

HOUSING MARKET READJUSTS

As the country adjusts to a shock election result and a new government, there is likely to be a pick-up in activity across the UK housing market. But there is evidence of an ‘expectation gap’ emerging between buyers and vendors in terms of pricing. Meanwhile, the rental market in prime central London is showing continued growth, outpacing that seen in the sales market. Gráinne Gilmore examines the latest data.

Key facts May 2015

UK house prices rose by 1% in April, taking the annual increase to 5.2%, up from 5.1% in March

Prime central London prices rose by 0.3% in April taking the annual growth to a 5-year low of 2.8%

Prime outer London prices rose by 0.4% in April. Annual growth was 4.8%

Prime Country house prices rose by 2.5% in the year to March, while **prime Scottish prices** were up by 1.2%

UK rents rose 2.1% in the year to March, and **prime central London rents** are up 4.1% on the year.



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“Activity is set to pick up, but there may be an ‘expectation gap’ emerging in pricing. The delivery of more new homes will remain a priority for policymakers.”

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UK housing and economic overview

The definitive outcome of the General Election looks set to provide a boost to activity in the housing market in the months to come.

Uncertainty had been the byword in most corners of the market in the run-up to what was considered the most closely fought election in decades. Now, with a majority government, there is clarity on the way forward on housing policies – and a Conservative majority means that the approach is likely to be largely a continuation of what we have seen over the last five years.

The proposals for taxing high-value properties from Labour and the Liberal Democrats are no longer in play – and as a result, those in the prime markets who adopted a ‘wait-and-see’ approach in the run up to the election are set to come back to the market – vendors and buyers alike.

In the mainstream market, uncertainty around how the election outcome might affect taxes, and thereby household incomes, has weighed on activity to some extent, but this is now likely to ease.

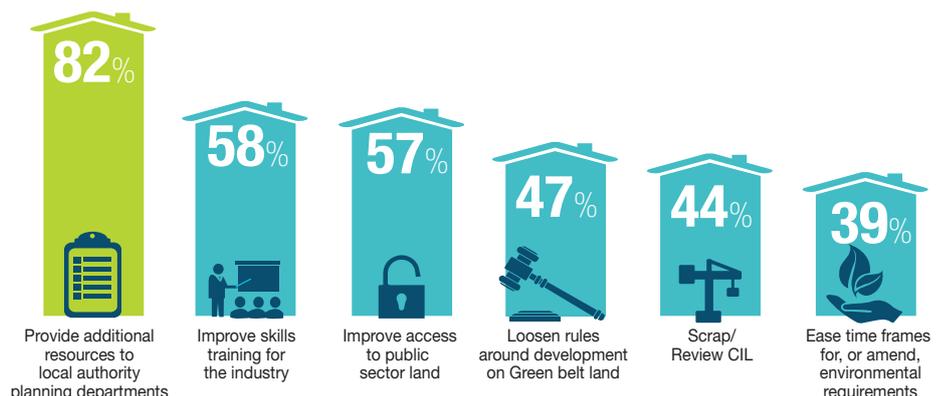
FIGURE 1 Housebuilding in the UK
Total annual completions



Source: Knight Frank Residential Research

In terms of housing policy, the Conservatives have already pledged to extend the Help to Buy Equity Loan to 2020, something which has encouraged developers to take on larger schemes. Their plans to extend Right to Buy to more Housing Association tenants will provide the opportunity for home ownership among this group. However in terms of housing supply, the policy of replacing each home purchased with another, new, home available for rent must be implemented, otherwise the scheme will result in a net loss of affordable homes.

