STRUTT & PARKER
BNP PARIBAS GROUP

UK Residential Market Review

Winter 2024

2.5%

December's inflation (CPI) fell against Nov-24

Source: ONS

UK average rent increased 1.3% over 2024

Source: HomeLet

Real average weekly earnings* rose in Nov-24, compared to £668 in Nov-23

*(total pay, seasonally adjusted) Source: ONS

Economic & Political Outlook

The **global economic outlook** has worsened over 2024, with risks including geopolitical tensions in Europe and the Middle East, as well as potential threats to global trade from the incoming US administration.

Domestically, the UK has lower growth expectations as a result of the October 2024 Autumn Budget. 2025 has started with a negative outlook, with high gilts and a weakened pound. Whilst these are slightly ominous signs, it is difficult to say at this moment how much of the sentiment will persist in the longer term.

GDP growth was flat to the end of Q3 2024, and since then monthly growth was negative, -0.1%, in October and positive, 0.1% in November, meaning the UK has seen no economic growth in the latter half of 2024. The latest HM Treasury forecast has a growth expectation 1.3% over 2025, released on 18th December 2024.

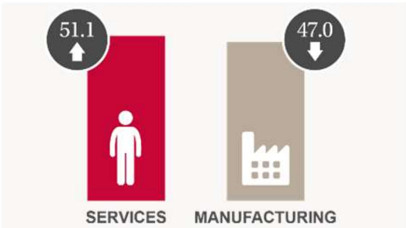
The **Bank Rate** was cut twice to 4.75% in the letter half of 2024. Both the Bank of England (BoE) and BNP Paribas expect 4 cuts over the course of 2025, a 25-basis point cut each quarter. The effective interest rate on newly drawn mortgages was 4.50% in November 2024, the lowest since April 2023.

Mortgage approvals reached 68,000 and then 67,000 in October and November, respectively. This is the most approvals recorded by the Bank of England since August 2022 in which 72,000 were approved. Net approvals for remortgaging increased from 25,700 in November to 30,800 in December.

December '24 **inflation** was 2.5%, above 2% target and a slight decrease from the previous month figure of 2.6%. This is inline with the OBR's October forecast where they expected inflation to end 2024 at 2.5%. HM Treasury expects inflation to be 2.5% in 2025, and the OBR forecasts 2.6% with inflation not returning to target until 2029.

The **FTSE 100** grew 0.7% over Q4 2024 and 7% across the year 2024. Since the start of 2025, the FTSE 100 remained stable in January.

The **FTSE 250**, however, dropped by 2% in one day – the 8th January 2025. This is a far more domestically focused index and can offer a better insight into the health of the UK.



UK services grew to Dec-24 whilst manufacturing shrunk

Source: IHS Markit/CIPS

UK property prices grew by 3.6% over 2024

Source: Nationwide HPI

Interest Rates

The bank rate was cut for a second time, in November 2024, to 4.75%, following an initial cut in August, after a year of the base rate at 5.25%. Forecasts from BNP Paribas, the OBR and HM Treasury, all expect the base rate to be cut four times over the course of 2025. This is likely to come in the form of one cut of 25 basis points each quarter.

These changes to the base are anticipated by hight street banks and priced into available mortgage offers, for this reason mortgage rates are, one, currently blow the base rate, and two, likely not to move dramatically when cuts to the base rates are announced.

Due to the levels of borrowing announced in Labour's first Autumn Budget the UK gilts rates rose over the start of 2025. This has not impacted the views on how the base rate will fall in 2025, yet this has increased where many believe this set of base rate cuts will end in two to three years time.

Evidence of this can be see as the cost of a 5-year-fixed rate rose up further than the two-year. Rates now sit at 4.44% for a 2-year-fixed rate, at a 75% loan-to-value (HSBC, Jan-25), and 4.31% for a 5-year-fixed rate, at a 75% loan-to-value (HSBC, Jan-25).

This difference of 13 basis points has come in from 25 basis points difference in November 2024 and evidence that although high street banks expect the base rate to fall of the next year, 18 months, their 5-year outlook has come in over the last two months.

Leveraged and first-time buyers have taken advantage of lowering rates with 68,000 mortgage being taken out in October last year alone. As rate are bought in further, we would expect these number to continue their positive trajectory.

