FORTEM
PROPERTY

PROPERTY MARKET REVIEW | Q1: 2024

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The dominant theme over the last quarter has been a gradual return to business as usual. Market sentiment is improving, as demonstrated by a host of industry surveys and – more visibly – through a marked resurgence in sales activity. Vendors are now more confident about putting their properties up for sale, which is helping to boost the supply of housing, while expectations of falling mortgage rates are encouraging more buyers to agree deals.

Sales activity and price growth often rise together, and this seems to be the case again. The latest indices show month-on-month improvements in asking prices and, on a quarterly basis, price movements have generally been positive.

In the rental market, returns continue to grow at above the rate of inflation – in most regions, at least – although there are signs that growth is slowing in some regions. Different indices report widely differing results but a number of them suggest that London is one market in which rental demand and average rental values are actively declining. In most other areas, however, landlords will be pleased with their returns, most notably in Scotland, the Midlands and the North West, where some sources report rental growth that is either in or close to double digits.

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HOUSE PRICES

At the start of the year, the UK's various house price indices showed considerable variation. In January, for example, between Nationwide's estimate of a -1.8% fall and Halifax's calculation of a +1.7% annual gain, there was a 3.5 percentage point disagreement. However, as market conditions have improved, so those discrepancies have diminished. The overall outlook certainly appears to be brightening and, in stark contrast to the dire predictions made at the start of 2023, some sources are now forecasting positive growth in 2024.

This optimism is based on clear signs of improving market sales activity, coupled with the fact that affordability pressures are easing. After a short blip, average mortgage rates now look set to decline again and, at the same time, average earnings are still rising at well above the rate of inflation. (ONS reports annual earnings growth of +6.1% excluding bonuses, while CPI inflation stands at 3.4%).

In the table below, the percentage figures shown below refer to year-on-year growth rates. The final column shows the broad direction of price movements over the last quarter.

SOURCE	JAN*	FEB*	MAR*	QUARTERLY CHANGE
HALIFAX	+1.7%	+2.5%	+1.7%	No change
NATIONWIDE	-0.2%	-0.2%	+1.2%	+1.4 (percentage points)
ONS	-2.1%	-1.4%	-0.6%	+1.5 (percentage points)
RIGHTMOVE	-0.7%	+1.0%	+0.8%	+1.5 (percentage points)
ZOOPLA	-0.8%	-0.5%	-0.3%	+0.5 (percentage points)
AVERAGE (MEAN)	**-0.4%**	**+0.1%**	**+0.6%**	**+1.0 (percentage points)**

** Note that the dates shown above denote the month in which the data was published, not the month to which the figures relate. For example, the ONS data released in March 2024 pertained to house price movements in January while most of the others pertained to February or March.*

The most recent house price indices can be seen here:

- Halifax (February)
- ONS (January
- Zoopla (March)
- Nationwide (February)
- Rightmove (March)

In its March Asking Price Index, Home.co.uk noted that, UK-wide, prices had grown by +0.1% year-on-year, and by +0.4% compared to the previous month. It noted that *"prices rose in all English regions, Scotland and Wales during the last month, indicating nationwide positive sentiment."* It added that the average time-on-market *"has dropped eight days since February as market momentum increases."*

PROPERTY PRICES BY LOCATION

In March, ONS published its index in a new format that amalgamates both house price and rental data. The first of these covered the 12 months to January 2024, and it showed that the state-level pattern of annual price growth looked like this:

ENGLAND	–1.5% / £299,000 (£302,000 in December)
SCOTLAND	+4.8% / £190,000 (£190,000 in December)
WALES	–0.8% / £213,000 (£214,000 in December)
N.IRELAND	+1.4% / £178,000 (Q4 2023 figures)

