



# News Release

**EMBARGO 0001 GMT Wednesday 7 November 2012**

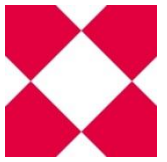
## **Knight Frank UK property market forecasts – Q4 2012**

Headlines:

- UK house prices will not reach their 2007 peak until 2019: the longest housing market recovery on record, according to Knight Frank’s new forecast
- UK housing transactions to rise 2% in 2013, but to remain well below peak levels for the rest of the decade
- Tax changes forecast to weigh on prime central London prices, with no price movement expected in 2013.

<b>UK and Prime London</b>												
	20 year average to 2011	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017-2022
UK	6.0%	6.9%	-14.7%	3.4%	0.5%	1.2%	-2.0%	-2.0%	1.0%	2.0%	3.5%	4.2%
Prime Central London	10.1%	28.6%	-16.9%	6.1%	10.3%	12.1%	8.0%	0.0%	4.0%	6.0%	6.0%	6.0%
Prime Outer London	8.9%	11.1%	-12.7%	11.2%	6.1%	1.2%	3.5%	1.0%	3.0%	4.0%	5.0%	5.0%

<b>Regional Markets - Mainstream</b>									
	20 year average to 2011	2007	2008	2009	2010	2011	2012	2013	
East Anglia	5.8%	5.7%	-16.6%	4.5%	3.4%	1.4%	-2.4%	-0.7%	
East Midlands	5.5%	2.8%	-14.2%	2.5%	1.7%	0.7%	-1.6%	-1.0%	
London	7.4%	12.8%	-15.1%	7.0%	2.5%	5.4%	-0.2%	-0.6%	
North East	4.9%	3.7%	-11.0%	-2.0%	0.6%	-1.0%	0.5%	-2.3%	
North West	4.9%	3.5%	-14.4%	2.7%	-1.9%	-1.1%	-1.8%	-2.6%	
Scotland	5.3%	10.1%	-8.1%	1.0%	-2.1%	-0.8%	-3.6%	-3.2%	
South East	6.4%	7.9%	-15.7%	6.0%	2.4%	1.6%	-0.9%	-1.1%	
South West	6.3%	6.4%	-14.9%	3.8%	2.1%	0.8%	-1.0%	-2.2%	
Wales	5.6%	4.2%	-12.1%	-0.3%	-1.9%	1.6%	-3.6%	-3.8%	
West Midlands	5.2%	4.4%	-14.0%	2.1%	0.6%	0.4%	-1.3%	-2.1%	
Yorkshire	5.4%	2.6%	-13.6%	2.7%	-3.6%	1.7%	-1.0%	-1.8%	



# News Release

## UK housing market:

Gráinne Gilmore, Head of UK Residential Research, says, “Some five years after the start of the financial crisis, the housing sector in the UK still does not bear the hallmarks of a fully functioning market.

“Transaction levels have roughly halved since the last market peak in 2007, and are 35% below the 20 year average, as first-time buyers and those further up the housing ladder struggle with tighter mortgage lending rules.

“House prices have been flat or modestly declining across the UK since 2010. This stasis is underpinned by unusual economic conditions, rather than a genuine equilibrium in the market.

“The fundamentals suggest that a further correction in prices is needed as the relationship between average earnings and average house prices is well above the long-term average. This is illustrated in the chart below (Figure 1), which shows how the house price earnings ratio for first-time buyers has moved. We believe that the new ‘average’ at which this ratio settles in the future may be above the historical average, but there is still a further readjustment required to reach that level.

