STRUTT & PARKER
BNP PARIBAS GROUP


RESEARCH

UK Residential Market Review

Summer 2024

2.0%

June's inflation (CPI) stayed flat against May-24

Source: ONS

UK average rent increased 6.9% on last year

Source: HomeLet

Real average weekly earnings* rose to £689 in May-24, compared to £656 in May-23

*(total pay, seasonally adjusted) Source: ONS

Economic & Political Outlook

As of 5th July the **UK Government** changed. Labour's Keir Starmer is the new Prime Minister of the United Kingdom after taking a majority.

In **the Cabinet** Keir Starmer has Rachel Reeves as the new Chancellor of the Exchequer with Angela Rayner will be the new Secretary of State for Housing & Deputy Prime Minister. Matthew Pennycook has been appointed the Minister of State in the Department of Housing, Communities and Local Government.

Base rate cut for the first time in four year. It was cut by 25 basis to 5% by the Bank of England (BoE) at the MPC's meeting on the 1st August after a year of being at 5.25%.

June's **inflation** remains down at the BoE target of 2%, after being at 3.2% in March and the lowest level since July 2021. Both HM Treasury and March OBR forecasts expect inflation to be close to target at 2.5% and 2.2% this year, respectively.

Monthly **GDP** growth in 2024 has continued to be positive, albeit remaining almost flat with 0.4% growth in May and no growth in April. QoQ growth is positive in Q2 2024, with growth of 0.7% after the last two quarters of negative QoQ growth. The July HM Treasury outlook forecasts 1.0% growth this year and 1.3% in 2025 so is slightly more positive. Similarly, the March OBR forecast expects 0.8% growth in 2024 and 1.9% in 2025.

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.

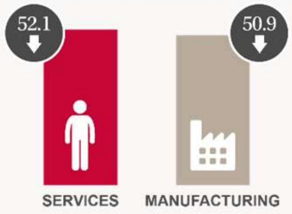
Labour's manifesto includes their pledge to build 1.5 million new homes over the next five years. To help achieve this they have pledged to update the National Planning Policy Framework (NPPF), to accelerate the speed at which planning applications can get through the planning system, and reinstate local housing targets. To reach their commitments the new government have promised to build new towns and urban extensions. These will take many years to build and are unlikely to help them achieve the 1.5 million new homes during this term in government. For the short to medium term Labour will release lower quality green belt, labelled as 'grey belt' land, for development.

AT A GLANCE Q2 2024

5.0%

The base rate following the 25 basis point cut at the MPC meeting on the 1st August

Source: BoE



UK services and manufacturing both shrunk over June

Source: IHS Markit/CIPS

UK property prices grew by 1.2% in the year to Jun-24

Source: Nationwide HPI

Interest Rates

The bank rate has been 5.25% since August 2023. The Aug-24 cut came with a vote of 5 to cut against 4 to remain. Market expectations are currently for the bank rate to stay as 5% for the next meeting, with the any likelihood of a second cut this year coming at November's meeting.

This will help bolster market confidence, although the cut has already been priced into many mortgage offers with the average 5-year fixed at around 4.8% (well below the pre-cut base rate of 5.25%); the certainty of the cut taking place should help bring rates down further and more importantly avoid the downside of rates going back up, which would likely have been the case had this cut not happened.

The average 2-year fixed rate has increased to 5.16% in June (up from 4.71% in Jan-24 and 5-years have come up form 4.53%). The increase in these rates are due to the mortgage markets expectations that around the number of base rate cutes which have come in from around 4 to 2 this year. Lenders are offering rates below these quoted levels, with ultra-competitive 5-year fixed rates below 4% .

Even with these upticks there are signs that the housing market is starting to price in the higher cost of debt with a pick-up in the number of mortgage approvals each quarter.

Since the low of 133,000 approvals in Q1 2023 mortgage approvals are up 35%, in Q2 2024. This quarter's 181,000 mortgage approvals are still below the 198,500 mortgages that were approved each quarter in the low mortgage rate period pre-COVID.

