



The forecasts edition

Prime central London property prices continue to rise, while values across the wider UK market remain broadly static, but what is in store for prices in the coming years? Knight Frank's latest forecasts are now out

Key facts

Prime central London prices rise by 0.8% in October, and are up 10.1% year-on-year

UK house prices rise 0.6% in October, but are down 0.9% on an annual basis

Knight Frank forecasts show 2% fall in mainstream UK house prices in 2013, 1% decline in prime country house prices

Prime central London price growth of 16% forecast by end of 2016

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Forecasts

Knight Frank's housing market forecasts examine how the property market across the UK will perform over the next five years. We expect a further re-balancing of UK mainstream values, as prices re-adjust to come back into line with earnings. While we forecast that nominal price growth will return in 2014, we do not foresee prices returning to their 2007 peak any time soon, especially when inflation is stripped out.

In prime central London we forecast that prices will remain unchanged next year, with more moderate growth from 2014 onwards. For more information, read our [forecasts](#) in full.

UK housing market and economic overview

The UK economy appeared to exit recession in Q3, with a better than expected 1% rise in GDP. However, any optimism that this could mark the country's return to economic health has been dampened by more recent downbeat news emanating from the UK's manufacturing

and services sectors, suggesting that Q4 got off to a poor start. The Bank of England has even suggested the economy could contract again in Q4, leading to a "triple-dip" recession. In addition, consumer confidence dropped to its lowest level in six months in October, indicating that the economy is not going to be propped up by consumer spending.

Amid the economic gloom, the debate about additional property taxes continues. Although the Chancellor firmly dismissed calls for a 'mansion tax' at the Conservative party conference, there is still discussion about introducing higher council tax band thresholds, and charges, for more expensive properties. The measure, apparently blocked by the Prime Minister ahead of the budget in March, seems to be back on the agenda.

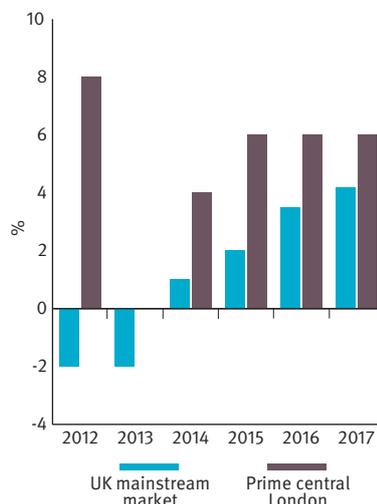
Any such move is likely to provoke controversy, with Boris Johnson, the Mayor of London, recently calling plans to hike council tax payments for the most expensive homes as 'nonsense', saying it would unfairly penalise those living in and around London. The introduction of such a rule would also

"Hopes for an economic recovery were short-lived, with the Bank of England revising down its growth forecasts. This has prompted worries about a 'triple-dip' recession."



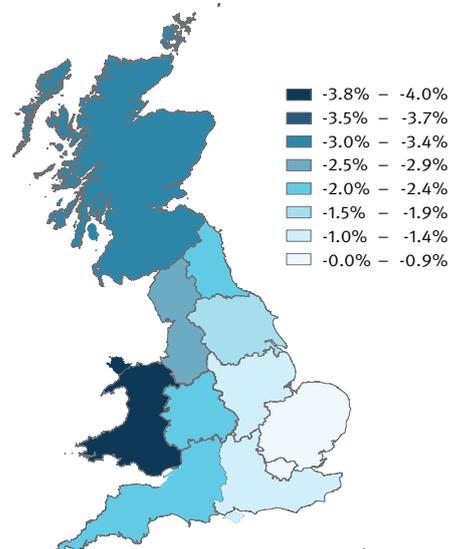
Gráinne Gilmore, Head of UK Residential Research

Figure 1
Forecast: House price growth PCL and UK mainstream



Source: Knight Frank Residential Research

Figure 2
Forecast: Regional price changes 2013



Source: Knight Frank Residential Research



“AMID THE ECONOMIC GLOOM, THE DEBATE ABOUT PROPERTY TAX CONTINUES”

require re-valuations of properties around the UK, at the cost of more than £250m, and could take three years to complete.

Meanwhile, the Government's announcement on how it intends to proceed with proposals for annual charges and capital gains tax on properties worth more than £2m owned through a company structure is expected early next month. The Treasury will publish the responses to its consultation on the new rules alongside the draft legislation on **December 11th** with a view to introducing it into law in April 2013. The countdown is on. We will monitor all developments on [Global Briefing](#), our research blog.

Prime market performance

The market may be set for a 'breather' next year, but [prime central London prices](#) continued to climb in October, rising by 0.8% on the month and taking values up 10.1% on an annual basis. Despite the price rises, the 'wait and see' feeling in the market ahead of the announcement on the new tax rules for £2m+ properties next month is still having an impact on activity above this threshold. While sales volumes and prices in the sub-£2m price band are robust, activity has dipped in the £2m-£5m price bracket since the budget in March.

It is notable that political and economic developments in the Eurozone are still being felt in prime central London. Searches from

France for luxury central London properties on [Knight Frank's global websearch](#) have soared over the last month, after the French government confirmed it was pressing ahead with a 75% wealth tax on the highest earners in September's budget.

Outside London, prices of [prime country properties](#) are on a slight downward trajectory, falling 4.3% year-on-year in Q3. In [Scotland](#), the decline in prime property prices is more moderate, at 3% year-on-year.

Rental market

[Rents in prime central London](#) fell again in October, declining by 0.5%. Rents have fallen in 10 of the last twelve months, taking the annual decline to 2.7%, amid widening job cuts in the financial services sector, especially in the City. But activity, especially in the 'core' market, remains steady, and this is reflected in price changes. Average rents in the £500 to £1,500 per week bracket are down by only 0.1% in the three months to October, compared to a decline of 1.2% in the £1,500+ per week bracket.

Rental growth across the mainstream UK lettings market continued apace, with a 3.2% annual rise in rents. The pressure on rents is being exacerbated by tighter mortgage lending criteria, as more 'would-be' buyers enter the rental market instead of purchasing a home.

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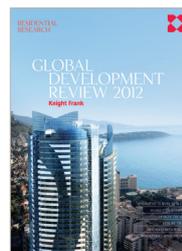
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