect, particularly among buyers, with RICS reporting subdued activity.

However, in some markets there is evidence of pent-up demand forming, which could come back to the market once there is a definitive outcome on Brexit. Recent analysis from Knight Frank shows the busiest month for sales subject to contract is May, meaning vendors who have their homes on the market once there is clarity on Brexit may be best placed to benefit from a pick up in activity.

Average house prices fell by 0.1% in February, taking the annual change to 0.4%, close to the slowest rate of growth in around six years. The Nationwide data shows that the average house price has remained between £210,000 and £217,000 over the last 18 months. Over the last five years, the average value of a home has climbed by £40,000 to £214,000.

### House prices, annual change



Source: Knight Frank Research/Nationwide

The UK economy is also feeling the effect of the political uncertainty.

Fairly sluggish GDP growth of 0.2% in the final quarter of 2018, down from 0.6% in Q3, took the annual change in GDP to 1.4%. The result of this lower than expected growth is that the chances of an interest rate rise this year are receding. This view is certainly supported by inflation data which showed that the price of goods on the CPI inflation measure rose 1.8% in January, under the Bank of England’s 2% target.

### UK Economic Growth and Inflation



Source: Knight Frank Research/ONS



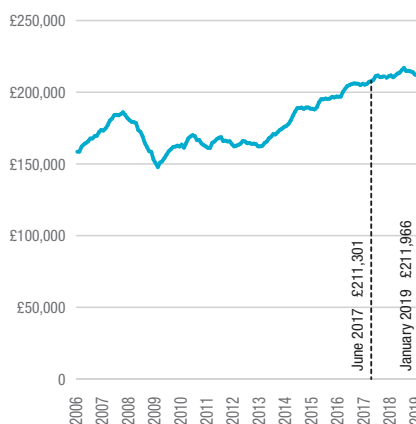
GRÁINNE GILMORE  
Head of UK Residential Research

“The chances of an interest rate rise receded with CPI inflation data showing 1.8% growth over the year to January, under the Bank of England’s 2% target.”

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### Average UK house price



Source: Knight Frank Research/Nationwide

As ever, the rates of growth vary across the country, with prices growing by nearly 3% in the West Midlands.

## UK RESIDENTIAL MARKET UPDATE MARCH 2019

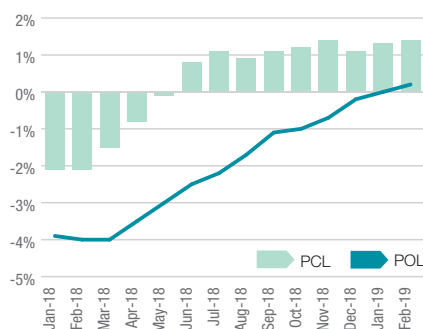
Accordingly, [mortgage rates are likely to remain near record-lows for some time yet](#) – there are currently two-year fixed-rate deals on offer priced at less than 1.5%.

The trend in the rental market is running slightly counter to that in the sales market at present, with rising demand against falling supply putting upward pressure on rents. There is evidence that some individual private landlords are exiting the private rented sector as additional stamp duty and the gradual withdrawal of mortgage interest relief prompts them to review their portfolios. This trend, and all the latest developments in the UK private rented sector are examined in more detail in Knight Frank's [Multihousing Report](#).

### Prime market update

Average values in [prime central London](#) fell 0.4% in February, taking the annual decline in prices to 4.8%. Values are now at the same level they were in the first quarter of 2013 as buyers and sellers adjust to higher transaction costs and political uncertainty. In [prime outer London](#), prices have fallen back to levels last seen in the first quarter of 2014. However, the ratio of prospective buyers to new listings of homes has risen to a two-year high, suggesting a level of pent-up demand in the market.

### Rental values strengthen in PCL and POL Annual % change



Source: Knight Frank Research

Prices in [prime regional markets](#) slipped 0.9% in the final quarter of 2018, taking the annual change to -0.6%. A modest decline in values reflects the increasing influence that political uncertainty is having on prime property markets, with both buyers and sellers showing more caution. Another key factor impacting market performance is the type and location of properties, with those closest to the capital feeling the effects of a weaker London market.

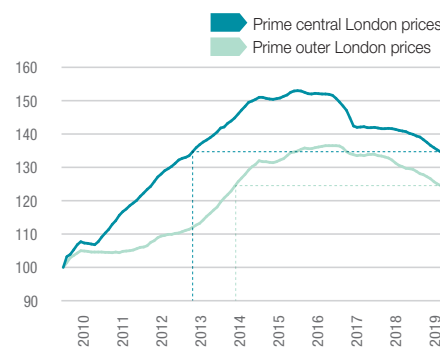
In [Scotland](#), prime country house values rose 2.3% in 2018, supported by robust activity levels in prime markets. However an increase in the additional tax levied on second home buyers, which was introduced in January, could weigh on activity this year.

### Rental market

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 1.4% higher over the year to January. Declining supply continues to put upwards pressure on rental values in prime London markets and yields in PCL have risen to a 7-year high of 3.38%.

### Pricing in perspective

Rebased to 100 at January 2010



Source: Knight Frank Research

### RESIDENTIAL RESEARCH

**Gráinne Gilmore**

Head of UK Residential Research  
+44 20 7861 5102  
grainne.gilmore@knightfrank.com

### PRESS OFFICE

**Daisy Zeigler**

+44 20 7861 1031  
daisy.zeigler@knightfrank.com

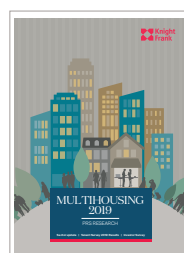
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