



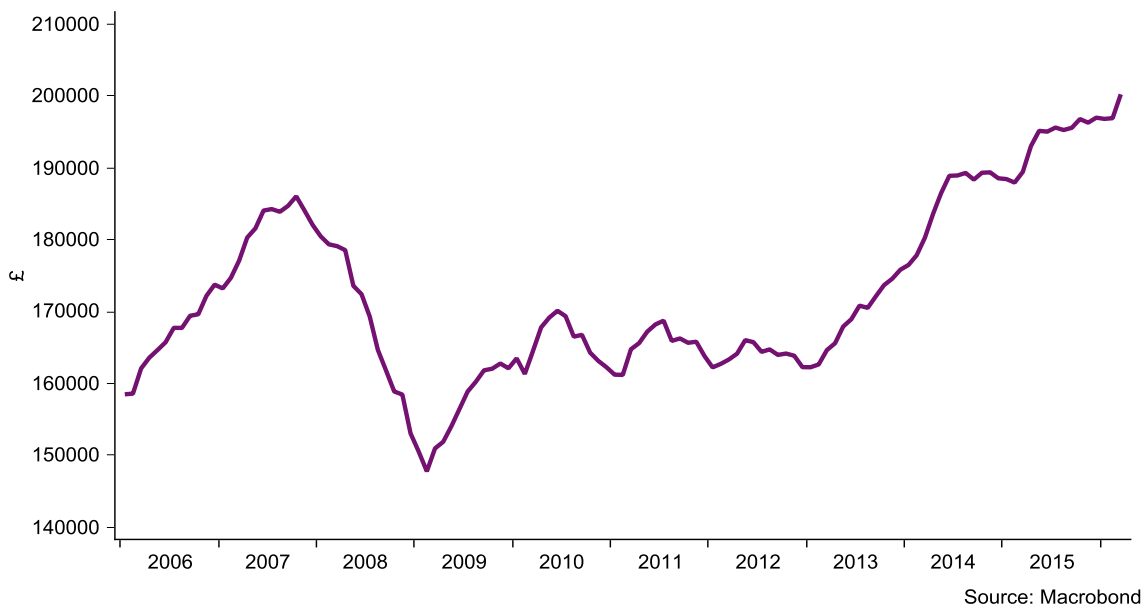
Economic Commentary

UK Housing Market

April 2016

Despite some signs that UK economic growth is slowing, the housing market continues to perform well, with many property indices showing a pickup in recent months. Continued constrained levels of housing supply are supporting prices while mortgage interest rates remain low and demand levels robust. According to Nationwide, the average UK house price stood at a record £200,251 in March (see chart below).

Nationwide average house price



The improvement in recent months may also reflect increased demand as buy to let investors finalise purchases ahead of the changes to stamp duty that were announced in the last autumn spending review. Indeed, a survey from the Royal Institute of Chartered Surveyors (RICS) shows that new buyer enquiries increased sharply towards the end of 2015, peaking in January 2016. From 1st April 2016 anyone buying a second property, including buy-to-let investors, is subject to an extra 3% stamp duty charge. As an example, someone buying a second property costing the average house price of £200,000 would have paid £1,500 in stamp duty before 1st April 2016, but £7,500 after the new rules came into place.

The average house price data continues to mask some diverging trends at a more regional level. For example, London is still the most expensive region, with the average house price topping £455,984 in Q1. This is around 130% higher than the UK average. At the other end of the spectrum, prices in Northern Ireland were just £123,225 in Q1, 38% below the UK average and a huge 3.7 times lower than the London average.

Linsey Congdon
Economic Research Analyst
ati@alliancetrust.co.uk
Tel +44 (0)1382 321000

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Over the next few months there is a risk that the performance of the housing market slows in the lead up to the EU referendum. Since peaking in January, new buyer enquiries have since slowed. This reflects a combination of the stamp duty changes that are now in effect and the upcoming EU referendum, which is causing a slowdown in demand, particularly from foreign buyers. The referendum creates an added layer of uncertainty which many may wish to see resolved before committing to a new house purchase.

Linsey Congdon
Economic Research Analyst
ati@alliancetrust.co.uk
Tel +44 (0)1382 321000

www.alliancetrustinvestments.com

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