SCOTLAND				
RIGHTMOVE	HOME.CO.UK	ZOOPLA	ONS	AVERAGE
+4.2%	+4.2%	+2.1%	+4.8%	+3.8%

NORTH EAST				
RIGHTMOVE	HOME.CO.UK	ZOOPLA	ONS	AVERAGE
+2.0%	+2.2%	+1.1%	-3.1%	+0.6%

NORTH WEST				
RIGHTMOVE	HOME.CO.UK	ZOOPLA	ONS	AVERAGE
+2.6%	+3.6%	+0.8%	+1.0%	+2.0%

YORKSHIRE & HUMBER				
RIGHTMOVE	HOME.CO.UK	ZOOPLA	ONS	AVERAGE
+2.4%	+1.3%	+0.6%	-0.7%	+0.9%

WALES				
RIGHTMOVE	HOME.CO.UK	ZOOPLA	ONS	AVERAGE
0.0%	+3.0%	+0.6%	-0.8%	+0.7%

WEST MIDLANDS				
RIGHTMOVE	HOME.CO.UK	ZOOPLA	ONS	AVERAGE
+2.4%	+0.1%	+0.2%	+0.6%	+0.8%

EAST MIDLANDS				
RIGHTMOVE	HOME.CO.UK	ZOOPLA	ONS	AVERAGE
+1.0%	-1.5%	-0.5%	-1.9%	-0.7%

EAST OF ENGLAND				
RIGHTMOVE	HOME.CO.UK	ZOOPLA	ONS	AVERAGE
-0.2%	-1.7%	-2.3%	-2.2%	-1.6%

SOUTH WEST				
RIGHTMOVE	HOME.CO.UK	ZOOPLA	ONS	AVERAGE
-0.3%	-1.5%	-1.5%	-0.6%	-1.0%

SOUTH EAST				
RIGHTMOVE	HOME.CO.UK	ZOOPLA	ONS	AVERAGE
-0.7%	-1.5%	-2.0%	-3.1%	-1.4%

GREATER LONDON				
RIGHTMOVE	HOME.CO.UK	ZOOPLA	ONS	AVERAGE
+0.9%	-0.7%	-0.4%	-3.9%	-1.0%

At the city level, Zoopla's March Index reported the greatest price resilience in:

RANKING	ZOOPLA TOP 10	% GROWTH (YoY)
1	BELFAST	+4.5
2	GLASGOW	+2.6
3	SHEFFIELD	+1.3
4	EDINBURGH	+1.2
5	LEEDS	+1.0
6	MANCHESTER	+1.0
7	LIVERPOOL	+1.0
8	NEWCASTLE	+0.8
9	BIRMINGHAM	+0.6
10	CARDIFF	+0.6

For context, it is worth noting that the Zoopla Index estimated the average UK rate of house price growth at –0.5% in its March index. The national mean figure has been brought down by price contractions in the East Midlands and England's southern regions.