Economic Indicators & Forecasts

The latest OBR forecasts (from October 2024) expect the economy to have grown by 1.1% by the end of 2024 with their 2025 forecasts of 2.0% more optimistic that the HM Treasury's at 1.3%.

Each forecaster expects unemployment to travel in a different direction over 2025; OBR expects it to fall from its current rate of 4.4% to 4.1% by the end of 2025. HM Treasury has not forecast a tightening of the labour market, 4.5% at the of 2025. Although this is historically low for unemployment the large, growing number of economically inactive long-term sick in the UK is hampering the countries growth and productivity.

Both the OBR and HM Treasury have forecast that inflation (CPI) will stay above the BoE's target of 2% over the year. International factors, national spending and higher gilts, have caused this inflationary pressure.

Economic Indicators Summary Table

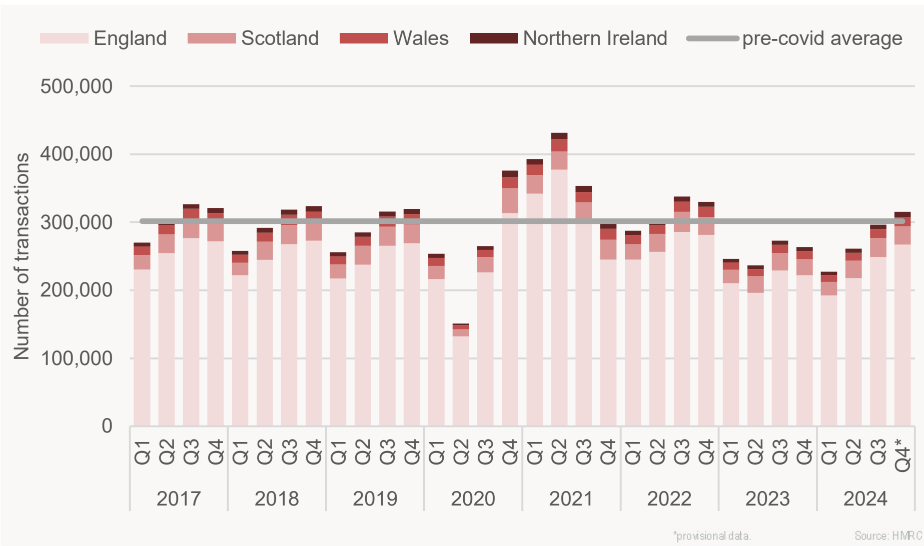
Indicator	Value	Date	Comment	HM Treasury (as of 18th December24)	
				for 2024	for 2025
Inflation Rate (CPI)	2.5%	Dec 2024	Inflation had been falling over the year, reaching 1.7% in September 2024. However, after this point, it rose to 2.3% in October and 2.6% in November.	2.5%	2.5%
Bank Rate	4.75%	Jan 2025	The bank rate has been 4.75% since November 2024. The next decision is due on 6th February.	4.8%	3.8%
Unemployment Rate	4.4%	Sep-24 to Nov-24	Unemployment has been at or below 5% since 2015 (apart from just over 5% at the end of 2020). The rate had been decreasing since the first half of the year (Feb-24 to Apr-24 was at 4.4%) however it has risen in the latter half.	4.3%	4.5%
Exchange Rate (GBP to Euro)	1.19	[Mid] Jan 2025	The exchange rate ranged between 1.20 and 1.21 over November and December 2024, an increase from the first half of the year where it ranged between 1.17 and 1.19. It started 2025 well at 1.21 and dropped to 1.19 in mid-January.	-	-
FTSE	QoQ: -0.2% YoY: 7.0%	[Start] Q1 2025	YoY growth has been positive for nine consecutive quarters, but this is the first quarter of negative QoQ growth since Q4 2023.	-	-
GDP	QoQ: 0.0%	Q3 2024	Monthly real GDP is estimated to have fallen in October 2024 by -0.1%.	0.8%	1.3%

National residential sales transactions

House price growth over 2024 was 3.6%, according to the Nationwide House Price Index (HWHPI). Over Q3 values effectively stayed flat with the value increases relatively evenly over the other three quarters of the year, ending with 1.3% growth over Q4.