Economic Indicators & Forecasts

The latest HM Treasury forecasts (from July 2024) expect the economy to grow by 1.0% across 2024 having shrunk by -0.3% at the end of last year. This is slightly less optimistic than the OBR March forecast of 0.8% for 2024 and of 1.9% for 2025.

Unemployment has risen slightly over the last few months, both HM Treasury and OBR forecast that it will increase very slightly over the year to 4.4% and remaining at this level over 2025. Although this is historically low for unemployment the large number of long-term sick in the UK are hampering the countries growth and productivity.

Both the OBR and HM Treasury have forecast that inflation (CPI) will pick up slightly by the ned of this year to 2.2% and 2.5% respectively. This is one of the major reasons that the BoE pushed back cutting the base rate until August, and why base rate expectations for December have risen marginally since the start of the year.

Economic Indicators Summary Table

Indicator	Value	Date	Comment	HM Treasury Forecast *(as of July 2024)*	
				for 2024	for 2025
Inflation Rate (CPI)	2.0%	Year to June 2024	In June inflation stayed the same as May; inflation is at its lowest rate since July 2021.	2.5%	2.2%
Bank Rate	5.25%	July 2024	The bank rate has stayed the same since Aug-23 after 14 rate rises between Dec-21 and Aug-23.	4.75%	4.0%
Unemployment Rate	4.4%	March-24 to May-24	Unemployment has been at or below 5% since 2015 (apart from just over 5% at the end of 2020). The Mar-24 to May-24 rate of 4.4% is the same as the Feb-24 to Apr-24 rate of 4.4%.	4.4%	4.5%
Exchange Rate (GBP to Euro)	1.19	[Mid] July 2024	At the start of 2024, the rate was 1.15. It climbed over Jan-24 to 1.17, however fell to 1.15 in April 2024 and has risen since.	-	-
FTSE	QoQ: 2.9% YoY: 8.5%	[Start] Q3 2024	Annual growth has been positive for seven consecutive quarters.	-	-
GDP	QoQ: 0.7%	Q1 2024	Monthly real GDP is estimated to have grown by 0.4% in May 2024 after showing no growth in April 2024.	1.0%	1.3%

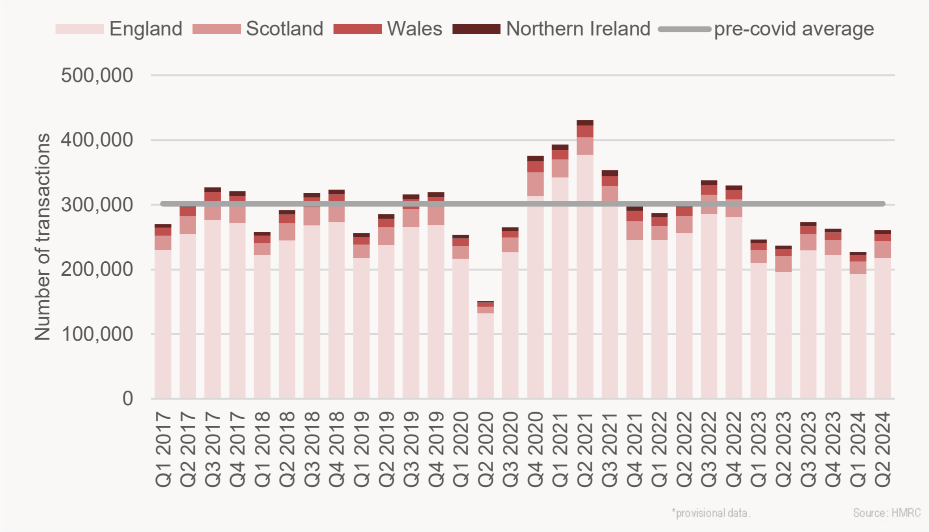
AT A GLANCE Q2 2024

National residential sales transactions

House price growth to Q2 this year is 1%, according to the Nationwide House Price Index (HWHPI). Over Q2 values came in marginally with the growth having occurred in Q1. Agents state that stock levels have continued to rise, as the number of properties bought to market has increased throughout Q1 and into Q2 it has heavily outweighing demand and is likely the reason prices have held across Q2.

