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PROPERTY

Property Market Review : April 2024

In our market review for April 2024, we look back on noteworthy surveys and reports, significant policy decisions and other developments affecting the UK residential property sector.

Many sources continue to report an improvement in market confidence, which is partly driven by expectations of lower mortgage rates in the coming months. The Bank of England has signalled that the next move in the base rate will be downward, but it has offered no indication as to the timing.

In recent weeks, domestic and international economic reports have prompted a great deal of "will-they-won't-they" speculation on that same question. A recently reported fall in CPI inflation, coupled with weak economic growth, are arguments in favour of an early cut. But against that, the Bank must weigh inflationary risks arising from other factors, such as strong growth in average earnings, ongoing conflicts in the Middle East and continuing disruption to shipping through the Red Sea.

Nevertheless, buyers and sellers alike seem convinced that rates will eventually fall and, as a result, we're seeing increasing sales activity and a return to annual price growth. Of the indices shown below, most are now positive. Aside from ONS, whose figures relate to February, only Zoopla's annual rate remains negative. All others show average values rising again.

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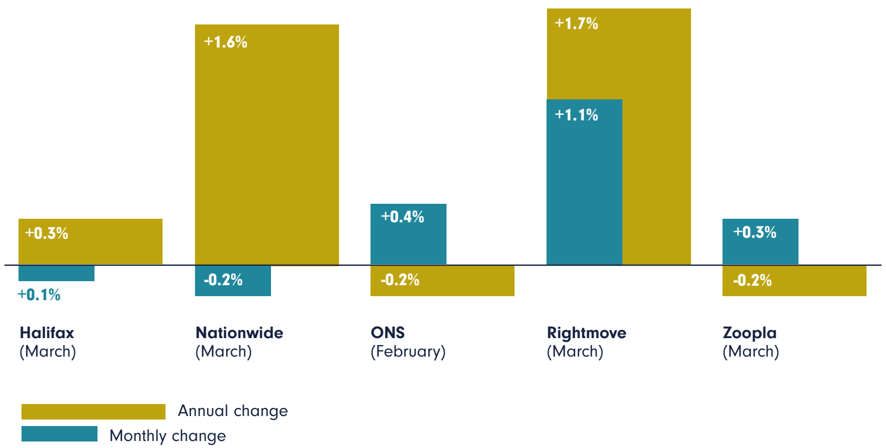
House Price Indices

The following organisations produced house price indices in recent weeks. (Percentages refer to capital growth rates.)



The first to come out was from Nationwide, which showed continuing improvements in year-on-year growth. Its quoted rate of +1.6% compares with +1.2% last month and with -3.1% at this same time last year. It marked the fastest rise since December 2022.

Declaring that "the market is brimming with renewed optimism," the Home Asking Price Index reports a return to month-on-month growth in all regions (a UK average of +0.9%) and a year-on-year gain of +0.8%.

Zoopla reports a small (+0.3%) monthly price gain, alongside a +12% annual upturn in sales volumes. It suggests that the market is "on track for 1.1m sales in 2024, up +10% on last year."

National and Regional Patterns

In April, the Land Registry published its UK House Price Index summary for February 2024. It showed the state-level pattern of annual price growth as follows:

Scotland	+2.9%	£188,000	£190,000 in January
Wales	+1.2%	£211,000	£213,000 in January
England	+1.1%	£298,000	£299,000 in January
Northern Ireland	+1.4%	£178,000	Q4 2023 figures

The Land Registry warns that the Scottish data could be misleading, because the index shows a comparison with February 2023, when prices were falling sharply. This 'baseline effect' suggests a stronger rate of growth than is probably accurate; in fact, average values in Scotland fell by -0.6% on a monthly basis.