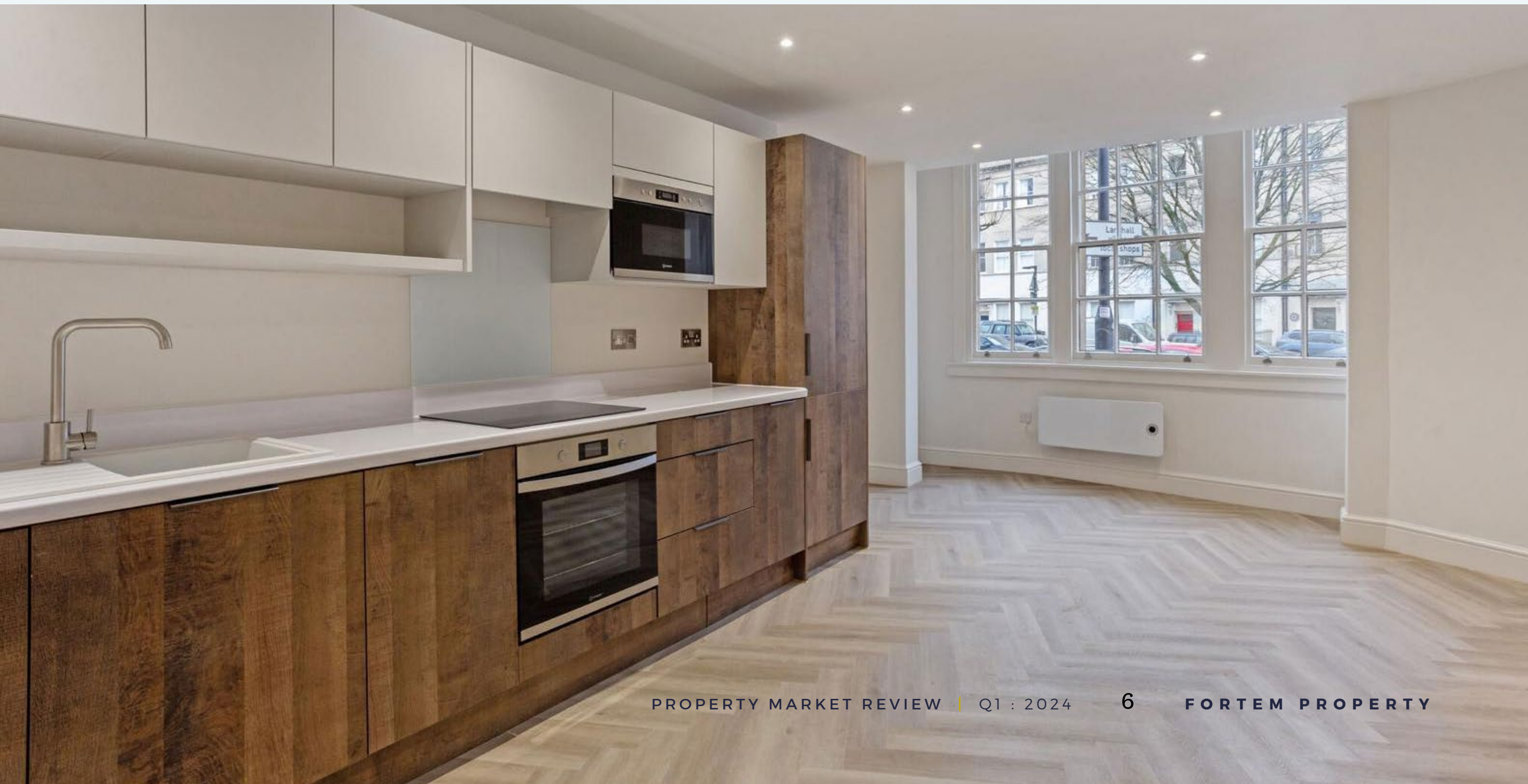
HOUSE PRICE FORECASTS

In its December house price index, published at the start of January, Halifax stuck by its earlier forecast of a price-drop of between –2 and –4% over the course of 2024. However, it added some notable caveats. First, that ***"with mortgage rates continuing to ease, we may see an increase in confidence from buyers over the coming months,"*** and second, that ***"forecast uncertainty remains high given the current economic climate."***

Since January, that increasing confidence has become much more evident. On 11 March, the Royal Institution of Chartered Surveyors (RICS) published its latest UK Residential Market Survey, which identified ***"an emerging more positive trend in buyer enquiries and new listings,"*** together with an expectation of increasing sales that it said should gain further momentum over the year ahead. Importantly, it also notes that ***"house prices continue to stabilise, with twelve-month projections signalling a return to growth."*** RICS reported that its members had the highest expectations of rising capital growth in Northern Ireland, Scotland, London and Northern England.

On 14 March, the Building Societies Association published its latest Property Tracker, which pointed to a similar upturn in market confidence. It highlighted ***"a significant reduction in the number of homeowners concerned about paying their mortgage, along with a decrease in those that see mortgage affordability as a barrier to home buying."*** It adds that 41% of people think house prices will rise over the next 12 months – a significant increase from 33% in December – while only 14% think house prices will fall.

Zoopla has also revised its predictions, suggesting that rather than fall, average values ***"will remain broadly static"*** this year.



RENTAL DATA

In 2023, rents rose by around +10% year-on-year. This year, that average won't be so high, partly because of affordability pressures. However, buy-to-let mortgage rates are falling, and so too is inflation, so the real-terms returns for investors should remain extremely good – in terms of rental values at least. The table below shows year-on-year growth rates in average rental values.

SOURCE	JAN*	FEB*	MAR*	QUARTERLY CHANGE
GOODLORD	+7.1%	+7.0%	+7.0%	–0.1 (percentage points)
HOMELET	+8.0%	+7.5%	+7.4%	–0.6 (percentage points)
RIGHTMOVE (Quarterly)	+9.2%	N/A	N/A	N/A
ZOOPLA	+9.7	+8.3%	+7.8%	–1.9 (percentage points)
AVERAGE	**+8.5%**	**+7.6%**	**+7.4%**	**–1.1 (percentage points)**

** Note that the dates shown above denote the month in which the data was published, not the month to which the figures relate.*

Other sources also showed continuing rental growth. For example, the Q4 Rental Index from SpareRoom recorded a +12% annual rise in average room rents across the UK, and in the 12 months to February, ONS reported that rents rose by a record-breaking average of +9.0%.

