

A WEEK ON...

The election result has caused a renewed period of political uncertainty, but housing is one area where policymakers can continue to make progress if the will is there. Meanwhile, across the country, house price growth continued to ease in May.

Key facts June 2017

Average UK house prices fell by 0.2% in May, taking annual growth to 2.1%

The average values of existing properties in **prime central London** were flat in May, with an annual decline of 6.6%

Average rents in GB were 1.8% higher on an annual basis in May

House price sentiment slipped in May, but households still expect house price growth over the next 12 months

Economic and housing market overview

The unexpected UK [election result](#) has led to a week of political negotiations as the Conservatives try to form a government. While this has prompted increased levels of uncertainty, there was a relatively modest reaction in the financial markets to the result amid hopes in the city that the country could be heading for a slightly “softer” Brexit. As yet, there is still little in the way of detail about what the Brexit deal will look like, but this will likely become clearer as negotiations get underway on Monday 19th June.

Yet the political situation is being exacerbated somewhat by recent economic data indicating that inflation is rising and that wage growth is lagging. This week, the news that three members of the Bank of England’s rate-setting committee, which is currently made up of eight people instead of nine as a replacement for Charlotte Hogg is appointed, voted for a rate rise, caused a sharp rise in sterling.

Economists had not been expecting an interest rate rise until early 2019, given the relatively benign inflation rate environment up until now. Policymakers are also keen to maintain a stable rate environment as the country prepares to leave the EU. However, the recent inflation data, and the tone of the minutes of the Monetary Policy Committee’s meeting, indicate that modest rate rises may be on the cards earlier than this.

The Bank of England will also be watching the US closely – where the Federal Reserve has raised the base rate for the fourth time since 2015, taking it to 1.25%.

The election also forced a ministerial re-shuffle. In terms of housing, Gavin Barwell, the former housing minister, lost his Parliamentary seat. However, he has been appointed as the chief of staff in Number 10, which could indicate that housing is unlikely to fall off the agenda. His replacement, Alok Sharma, comes from a financial background and sits on the Treasury Select Committee. In terms of the [Housing White Paper](#), which was



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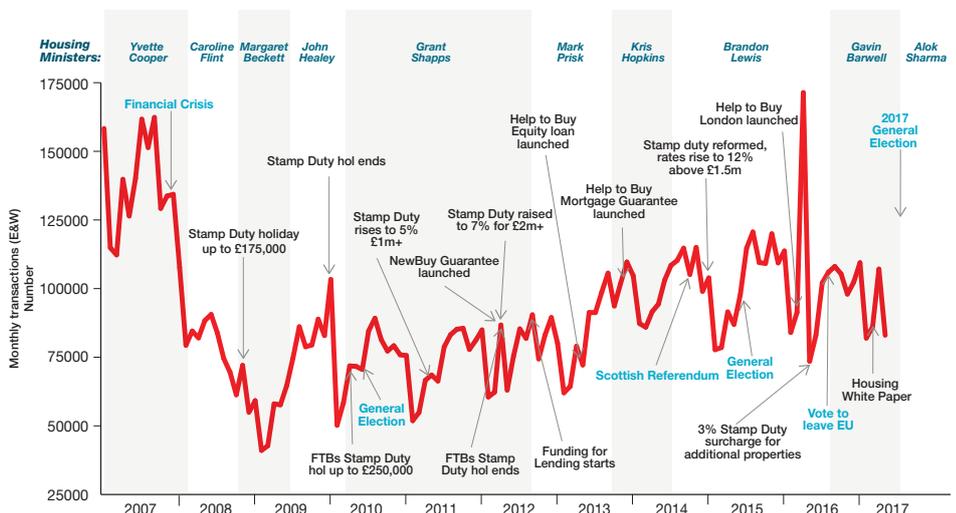
“With the appointment of the tenth housing minister in ten years, housing needs to remain close to the top of the agenda, so policies can be implemented to boost the supply of homes where they are most needed.”

