

HOUSING POLICY TAKES CENTRE STAGE

Boosting the supply of housing is a key priority for policymakers, as a result anticipation is building for the Housing White Paper, due for release shortly, to see if the policies it contains can help unlock further housebuilding across the UK.

Key facts Jan 2017

Average UK house prices rose by 0.8% in December, taking the annual increase to 4.5% according to data from Nationwide

Average prices in prime central London (PCL) fell by 6.3% in 2016, but with wide variations across sub-markets...

...while activity levels in PCL in November 2016 **were higher than that in November 2015 and 2014**

Average rents across Great Britain rose by 2.3% in the year to November 2016, **rising by 2.4% in England alone**



GRÁINNE GILMORE
Head of UK Residential Research

“The data showing the growth in delivery of new homes in England is positive, and indicates that in the year to March 2017 the important 200,000 units-a-year barrier will be breached.”

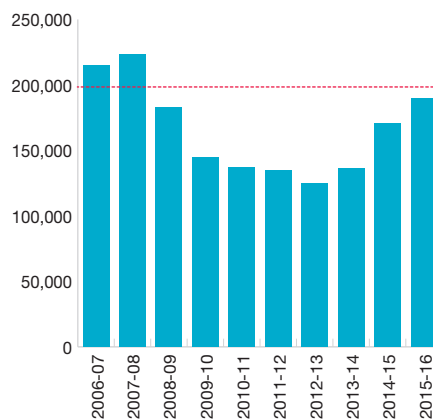
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Economic and housing market overview

The celebrations to see in the New Year had barely ended on January 3rd, but the Government was already issuing its second announcement of the year on housing. Its first was to highlight plans for new Garden Villages and Towns, and the second was the release of more detail on Starter Homes – new houses that will be sold at a 20% discount to qualifying first-time buyers. This scheme was first mooted in late 2014, but has yet to start.

Net additional dwellings, England



Source: Knight Frank Research/DCLG

If the Government’s focus on boosting the delivery of new homes had not already been clear, this was a reminder. However, the real meat of the Government’s plans, the Housing White Paper, has yet to make an appearance.

There have been strong hints from the Housing Minister that some of the focus will be on increasing the supply of housing by looking at all forms of tenure, by encouraging new forms of development – such as modular building – and support for small and medium-sized developers.

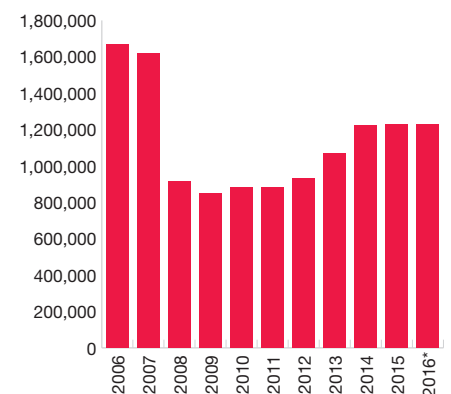
The data on the delivery of new homes is positive – the most recent estimates of net supply of housing in England in the year

to the end of March 2016 was 189,650 – indicating that in the year to March 2017 the important 200,000 units-a-year barrier will be breached. Yet some estimate that we need many more houses every year than this – the Lords Economic Affairs Committee put the figure at 300,000.

But creating new homes where they are needed in the country is a complex task, with hurdles for developers in accessing land, some parts of the planning system and the increasing issue of affordability in some locations.

Household sentiment is also a key issue, and the performance of the UK economy has a bearing on this. In this regard, the UK economy performed better than many expected last year, and the IMF has just revised up its forecasts for growth this year. New data shows inflation starting to creep up. This will put a renewed focus on base rates, although the likelihood of the Bank of England making a sudden move is slim. For those who can access the housing market, mortgage rates remain near record lows.

Housing Transactions: UK



Source: Knight Frank Research/HMRC
*estimate

Initial data suggests that transaction levels remained fairly steady last year across the UK, although some parts of the market have been affected by successive stamp duty changes.

Prime market update

Values in prime central London fell by 6% last year as the market continued to absorb stamp duty increases, but as has increasingly been the case, the market remains highly localised, with price changes ranging from 0% in the City and East market to -13.5% in Chelsea, as shown in the map below.

