RESEARCH

UK Residential Market Review

Winter 2023/24

4.0%

January's inflation (CPI) remained the same as Dec-23

Source: ONS

UK average rent increased 8.0% on last year

Source: HomeLet

Real average weekly earnings* rose to £666 in Nov-23, compared to £634 in Nov-22

*(total pay, seasonally adjusted) Source: ONS

Economic & Political Outlook

UK GDP was flat across Q3 2023, at -0.1%, and looks to be the same over Q4. So far monthly figures show a fall of -0.3% in October and growth of 0.3% November, cancelling each other out. Growth in 2024 is expected to be low at 0.4%.

Unemployment has slowly been increasing, it is now at 4.3%, and is expected to increase further over 2024, reflecting the lagged nature of GDP's impact on unemployment. The OBR forecasts unemployment to rise to a peak of 4.6% in Q2 2025, and then for it to fall back to its unchanged structural rate of 4.1% by 2028.

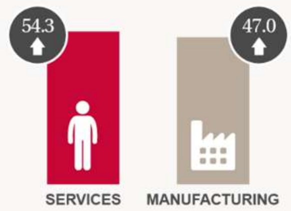
Inflation (CPI) was 4.0% in the 12 months to January 2024; this is no change against December's figure. These recent figures are substantially down from the 'over 10%' inflation at the start of 2023 and below the Bank of England's (BoE) 5% forecast for the end of 2023. The biggest driver of the falls has been a decreases in energy and fuel price. Communications, at 8.2%, and alcoholic beverages and tobacco, 12.4%, have been the largest drivers of inflation in the last 12 months. Whilst falling CPI figures are no doubt a positive, it is worth reminding ourselves that prices are still increasing at twice the BoE's target.

The cost-of-living crisis continues in the UK, 87% of adults in Great Britain report it as an important issue facing the UK today (Dec-2023). This is down from 90% in September.

Brexit's next phase of negotiations were launched in November 2023 to update the existing UK-South Korea agreement, which largely replicates the EU-South Korea agreement. Negotiations with Turkey are expected to begin in 2024. In July 2023, the UK signed an agreement to join the Comprehensive and Progressive Agreement for Trans-Pacific Partnership (CPTPP) – an Asia-Pacific trade bloc of 11 countries – which is expected to come into force in H2 of 2024.

The FTSE started 2024 with positive quarterly growth of 2.8% and annual growth of 2.2%. The latest Business Confidence Monitor decreased in Q3 last year – the latest available data – although companies are likely sensing that inflation and interest rates have passed and are at their peaks, respectively. This is also likely be the reason consumer confidence improved between November and December, although it remains negative.

The Financial Stability Report, released by the BoE in December reported that "the overall risk environment remains challenging, reflecting subdued economic activity, further risks to the outlook for global growth and inflation, and increased geopolitical tensions. UK borrowers and the financial system have been broadly resilient to the impact of higher and more volatile interest rates…[but] the full effect of higher interest rates has yet to come through. Long-term interest rates are high and remain volatile in major advanced economies."



UK services and manufacturing expanded over December

Source: IHS Markit/CIPS

UK property prices fell 2.3% in the year to Q4 2023

Source: Nationwide HPI

Interest Rates

In November 2023, the BoE retained the interest rate at 5.25%, after 14 consecutive rises since December 2021. Further meetings, most recently on 1st February, saw the base rate remain unchanged. It is now widely accepted that the base rate has peaked – disregarding an unexpected shock – so the question that remains is 'When will the base rate start to come down?'

BNP Paribas expect the base rate to decrease to 4.25% in 2024, reaching 3% by the end of 2025.

As fixed-rate mortgages come to an end, this will increase the financial pressure on homeowners, as well as new purchasers. It is estimated that 1.4m fixed rate mortgages will expire in 2024. In August of 2023, BoE estimated that four million households will face increased mortgage costs by the end of 2026, with an increase in annual housing costs by about £1,800 for the typical mortgagor.

Encouraging inflation figures have increased market optimism around when rates might start to come down. High street banks consider overnight SWAP rates and have lowered their rates in expectation of the base rate being reduced later in the year. The average 5-year-fixed rate is already below the base rate showing the how broadly expected it is that the base rate will fall.

The average 2-year fixed rate is 5.76% (down from 6.86% peak in July 2023) and the average 5-year fixed rate is now 4.86% (down from 6.11% peak in July 2023). Some lenders are offering 5-year rates below 4%, but these are based on conditions such as favourable LTVs.

