UK RESIDENTIAL MARKET UPDATE

ANSWERS FOR THE HOUSING MARKET?

The Government's wide-ranging (and long-awaited) Housing White Paper makes a myriad of suggestions to boost the supply of housing, but does it provide all the answers? Meanwhile, average prices in the UK housing market remained broadly steady, although this masks large local variations in price performance.

Key facts Feb 2017

Average UK house prices rose by 0.2% in January, taking annual growth to 4.3%

Average prices in the prime central London market **are down 6.7% on the year, but buyer demand is rising**

The Knight Frank/Markit house price sentiment index hit a post-Referendum high in January

The Bank of England has raised its economic growth forecasts for the UK for 2017 and 2018

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"The White Paper marked a sea-change in the Government's previous focus on homeownership – it is now widening its attention to other forms of tenure. However, there was no mention of Stamp Duty which is also having an impact on the housing market."

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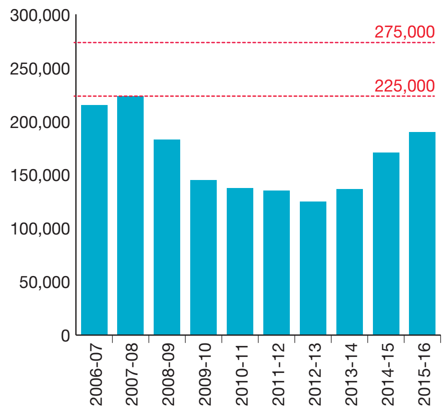
Economic and housing market overview

The Housing White Paper, published on February 7th, outlined the Government's thinking on how to fix what it called "the broken housing market". However, the report itself is a consultation paper – so while the Government's ideas may be clear, how many of them will come to fruition, and in what form, remains to be seen.

The overall tone of the report did mark a sea-change however. There was a definite move away from previous Government pledges to focus solely on increasing the levels of homeownership. Instead there was recognition that housing of all tenures has a part to play in helping boost supply, with support for large-scale institutional investment in private rental accommodation as well as affordable rental housing, and a recognition that housing need should also be based on buyer requirements – a positive development for the retirement housing sector.

Also, after the Government indicated several years ago that it was aiming at a target of building 200,000 homes a year, the White Paper acknowledged that more homes than this will be needed. It said the consensus view was that "from 225,000 to 275,000 or more homes per year are needed to keep up with population growth and start to tackle years of under-supply."

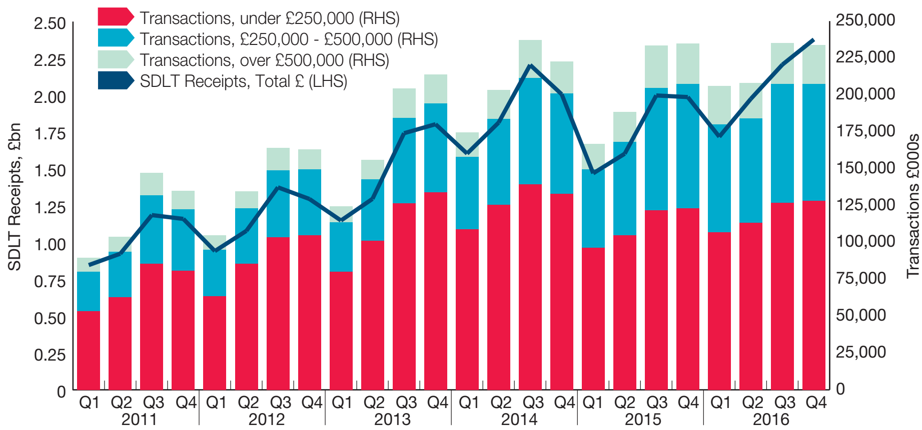
New homes delivered annually, England



Source: Knight Frank Research/DCLG

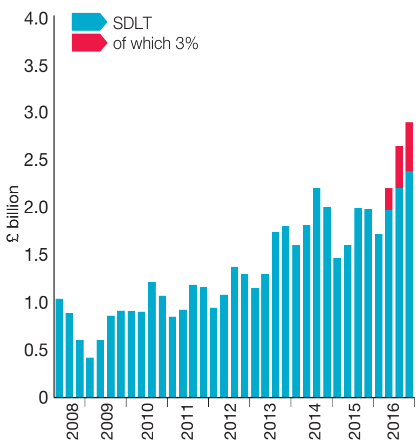
Yet the status quo on the Greenbelt was resolutely maintained. There had been hopes that there may have been increased leeway for the use of brownfield sites within the Greenbelt, especially adjacent to existing communities or transport infrastructure, with the understanding that lost space would be replenished elsewhere. However the Greenbelt is an acute political pressure point.