Nonetheless applicant numbers have increased, alongside other metrics, largely driven by increased optimism around the UK economy and housing market driven by the anticipated fall in interest rates. Combined with the large amounts of stock this has led to a pick-up in overall transaction figures. In Q1 of this year monthly transactions fell as low as 67,000 but have since picked up to over 90,000 in May and June. This is despite the political uncertainty bought on by the election race which typically hinders the market.

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



*provisional data.

Source: HMRC

The RICS survey expects that transaction levels will pick up over the next year however expectations have come down slightly against last quarter where 73% of surveyed agents were positive about sales rates and the transactions environment; currently at 70%.

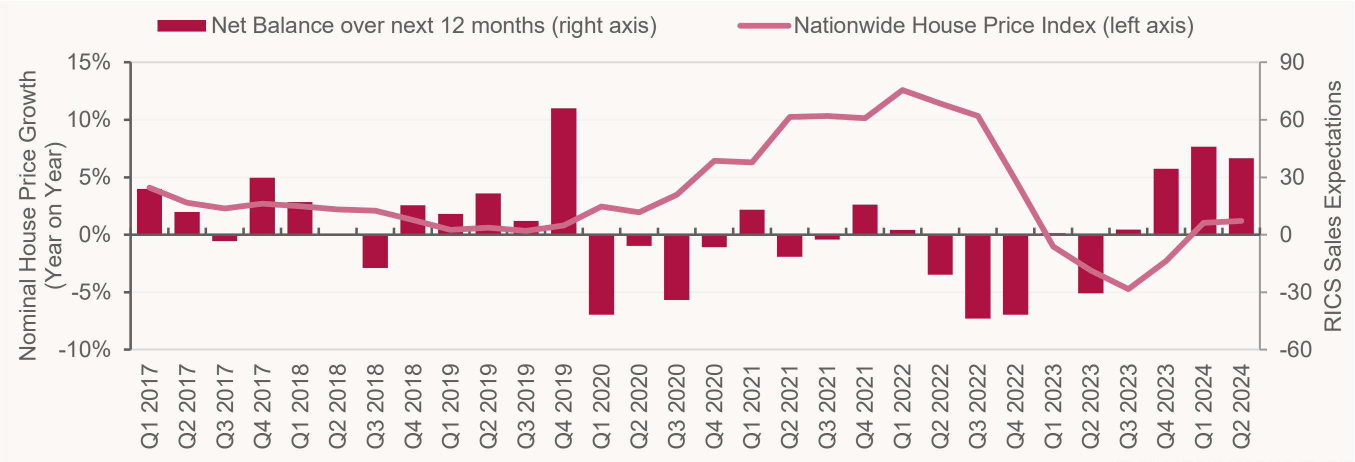
Sentiment closely follows the base rate and when it will be cut. With the number of cuts expected to happen in 2024 reduced from the market expectation at the start of the year this will likely have led into the slight reduction shown in the RICS sales expectations. These expectations will also have been impacted by the political uncertainty that the election bought to the fore in Q2.

Now the base rate has been and cut the election has passed we would expect to the see market sentiment pick-up.

However, we are still in a 'sit-tight' scenario as buyers wait for the lower rates they expect later in the year. Yet future base rate cuts are already priced into consumer mortgage prices, so we expect cuts in rates to trickle in slowly over the rest of the year.