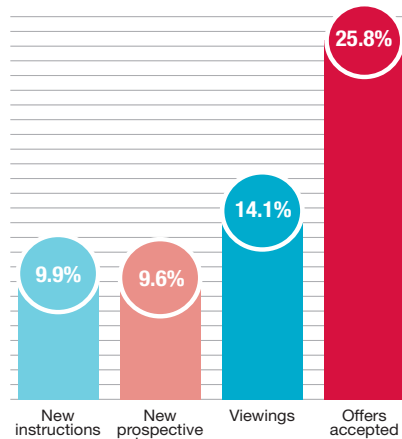
Yet, after a slowdown in activity after the property tax changes and then the Brexit vote, the market is showing signs of renewed momentum, with a higher number of transactions in November than in the same month in 2015 or 2014.

In the prime country market, Knight Frank offices also recorded a 9% uptick in £2m+ sales in 2016 compared to 2015, with a rise in new buyer activity especially towards the end of the year.

Average prices across the prime country market dipped by 0.4%, price performance varies across price bands, with values in the sub-£1m market rising by 3.5% during the year – largely because this sector of the market is less affected by the stamp duty changes. The impact of taxation was further underlined in

Knight Frank's prime market survey late last year, which showed that more than half of buyers in the £1.5m+ market were reviewing their budget for a new home in light of the new rules.

Prime Country: Supply and demand Q4 2016 v Q4 2015 (% change)



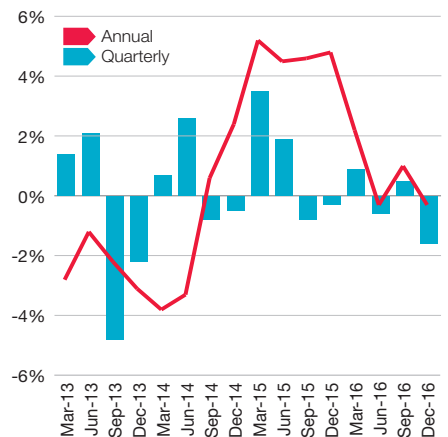
Source: Knight Frank Research

Rental market

Average rents rose by 2.3% across the UK in the year to November 2016, while prime

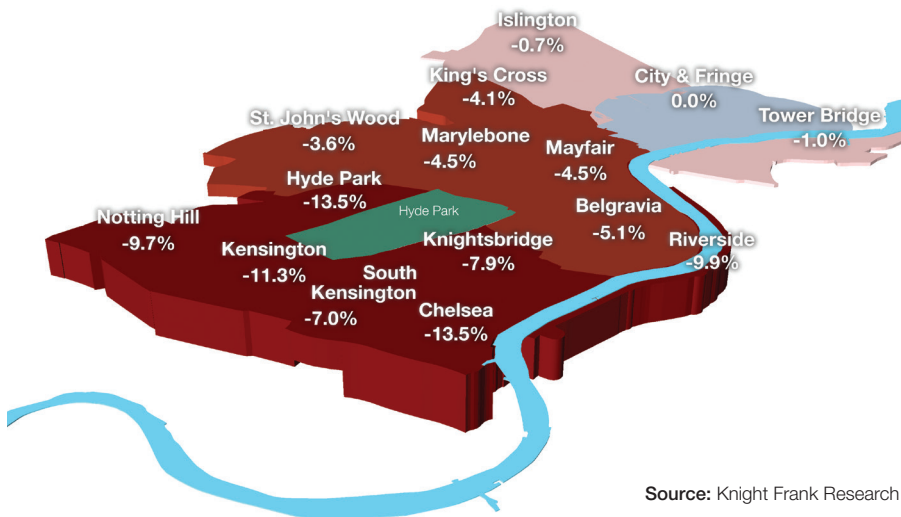
rents in London and the Home Counties fell by 5.1% and 0.8% respectively during the year. A rise in stock levels in the prime markets is weighing on rental growth, however transaction activity remains strong amid continuing demand for rental property.

Prime Home Counties rental growth Annual and quarterly % change



Source: Knight Frank Research

Price growth in prime central London Year to Dec 2016



Source: Knight Frank Research

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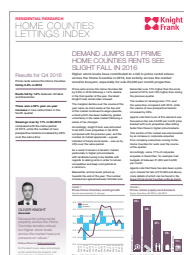
Prime Central London Sales Index - Dec 2016



Prime Central London Rental Index - Dec 2016



UK Prime Country House Index - Q4 2016



UK Home Counties Rental Index - Q4 2016

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RESIDENTIAL RESEARCH

Gráinne Gilmore
Head of UK Residential Research
+44 20 7861 5102
grainne.gilmore@knightfrank.com

PRESS OFFICE

Jamie Obertelli
+44 20 7861 1104
jamie.obertelli@knightfrank.com



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