The Guardian reported that a bidding war had started amongst lenders in anticipation of rate decreases, with the average rate on a 2-year fixed home loan falling to its lowest level for nearly 7 months in the first week of 2024.

Economic Indicators & Forecasts

The latest HM Treasury forecasts (January 2024) expect the economy to have grown by 0.4% in 2023 and to grow 0.4% in 2024. This is slightly less optimistic than the OBR November forecast of 0.6% for 2023 and of 0.7% for 2024.

For unemployment, HM Treasury January 2024 forecasts expect 4.3% in 2023 and 4.7% in 2024. This is on par with the OBR November forecasts of 4.2% and 4.6% in 2023 and 2024, respectively. This is typical of the lagged nature of unemployment with respect to GDP.

The HM Treasury January 2024 forecasts expect the Bank Rate to be 4.3% for 2024; a decrease of 0.4 percentage points from the December forecast of 4.7%. This is slightly higher than the OBR November forecast of 3.5% for 2024. In December 2023, the Monetary Policy Committee said that rates are likely to be kept high for an extended period of time to ensure inflation falls back to target. Financial markets expect the rates to start decreasing in May 2024.

Economic Indicators Summary Table

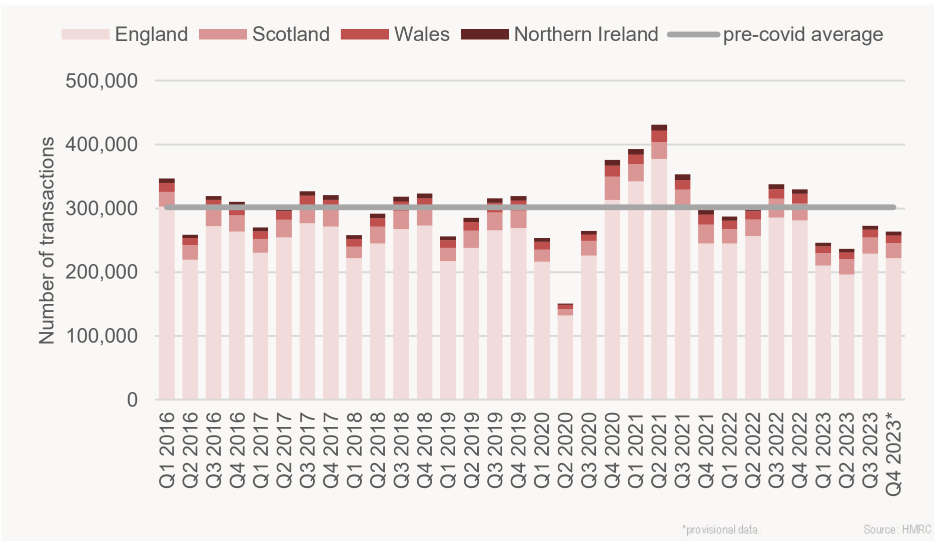
Indicator	Value	Date	Comment	HM Treasury Forecast *(as of January 2024)*	
				for 2023	for 2024
Inflation Rate (CPI)	4.0%	Year to January 2024	In January, inflation stayed flat at 4.0% from December. Dec-23 was a slight, technical increase from November, where inflation was at its lowest rate since Sep-21 (3.9%).	4.2%	2.2%
Bank Rate	5.25%	January 2024	The bank rate has stayed the same since Aug-23 after 14 rate rises between Dec-21 and Aug-23.	5.25%	4.3%
Unemployment Rate	4.3%	May-23 to Jul-23	Unemployment has been at or below 5% since 2015 (apart from just over 5% at the end of 2020). Since mid-2022, it has been slowly rising from 3.5%. The May-23 to Jul-23 figure is the highest it has been since mid-2021.	4.3%	4.7%
Exchange Rate (GBP to Euro)	1.16	[Mid] Jan 2024	After a fall over November to a low of 1.14, the exchange rate has climbed back up. It has been between 1.14 and 1.17 since May 2023.	-	-
FTSE	QoQ: 2.8% YoY: 2.2%	[Start] Q1 2024	YoY growth has been positive for five consecutive quarters.	-	-
GDP	QoQ: -0.1%	Q3 2023	Monthly real GDP is estimated to have fallen by 0.3% in October 2023 and grown by 0.3% in November 2023.	0.4%	0.4%

