UK Residential Market Review

Autumn 2024

1.7%

Septembers' inflation (CPI) stayed flat against Sep-24

Source: ONS

UK average rent increased 4.3% on last year

Source: HomeLet

Real average weekly earnings* rose to £693 in Aug-24, compared to £663 in Aug-23

*(total pay, seasonally adjusted) Source: ONS

Economic & Political Outlook

The new **Labour Budget** was released on 30th October 2024. It included £40bn of tax rises and £30bn of borrowing, which may lead to inflation falling more slowly; the MPC will take this into account when considering further cuts to the base rate.

Monthly **GDP** growth in 2024 was 0.2% in August and flat in July. QoQ growth was positive in Q2 2024, at 0.5%. The October OBR forecast expects 1.1% growth in 2024 and 2.0% in 2025. The latest HM Treasury forecast was released on 16th October, before the Budget. It had a growth expectation of 1.0% this year and 1.2% next year.

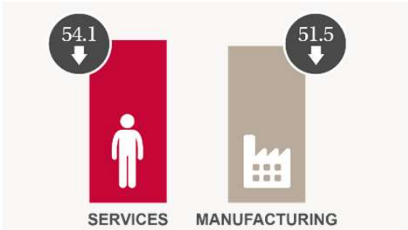
The **Bank Rate** has been cut twice to 4.75% in the second half of 2024. The Monetary Policy Committee met on 7th November where members voted 8 to 1 to bring the base rate to 4.75%, in line with the OBR 2024 forecast. In September 2024, 65,600 mortgages were approved. The effective interest rate on newly drawn mortgages was 4.76% in September 2024, a slight decrease from 4.84% in August.

Mortgage approvals reached 65,600 mortgages for home purchases in September 2024, according to the Bank of England; the highest level since August 2022 in which 72,000 were approved. Net approvals for re-mortgaging were at 30,800, a 3,100 increase on August.

September's **inflation** was 1.7%, below 2% target and down from the previous month (2.2%). The OBR expects inflation to be 2.5 % this year and 2.6% next year, not returning to target until 2029.

The **FTSE** started Q3 2024 at 2.9% QoQ growth, 8.5% YoY growth – the seventh consecutive quarter of positive YoY growth. The Business Confidence Monitor Has considerably increased from 4.2 in Q4 2023 to 16.7 in Q2 2024 (14.4 in Q1 2024) – it is now at its highest level for two years, largely driven by optimism around the economy. Consumer confidence remained negative however slightly rose to -14 in June 2024, up three points since May.

Labour's manifesto housebuilding pledge has been reaffirmed in their first Budget. They have allocated £5bn towards housing and £500m towards affordable housing which is expected to deliver 5,000 affordable homes. They have committed to more planning officers and have 40% affordable housing requirement in their 'New Towns' policy. Labour is engaging with the industry over the mortgage guarantee scheme to permanently support lending at 95%, with more details to be announced in Phase 2 of the spending review next year.



UK services and manufacturing both shrunk over September

Source: IHS Markit/CIPS

UK property prices grew by 3.2% in the year to Sep-24

Source: Nationwide HPI

Interest Rates

The bank rate has been cut a second time, in Nov-24, to 4.75%. This follows the initial cut in August after a year of the base rate at 5.25%.

Forecasts, from the OBR and BNP Paribas, expect the base rate to remain in the December MPC meetings but for the bank rate to come down further by between 75 to 100 basis points in 2025.

Changes to the base are anticipated by hight street banks and priced into many mortgage offers, for this reason mortgage rates rarely shift when a cut is announced.

A 2-year-fixed rate, with a 75% loan-to-value (LTV) is priced at 4.3% with 5-year fixed rates at 4.05% (HSBC, Nov-24). These mortgage rates priced below the base rate shows that high street banks, as well as BNP Paribas and the ORB, forecast rates to fall further in 2025.

Due to the levels of borrowing announced in Labour's first Budget many lender have become more cautious leading them to either increase their mortgage rates slightly or lower them more slowly.

