April 2013

RESIDENTIAL RESEARCH

RESIDENTIAL MARKET UPDATE

Knight Frank

UK prices flat but Help to Buy promises boost to activity

UK house prices remained unchanged in March although there were sharp regional variations with London leading the way. The Government's new mortgage incentives are likely to boost activity in the market however. Gráinne Gilmore examines the new policies:

Key facts

Average house prices did not change in March, but are up 0.8% year-on-year

Prime central London property values rose by 0.9% in March, and are up 8.1% on an annual basis

Prime central London rents fell by 0.1%, giving an annual 3.1% decline

Housing market sentiment improves again in March

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"The Chancellor would like to help encourage further economic growth is by taking steps to kick-start a more fully functioning housing market."

Gráinne Gilmore, Head of UK Residential Research

UK housing market and economic overview

There has been mixed economic data in recent weeks, but most point towards the UK avoiding a triple dip recession in the first quarter of this year. However the economy still faces headwinds, indicated by disappointing employment figures and a warning from the IMF about the Government's failure to encourage more economic growth. But there are some signs of confidence, certainly the Knight Frank/Markit House Price Sentiment Index climbed again in March signalling that households are more confident about property values.

From last month's Budget, we can see that one way the Chancellor would like to help encourage further economic growth is by taking steps to kick-start a more fully functioning housing market.

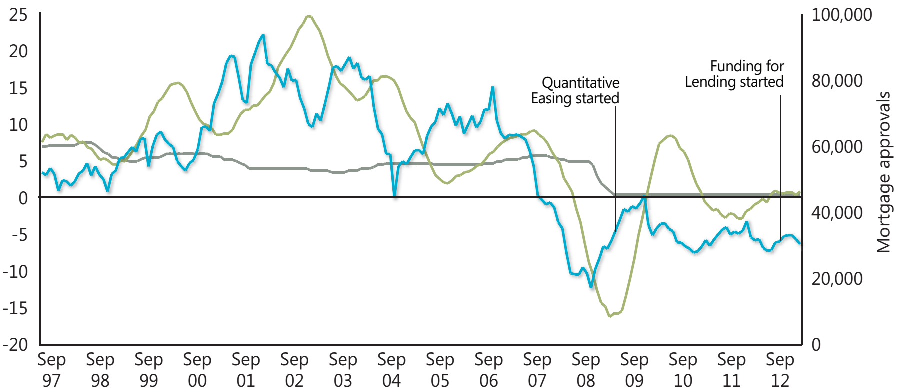
To do this, he announced a major new scheme: Help to Buy. This comes in two parts, an "Equity Loan" and a "mortgage guarantee".

The Equity Loan, which was launched on April 1, offers a 20% equity stake from the Government for anyone with only a small deposit wishing to buy a new-build home worth up to £600,000. The loan, which will only be extended to those who intend to live in the property, is interest-free for five years. The Government wants to help 74,000 buyers through this programme of loans in the next three years. To give some idea of scale, if the scheme achieves full take-up, it would account for around a sixth of all new-build completions each year at current construction rates for the next three years. So far three mortgage lenders have signed up to the scheme.

The second part of Help to Buy, which will be launched next year, is much larger in scale, offering guarantees of around £12 billion to those with only a 5% deposit. The Chancellor said this should be enough to facilitate an extra £130 billion in total mortgage lending on new-build and existing homes. If the average purchase price used for the scheme is £270,000, this could help

Figure 1

How loans for house purchase have fallen



Annual house price growth (LHS) | Bank of England base rate (LHS) | Mortgage approvals (RHS) for house purchase

Source: Knight Frank Residential / Bank of England / Land Registry / BBA

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> "PRICES IN PRIME CENTRAL AVERAGE PRICES IN PRIME CENTRAL LONDON ROSE AGAIN IN MARCH, BY 0.9% AS ACTIVITY REMAINED ROBUST."

fund an additional 480,000 loans, or around 160,000 new loans a year.

If the take up of the scheme is high, it will push mortgage approvals for home buyers and home movers up from the current low rates, loosening activity in the market and underpinning prices. In the year to February, around 612,000 mortgages were approved for home buyers, down from a long-run historical average of around 1 million. But as yet, there is little detailed information on how this scheme will be run – as evidenced in this week's Commons debate about the scheme. It is also worth remembering that the Government's NewBuy scheme, a similar guarantee offered to those buying new-build homes, has so far had a relatively modest take-up.

Help to Buy is likely to impact the market however, not least in bolstering confidence. Some developers are already reporting that this is the case, with increased numbers of applicants. The relatively high £600,000 limit for loans under the scheme also means its effects could be felt in most corners of the country, although there will be a much more muted impact on the prime central London market.

Prime market performance

Average prices in prime central London rose again in March, by 0.9% as activity remained robust. The annual rate of growth slowed however, from 8.4% in February to 8.1% last month. The biggest rises in prices during March were seen in the relatively new prime central zones of the City of London and City Fringe (1.8%) and Islington (1.5%). Mayfair also outperformed, with prices in this area rising by 1.1% during the month.

The impact of new legislation and higher 7% stamp duty charges is also evident in the market, with properties in the lower price ranges performing strongly. Homes valued at between £1m and £2.5m have risen by 3.4% so far this year.

Rental market

Average UK rents continued their downward decline in February, falling by 0.1% during the month. However they are still 3.3% higher than in February last year. In prime central London, rents also declined by 0.1%, with the biggest falls in Mayfair (-1.2%) and Notting Hill (-0.9%). Rents fell by 0.3% between January and March, and are down 3.1% year-on-year. The biggest drop in rents is for properties priced between £500 to £1,500 – a reflection of how the continued uncertainty over City jobs is impacting this sector of the market. As the outlook remains unsure, companies are also trimming their rental budgets, which is having an impact on the market. Despite falling rents, activity levels remain high; the number of new applicants in the first quarter of this year was 10% higher than the same period last year.

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