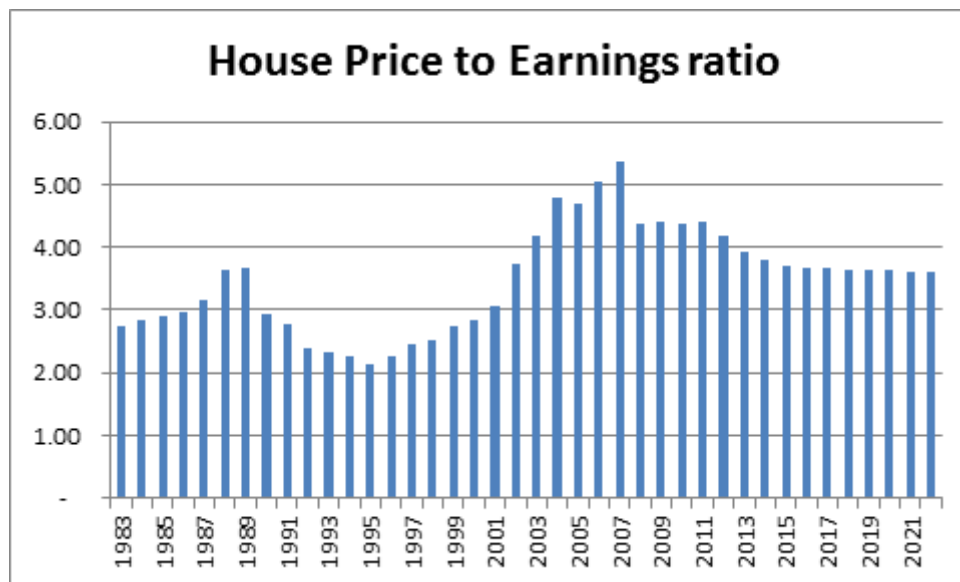


Figure 1 | Source: Knight Frank Residential Research, Nationwide



# News Release

“Prices have been supported so far by ultra-low interest rates. This has resulted in monthly mortgage payments falling for some borrowers.

“But it has not all been good news for borrowers. Those with only a small slice of equity in their property have struggled to re-mortgage, given that many lenders have scrapped the high loan-to-value (LTV) deals seen before the financial crisis. Instead, lenders in general now lend a maximum of 75% LTV. Only a handful of deals are available above this threshold and the most competitive deals are for those who have 30% or 40% equity. Indeed, most homeowners who do not have a 25% chunk of equity in their property must stay with their current lender, and are unable to reduce their monthly mortgage payments by shopping around the mortgage market for a more competitive deal.

“First-time buyers without a 25% deposit find it hard to climb onto the housing ladder at all, although some government initiatives, such as Firstbuy and NewBuy, have tried to open up the market to those with more modest deposits.

“The Bank of England and Treasury Funding for Lending scheme, designed to boost mortgage lending as well as the availability of loans to small businesses, has yet to prove that it is really having a significant effect on the market, although there are initial signs that mortgage rates may have fallen slightly.

“The recent Mortgage Market Review (MMR), which is likely to be implemented in 2014, underlines the fact that the current conditions in the mortgage market are not a post-crisis blip. Rather, this should be considered the ‘new normal’, and the housing market will certainly reflect that, taking years to reach the transaction levels seen at the peak of the market. We forecast only a 2% rise in transactions next year.

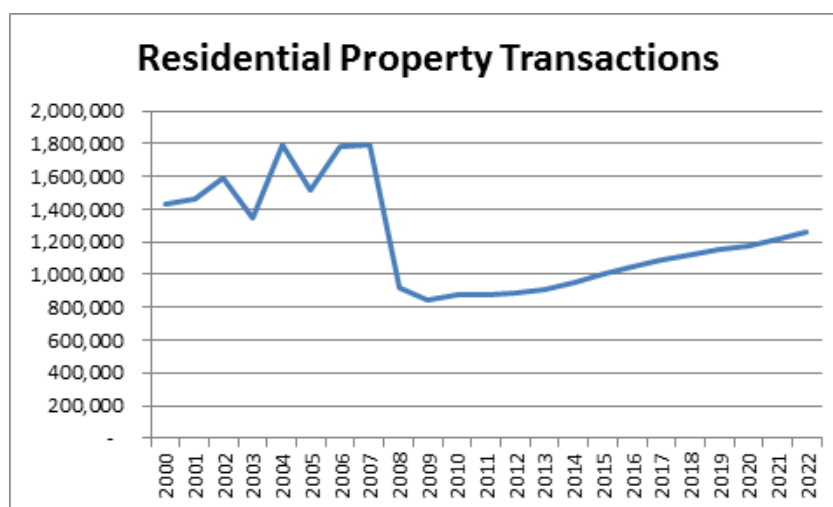
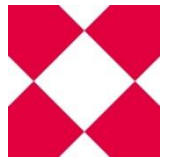


Figure 2 | Source: Knight Frank Residential Research, HMRC, ONS



# News Release

“As the UK economy struggles to deliver convincing growth, there seems little chance of interest rates rising any time soon. In fact, recent polls of economists show that the first interest rate rise is not expected until 2014 at the earliest, with some analysts expecting rates to stay at current levels until 2017. This low-interest rate environment will probably continue to put a floor under prices, signalling that rather than another sudden large price shock, homeowners face a slow erosion of real prices until the price-to-earnings ratio once again reaches more manageable levels.