Even with a less fiscally conservative budget the base rate is expected to come down up to percentage point in 2025 which will continue to bring leveraged buyers into the market.

We have seen leveraged and first-time buyers come to the market throughout the summer and autumn with September's mortgages approvals rising to 65,600 after consecutive months of c.61,000 in Q2. These activity levels in the mortgage market have driven transaction volumes back to near 2022 levels and put upwards pressure on national house prices.

Economic Indicators & Forecasts

The latest HM Treasury forecasts (from October 2024) expect the economy to have grown by 1.0% by the end of 2024 having shrunk by 0.3% at the end of 2023. There 2025 forecasts is more conservative than the OBRs at 1.2%.

Unemployment has fallen slightly over the last few months, yet both the HM Treasury and OBR forecast that it will increase over the remainder of this year to 4.3%. 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 pick up towards the end of this year. This is not entirely related to the Budget as both bodies had this in their forecasts during Q2, yet there are concerns that the Budget was inflationary.

Economic Indicators Summary Table

Indicator	Value	Date	Comment	OBR Forecasts (as of 30th October 24)	
				for 2024	for 2025
Inflation Rate (CPI)	1.7%	Year Sep-2024	Down from 2.2% in August. This is the lowest rate it has been all year, and is below target 2%. The downward inflation pressures were air fares and motor fuels and upward pressures were food and non-alcoholic beverages.	2.5%	2.6%
Bank Rate	4.75%	November 2024	The bank rate has been decreased twice by 0.25pts in August and November of this year.	4.8%	3.8%
Unemployment Rate	4.0%	Jun-24 to Aug-24	Unemployment has been at or below 5% since 2015 (apart from just over 5% at the end of 2020). The rate has been decreasing since the start of the year (Feb-24 to Apr-24 was at 4.4%).	4.3%	4.1%
Exchange Rate (GBP to Euro)	1.19	[Start] Nov 2024	The rate was at 1.20 at the end of Oct-24.	-	-
FTSE	QoQ: 1.3% YoY: 10.2%	[Start] Q4 2024	Annual growth has been positive for eight consecutive quarters.	-	-
GDP	QoQ: 0.5%	Q2 2024	Monthly real GDP is estimated to have been stagnant in July 2024 and 0.2% in August 2024.	1.1%	2.0%

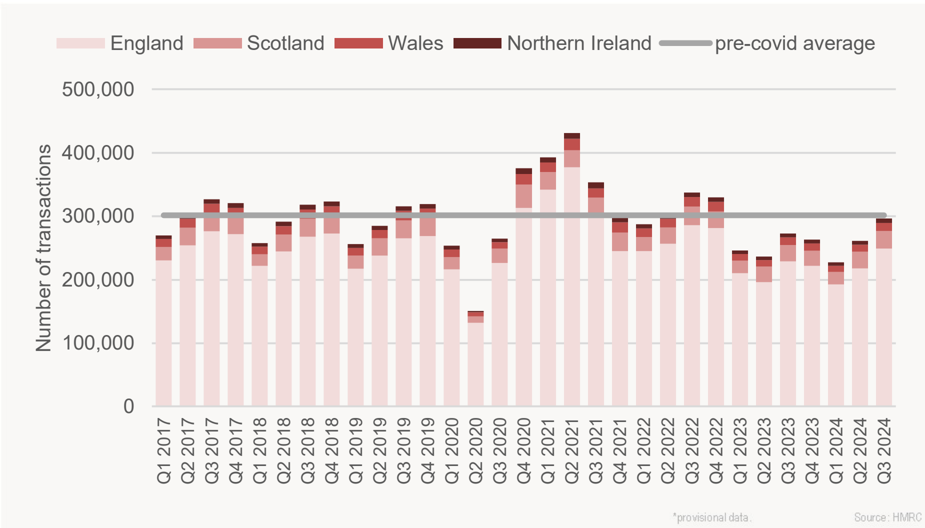
National residential sales transactions

House price growth to October this year is 3.2%, according to the Nationwide House Price Index (HWHPI). Over Q3 values effectively stayed flat with the value increases coming in the first half of the year.