These price increase have been driven by increasing transaction volumes and mortgage approvals. The number of transactions returned to over 300,000 transactions in Q4 for the first time since 2022. Both October and November saw over 100,000 each and December saw 98,000; the first return to the pre-COVID average since rates climbed above 4%. First time buyer demand surged as rates came down in the latter half of 2024. This demand has been inflated further by the increased in stamp duty for first time byers that will come into place in April. Within the price brackets that will be most impacted first time buyer demand was up 35% according to Zoopla.

Number of recorded properties sold across the UK for 2017 through 2024



The RICS survey expects that transaction levels will pick up over the next year. Since Q4 2023 the expectation for the market over the following 12 months has broadly been positive, with the RICS sales expectation fluctuating between 45 (equating to 73% of those surveyed having a positive outlook) and 35 (equating to 68% having a positive outlook).

Those had a positive outlook at the end of 2023 were correct, the market was picking up off a low base, but as rates threatened to come down – and then did – the market slowly returned.

Sentiment closely follows the base rate and with a further four cuts expected this this year, we would expect the latest RICS survey to continue its trend of a positive outlook for the next 12 months.

Buyers who had been sceptical about entering the market, particularly at higher price points, before the UK Autumn Budget and US Election, now have certainty, regardless of outcome. Buyers can assess the positives and negatives rather than speculating over what may happen.

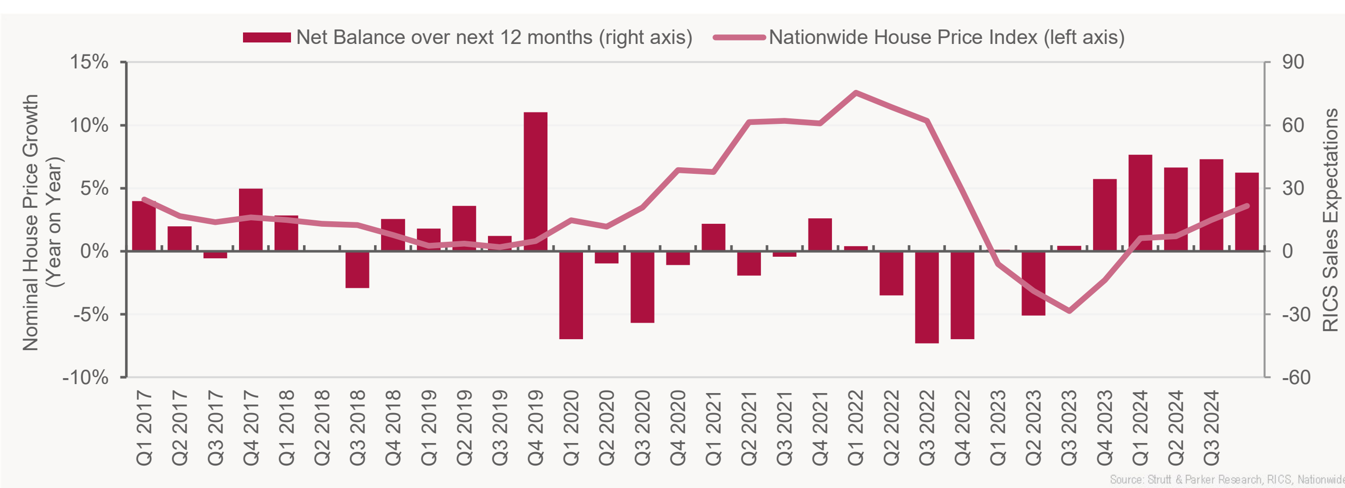
"The start of 2025 has been very encouraging, particularly in terms of the activity around stock being bought to market. January has seen potential vendors bringing properties to the market, particularly at the £1m plus end, which traditionally gathers pace in the Spring but seems to have jumped into action earlier this year. The number of potential buyers seems slower to catch up although we are seeing more new buyers as these properties are launched.

Those buyers that are in the market look to be highly motivated, realistic, and looking to transact; although our applicant – potential buyer – numbers are slightly down our offer numbers are up. As rates continue to come down and the market picks up more momentum, we expect the number of buyers to increase, it is very promising to have this ratio of buyers to offers.

The willing to act from the buyers in the market will help keep prices firm, and we expect values to increase over the year as additional buyers come to the market."