“However, at some point, interest rates will rise. If they rise slowly, in tandem with a growing economy where new jobs are being created and average earnings are rising faster than inflation (this is the assumption we have used in our forecasts) the housing market can weather the change. But it must be noted that a sudden and unexpected sharp rise in interest rates could have an immediate effect – causing a price shock, as already over-extended homeowners are pushed past the limit. Such a move might also force banks, which are showing hitherto unseen levels of forbearance on bad mortgage loans, to take action, which could spur a sharp rise in repossessions, further exacerbating house price declines.

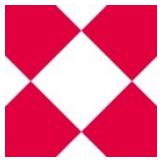
“In the wider economy, there is more austerity to come. George Osborne, the Chancellor, is being pushed hard for a fiscal plan B, but so far shows little sign of deviating from the schedule of public sector cuts which will continue well into next year and 2014.

“In fact, we do not see average prices reaching their 2007 peak again until 2019 – which would mark the longest period between price peaks in more than sixty years. Once inflation is stripped out, average UK house prices are unlikely to hit 2007 levels again in real terms until 2031.

“We are also forecasting another small dip in Prime Country house prices next year. We expect prices to end this year down 4%, with some exceptions in ‘hotspots’ such as Oxford and Guildford, where we expect prices to rise modestly next year.

“Overall, we expect a further average 1% decline across the market in 2013, before some growth returns as the economy starts to make more solid progress.

“Turning to Europe, we based our forecasts last year on the assumption that the Eurozone would remain intact. That continues to underpin our outlook, although this does not rule out further turbulence in the single currency area, with troubling signs from the German economy raising the spectre of the powerhouse economy in Europe falling back into recession. “



# News Release

## Prime Central London

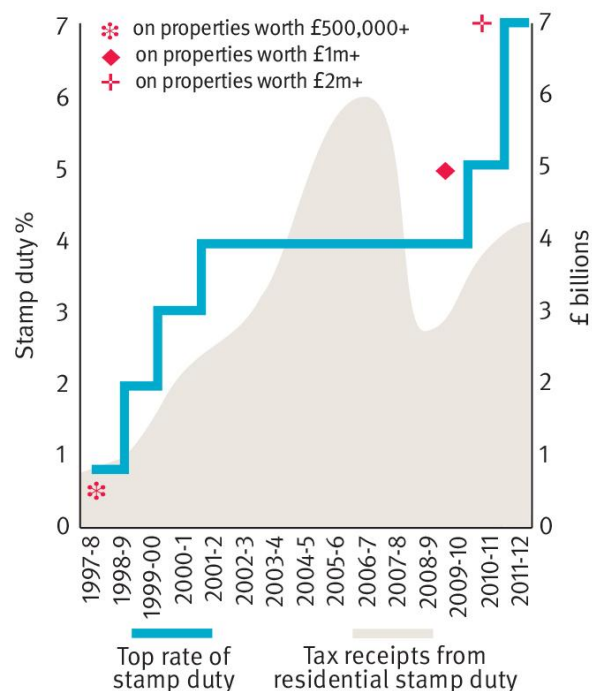
Liam Bailey, global Head of Residential Research, says, “Prime property prices in central London have bucked the trend of the wider housing market in the UK over the past few years, bouncing back 50% after the post-crisis trough to reach a new high. Last year we forecast another year of growth, which we have seen, although the level of growth exceeded our expectations for a 5% rise in values in 2012.

“The demand for luxury London homes from overseas buyers looking for a safe-haven for their money, as well as a slice of London life has helped drive price increases. The weakness of the pound makes the investment even more attractive, particularly for those buyers who have currencies pegged to the US dollar. This growth might have continued into next year, albeit on a more modest basis as prices bumped a ‘natural ceiling’, but government policy is set to have an impact on the market next year.

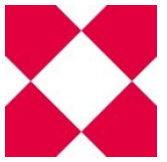
“In March, George Osborne raised the stamp duty charge for purchases of homes worth more than £2m to 7%, up from 5%. For those buying through a company structure, the charge was raised to 15%. But, crucially, the Chancellor also announced a consultation on further charges for those buying through a company structure – an annual charge of up to £140,000 a year, as well an extension of capital gains tax. These measures will not be confirmed until next month, and have created an air of uncertainty among buyers who own property in a company structure, or who were considering buying a property in this fashion. As a result, there is an air of ‘wait and see’ in the market, and this has had an impact on transactions, with £2m+ sales volumes down by 25% year-on-year in the three months to the end of October 2012.