National residential sales transactions

Average property prices reduced by -2.2% in 2023, for the UK according to the seasonally adjusted Nationwide House Price Index. Growth was positive at 0.8%, over Q4, the first quarter of positive growth since Q3 2022. On a regional basis, Northern Ireland and Scotland were the only two regions to see positive growth across the year at 4.5% and 0.6% respectively. The worst annual performers were East Anglia, at -5.2% and the South East, at -4.5%. On a quarterly basis performance was more varied across the regions, four had negative growth West Midlands (-1.4%) and South East (-0.6%) had the greatest falls. Again, Northern Ireland (3.9%) and Scotland (2.4%) had the most growth.

In 2023 national transaction levels were down 19% against the 1.26m transactions that took place across the UK in 2022. Whilst the market waits for the base rate to fall, mortgage rates are already being lowered boosting transactions; however, we are still waiting on the General Election to be called.

Number of recorded properties sold across the UK for 2016 through 2023



The RICS survey expects transaction levels to pick up over 2024 with their strongest expectation of sales rates since the end of 2019. This is around two-thirds of surveyed agents being positive about sales rates and the transactions environment over the next 12 months, up from around half last quarter, Q3 2023. This is likely due to the prevalent expectation that mortgage rates will continue to fall over the duration of 2024. If the UK General Election is in the first half of this year, it would present the opportunity to have a better market in the second half of the year, but this is unlikely to be reflected in price increases, more likely in transaction volumes.

Sentiment is changing, and people can see that the base rate is unlikely to rise further. As households see the end of the recent period of uncertainty, they will begin to transact with more confidence and with greater frequency. In the meantime, as it has during this period of uncertainty, high-quality stock continues to trade and is subject to competitive bids.

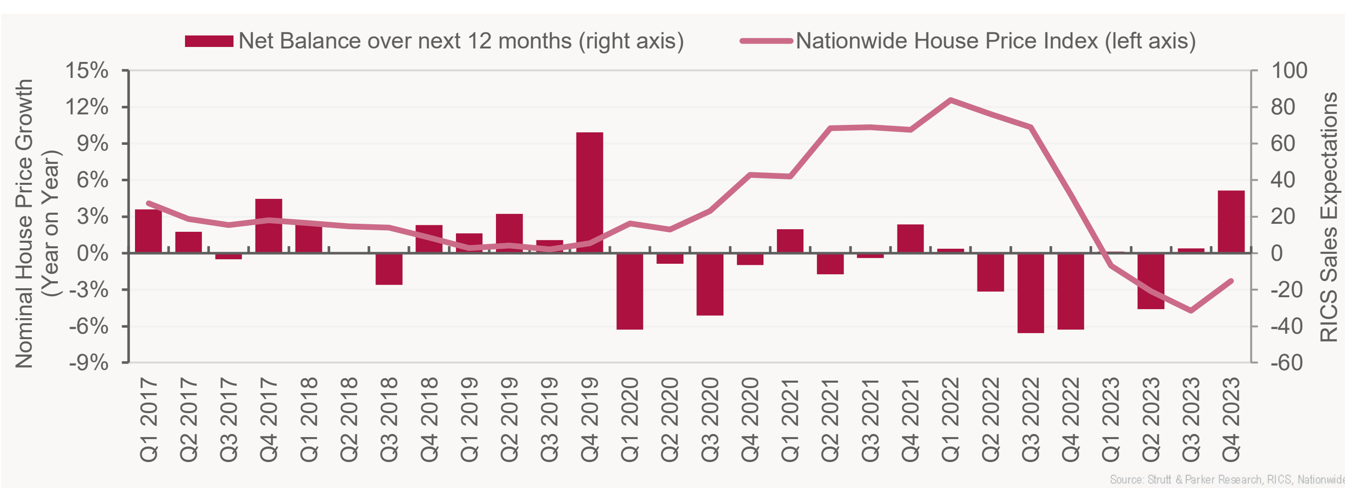
"With a General Election on the cards for this year if buying or selling a house is on your list of goals for 2024, now is not the time to put on the brakes. Getting things in motion for your sale earlier than you would typically expect will mean you're more likely to secure a sale in the first half of the year. The General Election is expected in the latter half of the year and even with a more predictable outcome it brings a few months of inertia in the market. Make sure you're having conversations with your agent frequently about what the market is doing, where pricing is going, and how the market is responding to the changing mortgage market and activity levels.

