

Headlines Dec 2017

UK house price growth has been slowing since the summer of 2014, although the annual change remains positive

Price growth across the UK is expected to be 1.0% in 2018, reaching 14.2% cumulatively between 2018 and 2022

In London, prices are forecast to fall by 0.5% in 2018, but cumulative price growth over the next five years is positive at 13.1%

Methodology Statement:

House price forecasts are based upon time series regression analysis of relevant statistically significant macro-economic variables adjusted in-house to encompass externalities such as likely risk factors. The forecast uses the Nationwide House Price Index as a base. Our forecasts assume a Brexit deal, but with a two year transitional period.

“The market is localised and we see slightly stronger growth in the Midlands, East of England and the North West, a continuation of the trend that has emerged this year.”

For the latest news, views and analysis on the world of prime property, visit [our blog](#) or [@kfintelligence](#)

UK HOUSE PRICE FORECAST

UK house price growth has moderated from recent peaks, although markets remain highly localised.

The momentum in house price growth is slowing in many parts of the country, and we expect price rises to remain muted overall next year amid increased economic and political uncertainty in the run-up to Brexit and amid more muted forecasts for wage growth. The market is localised and we see slightly stronger growth in the Midlands, East of England and the North West, a continuation of the trend that has emerged this year.

Once the Brexit deal is completed, we forecast rising momentum across the market, with price growth reflecting this in many locations. The variations currently

observed in the prime housing markets in London and beyond are set to continue, and we explore this more fully in [our blog](#).

The UK may now be entering a period of interest rate rises, but even so, we expect rates to be low compared to long-term norms by the end of the forecast period. While development levels are rising across the country, the shortage of new homes is unlikely to be fully reversed in the coming years, and that will underpin pricing.

On the other hand, factors such as deepening affordability pressures and property taxes, will continue to weigh on pricing.

2017-2022 Forecasts, December 2017

	2017	2018	2019	2020	2021	2022	2018 - 2022
Mainstream residential sales markets							
UK	1.5%	1.0%	2.0%	3.0%	3.5%	4.0%	14.2%
London	-1.0%	-0.5%	2.5%	3.0%	3.5%	4.0%	13.1%
North East	2.0%	2.0%	2.0%	4.0%	3.0%	3.0%	14.8%
North West	2.0%	1.0%	2.0%	4.0%	4.0%	4.5%	16.4%
Yorks & Humber	0.5%	1.0%	2.0%	3.0%	3.0%	3.0%	12.6%
East Midlands	4.5%	2.0%	2.5%	2.5%	3.0%	3.5%	14.2%
West Midlands	4.5%	2.0%	2.0%	3.0%	3.0%	4.0%	14.8%
East	1.0%	2.0%	3.0%	3.0%	4.0%	3.0%	15.9%
South East	3.0%	0.0%	2.0%	3.0%	4.0%	4.5%	14.2%
South West	4.0%	1.0%	2.0%	2.5%	3.5%	4.5%	14.2%
Wales	1.5%	1.5%	1.5%	2.5%	3.0%	4.0%	13.1%
Scotland	1.5%	1.0%	1.0%	2.5%	3.5%	3.5%	12.0%

Prime residential sales markets

Prime central London east	0.0%	0.5%	1.5%	2.5%	3.0%	5.0%	13.1%
Prime central London west	0.0%	0.5%	1.5%	3.5%	3.0%	3.5%	12.6%
Prime outer London	-1.0%	0.0%	1.0%	3.0%	3.5%	4.5%	12.5%
Prime England & Wales	0.7%	1.5%	2.0%	2.0%	2.0%	2.0%	9.9%

Residential rental markets

UK	1.2%	2.5%	2.5%	2.5%	3.0%	3.0%	14.0%
London	0.7%	3.0%	2.5%	3.0%	3.0%	3.0%	15.0%
Prime central London	-1.5%	0.5%	1.5%	2.5%	3.0%	3.0%	11.0%
Prime outer London	-3.5%	-1.0%	1.0%	2.0%	2.5%	3.0%	8.0%

Source: Knight Frank Research

NB. Price forecasts are for existing homes. Property values in the new-build market may perform differently.

RISK MONITOR



Our risk score combines the likelihood of the following scenarios happening, and their impact. The score illustrates the chances that such a scenario results in pricing moving away from our central forecast

RISK	SCENARIO	UK	PRIME LONDON
 BREXIT	An unfavourable deal for the UK, or prolonged uncertainty past 2019. As well as wider economic implications, the lack of a deal could impact London's status as a global financial centre.	6	7
 POLITICAL UPHEAVAL	The UK Government undergoes a prolonged period of instability, raising the prospect of another General Election. This would undermine economic and consumer confidence.	6	6
 INTEREST RATES	Interest rates rise more quickly than expected.	5	5
 UK ECONOMY	UK economic growth underperforms against expectations.	5	5
 GEO-POLITICAL FACTORS	Rising geo-political tensions cause a global economic slowdown, affecting the UK economy.	5	4
 PROPERTY TAX CHANGES	After a series of changes to property taxes, policymakers implement more in purchase taxes. Any additional charges could curb activity.	3	7

