

Headlines May 2018

UK house price growth has slowed from a peak reached three years ago, although the annual rate of change remains in positive territory

Price growth across the UK is expected to be 1% in 2018, and 14.2% cumulatively between 2018 and 2022

In London, price growth over the next five years is expected to be around 13%, although prices are forecast to dip this year

UK rental growth is expected to be 14% between 2018 and 2022

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. Rental forecasts based on ONS IHPRP.

“The political and economic mood music of the residential market is a duet of Brexit and future monetary tightening”.

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UK HOUSE PRICE FORECAST

There are five main factors at play in the sales market at present.

First, the **balance between buyer demand and the supply of homes** being put up for sale, which differs across the country.

Certainly, the disconnect in some UK towns and cities between rising demand – on the back of stronger economic growth – and muted stock levels, is contributing to price growth.

Secondly, **stamp duty** remains a curb on transactions. However, in prime central London, some parts of the market are moving into positive price growth for the first time in nearly two years. The trend is becoming particularly apparent in areas where lower prices more fully reflect higher stamp duty charges.

On a more regional basis, the **North/South divide in price growth** has narrowed, with the Midlands, East of England and North West

seeing stronger growth and activity levels than the traditional property powerhouses of London and the South East, though large discrepancies in capital values remain.

The market's **political and economic** mood music is a duet of Brexit and future interest rate rises.

Brexit will continue to create uncertainty in the short-term. And while interest rate rises will push up mortgage rates, the rates payable on home loans will remain near historic lows in the short to medium-term.

Finally, and perhaps one of the biggest factors in the market at present are the growing **affordability pressures** in some parts of the country – these will weigh on pricing.

In the lettings market, rental growth has been slowing for a year. However, as with the sales market, rental performance is dependent on the type of property, as well as its location.

2018-2022 Forecasts, May 2018

	2018	2019	2020	2021	2022	2018 - 2022
Mainstream residential sales markets						
UK	1.0%	2.0%	3.0%	3.5%	4.0%	14.2%
London	-0.5%	2.5%	3.0%	3.5%	4.0%	13.1%
North East	2.0%	2.0%	4.0%	3.0%	3.0%	14.8%
North West	1.0%	2.0%	4.0%	4.0%	4.5%	16.4%
Yorks & Humber	1.0%	2.0%	3.0%	3.0%	3.0%	12.6%
East Midlands	2.0%	2.5%	2.5%	3.0%	3.5%	14.2%
West Midlands	2.0%	2.0%	3.0%	3.0%	4.0%	14.8%
East	2.0%	3.0%	3.0%	4.0%	3.0%	15.9%
South East	0.0%	2.0%	3.0%	4.0%	4.5%	14.2%
South West	1.0%	2.0%	2.5%	3.5%	4.5%	14.2%
Wales	1.5%	1.5%	2.5%	3.0%	4.0%	13.1%
Scotland	1.0%	1.0%	2.5%	3.5%	3.5%	12.0%
Prime residential sales markets						
Prime central London East	0.5%	1.5%	2.5%	3.0%	5.0%	13.1%
Prime central London West	0.5%	1.5%	3.5%	3.0%	3.5%	12.6%
Prime outer London	0.0%	1.0%	3.0%	3.5%	4.5%	12.5%
Prime England & Wales	1.5%	2.0%	2.0%	2.0%	2.0%	9.9%
Residential rental markets						
UK	2.5%	2.5%	2.5%	3.0%	3.0%	14.0%
London	1.5%	2.0%	2.5%	3.0%	3.5%	13.0%
Prime central London*	0.5%	1.5%	2.5%	3.0%	3.0%	11.0%
Prime outer London*	-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.

*Based on Knight Frank indices and boundaries, existing homes only.

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
 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
 INTEREST RATES	Interest rates rise more quickly than expected.	4	4
 PROPERTY TAX CHANGES	After a series of changes to property taxes, policymakers implement more purchase taxes. Any additional charges could curb activity.	3	7

NEW-BUILD MONITOR

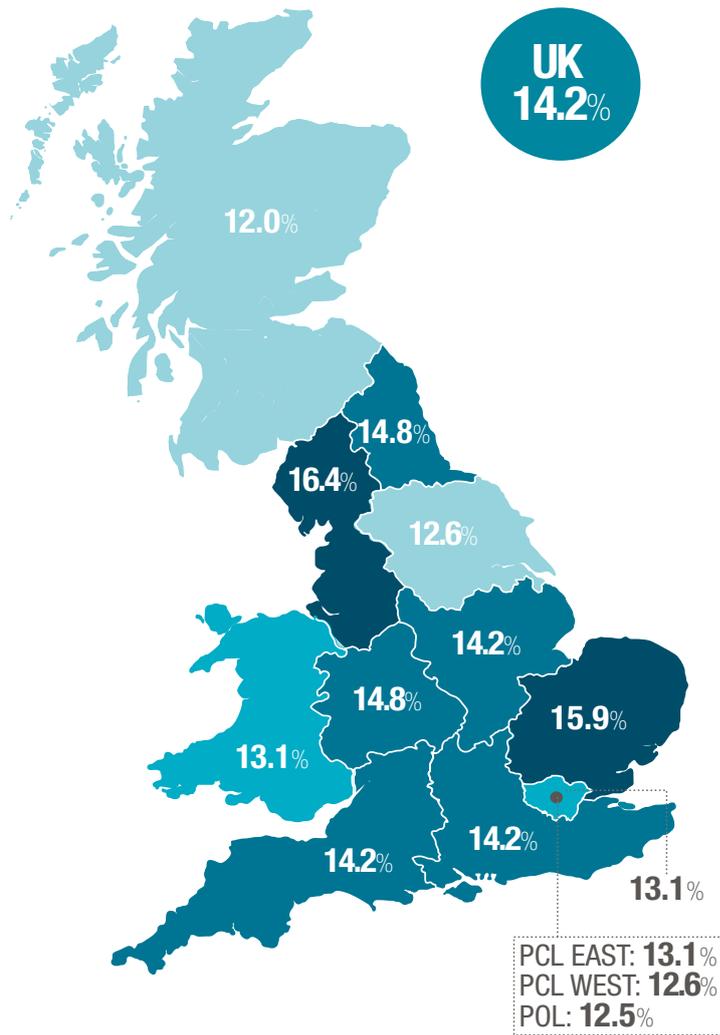
While the new-homes market faces similar challenges to the resale market, there are a number of additional complexities to consider. Here, we identify key areas which could have the biggest impact on supply and the government's aim to address wider affordability concerns by building more homes

	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 the GLA say are 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. A continued decline in housing starts in Inner London is likely to result in a drop in construction completions in 2-3 years' time.
PLANNING	The new Revised National Planning Policy Framework will come into force in summer 2018, and aims to bolster the delivery of new homes.	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	Clarity is still needed on what will happen post-2021 when the scheme is due to end	
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

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

Source: OBR

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