If selling, in planning your launch to market, your agent should be able to talk you through who's buying in the area and what they're looking for. If your home is in a family hotspot and close to good schools, then it might be worth changing those 'converted rooms' back into bedrooms, although buyers will use their imagination, laying it out helps create that positive first impression."

Kate Eales

Deputy Head of Agency

Nationwide House Price Index & RICS Price Expectations



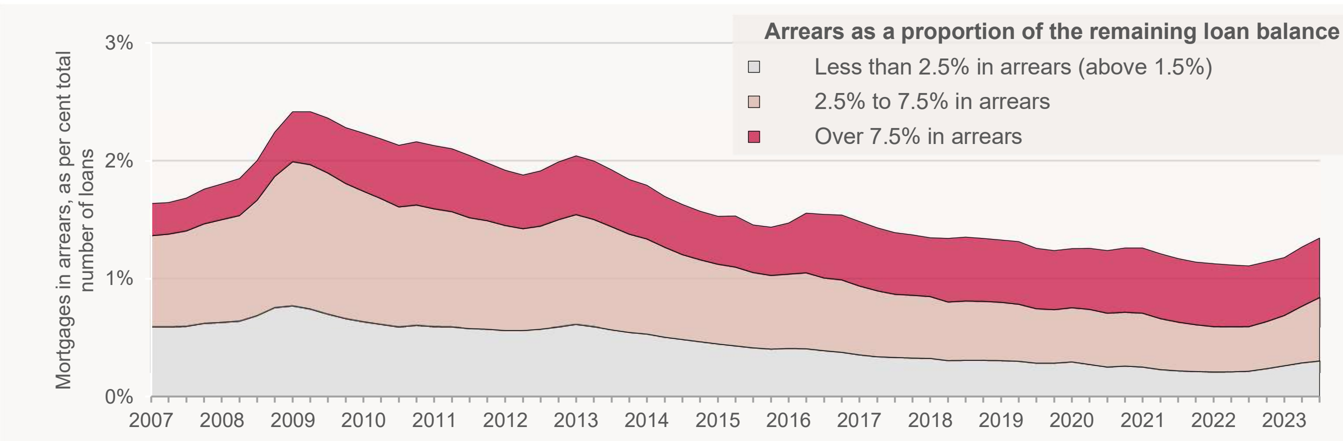
National mortgage arrears

With interest rates having risen so dramatically over the last year, and around 400,000 people reaching the end of a fixed rate mortgage each quarter, there was a wide and legitimate concern that many households wouldn't be able to refinance when their fixed rate mortgage ended. The advantage of the large shift towards fixed rate mortgage is that it gives people time to prepare for the increase in monthly costs. Many worried this would lead to an influx of forced sales potentially prompting more dramatic price falls, in line with those witnessed in 2008/2009.

One of the best signs of potential forced sales is mortgage arrears. The following chart shows that we are coming off an all-time low of mortgage arrears of 1.1%, which is to be expected with the artificially low interest rates of 2021. We have seen a rise in the rate of arrears to 1.35%, as mortgage rates have increased. Even so we are still far from the 2.4% high that led to the double-digit price house price falls of the post Global Financial Crisis period of 2008/09.

With the ability for households to prepare for their refinancing, and the more forgiving nature of banks (banks are currently allowing interest only payments and the lengthening of terms), it is highly unlikely that we see a similar level of forced sales. Nonetheless this is a metric that we shall continue to track as the cost-of-living continues to bite and over a million households will be refinancing on to higher rates over this year.

Proportion of mortgage arrears in the market, by percentage of arrears



*please note that for this dataset the Bank Of England have a threshold for arrears on an account of 1.5%. Therefore the grey area represents mortgages where the arrears are between 1.5% and 2.5%.