These price increase have been driven by increasing transaction volumes and mortgage approvals. The number of transactions returned to nearly 100,000 in both July and September, climbing over this landmark in August. This bought total transaction volumes in the UK for Q3 to near 300,000; the first return to since the pre-COVID average since the peak years of 2021/22 when the pent-up demand post lockdowns spiked sales volumes.

First time buyers are purchasing at around 90% of the rate they did pre-COVID which has helped to drive both transaction volumes and sales values. Despite the softening of mortgage rates, they doing so by borrowing over the longest possible terms according to UKL Finance.

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, confidence in this has returned after a slight drop away in Q2. The net balance of positive 44 means that 72% of those surveyed agreed that sales expectations will improve over the next 12 months.

Sentiment closely follows the base rate and with the this having been cut again since the latest RICS survey we would expect this trend to continue. Some buyers had been sceptical about entering the market, particularly at higher price points, before the UK Autumn Budget and US Election. Although the outcomes of these event may not have been what some buyers hoped, now they have passed the removal of the uncertainty surrounding them will likely be beneficial to the market. Buyers can now assess the positives and negatives rather than speculating over what may happen.

There is still a level of disconnect between buyer and seller expectations however the picking up of transactions volumes shows that this gap is closing; it is likely to close further as we enter the New Year as rates are expected to come down further and these major national and global events get priced in.

"We've seen a clear recovery in the national market, especially for properties under £2.5 million. This has been largely driven by buyers using mortgages, as interest rates have eased following two base rate cuts this year.

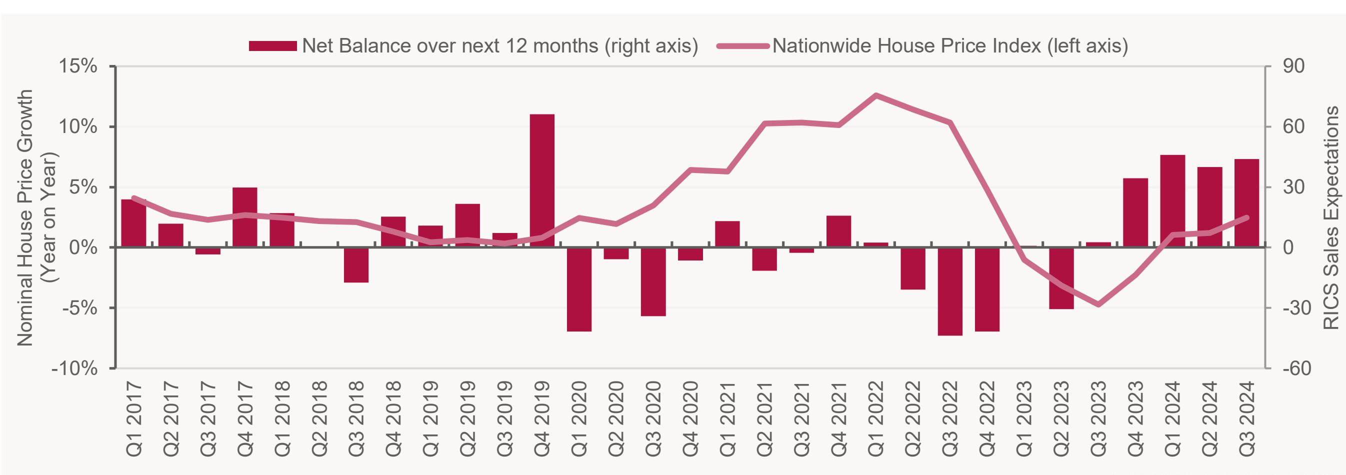
We've also seen steady interest in properties over £5 million, where buyers seemed less concerned with factors like the Autumn Budget as well as the U.S. election, moving ahead confidently without waiting for those results.

That said, a big part of the market is still adjusting to elevated interest rates, and while lower base rates are bringing some stability back, a full return to confidence will take time.