> *"This bank rate reduction, the first in over four years, will provide a real boost to the housing market because certainty and sentiment are the biggest drivers of activity.*
>
> *The 14 consecutive increases to the base rate since 2021 was a shock to the market after a prolonged period of historically low interest rates. The most recent cut to 5% marks a departure from this period of uncertainty and buyers and sellers alike can look forward to a steadier, more robust housing market where fluctuating mortgage costs are no longer holding up sales.*
>
> *The UK has a resilient property market and it has remained active despite the sudden change to a high interest rate environment. However, there have certainly been those who have been waiting for interest rates to drop before taking steps to buy or sell. We expect there to be an increase in activity from September with more people entering the market with renewed confidence."*
>
> **Kate Eales**
> Deputy Head of Agency

Nationwide House Price Index & RICS Price Expectations



Source: Strutt & Parker Research, RICS, Nationwide

AT A GLANCE Q2 2024

Prime Central London – Residential sales market

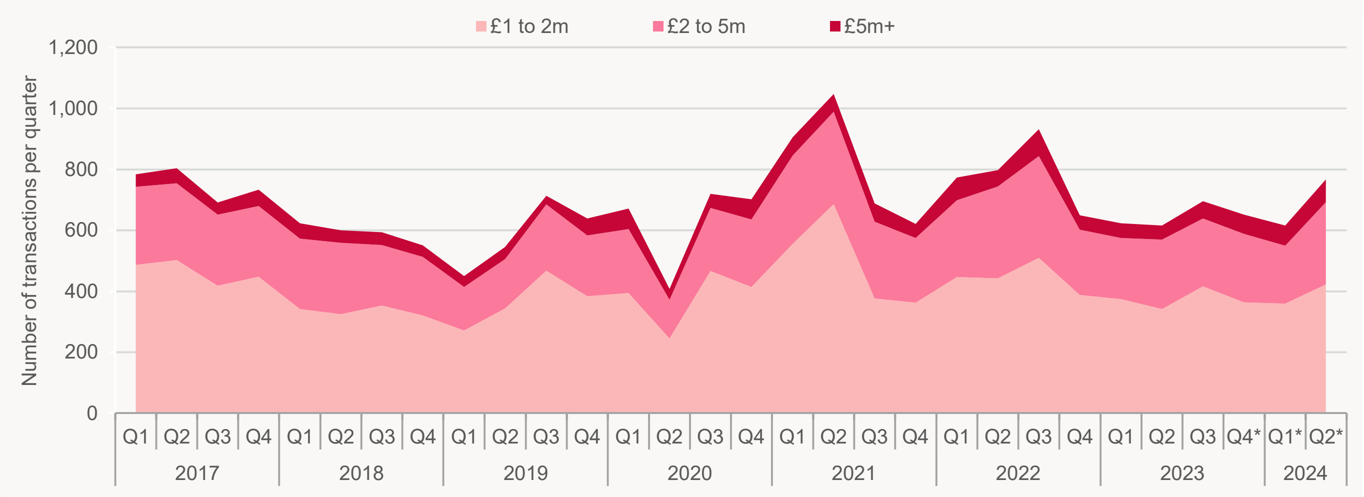
The number of over £1m sales transactions in Prime Central London (PCL) grew 18% on Q1. Q2 has seen mortgage rates come down in anticipation of the base rate falling.

The price bracket that saw the greatest growth was the £2m to £5m range and at the top end of the market sales of over £5m continued their resilience, making up 10% of the over £1m market in PCL.

The volumes of sales over £2m have been above historic averages, is largely down to inflation which has moved properties into higher price brackets; total sales volumes roughly in line with the 10-year average for Q2.

PCL prices fell -0.4% in Q2, continuing the broadly stagnant trend. Agents report that the market has been flat, and there is uncertainty and concern around the change in tax rules for non-domicile residents raising concerns at the top-end where the market is more discretionary.