In its Q1 Rental Market Report, published in March, Zoopla noted that demand had fallen by -20% since last quarter but remained well above the long-term mean. It wrote: *"There remain more than 15 enquiries for every home for rent. This is down from over 40 enquiries in 2021 but is still double pre-pandemic levels. The supply/demand imbalance is narrowing but is far from closed. Rents will continue to rise over 2024, albeit at a slowing rate."*

RENTAL RETURNS BY LOCATION

Rightmove, Zoopla and Homelet examine changes in average annual rental returns by region. Their figures vary but they continue to show inflation-beating growth in all regions.

Region	RIGHTMOVE*	ZOOPLA	HOMELET	AVERAGE
SCOTLAND	+10.6%	+11.6%	+8.8%	+10.3%
NORTH EAST	+9.6%	+9.9%	+5.7%	+8.2%
NORTH WEST	+11.1%	+9.8%	+6.0%	+9.1%
YORKSHIRE & HUMBER	+9.4%	+7.6%	+7.3%	+8.1%
WALES	+8.1%	+9.5%	+6.0%	+7.8%
WEST MIDLANDS	+10.6%	+8.6%	+9.3%	+9.5%
EAST MIDLANDS	+9.3%	+8.7%	+9.8%	+9.4%
EAST OF ENGLAND	+9.6%	+9.3%	+8.1%	+9.0%
SOUTH WEST	+7.5%	+8.0%	+6.7%	+7.4%
SOUTH EAST	+7.5%	+8.9%	+8.9%	+8.6%
GREATER LONDON	+6.1%	+5.1%	+4.8%	+5.8%

** Note: Rightmove data relates to Q4 2023.*

All sources agree that London has trailed the rest of the field and some, in fact, report negative rental growth in the capital. In March, SpareRoom released figures suggesting that, in Greater London, average rental prices fell for the first time since July 2023; from £1,024 in January to £1,009 in February – a drop of just under –1.5%. The Home Asking Price Index also recorded a drop in the capital; an annual fall of –6.9% in asking rents.

Goodlord's rental data does not cover Scotland or Wales and it amalgamates some regional results. However, its February Rental Index found that the South West has been England's top-performing region, with rental growth of +11.0% year-on-year. This was followed by the North East, which has seen a +7.5% rise.

Looking at returns at a more local level, Zoopla listed some of the best-performing towns and cities over the last year.

RANKING	ZOOPLA TOP 10*	% GROWTH (YoY)
1	EDINBURGH	+11.5
2	GLASGOW	+10.9
3	NEWCASTLE	+10.6
4	SOUTHAMPTON	+10.0
5	MANCHESTER	+9.6
6	CARDIFF	+9.2
7	BIRMINGHAM	+8.6
8	LIVERPOOL	+8.3
9	BRISTOL	+7.6
10	NOTTINGHAM	+7.4

** Note: Zoopla lists only 15 major cities in its rental reports so the rankings are only indicative of broader geographical patterns. Other UK towns and smaller cities may produce better rental returns.*

LONGER-TERM RENTAL GROWTH

Zoopla, in a recent interview with the BBC, identified the ten UK towns and cities that had produced the fastest rental growth since 2020. It found that Glasgow had seen the biggest gains, with an +38.9% increase in average rents over the last three years. Next came Bolton with +38.7%, followed by Manchester (+37.8%), London (+36.5%) and Edinburgh (+36.4%). Other top-performing markets included Wigan, Newport, Bradford, Rochdale and Luton.

