

## RENEWED INTEREST IN INTEREST RATES

The Bank of England has given more ‘forward guidance’, indicating that it may move to raise interest rates from their record low in the coming months, although there is no guarantee that this will happen. Meanwhile, house price growth across the country continues to moderate, while the prime London market shows signs of regaining momentum.

### Key facts Sept 2017

**Average annual house price growth slowed to 2.1% in August**, down from 2.9% in July

**Prime central London prices for existing homes dipped 0.2% in August**, taking the annual change to -5.4%

**Average UK rents rose by 1.6% in the year to August**, down from 1.8% in July

**UK interest rates held at 0.25%** for 13th consecutive month



**GRÁINNE GILMORE**  
Head of UK Residential Research

“Amid increasing speculation that a rate rise in the UK might be on the cards in the coming months, the Bank of England Governor has emphasised that any changes would be ‘gradual and limited’.”

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### Economic and housing market overview

The Bank of England has voted to keep interest rates unchanged for the 13th consecutive month, but the account of the meeting held by rate-setters attracted attention, particularly on the foreign exchange markets. The ‘minutes’ of the rate-setters’ meeting, published after every rate decision, indicated that the Bank may be preparing to raise rates – and this caused the pound to climb to \$1.35 against the US dollar, up from around \$1.25 at the beginning of the year, although this is down from \$1.70 in 2014.

#### Pound strengthens against the dollar



Source: Knight Frank Research/ BOE

The money markets now assess that the likelihood of a rate rise in November is at around 60%. However, the Bank has indicated several times over the last few years that rate-setters were minded to raise rates, and no increase has yet materialised.

In a recent speech, Mark Carney, the Bank of England Governor, indicated that even if rates did start to rise, it would be a gradual process. He said: “Any prospective increases in Bank Rate would be expected to be at a gradual pace and to a limited extent, and to be consistent with monetary

policy continuing to provide substantial support to the economy.”

While the UK central bank’s direct mandate is to use monetary policy to manage inflation, policymakers will also have one eye on Brexit, as they need to manage the potential economic effects of the UK’s withdrawal from Europe.

The discussion around increasing interest rates comes as mortgage rates have hit near record-lows. While accessing a mortgage still requires a substantial deposit, those who have access to this finance can take advantage of rates as low as 1.6% fixed for five years.

Meanwhile, house price growth continues to moderate. Average values across the UK dipped by 0.1% in August, according to Nationwide, taking annual growth to 2.1%. A breakdown of regional house price growth calculated by the Office for National Statistics, shows that the East of England and the Midlands are leading the growth, with London showing the most modest level of annual growth. However, this comes after several years of very strong growth in the capital, and the market remains highly localised, with prices rising strongly in some boroughs.

#### UK average house prices

Annual % change



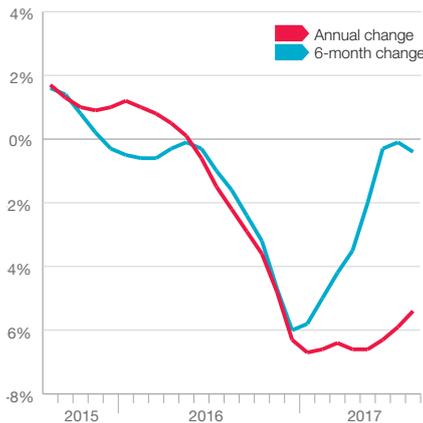
Source: Nationwide

### Prime market update

Average prices in prime central London dipped by 0.2% in August, taking the annual change to -5.4%. This is the most modest annual decline since November last year.

#### Prime central London prices

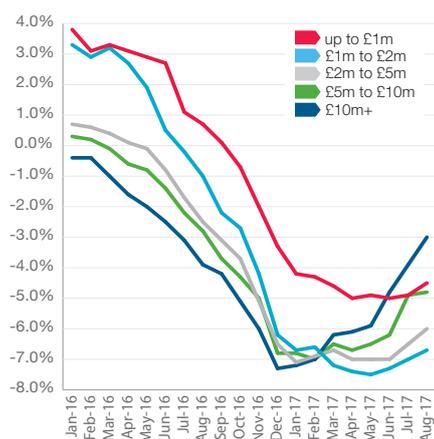
Annual and 6-month change, %



Source: Knight Frank Research

In a reversal of the trend seen in recent years, higher-value properties are now outperforming in terms of price change as the market adapts to higher rates of stamp duty.

#### Annual price growth in PCL by price band

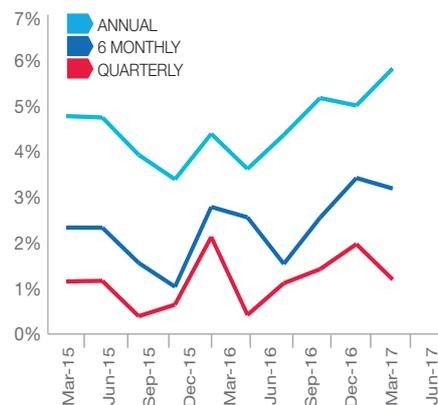


Source: Knight Frank Research

Transaction volumes in the market continued to recover during the month, with the number of residential exchanges in prime central London some 5% higher in the first seven months of this year than in the same period last year. There are also indications that activity could continue to rise, with an 8% rise in the number of new prospective buyers registering between January and August 2017.

In the prime country market, average prices rose by 0.1% in Q2, taking the annual increase to 0.2%. There was outperformance in several key urban locations, with average values in Bath up 4.7% on the year, values in Cheltenham rising by 6.4% and average prices in Exeter up 5.8% as a shortage of stock, rising demand and improving transport links underpinned pricing.

#### Exeter: Prime price change



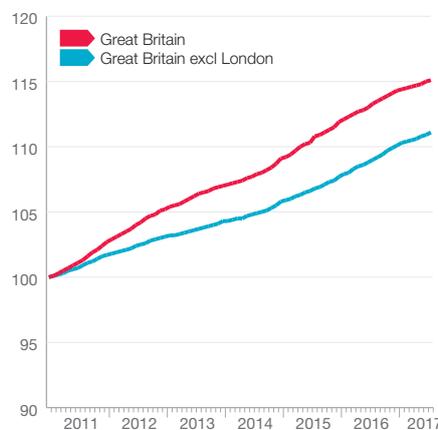
Source: Knight Frank Research

### Rental market

Average rents rose by 1.6% across Great Britain in the 12 months to August 2017, but growth was not even across countries, with average rents in England rising by 1.7%, Wales 1.3% and Scotland 0.3%.

#### Average rents, GB

Index values (January 2011=100)



Source: ONS

In central London, prime rents for existing homes remained static for the second consecutive month in August, taking the annual decline to 3.4%. This is the smallest fall recorded in more than a year, amid more constrained stock levels and rising demand.



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#### RESIDENTIAL RESEARCH

**Gráinne Gilmore**  
Head of UK Residential Research  
+44 20 7861 5102  
[grainne.gilmore@knightfrank.com](mailto:grainne.gilmore@knightfrank.com)

#### PRESS OFFICE

**Astrid Etechells**  
+44 20 7861 1182  
[astrid.ettechells@knightfrank.com](mailto:astrid.ettechells@knightfrank.com)



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