

BACK TO SCHOOL (AND BREXIT)

Sterling has rallied slightly on positive messages from Brussels in recent weeks around Brexit. In the housing market, headline price growth is slowing, yet some cities are still seeing strong price rises.

Key facts Sept 2018

Average UK house prices declined by 0.5% in August, taking the annual rate of growth to 2%

Prime central London prices fell by 0.6% in August, taking the annual decline to -2.3%

Average UK rents rose by 0.9% in the year to July, down from 1% in the year to June

Rents in prime central London rose by 0.9% in the year to August

Economic and housing update

There was some positive news on the economic front in August, with official figures confirming that GDP growth rose in Q2, to 0.4% on the quarter, up from 0.2% in Q1. In addition, the well-signposted quarter-point interest rate rise in August made few ripples in the markets.

In fact, the biggest boost to sterling in August was caused by the suggestion from Michel Barnier, the EU's Brexit negotiator, that the UK could be given its own trade deal when it leaves the EU (rather than having to conform to deals already struck – e.g. with Norway). Further positive comments from Mr Barnier in recent weeks is helping calm some of the jitters around whether a Brexit deal can be struck before Article 50, triggered in March 2017, comes into effect on 29 March 2019.

Yet, even with a bump in August and in early September, the pound remains 35% lower against the dollar than in 2008.

Meanwhile, UK house price growth continues to slow, although regional and local differences persist. Data from Nationwide shows that average UK house prices are up 2% in the year to the end of August, down from the 5% annual growth seen in 2016.

Average UK house prices

Annual % change (rolling 3-month average)

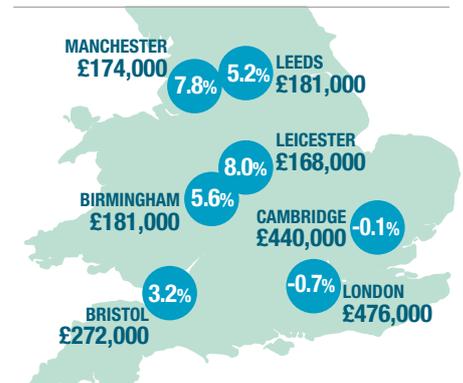


Source: Nationwide

However, separate ONS data shows stark regional variations as the map below shows.

Multi-speed city market

Annual % change, year to June



Source: ONS



GRÁINNE GILMORE
Head of UK Residential Research

“Differing dynamics are at play across city markets, including local economic growth, wage growth, employment levels, the supply of new and existing homes for sale, housing affordability and lifestyle.”

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Pound vs dollar

2008 - 2018



Source: Macrobond

This underlines how different dynamics and drivers are at play across city markets, including local economic growth, wage growth, employment levels, the supply of new and existing homes for sale, housing affordability and lifestyle.

This differentiation in markets is also evident on a more localised level within Greater London. Despite the headline decline in house prices in the capital, the most recent data shows that average house prices are rising in around half of boroughs, in some cases by more than 5% over the last 12 months.

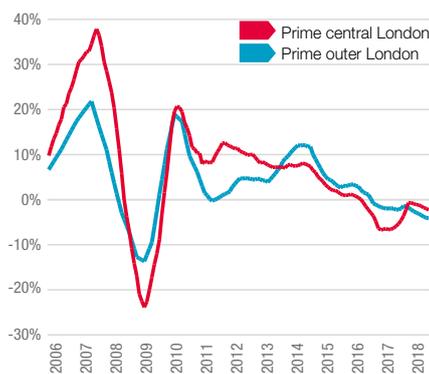
Prime market update

Prime central London prices dipped by 0.6% in July, taking the annual decline to 2.3%, and the total average price adjustment since the peak of the market to 9%, although some markets have seen larger declines. However, the annual increase in the rate of prospective new buyers rose over the summer, while the total value of £10m+ property deals hit a three-and-a-half year high in June.

In prime outer London, values decreased by an average of 0.3% in August, taking the annual decline to 4.1%, however the number of viewings taking place is on an upwards trend in this market.

Prime London sales pricing

Annual % change



Source: Knight Frank Research

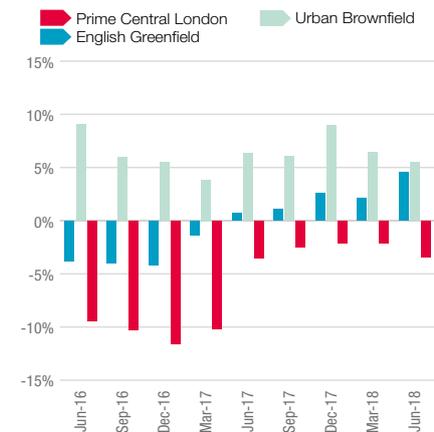
Prime English country home prices are up 0.7% on the year, while Scottish country home values rose by 1.6% in the 12 months to the end of Q2 2018.

Land market

Average land values for residential development land in urban brownfield locations are up 5.5% on the year to the end of Q2, while greenfield development land is up 4.6% on the year. Average values for development land in prime central London continues to moderate, and is down 3.5% on an annual basis.

Residential Development land values

Annual % change



Source: Knight Frank Research

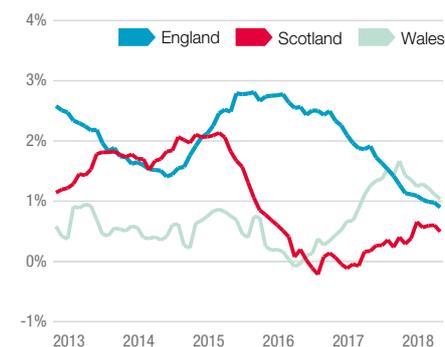
Meanwhile farmland prices dipped by 2% in the year to the end of June, a more modest decline than the -8% annual fall seen in September 2016. Average values are now at £7,175 an acre, according to the latest Knight Frank Farmland Index.

Rental market

Average rents in Great Britain rose by 0.9% in the 12 months to July, a more modest rate of increase than the 1% growth in the 12 months to June, although as the chart below shows, trends in rental growth are quite different across countries.

Average rents, England, Scotland, Wales

Annual % change



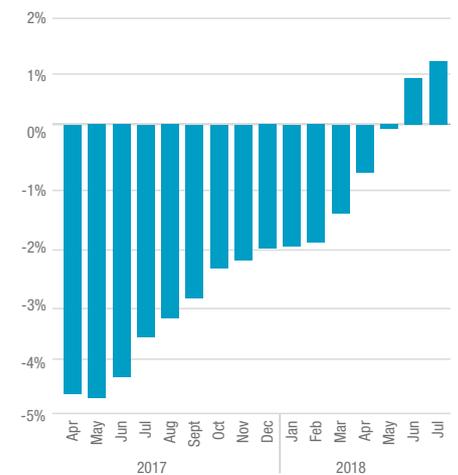
Source: ONS

*comparable data not available for Northern Ireland

Prime central London rents for existing homes continued to move into positive territory in August, rising by 0.8% on the quarter, and taking the annual level of growth to 0.9%. In prime outer London, rents rose by 0.5% on average in July, although the annual rate of change remained in negative territory at -1.4%. Yet activity in this market has been rising for 6 months, with the number of tenancies agreed by Knight Frank up 17% in the 12 months to June compared to the previous 12-month period.

Prime central London rents

Annual % change



Source: Knight Frank Research



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