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RESIDENTIAL RESEARCH

RESIDENTIAL MARKET UPDATE

Knight Frank

Turning a corner?

Average house prices are edging up in many parts of the country, spurred by increased confidence and the "Help to Buy" effect. Yet the price increases are still undershooting inflation. Gráinne Gilmore examines the latest trends in the market.

Key facts – July

UK house prices rose by 0.3% in June and are up 1.9% year-on-year

Prime central London prices rose by 0.4% in June. Over the past year, prices have risen by 6.9%

Average rents in prime central London fell by 0.1% in June, and are down 3% year-on-year

Prime country house prices increased by 0.4% in Q2, but prices are still down 1.2% year-on-year

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"The rise in mortgage lending to first-time buyers in May marks perhaps one of the biggest steps towards a loosening in the housing market seen since the financial crisis."

Gráinne Gilmore, Head of UK Residential Research

UK housing market and economic overview

Mark Carney delivered no major surprises at his first outing as Bank of England governor, but there were some definite changes from the old regime. The Monetary Policy Committee (MPC), of which he is now chair, may have kept the **base rate** unchanged at **0.5%** and maintained the £300 billion limit on quantitative easing, but the announcement was accompanied by a steer on rate movements, indicating that the base rate could stay at 0.5% until 2015. This sort of "forward guidance" is allowed by the central bank, but it was not a tactic used by the previous governor Mervyn King.

The announcement had an immediate effect in the markets, with the FTSE 100 soaring and the pound sliding further against the US dollar and the Euro.

Mortgage borrowers benefited from the move, as several lenders immediately dropped their rates. Leeds Building Society became the **first lender to offer a 0% mortgage,** although the rate only applies for six months.

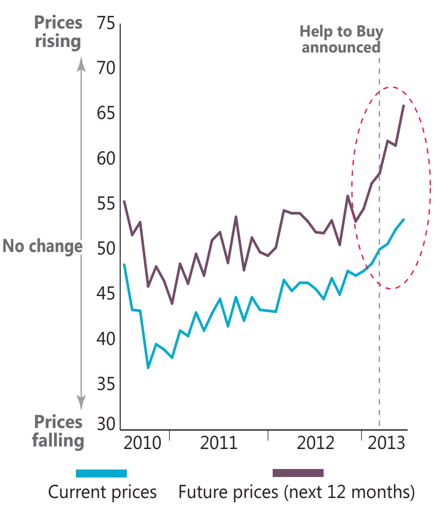
It is worth noting that alongside this increased confidence that rates will stay pegged at record-low rates for some time yet, Dr Carney has already warned that households should prepare for rate rises, even if they are some way off yet.

Increased certainty about rates in the short to medium term, coupled with the **"Help to Buy" effect,** have **boosted confidence** in the housing market across the country. June's Knight Frank/Markit Economics housing sentiment survey (fig 1) shows a surge in optimism on house prices and this was also reflected in the RICs agents' survey earlier this month.

Meanwhile, mainstream prices are continuing to climb across the UK, rising by 0.3% in June, according to Nationwide. This took the annual increase in prices to 1.9%, the highest margin since late 2010. It is worth remembering, however, that this nominal price rise is still less than inflation, currently 2.7%, which means that in real terms, average prices are not yet making headway.

Regional differences in price performance are still clear – prices in the south of England

Figure 1
Rising confidence
House price sentiment index (June)



Source: Knight Frank / Markit House Price Sentiment Index

Figure 2
First-time buyer comeback
Mortgage advances (May)

Source: CML

> PRICES IN PRIME CENTRAL LONDON CLIMBED AGAIN IN JUNE, AND ARE UP 6.9% ON THE YEAR. HOWEVER PRICES ACROSS THE CAPITAL ARE PERFORMING AT DIFFERENT SPEEDS.

are outperforming those in the North. But there have been some notable exceptions, such as Newcastle, where prices have risen by 11% over the last year.

New data from the Council of Mortgage Lenders also suggests that banks and building societies are starting to **step up lending**, with the number of mortgages advanced for house purchase at 55,900 in May, up more than 18% from May last year. Of these loans, some 25,100, or 45%, were to first-time buyers, a 42% rise from May 2012 and the highest monthly lending figure since 2007. This marks perhaps one of the biggest steps towards a loosening in the housing market seen since the financial crisis. As first-time buyers are able to access finance, and in turn buy homes, it will enable more homeowners to move up the property ladder. This trend should be even more pronounced next year, when the Help to Buy mortgage guarantee is launched, which will offer support to buyers of existing homes as well as new-build properties. However the details of the scheme, not yet released, will be key.

Prime market performance

Prices in prime central London climbed again in June, and are up 6.9% on the year. However prices across the capital are performing at different speeds. Average values in the City and City Fringe are up 7.8% in the first six months of the year, outperforming the wider PCL average of 3.7% whereas in Knightsbridge, price growth has been more muted. The biggest monthly rise in prices in June was along the South Bank, where prices rose by 1.4%, and in Marylebone, where the value of luxury homes climbed by 1.8%. In contrast, prices in Mayfair saw no growth during the month, edging down by 0.2%.

Prime country property prices rose again in Q2, by 0.4%, taking the increase since the start of the year to nearly 1%. On an annual basis, prices are down by 1.2%, the smallest annual margin since Q1 2011. While sentiment in the wider market remains uncertain, price growth in the key hotspots of Oxford and Ascot continues. Average values of luxury property in Scotland remained broadly stable in Q2.

Rental market

Average rents across the UK edged up by 0.1% in May, and are 3.5% higher year on year. Recent data confirmed that the rental sector is growing in prominence, both across the capital and elsewhere, and this has helped underpin rental rises.

In prime central London, the picture is slightly different as rents for luxury London houses are more sensitive to the mood in the financial sector. Rents in the prime central London market have been falling or static for 14 consecutive months, reflecting the slowdown in the City jobs market. But despite the modest dip in rent, it is worth noting that activity in the prime rental sector remains strong, and that on a longer-term basis, rents are still nearly 22% higher than the trough of the market after the financial crisis.

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