Kate Eales
Deputy Head of Agency

Nationwide House Price Index & RICS Price Expectations



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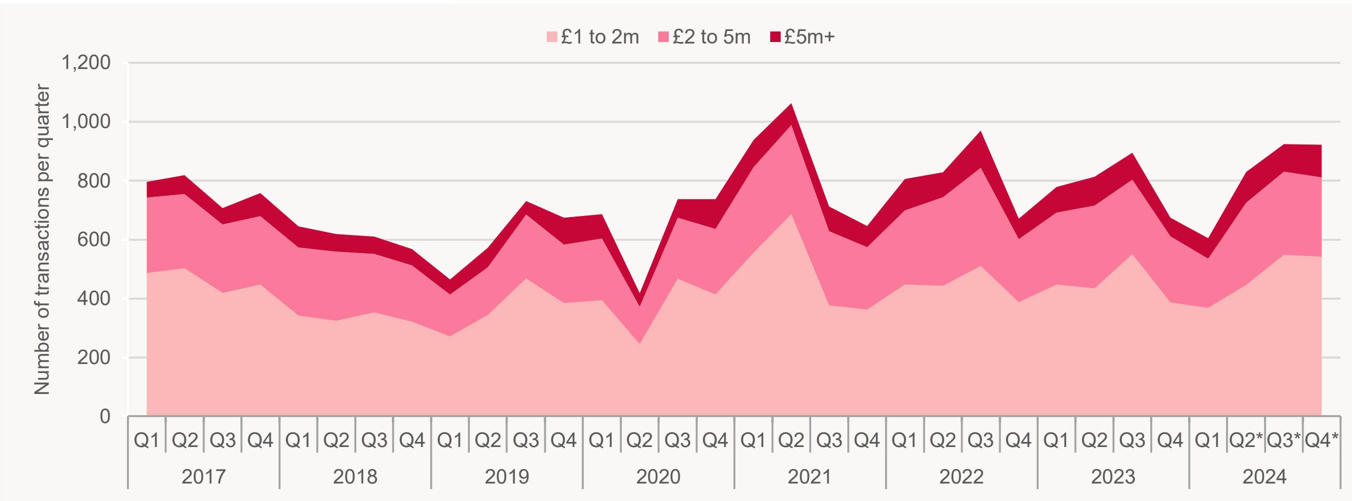
Prime Central London – Residential sales market

The number transactions in the £1m+ market in Prime Central London (PCL) stayed flat against Q3, including sales under £1m the market grew 8%. Typically, seasonality means Q4 is weaker than Q3 emphasising a strengthening of the market.

The over £5m market, and under £1m market, are the two price points that saw growth in transaction volume, 18% and 15%, respectively. Against Q4 2023 the £1m+ market is up 37%.

PCL prices fell -2% over 2024, continuing the trend of broadly stagnant sales values which peaked a decade ago in 2014. Agent's report post the Autumn Budget and US Election sentiment feels more positive, although still more difficult than normal. The recent fall in the value of the pound is likely to be the major diver of the market; there are not many national buyers coming in at the top end, and whilst there have been some Americans transacting at high prices, further foreign money attracted by the advantageous exchange rate is required.

Number of homes sold in PCL, timeseries



Source: LandReg & LonRes via Dataloft, Strutt & Parker as at 09th Jan 2025.