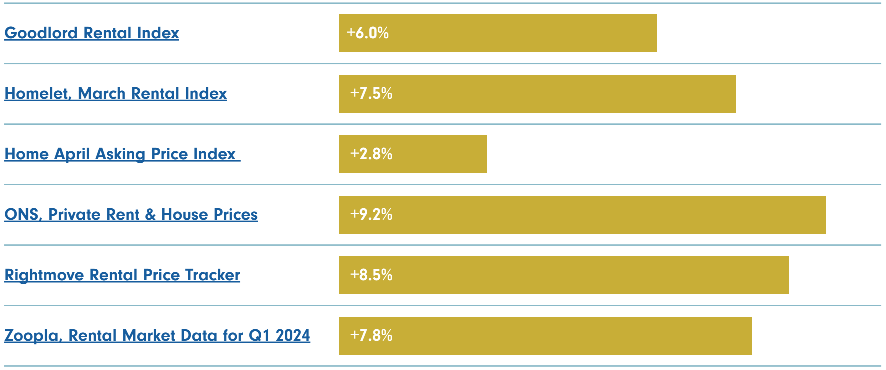
The Land Registry lists annual price changes in the English regions as follows:

North East	+2.9%	Up from -3.1%
North West	+1.4%	Up from +1.0%
Yorkshire & Humber	+0.2%	Up from -0.7%
South West	-0.4%	Up from -0.6%
East Midlands	-0.4%	Down from -1.9%
East of England	-1.6%	Up from -2.2%
South East	-2.1%	Up from -3.1%
West Midlands	-2.9%	Down from +0.6%
London	-4.8%	Down from -3.9%

Note that ONS and Land Registry figures lag behind other indices by at least a month and they will therefore be slower to register any improvement in values.

Rental Data

Shown below are the average rates of annual rental growth according to the UK's best-known rental indices.



One further result came from the Q1 Rental Index by SpareRoom, which found that average room rents rose by +9.0% year-on-year.

Rental Supply and Demand

At the start of April, Propertymark published its Housing Insight Report for February. It stated that the average number of new prospective tenants registered per member branch stood at 89. That's marginally down from the 97 recorded last month but, at the same time, the supply of rental stock fell by -26%. That means that in February, demand exceeded supply by a ratio of 10 to 1.

On 11 April, the Royal Institution of Chartered Surveyors published its latest UK Residential Survey. It found that although conditions have not been as frenetic as they were last year, demand is still outpacing supply and putting upward pressure on rental value. It wrote:

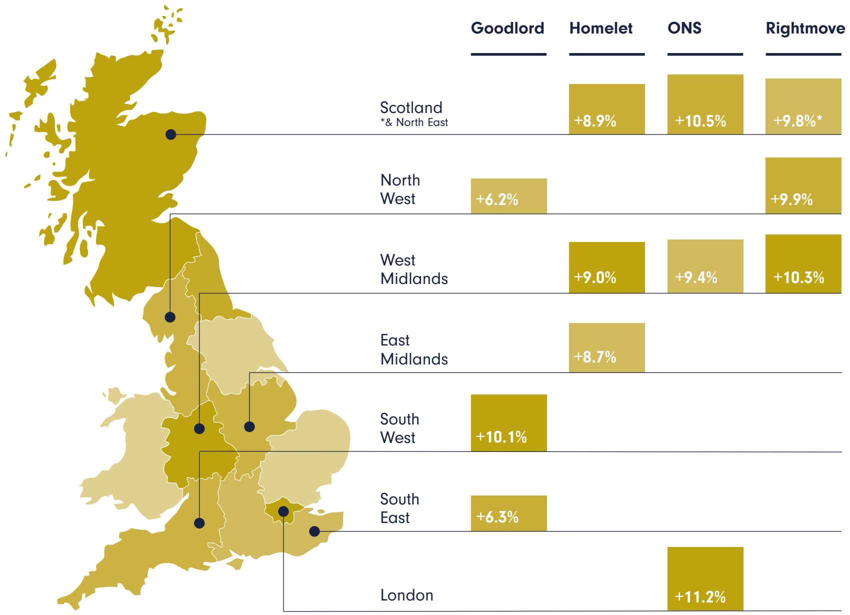
> "The aggregate gauge of tenant demand remains modestly positive at a net balance of +19% - marginally up on a reading of +16% last month. (However) the supply of rental properties becoming available remains restricted, as the landlord instructions indicator once again exhibits a weak net balance reading of -19%. Consequently, a net balance of +34% of contributors still expect rental prices to rise in the coming three months."