Number of homes sold in PCL, timeseries



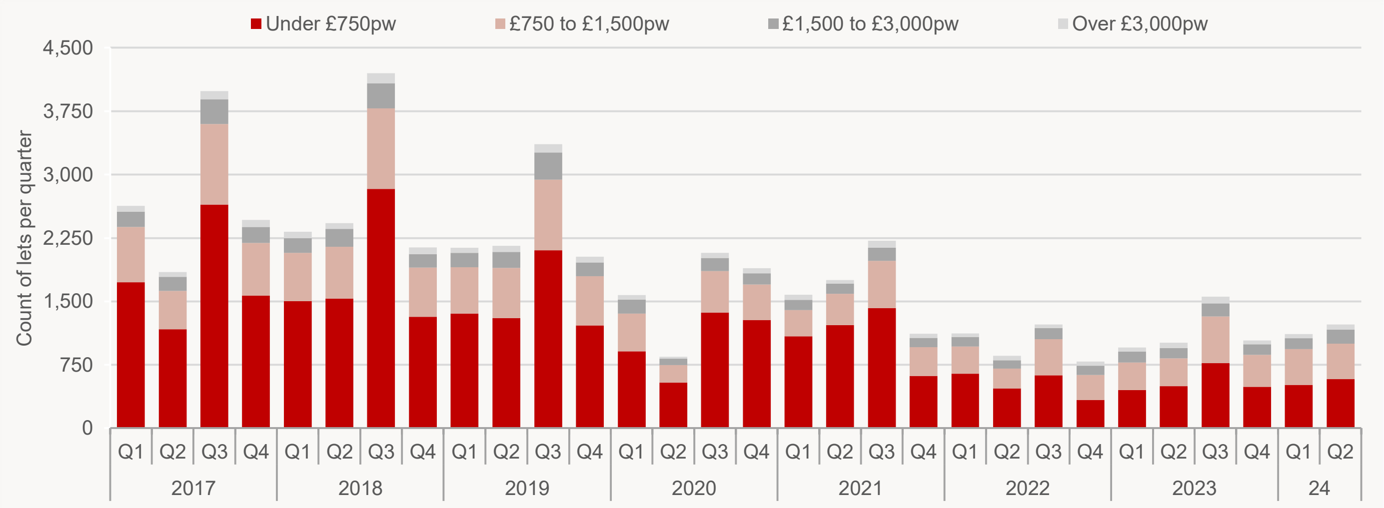
Source: LandReg & LonRes via Dataloft, Strutt & Parker at 05th July 2024.

Prime Central London – Lettings market

Rents in PCL grew by 0.4% in Q2 2024, leading to annual price growth of 2.1%. This is the 12th consecutive quarter of positive annual growth, however, there have been individual quarters where rents have decreased. The number of new lets increased 18% on Q1, but this was not split evenly between flats and houses.

The number of houses let in Q2 fell against the first quarter of this year with new lets heavily driven by flat rentals. This is largely due to the relative cost of rent, with flats typically smaller more affordable. The number of new flat tenancies was over 1,000 this quarter; the first time we have reached this figure since Q3 2021.

New rental tenancies in PCL by house type



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

New Homes – England & Wales

New build home house prices have been relatively flat over the last year, growing 2% since Q2 last year according to the Nationwide house price index.

This last year of stagnant growth has ended a period of strong growth, new build values are 20% up against the start of 2021. Higher borrowing costs have halted the growth driven by a lack of supply and developers trying to recoup costs. Disrupted supply chains, changes in regulation and labour, materials and debt inflation have all increased the cost of delivering a new home. With no to little movement on land values these costs have been passed on to the house builders and developers.

Many of Labour's promises are aimed at lowering these building costs. They range from increasing councils' compulsory purchasing power, allowing them to deliver land at uninflated values to improving the planning system. Changes to the planning system, such as strengthening the presumption of favour for sustainable developments, should make the planning process quicker and cheaper for developers.