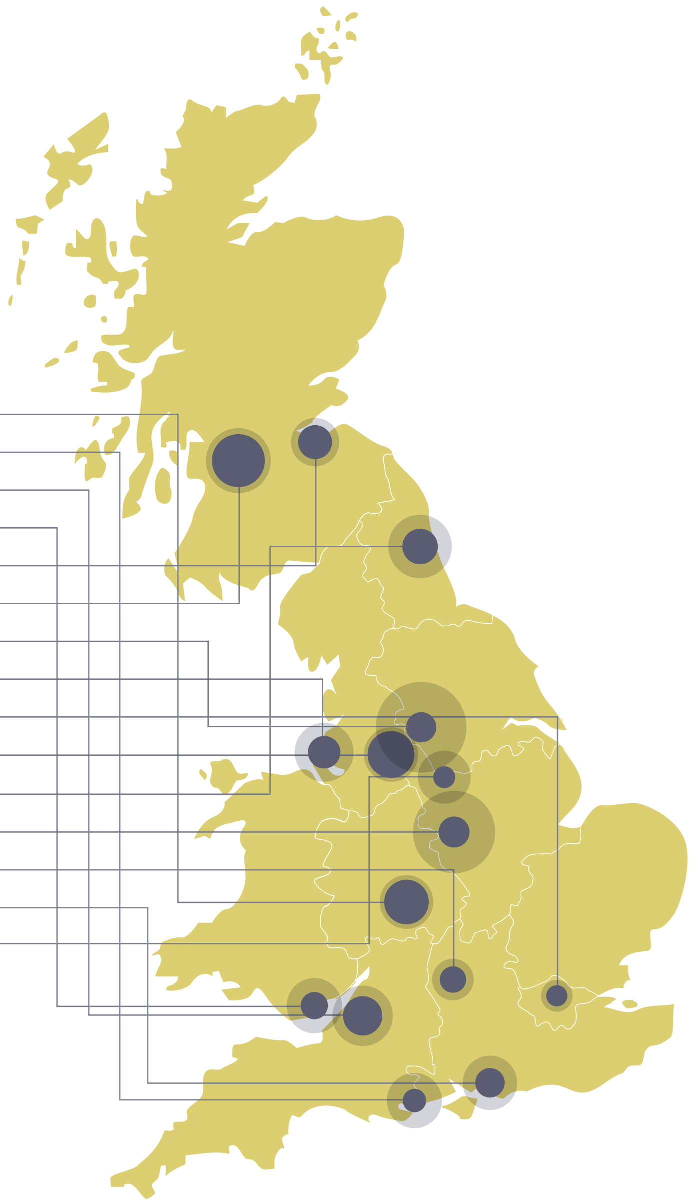
Zoopla noted that many of the best results arose in commuter belt locations outside big cities such as London, Manchester, Leeds and Cardiff. Here, property prices are more affordable and yet city-centre offices are still within reach. The trend to rent larger homes outside the big cities seems to be rising as home-working and hybrid working become more established trends.

RENTAL YIELDS

Another important measure of investment success is rental yield, as opposed to growth in rental earnings. Yields are a measure of how hard investment funds are working and, broadly speaking, they tend to be strongest in more affordable markets.

In January, Rightmove published its [Rental Trends Tracker] for Q4 2023. Its figures showed a clear correlation between geography and yields, with the best results being achieved further north.

CITY	AV. YIELD (Min.)	AV. YIELD (Max.)
BIRMINGHAM	5.9%	7.1%
BOURNEMOUTH	3.1%	7.3%
BRISTOL	5.2%	8.0%
CARDIFF	3.6%	7.3%
EDINBURGH	4.5%	6.4%
GLASGOW	7.0%	8.6%
LEEDS	4.0%	12.0%
LIVERPOOL	4.3%	7.8%
LONDON	2.8%	4.2%
MANCHESTER	6.2%	7.2%
NEWCASTLE	4.7%	8.4%
NOTTINGHAM	4.1%	10.9%
OXFORD	3.5%	5.5%
PORTSMOUTH	3.9%	7.2%
SHEFFIELD	2.9%	7.0%



LONDON & PRIME CENTRAL LONDON

According to Home.co.uk, average property values have continued to fall in Greater London, although – generally speaking – the rate of decline has slowed. Home reported a year-on-year dip of -0.7%, but noted that the relative underperformance of properties in London and the South East "suggests that there is plenty of room for price growth going forward."

However, in its March price index, Halifax took a different stance. It noted that London returned to positive annual growth for the first time since January 2023, gaining +1.5% year-on-year.

Rightmove reported considerable variation across the boroughs. For annual capital growth, its top performers included Richmond-upon-Thames and Hammersmith & Fulham, both on +5.6%, followed by Westminster (+4.7%) and Greenwich (+2.7%). At the other end of the scale, Kingston-upon-Thames and Kensington & Chelsea both saw values fall by –0.3%, and even sharper declines were seen in Ealing (–0.5%), Croydon (–0.6%) and Wandsworth (–0.8%).

