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RESIDENTIAL RESEARCH
RESIDENTIAL MARKET UPDATE
Knight Frank

Olympic glow hides economic gloom

The double-dip recession deepens as average UK house prices slip again. But prime central London property values continue their upward climb, hitting new record highs

Key figures

Prime central London prices rose by 0.5% in July, and are now up 10.3% year-on-year

Average UK house prices fell by 0.7%, taking the annual decline to 2.6%

Prime country house prices down 4.8% in year to end of June

UK remains in recession in Q2

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UK housing market and economic overview

The Olympic feel-good factor may be gripping London and the UK, but the country's economy is still struggling behind the scenes.

The first official estimate of economic growth between April and June was much worse than expected, showing that the country's output fell by 0.7% and confirming that the current recession, sometimes referred to as the 'double-dip', is deepening rather than easing.

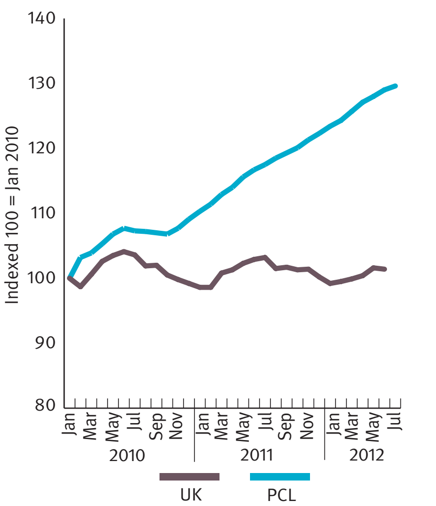
However these figures should come with a note of caution. The Office for National Statistics (ONS) compiles the first estimate of GDP using less than 50% of actual data from businesses across the economy, the rest is estimated. As more data is collected in the coming months, the ONS will issue its second and third estimates of Q2 GDP, which could be revised up to show a less pronounced fall. Some economists question whether the country is actually still in recession.

But, there is no doubt that the economy is weak, with a key measure of output from the dominant services sector showing that growth slowed to the weakest pace in eight months in July. There has been increasing discussion about the Bank of England cutting interest rates to a new record low of 0.25%, which would send a serious signal that growth needed to be encouraged. So far the Bank has held off from such a move, but cutting interest rates from 0.5% was not even mooted this time last year.

This should be balanced against figures showing that employment has started to rise, and that tax receipts flowing into the Treasury are also on the increase.

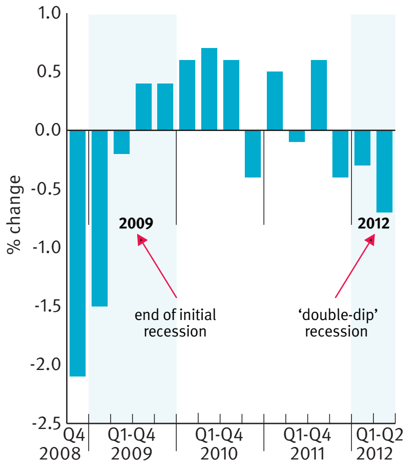
The first tranche of the Bank of England's multi-billion 'funding for lending' scheme will also start in August – offering banks cheap loans if they lend the money to homebuyers or small businesses. The total amount available has been confirmed as £80 billion, after initial signals that the sum would be nearer £100 billion.

Figure 1
How house price growth compares: UK vs Prime Central London (PCL)
(monthly price growth – indexed)



Source: Knight Frank Residential Research, Nationwide

Figure 2
The 'double-dip' recession deepens
UK economic growth (quarterly movement in GDP)



Source: Knight Frank Residential Research, ONS

"The Olympic feel-good factor may be gripping London and the UK, but the country's economy is still struggling behind the scenes."

Gráinne Gilmore, Head of UK Residential Research

> “BANK OF ENGLAND FIGURES SUGGEST MORTGAGE LENDING FELL TO ITS LOWEST LEVEL IN 18 MONTHS IN JUNE”

The housing market certainly needs an injection of additional mortgage lending to get it moving again. Transactions in England and Wales have fallen from an average of 100,000 a month between 2000 to 2007 to around 50,000 a month now, and Bank of England figures suggest mortgage lending fell to its lowest level in 18 months in June. Meanwhile average house prices dipped by 0.7% in July, taking the annual fall in prices to 2.6%, the sharpest fall since the house price trough back in August 2009. The Knight Frank/Markit Sentiment Index suggests that households are now more downbeat about the outlook for property values than in recent months.

While there is justified scepticism about the ‘funding for lending’ plan, there seems to be growing hope that it may go some small way to unblocking the mortgage market. Some mortgage lenders have already cut their rates in recent weeks, but these are mainly deals at 50% or 60% LTV, so really for those with hefty deposits or a large equity stake in their property.

Prime market performance

Prime central London property prices rose by 0.5% in July, and are up 10.3% year-on-year. July marked the 21st consecutive monthly increase in prices, and values are now up by nearly 50% since the market trough in 2009. However there are some signs that the rules surrounding stamp duty and additional property taxes for homes worth £2m+, especially for those bought or owned through a company structure, are beginning to weigh on the market. Sales have slowed since the proposed annual charge and levy of capital gains tax were announced in the Budget. The plans are currently under consultation, and there is likely to be no final decision until the pre-Budget report later this year, or the Budget next March. The value of prime country property in England fell for the fifth consecutive quarter between April and June, taking the annual decline to 4.8%. Prices are now just slightly higher than 2009 levels. Prime country house prices in Scotland are down 4% year-on-year, but the market in Edinburgh picked up, with a 0.6% rise in prices in the second quarter, and a 50% rise in transactions.

Rental market

Average rents in prime central London continued to slide during the month, falling by 0.8% and taking the annual decline to 1.1%. Rents have been on a modestly downward trend since October last year, reflecting the weakness in the Eurozone, and the knock-on effect this has had in the city jobs market. But average mainstream rents in London continued to grow in June, rising by 0.9% to hit a new record high. Across the UK, average rents across all price bands are up 2.3%.

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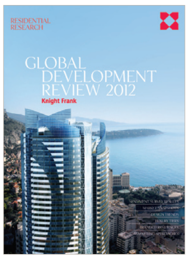

Global Development Review 2012

The London Review Spring 2012

Prime Central London Sales Index July 2012

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