The re-election of President-elect Trump, and the resulting economic and inflationary pressures are likely to slow this process."

Kate Eales
Deputy Head of Agency

Nationwide House Price Index & RICS Price Expectations



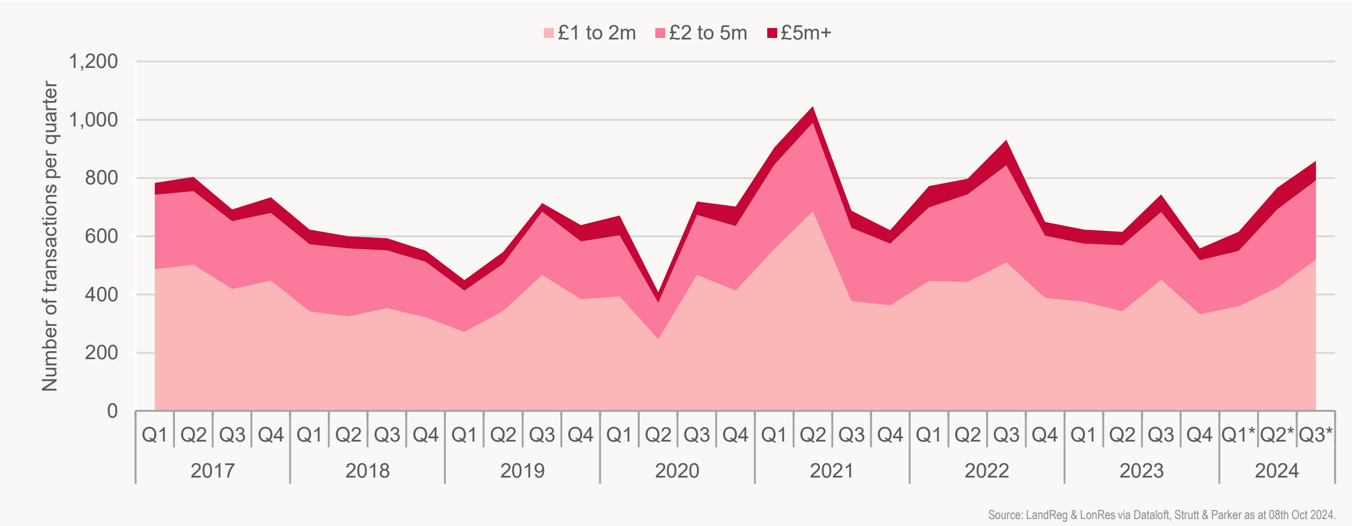
Prime Central London – Residential sales market

The number transactions in the £1m+ market in Prime Central London (PCL) grew 12% on Q2, driven by falling interest rates. This has caused the lower end of the market to grow more quickly; the above £5m market is the only price bracket that contracted in Q3. It now represents 8% of the over £1m market in PCL.

£1m to £2m sales saw the greatest growth of 23%. The overall size of the £1m+ market has been growing compared to historic averages. This is largely down to inflation which has moved properties into higher price brackets; nonetheless total sales volumes are up against the 10-year average for Q3s.

PCL prices fell -0.7% in Q3, continuing the trend of broadly stagnant sales values. Agents report that transaction volumes are higher than this time last year, and they expect further transactions given the base rate cut. A short wait whilst buyers adjust to the changes and absorb the impact of the US election, which will likely mean a slower end to this year but a positive start for 2025.