On the measure of rental growth, Homelet's Rental Index for February 2024 showed annual change by borough. It found that the mean for all London boroughs was +4.8%, but beneath that headline figure, local rates have varied enormously. Homelet listed the top five for annual growth as:

- Lambeth .... +12.2%
- Barking, Dagenham and Havering .... +11.8%
- Redbridge & Waltham Forest .... +10.3%
- Westminster .... +8.5%
- Ealing .... +8.4%

Its bottom three included:

- Tower Hamlets .... –1.8%
- Merton, Kingston-upon-Thames .... –2.3%
- Camden, City of London .... –3.6%

Home.co.uk's assessment of London's rental market was more downbeat. It reported that:

> *"Greater London rents continue to plunge (-6.9%), making it by far the worst performing region due to a vast oversupply of property to let. Rents continue to slide most in the more expensive central London boroughs. Growth has become increasingly negative overall and a total of eighteen prime boroughs now show year-on-year falls in asking rents, up from thirteen last month. The worst performer remains Kensington & Chelsea, extending its decline with a year-on-year slide of –14.4%."*

Figures published by the property data platform LonRes extend to the final quarter of 2023. They show that, across all property types in PCL:

- Average rental values fell by –1.0% year-on-year
- They rose on a quarterly basis by +4.6%

Examining rental growth by property type, the platform reports that average rents for flats in PCL fell by –1.5% year-on-year, but rose by +6.2% against the previous quarter. For houses, rents rose by +6.0% annually, and by +0.5% on a quarterly basis.

THE CENTRAL BOROUGHS OF LONDON

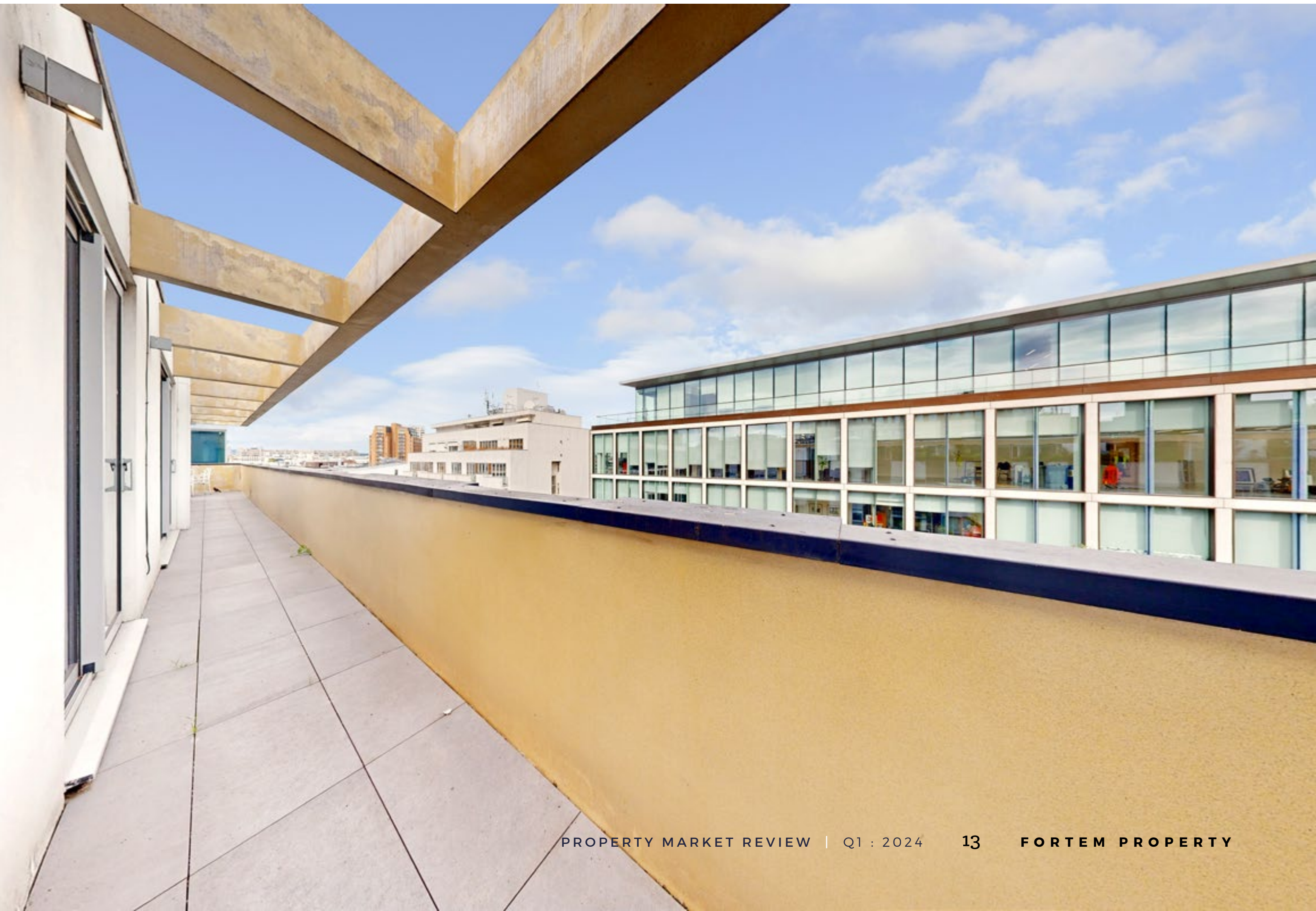
LonRes data indicate that yields in London as a whole have typically been around 4.37% but in the PCL boroughs, they fell with a narrow band, from a low of 3.1% in Belgravia to a high of 3.93% in Chelsea. The average for PCL was 3.71% but towards the fringes of the prime area, where asking prices tend to be lower, yields were typically higher, averaging around 4.9%.