Source: Bank of England

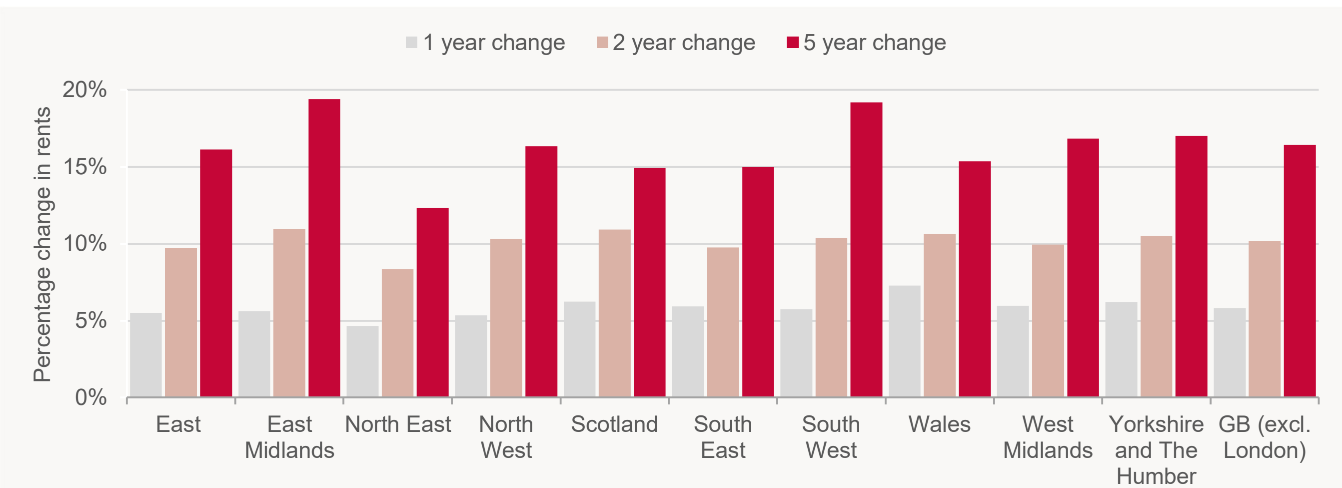
Regional rental growth

Rental growth has been occurring nationally over the past two years, mainly caused by the systemic undersupply of new homes. All regions of the UK have seen rental growth in excess of 8% in the last 2 years. Wales has seen the greatest rental growth according to the ONS, with annual rents rising by 7.3% to November 2023.

Wales is not the exception, the average rents in Great Britain (excluding London) rose by 5.8% over the same 12 month period. The far-reaching nature of these rental increases has caused a widespread call for intervention. Rental caps are often seen as a solution but are very short term and don't address the underlying issue which is a lack of affordable housing, particularly in the areas that most people want to live.

Whilst the undersupply continues, we expect rents to continue rising, albeit at a slower rate, as tenant affordability becomes stretched.

Regional rental growth



Source: ONS

New Homes – England & Wales

The new homes house price index from Nationwide shows that values have increased by 19% since Q1 2021, although it has dropped slightly, by 2%, on last quarter. The average cost of a new build home has now dopped marginally below £300,000.

First time buyers make up a high proportion of new home purchasers and increases to the base rate over 2023 (now at 5.25%) have limited their borrowing ability, and subsequently limits what they can afford to pay for their new home.

The number of completed new homes has been on a downward trend since their peak mid-2021.

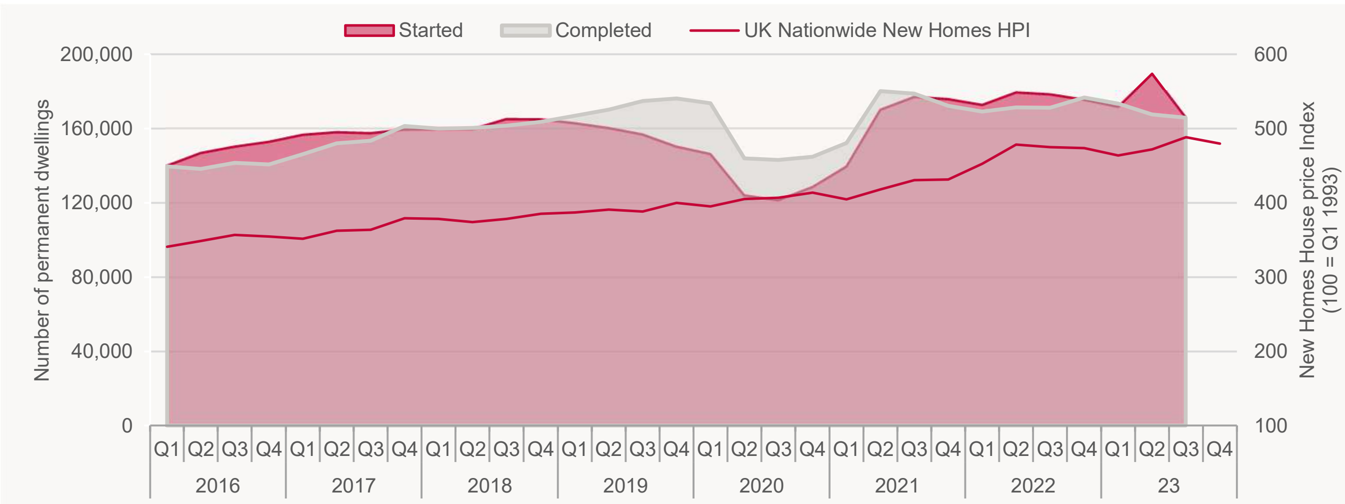
The high start numbers in Q2 2023 seem to have been a one-off spike and have returned to more typical figures in Q3 (the latest data point).