Number of homes sold in PCL, timeseries

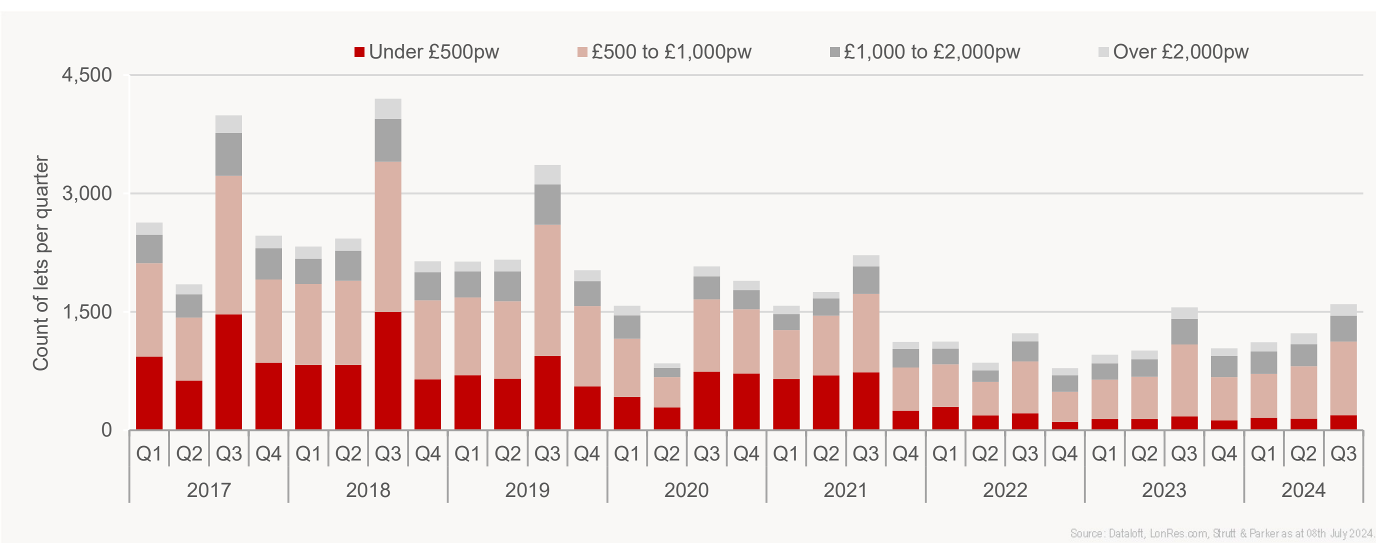


Prime Central London – Lettings market

Rents in PCL fell by -0.3% in Q3 2024, leading to flat prices over the last year, a 0.1%. This is the 13th consecutive quarter of positive annual growth, however, this growth has been slowing recently, represented by this quarter. These reduced rental values have helped to spur lets, with transactions increased by 31% against Q2 2024.

The number of houses let in Q3 grew by 19% against Q2, but with flats experiencing stronger growth of 33% they have come to dominate the market, making up 9- out- of- 10 new lets in Q3. More affordable homes, under £1,000pw, made up the majority of new lettings growth and now represent 71% of the PCL lettings market.

New rental tenancies in PCL by house type



New Homes – England & Wales

New build house prices have remained relatively flat over the last year, falling 1%, according to the Nationwide house price index. This plateau follows a period of strong growth, new build values are still 20% up against the start of 2021.

Although new build completion have remained around 150,000 annually, across England and Wales excluding London, the volumes of starts has plummeted.

Housing delivery costs have been rising as land values remain high, labour and material costs have experienced inflation, and the planning system has taken longer to give approvals.