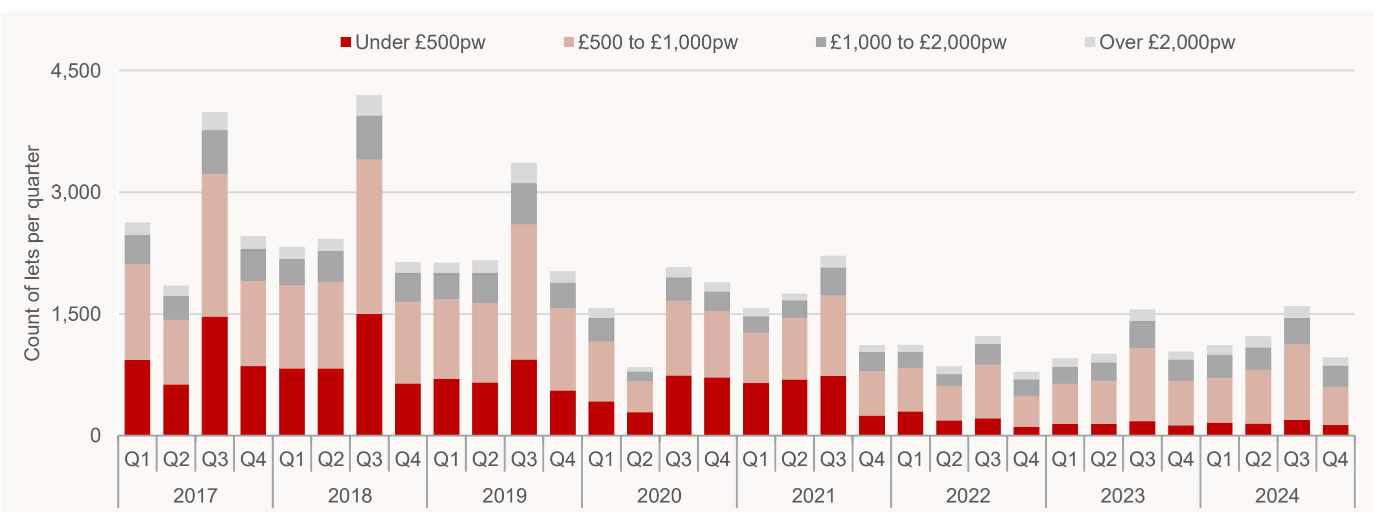
*please see PCL Methodology on the final page

Prime Central London – Lettings market

Rents in PCL grew by 0.4% in 2024, towards the lower end of our forecast range. It was a year of two halves; the first half of 2024 saw rental growth with the second half of 2024 seeing rents come in by -0.5%. This reduced rental growth has helped to spur on new lets across PCL which peaked in Q3 before falling away, as is typical, in Q4.

Across the year 2024 saw 8% more new lets than 2023, this was more heavily weighted towards flats which now make up 91% of the market, house new lets fell 6%. Agents have reported that the upcoming Renters' Right Bill has made the market unviable for landlords who have taken this opportunity to enter a more active sales market. Across price brackets all parts of the market saw more activity in 2024, but the £1,000 to £2,000 market led the way, growing 13%.

New rental tenancies in PCL by price band



Source: Dataloft, LonRes.com, Strutt & Parker as at 08th July 2024.

New Homes – England & Wales

A sharp decrease in housing start numbers and a steady decline in completions, along with a positive end to the year for the housing market, has led new build values to reach a new peak. According to Nationwide the average new home in valued at £307,500 after increasing by 4% over 2024.

Labour have continued the Conservative's house building pledge of 1.5 million homes over 5 years, instead of 300,000 homes a year.

Rolling annual completions are currently at 155,000 homes, around half of the Government's yearly target. Start numbers are even lower, less than a third of this target, at 98,000. Start figures are invariably a proxy for future completion figures and show that we are moving away from building 1.5 million homes over Labour's first term.

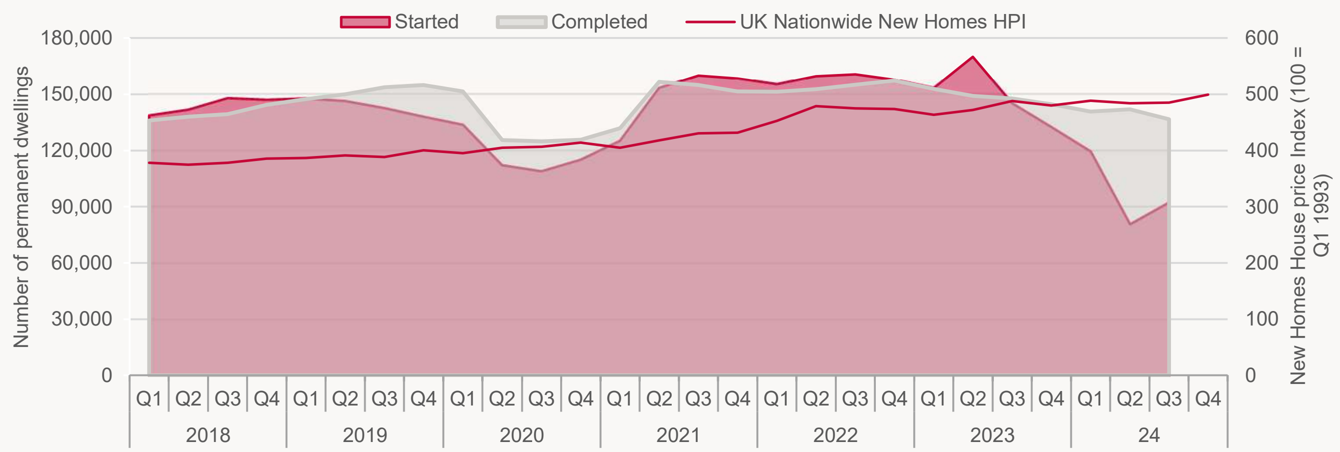
With the time taken to achieve an approval through the planning system getting longer, housing delivery costs remaining high – due to land values, labour expenses and material costs – many potential sites become unviable.