Transactions liable for stamp duty



Source: HMRC

UK stamp duty receipts (quarterly)



Source: HMRC
* Not including Scotland from April 2015

There was also a bit of U-turn on Starter Homes, the flagship affordable housing scheme put forward by David Cameron in 2014. The White Paper spelled out that while Starter Homes would still go ahead, the Government would be supporting them as part of a wider drive to boost all forms of Affordable Housing.

While the report said it wanted to fix the housing market, there was little mention of property tax – stamp duty – which has increased for all homebuyers over the last two decades.

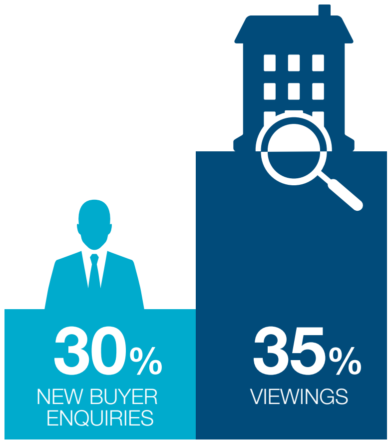
This is reflected in Stamp Duty receipts, with HMRC reporting that it received nearly £2.4 billion in stamp duty receipts in Q4 2016.

There is more detailed comment and analysis on the Housing White Paper on Knight Frank's Blog.

Prime market update

Average values in prime central London edged down by a further 0.3% in January, the most modest monthly decline since July last year, taking the annual change to -6.7%. Activity levels, however, are picking up – with Knight Frank reporting more transactions in Q4 2016 than in the same period in either 2015 or 2014. The wider London housing market, meanwhile, remains quite localised, as shown in the map of price growth below.

Bristol: buyer demand rises
2016 vs 2015



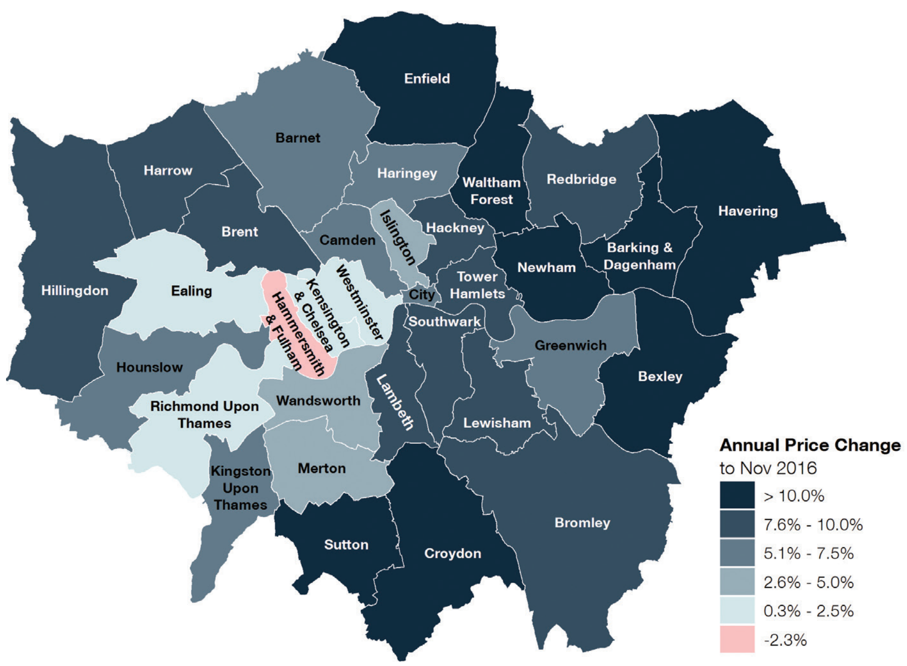
Source: Knight Frank Research

Prime country house values remained broadly stable in 2016, falling by 0.4% on the year. But the localisation of the market is also evident here, with the prime markets in several key urban locations outperforming, including Oxford, with 1.8% growth, Cheltenham with 7.5%, Bath with 3.5% growth and Bristol, where prices rose by 5.5% last year.

Rental market

Average rents across the UK rose by 2.3% in 2016, according to the ONS. Prime rents in central London slipped by 0.2% in January, the smallest monthly decline since last summer, taking the annual decline in rents to 5%. Rents have fallen as increasing levels of new stock have come to the market. However, this supply of new stock is now starting to slow, suggesting that rental declines are also set to moderate.

Annual price change in London
Year to Nov 2016



Source: Knight Frank Research

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