RESIDENTIAL RESEARCH

UK RESIDENTIAL MARKET FORECAST

Headlines May 2017

UK house price growth has been slowing since the summer of 2014, although the annual change remains positive

Price growth across the UK is expected to settle at 1.0% in 2017 reaching 14.2% cumulatively between 2017 and 2022

The slowdown in central London prices which has been evident over the past 12 months will continue to spread to Greater London, with prices falling slightly in 2017

There remain key risks to UK property market performance, not least a slowdown in economic growth, and uncertainty surrounding the Brexit process

"The shortage of housing stock available to buy coupled with ultra-low mortgage rates have put a floor under pricing across the UK, but the question of affordability is becoming more pressing in some areas."

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UK HOUSE PRICE FORECAST

The headline rate of house price growth across the country has been slowing since summer last year, transactions have also fallen from recent peaks.

There are several factors at play behind the recent slowdown in market activity – not least a lack of available homes to purchase. This has increased focus on the delivery of new-build homes across the country. Data from DCLG shows that the number of new homes being built in recent years has risen, but it still remains some way below the number needed to meet current demand – not to mention the large historical shortfall.

The shortage of housing stock available to buy coupled with ultra-low mortgage rates have put a floor under pricing across the UK, but the question of affordability is becoming more pressing in some areas, especially as lenders still expect sizeable deposits from buyers. There are also notable variations between prime housing markets in London and the Country, which we have examined in more detail on our blog.

As the UK moves closer to Brexit, any economic uncertainty could have a knock-on impact on the housing market, especially if wage growth and employment levels across the country are affected.

2017-2021 Forecasts, May 2017 Edition

	2016	2017	2018	2019	2020	2021	2017-2021
Mainstream residential sales markets							
UK	5.0%	1.0%	2.5%	3.0%	3.0%	4.0%	14.2%
London	7.0%	-1.0%	2.0%	2.5%	3.0%	5.5%	12.5%
North East	0.0%	0.5%	2.5%	2.5%	2.0%	1.5%	9.3%
North West	4.0%	0.5%	2.0%	2.5%	3.0%	2.0%	10.4%
Yorks & Humber	3.5%	1.0%	3.0%	3.5%	3.0%	2.0%	13.1%
East Midlands	5.5%	1.5%	3.0%	3.5%	4.0%	4.5%	17.6%
West Midlands	4.5%	1.5%	3.0%	4.0%	4.0%	4.0%	17.6%
East	7.5%	1.5%	2.5%	4.0%	3.5%	5.5%	18.1%
South East	8.0%	1.0%	2.0%	4.0%	4.0%	5.0%	17.0%
South West	4.5%	2.0%	2.0%	3.5%	3.5%	4.5%	16.5%
Wales	-0.5%	0.0%	2.0%	2.5%	2.0%	2.0%	8.8%
Scotland	2.0%	0.1%	2.3%	2.7%	2.8%	2.8%	11.0%
Prime residential sales markets							
Prime Central London East	1.0%	1.0%	3.5%	3.0%	3.5%	4.0%	15.9%
Prime Central London West	-7.0%	0.0%	1.5%	2.0%	3.0%	3.5%	10.4%
Prime Outer London	-1.5%	-1.5%	2.5%	3.0%	3.0%	4.0%	11.4%
Prime England and Wales	0.1%	1.5%	2.0%	2.0%	3.0%	3.5%	12.6%
Residential rental markets							
UK	1.2%	1.4%	2.0%	2.0%	2.0%	2.0%	9.8%
Prime Central London East	-2.5%	0.0%	2.0%	3.5%	3.0%	3.0%	12.0%
Prime Central London West	-6.5%	-2.0%	1.0%	2.0%	2.0%	2.0%	5.0%
Prime Outer London	1.5%	2.0%	2.5%	3.0%	2.5%	2.5%	13.1%
UK Transactions (000s)							
UK	1,231	1,275	1,291	1,303	1,313	1,321	

Source: Knight Frank Research, OBR

RISK MONITOR

HIGHEST RISK 10 9 8 7 6 5 4 3 2 1 LOWEST RISK

Knight Frank's residential market Risk Monitor provides our latest assessment of key risks to the UK's residential markets. Our risk score, out of a maximum 10, is based on two assessment, firstly our view of the likelihood of the described scenario occurring, and secondly the potential market impact. Both these elements are scored from one (low) to five (high), collectively contributing to our combined Risk Score. Our measure of risk is deliberately narrow – namely the risk that house prices could under perform our central forecast scenario.

RISK	SCENARIO	IMPACT	UK			PRIME LONDON		
			LIKELIHOOD	IMPACT	RISK SCORE	LIKELIHOOD	IMPACT	RISK SCORE
DOMESTIC ECONOMY	Slower than expected economic growth	The outlook for the UK economy has improved since the EU referendum, but uncertainty around the effects of inflation and Brexit could still weigh on GDP. Slower growth would impact employment and buyer demand across the country. However, the Bank of England seems likely to keep interest rates low which will continue to exert downwards pressure on sterling.	2	4	6	2	3	5
BREXIT	Brexit negotiations with the EU result in an unfavourable deal for the UK	A less than favourable deal, or the absence of a stable transition period, could result in second-round economic effects with a potential knock-on impact for the UK housing market. Failing to achieve a deal that ensures London's status as a leading global financial centre could have implications for the central London market in the short-term.	2	3	5	2	4	6
INTEREST RATES	The Bank of England raises rates more rapidly than markets expected	Our expectation is that interest rates will not increase before late 2018. Inflation is expected to peak later this year or early 2018, but the central bank is unlikely to make any large moves as the UK negotiates to leave the EU. If rates start to rise before this time, or at a faster rate than expected, this could put pressure on mortgage borrowers. Rising interest rates would push yields higher on a range of investments, which could dampen investor appetite for lower-yielding property investments.	1	4	5	1	3	4
GLOBAL ECONOMY	The UK economy is affected by weaker global growth	Optimism has increased surrounding the global economy, with a series of indicators turning more positive in 2017. However, stock markets remain somewhat volatile and protectionism remains a key risk. Meanwhile, uncertainty surrounding Brexit negotiations, the US approach to global trade and further European elections could have repercussions in the UK. However, in a period of global economic volatility, the allure of 'safe-haven' investments, such as bricks and mortar, will play a role.	2	3	5	2	2	4
GEO-POLITICAL FACTORS	Geo-political events cause economic slowdown	While the election of Donald Trump caused a degree of uncertainty, more clarity has since emerged surrounding his approach to foreign policy. Elsewhere, there are still strains in the EU over migration as well as uncertainty over the wider approach to Russia and North Korea. The upcoming elections in Germany and Italy as Brexit negotiations gather pace could also affect global business sentiment.	2	3	5	2	2	4
POLITICAL RISKS	New property taxes	Given the multiple changes to stamp duty introduced in the last five years and question marks over their effectiveness and the distortive impact on property markets, the likelihood of another ramp-up in charges is limited. Overseas property ownership is likely to remain a live issue as the UK exits the EU, though balanced by the need to attract inwards investment.	1	2	3	1	4	5
NEW BUILD SUPPLY	Oversupply of housing	An oversupply of new housing is very unlikely to be an issue for most of the UK, where many local housing markets are characterised by a lack of homes for sale. However, in some areas on the edges of central London, the issue of oversupply may be worth monitoring.	1	2	3	1	4	5

Methodology Statement: House price forecasts are based upon time series regression analysis of relevant statistically significant macro-economic variables adjusted in-house to encompass externalities such as likely risk factors. The forecast uses the Nationwide House Price Index as a base.

RESIDENTIAL RESEARCH

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