Disrupted supply chains, the increased costs of labour, materials and debt, along with the reduced demand from first-time buyers, are still hindering developers from producing the 300,000 per year homes that the Government states England & Wales need (although Michael Gove has changed this figure from a target to 'advisory'). Nonetheless the last four quarters have seen 165,000 homes completed – 55% of the Government's advisory figure.

Homes completed in Q1-Q3 2023, down against 126,500 in the same period of 2022

Source: MHCLG

Number of new homes sold by region (excl. London) & new homes house price index



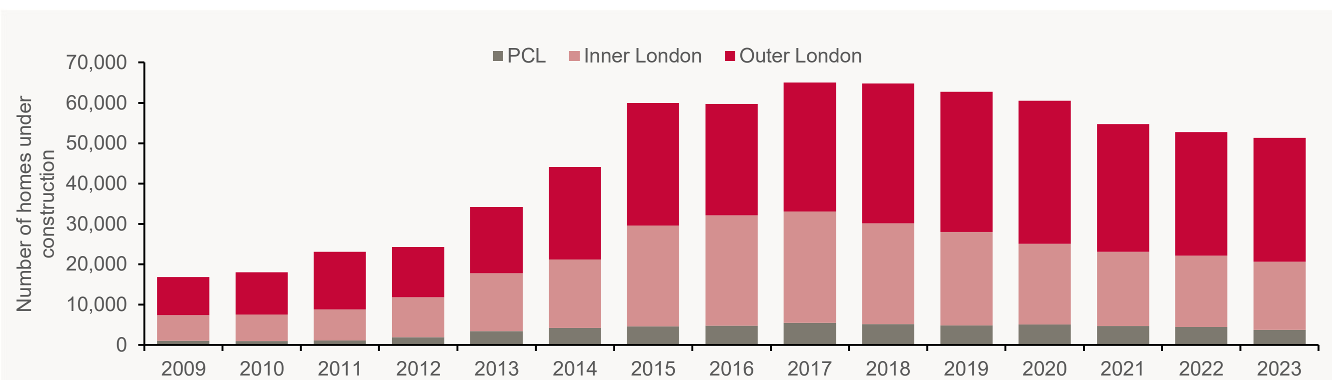
Source: Strutt & Parker Research, Nationwide, ONS

New Homes – Greater London

Across Greater London, at the end of 2023, there were over 51,350 new build units under construction; this is only 3% down against 2022 volumes, but 25% down against the peak year of 2017. The number of completed homes in 2023 reflects this, down 32% on 2022 completions – which itself was down 12% against 2021 figures. The slowing of the market has inhibited sale rates; along with higher debt and construction costs making sites unviable, and a lack of sites themselves – particularly in the most popular parts of the capital – this has inhibited the ability of developers to deliver.

Developers are converting units to rentals or selling them to institutional landlords. Approximately 14,840 of the units under construction in London are Build to Rent (BTR) showing the strength of confidence in the 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 13th 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.

