

MARKET TAKES STOCK

House prices continue to rise across the country but the upcoming months of political uncertainty surrounding the Scottish Referendum and the General Election could act as a dampener on price growth. Gráinne Gilmore examines the latest data.

Key facts September 2014

Average house prices rose by 0.8% in August, taking the annual increase to 11%

Prime central London prices up 0.3% in August, with a 7.7% increase year-on-year

Prime central London rents climb by 0.5%, giving an annual increase of 1.2% in August

UK House Price Sentiment eases for third consecutive month

UK housing and economic overview

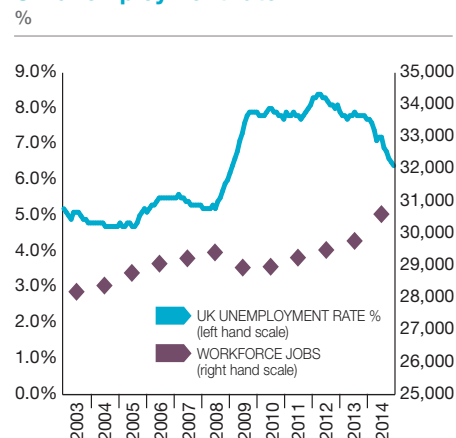
Average house prices continued to rise in August yet there are some conflicting signals emanating from the market.

Economic confidence is up across the country and this, coupled with more positive employment data and ultra-low interest rates is providing a sound underpinning for increasing transactions and values in many parts of the country.

The Government's Help to Buy scheme is also gaining momentum, with nearly 40,000 homes now purchased under the scheme. Around 85% of Help to Buy Equity Loans, the part of the scheme that allows buyers to purchase a new home even if they don't have a 25% deposit, were taken out by first-time buyers, signalling that the scheme is easing the bottleneck of pent-up demand.

of England, could be acting as a slight temporary brake on the market, especially for higher loan to income mortgages.

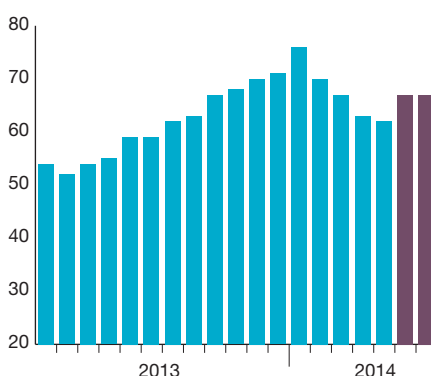
UK unemployment rate



Source: ONS

Mortgage approvals

(seasonally adjusted)



Source: Knight Frank Residential Research

Yet there are some signs of headwinds in the market. From a regulatory point of view, the new mortgage rules may be acting as a partial dampener on activity. While mortgage approvals for new house purchases remained steady in July after the dip seen after the "MMR" rules were introduced in April (as shown in figure 1), they have not re-bounded to the pre-April highs. The data suggests that the rules, coupled with the new lending limits applied by the Bank

RICS also reported that new buyer demand fell in August following a sustained period of month-on-month growth. This could be due to the summer holidays, but it comes amid increasingly vocal hints of an interest rate rise from the Bank of England Governor. While the markets now anticipate a rate rise early next year, two members of the Bank's rate setting committee voted for a rate rise in August, the first time this has happened since rates hit a record low.

There is also a period of increasing political uncertainty looming. All eyes are on the **Scottish Referendum** next week.

The debate over the result has already had an impact on equity markets as well as currency markets. If there is a yes vote, it is likely to be the uncertainty in the market as Scotland thrashes out its economic and fiscal policies ahead of 2016 that affect the Scottish housing market, rather than the fact that Scotland becomes independent.

In the week after the Scottish verdict comes in, the party conference season begins – the effective starting gun for the General Election. All parties are expected to make UK housing, and housebuilding a priority in their manifestos.



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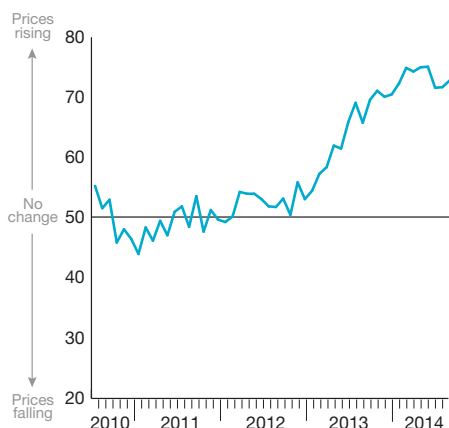
"Average house prices continued to rise in August yet there are conflicting signals emanating from the market."