Figure 3

### How the top rate of stamp duty has risen



Source: Knight Frank Residential Research



# News Release

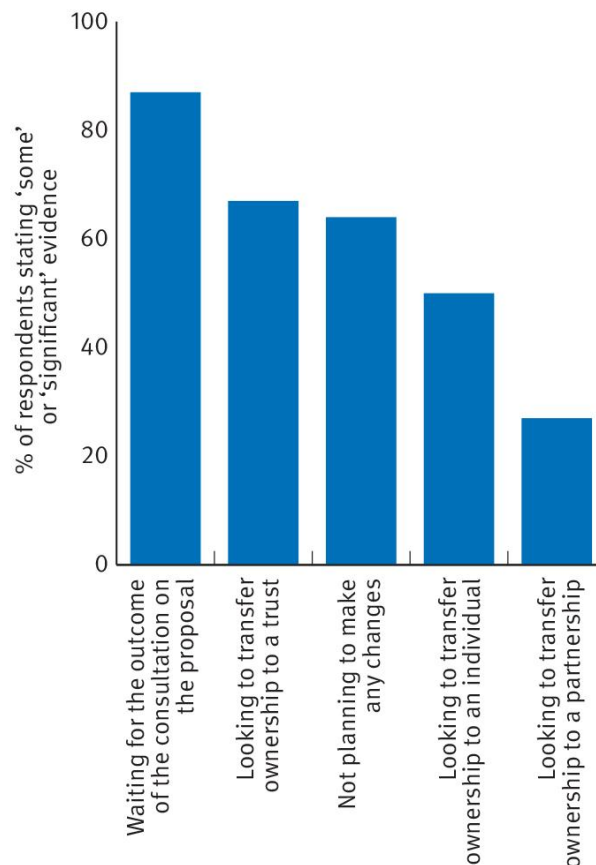
“If the measures are introduced as laid out in the Government’s consultation, we expect to see a significant proportion of property owned through companies switched into private ownership, either in a single name or a trust structure. Some property owners may put their home on the market, but some buyers will continue to buy and hold property through a company structure because it suits their needs. We will revisit our forecast in the wake of the announcement if the Government decides to bring different rules forward.

“The continued discussion about a ‘mansion tax’, whether it is the Liberal Democrats’ idea for an annual charge on owners of property worth £2m+, or an introduction of extra council tax bands for properties worth £1m or £2m, is also causing some disquiet in the market. As the Government has been shown time and again, the housing market can absorb change, but long-term discussions create uncertainty, which can be the most damaging factor of all.

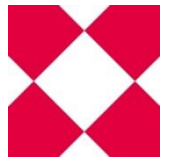
Figure 4

## Property tax shake-up

How have clients reacted to the proposal for an annual change on properties owned by a ‘non-natural person’?



Source: Knight Frank Residential Research



# News Release

---

“We forecast that prices in prime central London will remain unchanged overall next year, effectively bringing the boom seen over the past three or four years to an end, before more moderate price growth is seen once again from 2014 onwards.

“However, within next year’s forecast, we expect that separate sectors of the market will perform at different speeds because of the new stamp duty rules. As might have been expected, price growth in the £2m - £5m band slowed in the wake of the introduction of the new rules in March, while price growth and market activity in the sub-£2m band flourished. We expect this to remain the case, and this trend will also have a knock-on effect in prime outer London, where many family homes fall into this sub-£2m category.”