NEW-BUILD MONITOR

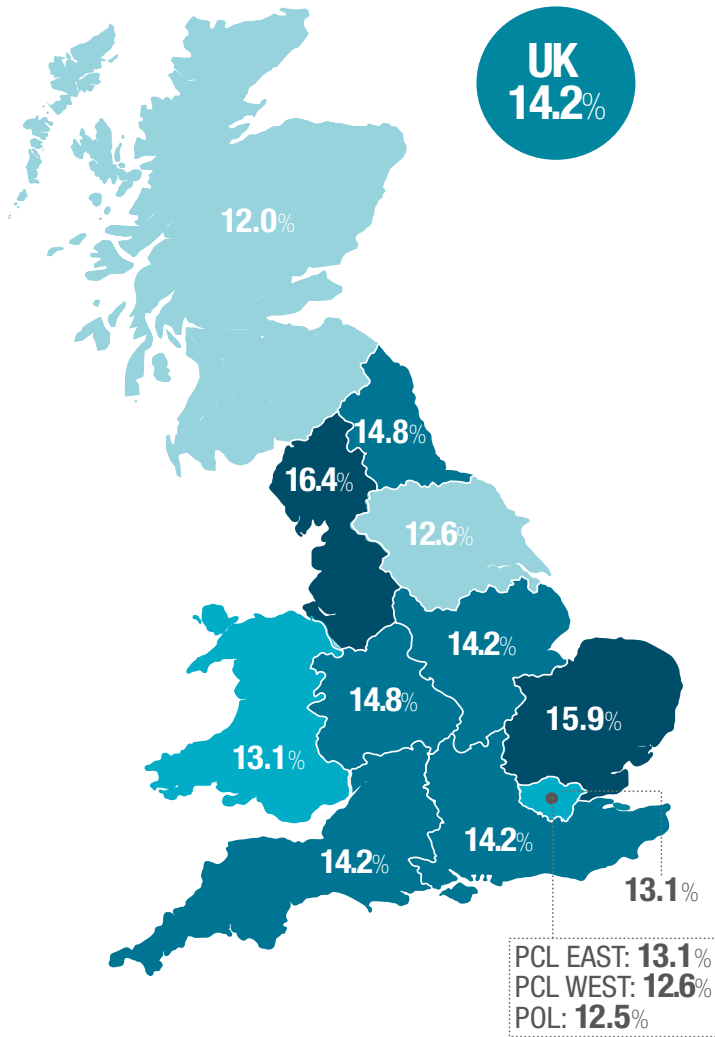
While the new-homes market faces similar challenges to the resales market, there are a number of additional complexities to consider. Here, we identify key areas which could have the biggest impact on supply and the government's aim to address wider affordability concerns by building more homes

	UK	LONDON
HOUSING DELIVERY	The number of net additions in England has risen 62% over the last five years, however total new-build supply needs to rise by an additional 28% to reach the target of 300,000 net additions a year. New delivery has been boosted in recent years by permitted development rights, and the one-off 'boost' from the change of rules around conversions and change of use may not re-occur. There is still a shortage of new homes in areas where they are most needed.	Net supply rose to 39,560 in 2016/17, compared to the 66,000 new homes a year needed in the capital. However, in some areas on the edges of central London, the issue of oversupply in some price brackets is worth monitoring.
PLANNING	The planning process is still challenging in many Local Authorities. The Chancellor outlined more suggested changes to try and streamline the process in the Budget, including measures to speed up the discharge of planning conditions.	New Affordable Housing rules are causing some short-term delays in construction starts as developers review scheme economics.
LABOUR	The industry is looking for certainty on supply of labour from overseas amid Brexit negotiations. An increased move to more modern methods of construction will change the requirements for skills in some instances, but more work is needed to increase supply of skilled labour across all sectors of the construction industry.	
POLICY	Additional policy changes not specifically designed to boost development could constrain activity as developers adjust. A stable policy environment will underpin raised levels of delivery.	
HELP TO BUY EQUITY LOAN	An additional £10bn has been pledged, but clarity is still needed on what will happen post-2021.	
FUNDING	The cost of private-sector funding for developers (especially smaller SMEs) is becoming a barrier to development, although the Chancellor has boosted funding for the Home Building Fund to try and help address this issue.	

FIGURE 1

Five-year UK house price forecast: 2018-22

Cumulative change in mainstream house prices



Source: Knight Frank Research

NB. Price forecasts are for existing homes. Property values in the new-build market may perform differently.

UK residential transactions

Forecast transaction volumes

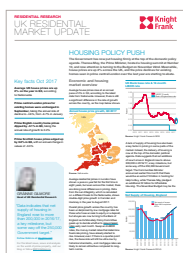
	2017	2018	2019	2020	2021	2022
UK	1.227m	1.255m	1.281m	1.305m	1.323m	1.344m

Source: OBR

RECENT MARKET-LEADING RESEARCH PUBLICATIONS



The Wealth Report - 2017



UK Residential Market Update - Oct 2017



Prime Central London Sales Index - Oct 2017



UK Prime Country House Index - Q3 2017

Knight Frank Research Reports are available at KnightFrank.com/Research

RESIDENTIAL RESEARCH



Liam Bailey
Global Head of Research
+44 20 7861 5133
liam.bailey@knightfrank.com



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



Tom Bill
Head of London Residential Research
+44 20 7861 1492
tom.bill@knightfrank.com



Oliver Knight
Associate
+44 20 7861 5134
oliver.knight@knightfrank.com



Important Notice

© Knight Frank LLP 2017 – This report is published for general information only and not to be relied upon in any way. Although high standards have been used in the preparation of the information, analysis, views and projections presented in this report, no responsibility or liability whatsoever can be accepted by Knight Frank LLP for any loss or damage resultant from any use of, reliance on or reference to the contents of this document. As a general report, this material does not necessarily represent the view of Knight Frank LLP in relation to particular properties or projects. Reproduction of this report in whole or in part is not allowed without prior written approval of Knight Frank LLP to the form and content within which it appears. Knight Frank LLP is a limited liability partnership registered in England with registered number OC305934. Our registered office is 55 Baker Street, London, W1U 8AN, where you may look at a list of members' names.