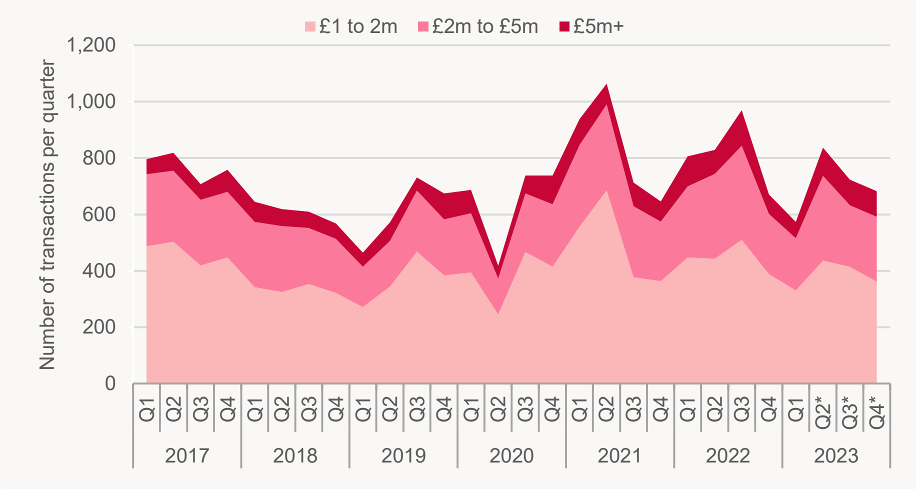
Prime Central London – Residential sales market

Prime Central London (PCL) house prices ended the year at -0.8% growth, within our forecast range of -3% to 3%. This was the fourth consecutive quarter of negative annual growth, but values only decreased marginally over Q4, falling by -0.2%.

PCL transaction numbers continued to come down slightly from their Q2 2023 peak. In Q4 volumes were -9% down against Q3 causing the year to be down 14% on 2022. This was expected as the hikes in mortgage rates affected sentiment in the market. PCL has a far greater proportion of cash buyers than England & Wales (33%), for example in Kensington & Chelsea 61% of buyers did not use a mortgage in Q3 2023, according to the UK House Price Index.

At the higher end of the market, for properties over £2m, there were increased transaction levels compared to Q3, up 4%. This was split, with number of homes over £5m staying flat, whilst homes between £2m and £5m picked up by 6%.

Historic number of homes sold in PCL



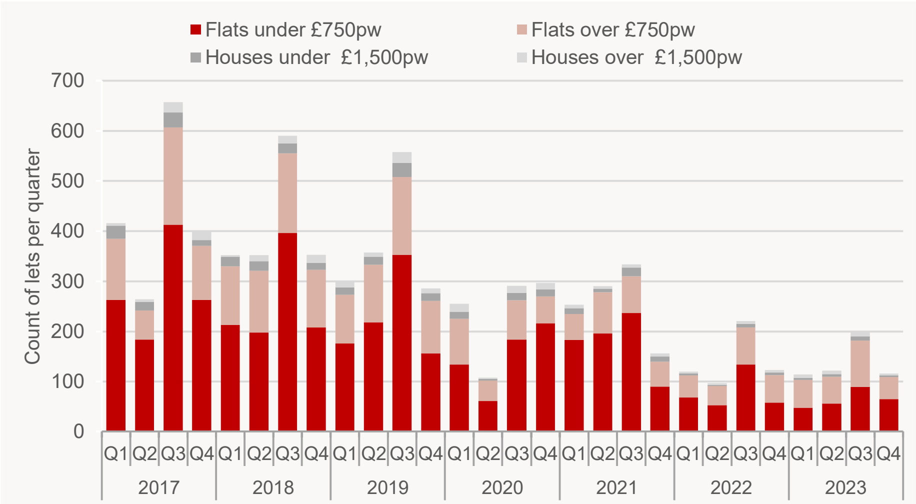
Source: LandReg & LonRes via Dataloft, Strutt & Parker at 08th January 2024.

Prime Central London – Lettings market

Lettings transaction volumes in PCL decreased by 33% in Q4 2023. However, this is compared to Q3 which experienced the greatest number of new lets since mid-2021. Q4 volumes were more in line with Q1 & Q2 2023, putting 2023 9% up against 2022. House volumes increased 16% on 2022, with flats up 8%.

PCL lettings ended the year with 2.9% annual rental growth, however, Q4 2023 saw the price of new lets decrease by -0.6%, marking the first quarter of negative quarterly growth since Q1 2021. Albeit undersupply issues persists as an issue in the PCL rental market putting pressure on rents.

New rental tenancies in PCL by house type



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

"With increased stock coming to the market at the end of '23 as well as the start of a year, this feels like less of the annual trend – where homes are often bought to the market early in the year. This market shift will likely see more traditional levels of supply this year, with a balance returning to the prime London lettings market. Although undersupply still exists, increased supply levels have helped in halting unsustainable rent increases.

More than ever, high-end properties, those in prime locations or finished to high, owner-occupied standard continue to achieve a premium, often receiving multiple offers above the asking price.