These are some of several challenges that the Government need to address to get UK housebuilding back on target.

Homes were completed in Q3 2024 across England

Source: MHCLG

Number of new homes built UK (excl. London) & new homes house price index



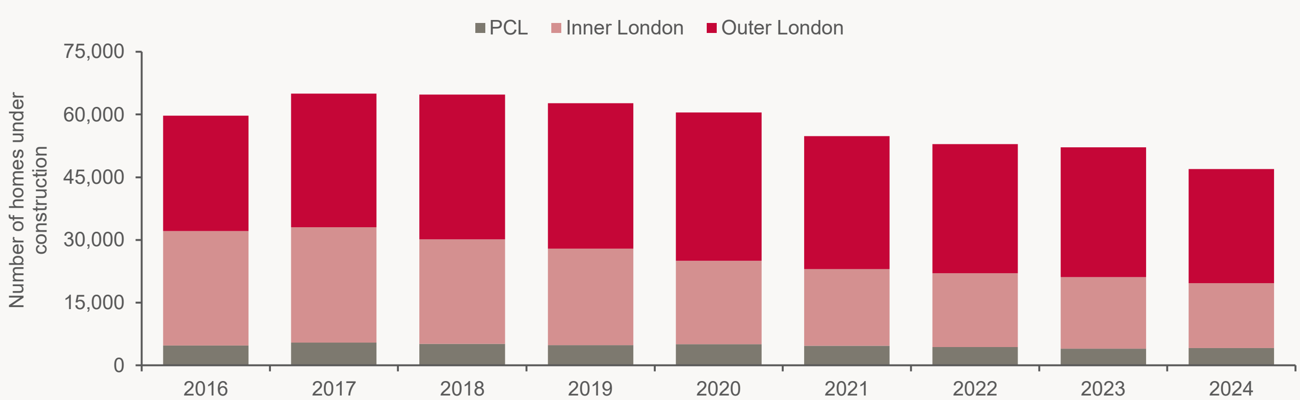
Source: Strutt & Parker Research, Nationwide, MHCLG

New Homes – Greater London

Across Greater London, at the end of 2024, there were only 47,950 new build units under construction; this is -10% down against the volumes under construction at the end of 2023, and -28% down against the peak in 2017. Development in London has been heavily restricted by the availability of land and the cost of labour and materials.

Developers are converting units to rentals or selling them to institutional landlords; c.13,100 units under construction in London are BTR showing the strength of confidence in the London lettings market, however the demand for these units is still outweighing supply.

Number of private sale units under construction in schemes of 20+ private units in Greater London



Source: Molior, Strutt & Parker as of 22nd Oct 2024;PCL defined as Local Authorities of Hammersmith & Fulham, Kensington & Chelsea and Westminster; Inner London defined as Local Authorities of Camden, City of London, Hackney, Islington, Lambeth, Southwark, Tower Hamlets, Wandsworth; Outer London defined as remaining 22 Greater London boroughs.

Forecasts

Nationally values rose by over 3.5% in 2024. Agents report that whilst it is very early in the year, the first weeks back have been positive. Activity is expected to be strong in the first quarter before stamp duty is increased in April; this is particularly pertinent for first-time buyers. Activity will help to drive up values, which stock issues are expected to prop up. Strutt & Parker expect 2% to 5% house price growth in 2025 with growth of 15% to 20%, cumulatively, over five years to 2029.