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Housing transactions and policy changes

2007-2017



Source: Knight Frank Research/HMRC

published earlier this year, there are still hopes that more detail will be announced in the Autumn Budget as Sajid Javid remains the Secretary of State for DCLG and is in a position to push this agenda.

The UK needs to boost the supply of homes where they are most needed, and this is one area where the Government could make progress, even if other hurdles remain for a minority government.

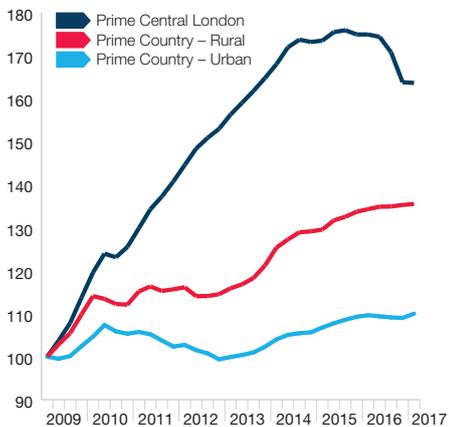
Meanwhile, house price growth continued to slow in May, although the market remains highly localised. Affordability remains a key concern in many markets, and this, coupled with increased economic uncertainty, is weighing on price growth. However, at the same time, ultra-low mortgage rates and a lack of supply are putting a floor under pricing.

Prime market update

Average prices in prime central London were flat in May, and are down 6.6% on the year. The rate of price declines has eased in recent months – on a quarterly

Prime central London and Country compared

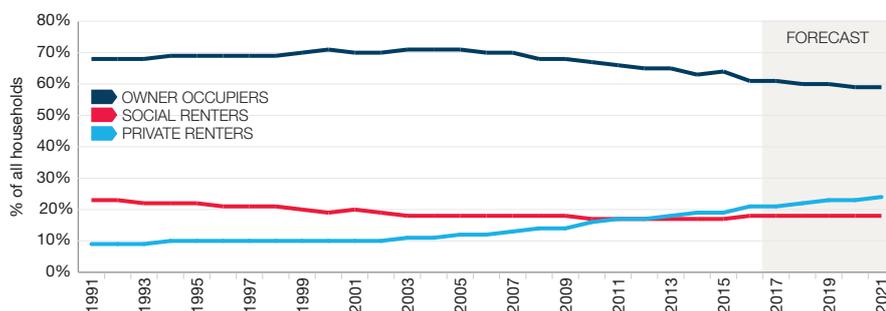
Average prices, indexed, 100 = 2009



Source: Knight Frank Research

Growth of the Private Rented Sector

Historic and forecast tenure distribution in England



Source: 1980 to 1991: DOE Labour Force Survey Housing Trailer; 1992 to 2008: ONS Labour Force Survey; 2008-09 onwards: English Housing Survey, full household sample

Rental growth, Great Britain

Annual % growth



Source: ONS

basis, average values slipped by 0.2% in the three months to the end of May, compared to a 4.1% decline in the final quarter of last year.

In the country market, the latest data on prime house prices showed values were broadly flat in the year to the end of March, with outperformance in many key urban locations. In Scotland, prime values across the country dipped by 1.2% in the year to March, while in Edinburgh, prime prices were up 3%.

Rental market

Average rents across Great Britain rose by 1.8% in May, with a 1.9% increase in England. UK rents have been in positive territory since the ONS started its index in 2011.

Rents in the prime central London market, with the Knight Frank index reflecting rents for existing prime and super-prime homes, are down 4.8% on the year, although this marks an easing

of the decline compared to a 5.2% fall in the year to December last year.

The size of the private rented sector (PRS) across the UK is expected to continue to grow, with Knight Frank forecasting that around 5.8 million households will be living in the PRS by the early 2020s. This, and other emerging trends in the PRS, is examined in more detail in our latest PRS research.



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