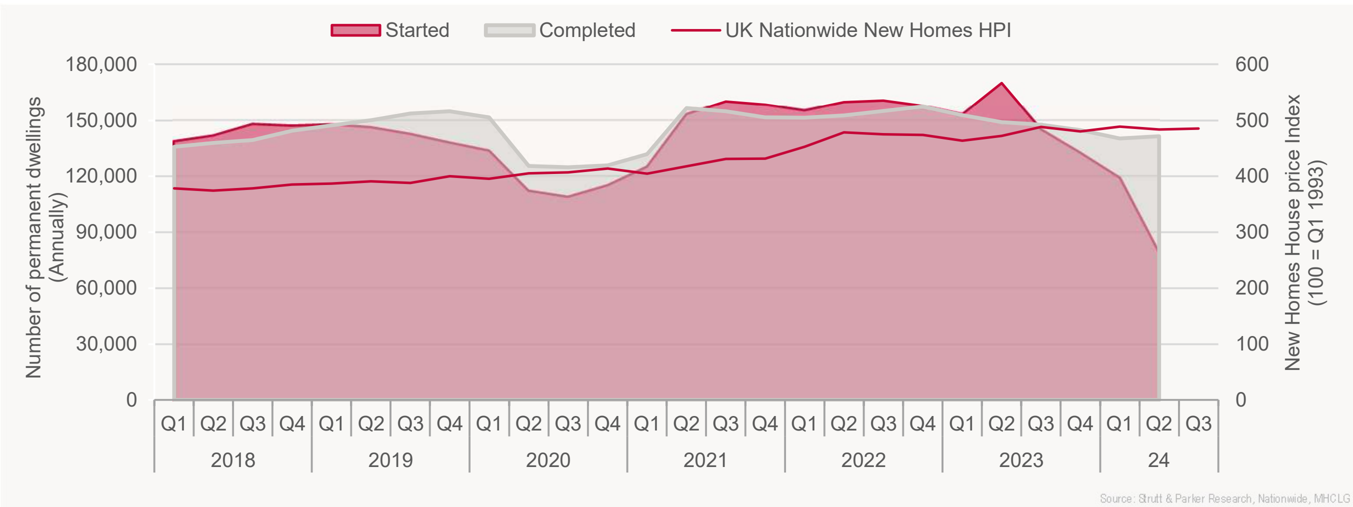
With Labour effectively continuing the Conservative's house building pledge – 1.5 million homes over 5 years, instead of 300,000 homes a year – the recent drop of starts makes hitting this target considerably more difficult.

To hit the 1.5m target, 75,000 homes must be delivered, and therefore started, each quarter. The 25,400 starts in Q2 is only 34% of this target. Q2 is when Labour took office, yet drastic changes will need to be implemented to boost figures to reach this target. With the length of time needed to and deliver a large site typically over 3 years they are already starting to run low on time.

Homes started in H1 2024 across England, 56% lower than in H1 2023

Source: MHCLG

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

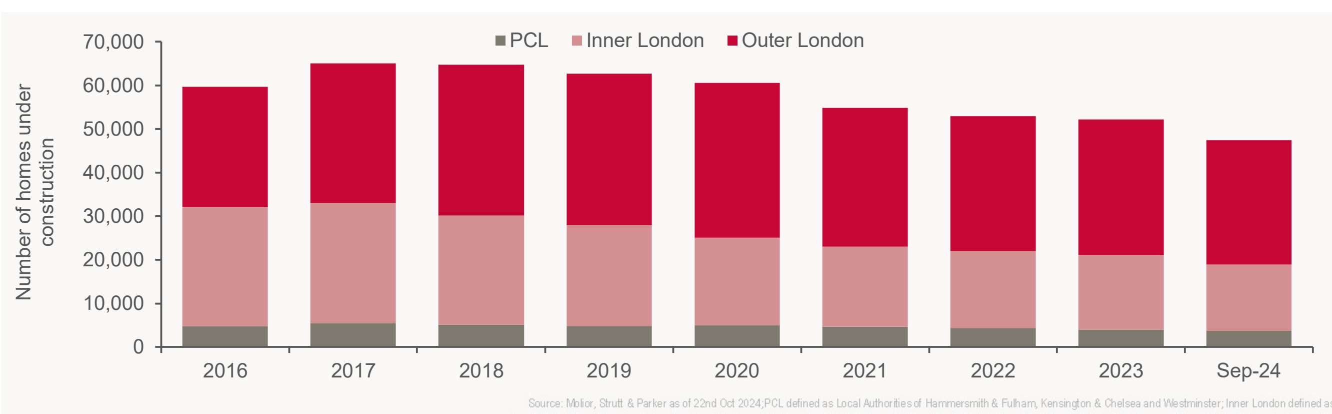


New Homes – Greater London

Across Greater London, at the end of Q2 2024, there were only 48,343 new build units under construction; this is -9% down against the volumes under construction at the end of 2023, and -27% down against the peak in 2017. Development in London has been heavily restricted by the availability of land. Labour made opening unattractive parts of the green belt for development a leading promise within their manifesto. These areas, they are labelling 'grey belt' would help to deliver homes in outer London but will not help to bring land forward in Inner London where demand is highest.