We experienced the eighth consecutive quarter of negative annual value growth in PCL, where values remain below their 2014 peak. However, this value has helped transactions levels, remain flat against Q3, bucking the seasonal trend of a weaker Q4. Agents report that whilst sentiment is better than before the Autumn Budget, it still feels difficult, with not many buyers coming in to drive the market. Agents expect 0% to 3% house price growth in Prime Central London across 2025 with the five-year cumulative growth between 10% to 15%.

Although rental growth has fallen to near 0%, agents have commented that the Renters' Rights Bill and EPC regulation will increase the upwards pressure on rents. This is likely to have a slow-release affect which will be felt more strongly over the longer term, rather than dramatically in the short term. We expect 2% to 5% lettings rental price growth in 2025 in PCL, and 15% to 20% in the five-year cumulative.

Strutt & Parker's Residential House Price Forecast

	2024	5 Years to 2028 inclusive
	Sales	
Prime Central London	0% to 3%	10% to 15%
UK	2% to 5%	15% to 20%
	Lettings	
Prime Central London	2% to 5%	15% to 20%

"In the latter half of 2024 we saw more movement in the market, housing transactions topped 100,000 per month in Q4, as well as price growth of 3.6%.

This activity was driven by pent-up demand from the previous 18 months; those who were keen to move home but financially unable to due to high and unstable debt costs. 2024 provided lower, and more stable, mortgage rates, as well as a more positive sentiment, which allowed this demand to be released, this will only improve throughout 2025.

Further to this a positive market, with increasing values, creates a snowball effect. Buyers enter the market, creating demand and this pushes up prices, which in turn make the market look more positive and attracts more people to enter. If house prices are flat, or falling, there is no incentive to enter the market, positive price growth acts as an incentive to act in the housing market sooner rather than later. This momentum has started and will continue to build through the year."

MATT HENDERSON
Residential Research

Outlook

The UK's housing market outlook is positive for 2025 with further cuts to the base rate expected. Much of these cuts have been priced into mortgage rates but they will still, likely, be brought in further over 2025. The leveraged part of the housing market is extremely sensitive to small changes in mortgage costs, and when these rates are too high pent-up demand builds, households wanting to move but waiting for more affordable debt costs. Some of this pent-up demand was released over 2024, but there is plenty more that will look to come to market in 2025 if mortgage rates come down as expected.

As this activity builds it will put an upward pressure on values that, in-itself, can attract more demand to the market. With PCL the lower-end of the market is more likely to see this effect, with the more prime parts of the market less impacted by debt costs. Global uncertainties can make London seem more attractive and falls in the value of the pound will only enhance this. This is evidenced in the PCL market for Q4 where the sub-£1m and over £5m markets grew, with the number of sales between £1m to £5m contracting.

In the PCL lettings market the proportion of new lets paying under £500 per week has stabilised around 12% after falling from 30% of the market in 2020. This shows that the current phase of rental growth has ended but there remain inflationary pressures in the market. The Renters' Rights Bill and stricter environmental EPC regulations – although needed in some guise – will add to landlord costs that will inevitably be passed on to tenants.

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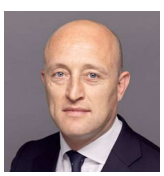

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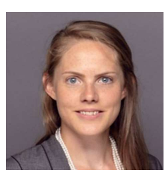

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Methodology
As the housing market is seasonal, for the purposes of this report; data is compared year on year, i.e. looking at Q4 2024 in light of changes since Q4 2023. Data may also be compared on a rolling month on month basis. When referring to the PCL market it includes those markets which Strutt & Parker operate in (Knightsbridge, Belgravia, Kensington, Chelsea, Notting Hill & Fulham) and as such is reflective of London's most prime markets. Economic views are attributed to Strutt & Parker's retained economic advisors, Volterra. The global economy remains volatile and therefore there is risk that any market commentary provided will become out-dated within a short timescale.

PCL Methodology
PCL figures are formulated of HM Land Registry data and adjusted LonRes data – quarters denotated with an asterix. The LonRes adjustment is made to account for an undercount of sales, typically in the lower price brackets, and to correct for a variance in geographical areas. The adjustment takes the median difference, as a percentage, for each price bracket between Land Registry and LonRes sales over the past 2 to 4 years (to avoid the data lag within Land Registry). This proportion is then used to adjust the most recent quarters of LonRes data.