This year, as is typical, tenants are already looking forward to the spring and summer months, driving supply for property with good outdoor space. A new trend we have seen emerge – particularly at the top of the market where budgets are less of an issue – is the expectation for additional facilities and amenities. High-end tenants are looking, and willing to pay for 'extras' that luxury new-build stock offers.

The ever-increasing expectations of tenants have impacted our clients as more and more landlords are opting for a fully-managed service to provide the highest level of bespoke service to their tenants, as well as ensuring their assets are looked after."

Anna Ambrose

National Head of Lettings

STRUTT & PARKER
BNP PARIBAS GROUP

Forecasts

After fluctuating UK house prices ended the year at -2.2%, within our forecast range of -5% and 0%. This was the fourth consecutive quarter of negative annual growth, however quarterly growth was positive at 0.8% - and many months in the latter half of the year have seen house price growth. Agents are generally positive for the 2024 outlook; they believe that we have seen the worse of the transaction lull, which in turn will start to have a positive impact on prices. The 2024 forecast is for positive growth, 0% to 5%, with 10% to 15% expected in the five years to 2028.

PCL house prices stayed relatively flat across the year, ending the year down -0.8%. This was again within our forecast range of -3% to 3%. PCL sales prices decreased slightly over Q4 2023, -0.2%, but again the outlook for 2024 is positive, with rates beginning to come down as well as people becoming accustomed to the higher interest rate market. This is already encouraging more households onto the market with transactions they have held off making in the past year. Our 2024 forecast is 0% to 5%, with 10% to 15% expected over the next five year (inclusive of 2024).

PCL rents saw growth across 2023 at 2.9%, within our forecast range of 2% to 7%. This was the 10th consecutive quarter of positive annual growth. However, quarter-on-quarter rents fell by -0.6%. Undersupply issues persist and prime stock is still going for above asking rent, therefore we are forecasting growth of 3% to 6% in 2024, 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%	10% to 15%
	Lettings	
Prime Central London	3% to 6%	10% to 15%

"2023 was a turbulent year for the housing market; mortgage rates climbed higher than they had in a decade and rental increases continued as the fate of the market seemed to rest on each month's inflation figures. Fortunately, these figures trended steeply down across the year.

We are keeping a close eye on the geo-political situation around Red Sea, the ongoing war in Ukraine and the 40 elections happening worldwide – most notably in the US, and here in the UK. All of these will create a level of caution in the market and could put upward pressure back on inflation.

However, locally the signs are far more positive for the UK market. Mortgage rates are reducing, bets are on when not if the base rate will come down, and rental increases are slowing as the market begins to rebalance. At the very end of the of 2023 we, at Strutt & Parker, saw several prime homes transact creating a positive start to this year. We don't expect this year to reach the high transaction levels of 2021 or 2022, but we should see a marked improvement on last year."

MATT HENDERSON

Residential Research

Outlook

The UK's outlook, for both the economy and housing market, is still heavily contingent on the ONS' monthly inflation figures as these will determine when the base rate starts to be reduced. December's figures were below the market and BoE's expectations, with the all-important core inflation also coming down. The market view is that we are at the terminal base rate which significantly improves the country's economic outlook, and poses the question '*When will the base rate come down?'*. However, all this newfound optimism could vanish if the next set of inflation figures don't continue their new downwards trajectory, and any escalation of the geo-political tensions around the Red Sea could lead to this.

Real incomes have been falling, and increased mortgage rates will have placed financial pressure on those looking to get a mortgage or those having to re-mortgage. House prices will likely see some fluctuations throughout 2024, however as rates are now starting to come back down this will encourage buyers back to the market which will cause prices to be positive across the year.

In the PCL rental market there is an affordability ceiling of what renters can afford to pay which will hold back the growth of rents. Although rental growth has slowed as supply came back to the market, there is still a supply-demand imbalance. High quality, prime rental stock has continued to drive above asking rents, be it a two-bedroom flat or a five-bedroom house.

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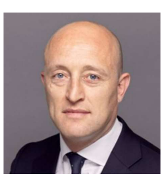

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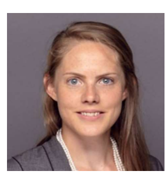

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Methodology
As the housing market is seasonal, for the purposes of this report; data is compared year on year, i.e. looking at Q4 2023 in light of changes since Q4 2023. Data may also be compared on a rolling month on month basis. When referring to 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 very 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.