INFLATION AND MORTGAGE COSTS

In the Spring Budget, the Chancellor Jeremy Hunt said that CPI inflation was on track to fall back to its 2% target this year. If that proves to be the case, then a reduction in the official Bank rate seems very likely, and that should ultimately lead to further falls in lenders' mortgage rates.

On 20th March, the UK showed evidence of progress towards that target, when the ONS announced that CPI inflation had fallen to 3.4%. This marked a sharper fall than expected and obviously came as welcome news. However, few economists believed that the Bank of England's Monetary Policy Committee would respond with an immediate cut to the base rate. Thus, the following day, when the MPC announced that it would hold the rate at 5.25%, it produced no great surprises.

A key reason for the decision is that wage-growth is still relatively strong, and the MPC regards this as a potential driver of inflation. On the 12th March, ONS announced that average earnings were growing at an annual rate of 6.1%. This means that earnings are rising faster than CPI inflation but, significantly, the rate is slightly lower than the 6.2% figure reported last month. That will come as some reassurance to the Bank's Monetary Policy Committee. If that rate is now falling, it may feel more comfortable about cutting the base rate of lending within a matter of months.



SUMMARY

In our previous quarterly report, we stated that the market was showing "early signs of a resurgence in market activity." Now, those signs are clearer and supported by a growing body of evidence.

Confidence appears to be greater among both buyers and sellers and, accordingly, more properties are coming to market. All the key metrics – the numbers of surveys and valuations, estate agent instructions, mortgage applications and enquiry numbers – are improving, and the latest month-on-month figures in all the main house price indices are showing increasing rates of growth.

In the rental market, the gulf between supply and demand isn't so wide as it was last year but it remains substantial, with tenants greatly outnumbering available homes. As a result, rental growth rates are expected to keep rising in 2024, albeit perhaps not at the same rate as last year. Nevertheless, with inflation falling, rental growth is still very likely to show real-terms growth throughout the year.

TO CONCLUDE:

- CPI inflation fell more quickly than expected in March.
- The Bank of England has signalled that cuts in the official base rate are now more likely than not. Economists expect the first of these to be made by the summer, perhaps followed by two more before the end of the year.
- This expectation is fuelling market confidence.
- Sales activity is increasing.
- House price indices show that average values are beginning to rise again.
- Rental demand remains strong.
- Rental stocks are less constrained than in previous quarters, though there remains a clear imbalance between supply and demand.
- Rental growth should continue to exceed CPI inflation.

If you have any questions about any aspect of property investment, please call us today.

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