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Households are becoming more circumspect about the rate of house price growth they expect over the next year. The [Knight Frank/Markit future House Price Sentiment Index \(HPSI\)](#) shows that price expectations are well down on the high seen in May this year.

House price expectations over next 12 months



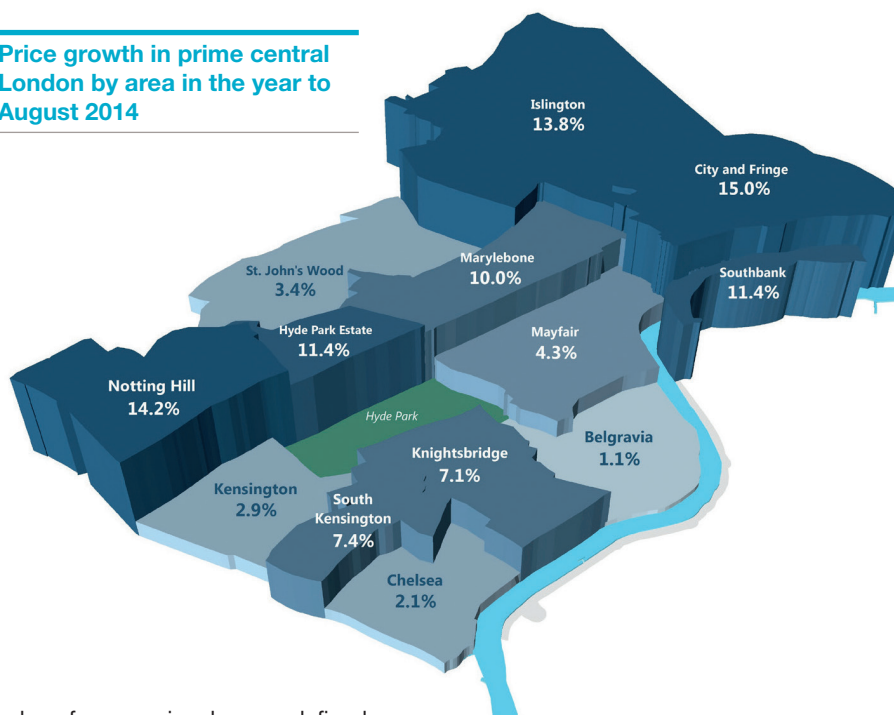
Source: Knight Frank Residential Research

Prime markets

Prices in prime central London are climbing year on year, but there is more caution in the market than in recent months. Vendors have reacted to this by adjusting asking prices, and as a result, more sales, especially in higher price brackets, are being achieved. Sales of £5m+ houses were up 17% between January and August, compared to the same period in 2013. There are also signs that the rumbling crisis in the Eurozone has fuelled further investment into the prime market from those seeking a safe haven investment location.

[Prime country house prices](#) are up 5.2% on the year, with the biggest rise in the sub-£2 million price bracket. The average

Price growth in prime central London by area in the year to August 2014



value of super-prime homes, defined as properties worth £5 million or more, fell by 2.3% in Q2 2014.

[Prime Scottish house prices](#) are up 2.8% in the year to the end of Q2, with a 5.7 % rise in the [Edinburgh market](#). A lack of stock, rather than demand has been hampering the Edinburgh market until recent weeks, with agents reporting that some deals are being negotiated with an “independence clause”, allowing room for manoeuvre when the result of the referendum becomes clear.

Rental market

[Prime central London rents](#) continue to rise, and are up 1.2% year on year as the market benefits from the political uncertainty coupled with the continued strength of London's economy. There has been a marked uptick in demand from corporate tenants, reflecting the post-crisis recovery in the number of overseas senior managers being recruited into the Capital by larger firms.



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RESIDENTIAL RESEARCH

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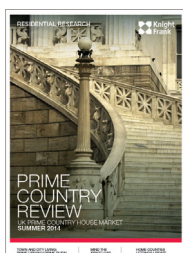
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