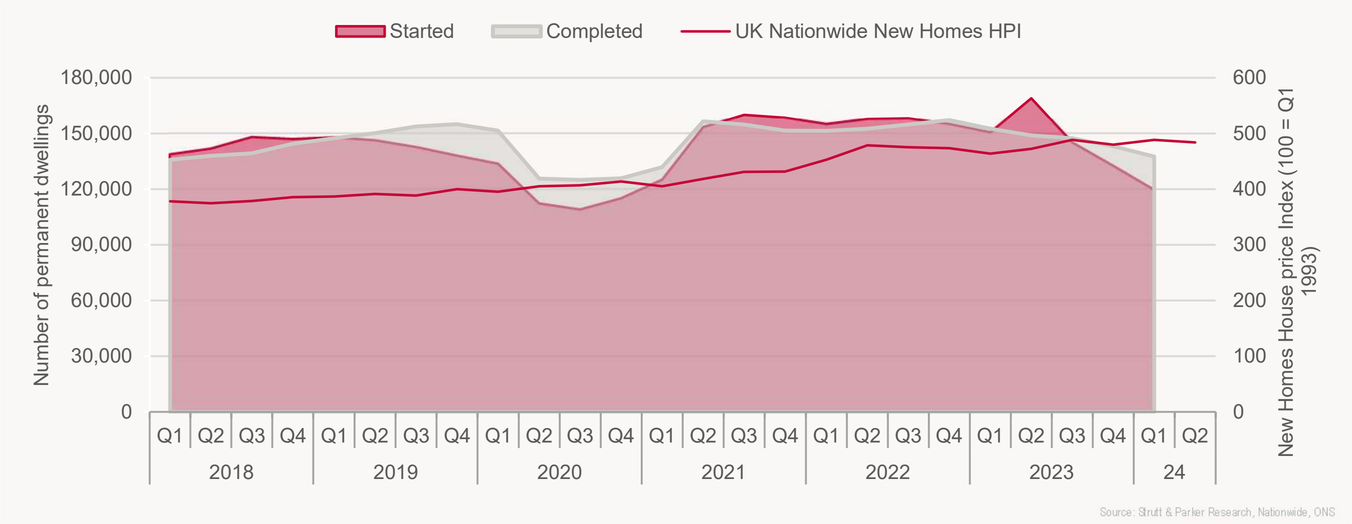
The new government need to enforce these changes quickly to build the 1.5 million homes they have promised in their first term. In the year to Q1 2024 133,500 homes were build; this is 40% of the government target, broken down to 300,000 homes a year over 5 years.

23,140

homes completed in Q1 24 across England, down 40% against Q1 23

Source: MHCLG

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



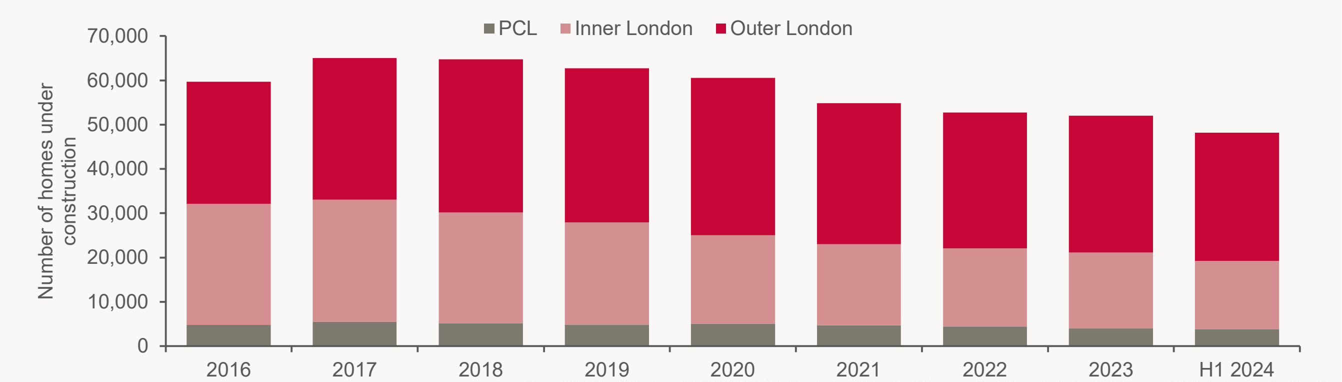
Source: Strutt & Parker Research, Nationwide, ONS

New Homes – Greater London

Across Greater London, at the end of Q2 2024, there were only 48,187 new build units under construction; this is -7% down against the volumes under construction at the end of 2023, and -26% 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.12,800 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 19th April 2023;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.