FIGURE 2 What measures should policymakers take to help boost housing supply?
% of respondents, Knight Frank Annual Housebuilder Survey *

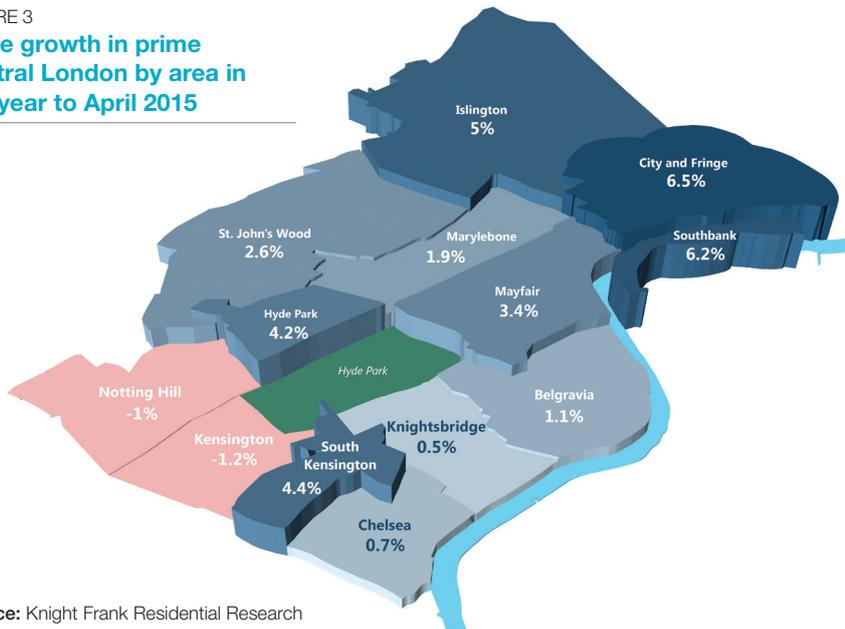


Source: Knight Frank Residential Research
*Respondents could choose more than one option

The promise of 20% discounts for first-time buyers on 200,000 homes over the next Parliament will help address the affordability issues in some parts of the market, but the delivery of more homes will have to remain a priority for policymakers (fig 1.)

As such, there was welcome news this week as it was announced that Brandon Lewis will keep his role as housing and planning minister – some continuity in this position is crucial. Mr Lewis is already the fourth housing minister since 2010. Our recent Housebuilding Report, includes a survey of the industry, highlighted the key issues developers believe policymakers should pay heed to when trying to increase the number of homes being built, as shown in figure 2. Key among these is the need to ramp up planning departments to help guide more development schemes through the planning system.

FIGURE 3
Price growth in prime central London by area in the year to April 2015



Source: Knight Frank Residential Research

Prime markets

Prices in prime central London grew in the year to April, but at the slowest rate in five years at 2.8%. However the market remains localised, as shown in the map, with growth rates ranging from 6.5% in the City and City Fringe, and 6.2% along the Southbank, compared to falls of 1.2% in Kensington and 1% in Notting Hill.

In prime outer London, prices are up nearly 5% on the year, while in the prime country market values are up by 2.5%.

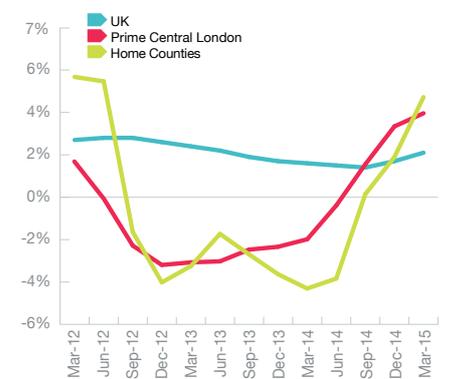
Activity is expected to increase over the coming months as the pent-up demand from before the election comes to fruition, especially in light of the fact that the 'mansion tax' is now off the table.

However there is evidence of an 'expectation gap' between vendors and buyers in terms of pricing, especially as the market is still absorbing the changes to stamp duty charges introduced last December.

Rental markets

Rents rose by 2.1% across the UK in the year to March, while in prime central London, rental growth outpaced the rise in house prices, climbing by 4.1% on average. Rates of growth differed across different areas, including 6.2% growth in Kensington and just 0.1% in Mayfair. Rents in the Home Counties climbed by 4.7% in the year to the end of March (fig 4).

FIGURE 4
Rental growth
Annual rate of change in rents



Source: Knight Frank Residential Research, Macrobond

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