**Ends**

# News Release

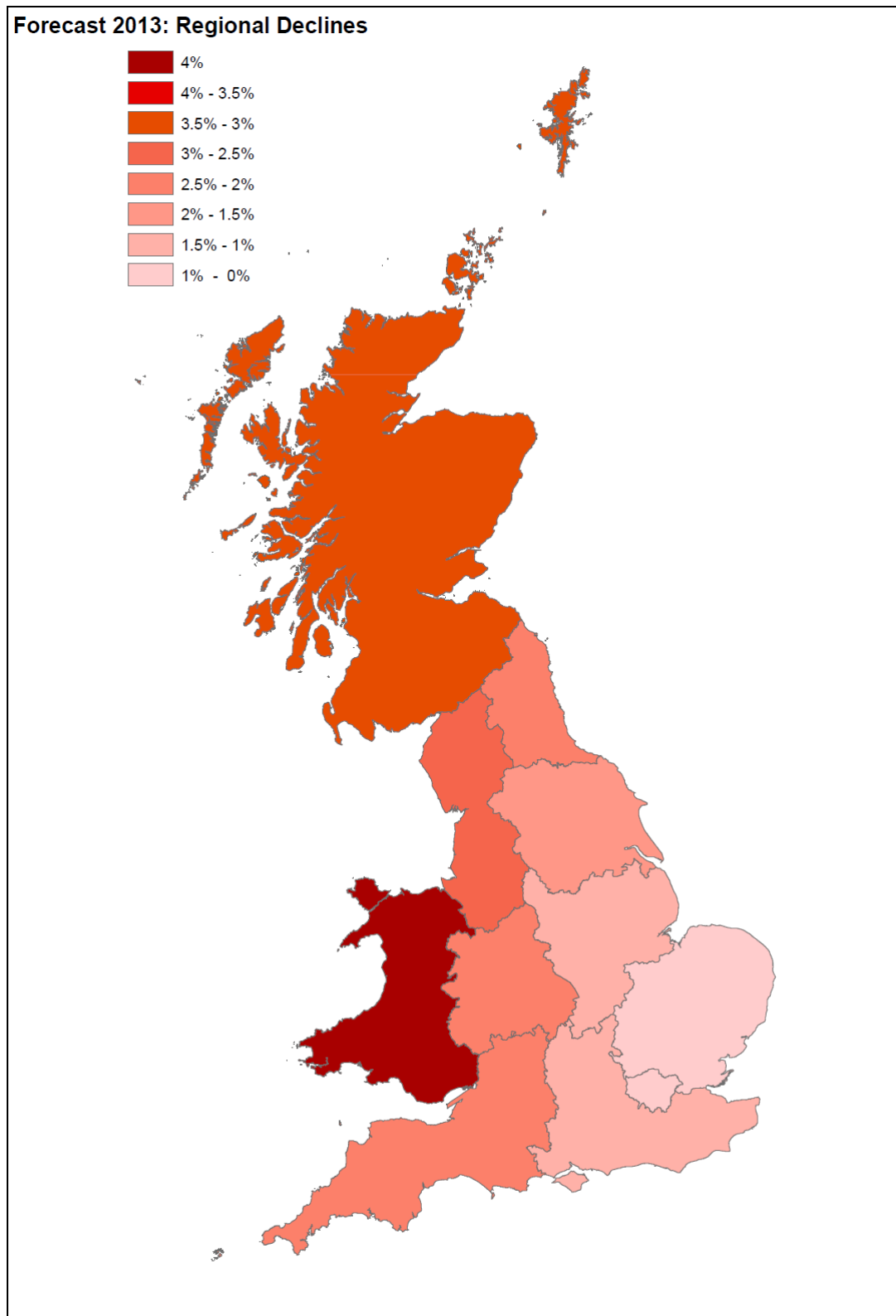


Figure 6 | Source: Knight Frank Residential Research



# News Release



## Notes to Editors

### **Knight Frank**

Knight Frank LLP is the leading independent global property consultancy. Headquartered in London, Knight Frank and its New York-based global partner, Newmark Knight Frank, operate from 242 offices, in 43 countries, across six continents. More than 7,067 professionals handle in excess of US\$817 billion (£498 billion) worth of commercial, agricultural and residential real estate annually, advising clients ranging from individual owners and buyers to major developers, investors and corporate tenants. For further information about the Company, please visit [www.knightfrank.com](http://www.knightfrank.com).

For further information, please contact:

Liam Bailey, head of Residential Research, Knight Frank, [liam.bailey@knightfrank.com](mailto:liam.bailey@knightfrank.com), +44 (0)7919 303 148,

Gráinne Gilmore, Head of UK Residential Research, [grainne.gilmore@knightfrank.com](mailto:grainne.gilmore@knightfrank.com), 020 7861 5102 / 07785 527 145

Rosie Cade, Residential Development PR Manager, [rosie.cade@knightfrank.com](mailto:rosie.cade@knightfrank.com), t: +44 (0)20 7861 1068 / +44 (0)7500 033 488

This report is published for general information only and not to be relied upon in any way. Although high standards have been used in the preparation of the information, analysis, views and projections presented in this report, no responsibility or liability whatsoever can be accepted by Knight Frank LLP for any loss or damage resultant from any use of, reliance on or reference to the contents of this document. As a general report, this material does not necessarily represent the view of Knight Frank LLP in relation to particular properties or projects. Reproduction of this report in whole or in part is allowed with proper reference to Knight Frank LLP Residential Research. Knight Frank LLP is a limited liability partnership registered in England with registered number OC305934. Our registered office is 55 Baker Street, London, W1U 8AN, where you may look at a list of members' names.