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Forecasts

Along with a pickup in transaction figures and mortgage approvals in Q2 we have seen the time to sell a home come down. This is a further indication that demand is picking up, which should be boosted further due to the positive sentiment that arises from the base rate cut. The resilience of house prices, which have already grown by 1% in the first half of this year, and the positive indicators for demand are the main reasons our forecasts for 2024 are retained at 0% to 5% and we have push out our 5-year forecast to 15% to 20%.

The number of over £1m sales transactions in PCL grew 18% on Q1. The second quarter of the year has seen these mortgage rates come down in anticipation of the base rate falling – which happened on the 1st August – this has helped to bring buyers back to the market. However agents expect the year to be relatively flat overall, limited by changes to non-domicile status and talks around a stamp duty hike for overseas buyers. Our 2024 forecast is retained at between 0% to 5% growth, and the cumulative forecast is also retained at 10% to 15% growth.

Although PCL letting's volumes have continued their positive trajectory, overall volume were up 18% on Q1, this was not split evenly between flats and houses. The number of houses let in Q2 has actually fallen against Q1 with new lets heavily driven by flat rentals. Our agents expect that rents will continue to grow, but at reduced levels, leading to our 2024 forecast of between 2% to 5%. 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	0% to 5%	10% to 15%
UK	0% to 5%	15% to 20%
	Lettings	
Prime Central London	2% to 5%	10% to 15%

> *"The market had been expecting a cut in the base rate by the end of the summer and therefore the cut has already been priced into many mortgage offers with the average 5-year fixed at around 4.5% (well below the pre-cut base rate of 5.25%). Nonetheless the certainty of the cut taking place should help bring rates down further in the latter half of the year and more importantly avoid the downside of mortgage rates going back up, which would likely have been the case had this cut not happened.*
>
> *Falling and stable mortgage rates are a huge positive for our price sensitive housing market. As mortgage costs have come down in the first half of this year house prices have risen by around a percent. We expect further rate falls will help release the pent-up demand that had been building in the housing market over the past two years – created by households who were keen to purchase, but unable to do so due to increasing and unstable mortgage rate.*
>
> *However, growth will be constrained; as the mortgage market is so heavily built on fixed terms many of those coming to the end of fixed terms, particularly of 5-years or longer, will still face higher monthly costs when they have to remortgage."*
>
> **MATT HENDERSON**
> Residential Research

Outlook

The UK's outlook, for both the economy and housing market, looks positive for the second half of the year. The base rate has been cut for the first time in four years and market expectation, and that of BNP Paribas, is that there will be another cut this year. 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. As has been the case for the last two years we will continue to pay close attention to monthly CPI and core CPI figures, further cuts to the base rate will depend heavily on these continuing to fall.

Higher debt costs have heavily impacted the number of transactions that take place in both the UK and PCL market showing how affordability is a major factor in the housing market. As rates come down further and affordability pressures ease, we expect to see transaction volumes continue to pick-up across the UK. This change in sentiment will impact on the PCL markets even though it is less restrained by affordability.

In the build-up to the election Labour announced several policies – VAT of private schools, changes to non-domicile status, increased stamp duty for international buyers – that will impact the housing market, particularly prime central London. We will have to see which of these policies are implemented, and the detail around then; with Labour have announced their Autumn budget will take place on the 30th October this leaves many, particularly international buyers and those of non-domicile status, with a lot of uncertainty.

This uncertainly also spills into the lettings market with the new government proposing the Renter Reform Bill, as the Conservatives had done before them. The new Secretary of State for Energy Security and Net Zero, Ed Miliband, has announced landlords would need their properties to meet an Energy Performance Certificate (EPC) rating C by 2030.

In terms of pricing the rental market nationwide is still cooling off from very strong rental growth over the last couple of years. In the PCL market the proportion of new lets paying under £500 per week has shrunk from 30% of the market, in 2020, to 11% in Q2 this year showing that the softening of rental growth has not happened quite as quickly as initially expected.

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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 Q2 2024 in light of changes since Q2 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.

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