Developers are converting units to rentals or selling them to institutional landlords; c.12,000 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



Forecasts

Nationally values have increase by 3% as agents reported a flurry of exchanges before the Budget. Yet there remains a big disparity between vendor and buyer impressions of the market; particularly at higher price points, which has been challenging. Nonetheless with the second cut to the base rate, and improving internal buyer and seller number, the market is certainly moving in a positive direction. As such we are retaining our forecasts for 2024 are at between 0% to 5% growth and we are keeping stronger 5-year forecast of 15% to 20% to 2028.

The number of over £1m sales transactions in PCL grew 12% over the last quarter. There will need to be an adjustment over the remainder of the year as increased stamp duty and the removal of the non-domicile status will impact the market. Our 2024 forecast is bought in slightly to between -1% to 4% growth, but agents expect the market to bounce back in the new year with growth to 2028 retained at 10% to 15%.

Although PCL letting's volumes have continued their positive trajectory, total volumes are up 30% on Q2, rental growth has continued to slow down, and agents expect negative growth in the final quarter of this year. The longer-term outlook is for rental growth to return – the Budget and Rent Reform bill likely increasing stock pressures leading to our 2024 forecast of between 0% to 3%. With 10% to 15% expected in the five years to 2028.

Strutt & Parker's Residential House Price Forecast

	2024	5 Years to 2028 inclusive
Sales		
Prime Central London	-1% to 4%	10% to 15%
UK	0% to 5%	15% to 20%
Lettings		
Prime Central London	0% to 3%	10% to 15%

"The national housing market has shown a solid recovery through mid-2024, with lower and more stable interest rates unlocking demand that has been building up over the last 18 months, particularly in the more mainstream parts of the market.

Our data at Strutt & Parker indicates consistent month-on-month improvements across both Prime Central London and national markets. New buyers coming to the market looking to transact have been driving up offers and exchange volumes.

However, the delayed budget from Labour did put a damper on activity, especially at the higher price points, and in Prime London.

While the outcome may not be exactly what many had hoped for – there's a sense that it could have been more challenging – buyers now have the clarity needed to make informed choices about when and how they want to re-enter the market."

MATT HENDERSON
Residential Research

Outlook

The UK's housing market outlook is positive for the remainder of the year after the base rate was cut for the second time in four years. Both the OBR and BNP Paribas expectation is that there will no more cuts this year, but further cuts in 2025. Although the bank rate being cut doesn't directly lead to lower mortgage rates it improves market sentiment and reduces banks affordability stress tests allowing more buyers to enter the market. This has helped to bring first time buyer to the market and allowed more home movers to transact. However many are having to extend mortgage terms to allow them to act in this higher rates market.

Labour's Budget announcements include several policies – VAT of private schools, replacement of the non-domicile status, increased stamp duty for second homes buyers – that have a direct or indirect impact the UK housing market. We will have to wait and see the exact impact however they are likely to dampen demand at the top of the UK housing market, with a particular impact on PCL where non-resident buyers purchasing a second home have to 19% pay SDLT of when purchasing a property over £1,500,000.

In the PCL lettings market specifically the proportion of new lets paying under £500 per week has shrunk from 30% of the market, in 2020, to 11% where it has stabilised over the last 2 quarters. This has pushed renters into higher price brackets with lets over £1,000 per week now one-third of the market, rather than one-fifth.

The Budget will also have impact on the lettings market. A combination of the 2% SDLT surcharge, the Renter Reform Bill, and the return of the need for an EPC C rating by 2030 will put off some potential landlords, cause landlords to leave the rental sector and incur higher costs on many others. These costs, in many cases, will be passed on to tenants increasing the likelihood more rental increases, both nationally and in PCL.

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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 Q3 2024 in light of changes since Q3 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.