At the end of April, Rightmove reported that letting agents are seeing an average of 13 enquiries per rental property, which is nearly three times the ratio recorded in March 2019. It adds that supplies of rental stock are -29% where they were before the pandemic.

Moreover, research by Zero Deposit suggests that even that 13 to 1 ratio may be understating the imbalance because many properties are listed by landlords well ahead of their availability, sometimes by as much as three months or more. It concludes that less than half of available rental stock listed on the market today is immediately available to tenants. Consequently, the real ratio of tenants to available properties may be considerably higher.

Regional Variations in Rents

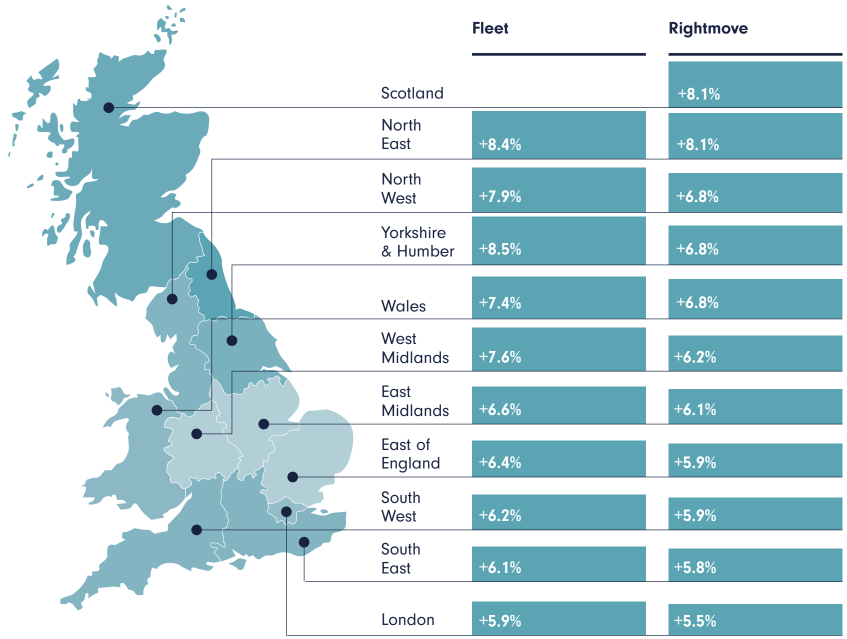
Different sources show different regional variations in rental growth. The following table lists the three best-performing regions by source. Figures in refer to year-on-year growth rates.



ONS reports substantial regional variations in annual rental returns, ranging from +11.2% in London, to +6.1% in the North East. SpareRoom lists the best-performing regions as Northern Ireland and the West Midlands (+11%), followed by the North West, Scotland and Wales (+10%).

Yields

According to the latest Rental Barometer from Fleet Mortgages, average yields have risen in virtually all parts of England and Wales on an annual basis. The one exception was the North East, where they dipped from 8.8% to a still impressive 8.4%.

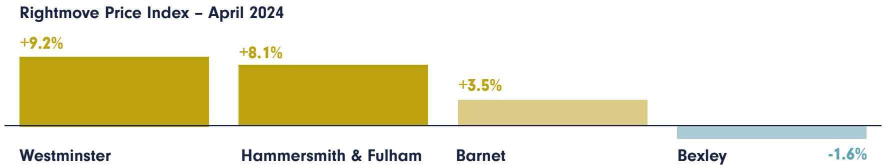


This still keeps it in second position overall, just a fraction behind the leading region, Yorkshire & Humber, which delivered average gross yields of 8.5%. The North West also performed well for investors, delivering 7.9%. Further south, yields were lower but still substantially ahead of inflation – even in the lowest yielding markets of the South West (6.2%), the South East (6.1%) and Greater London (5.9%).

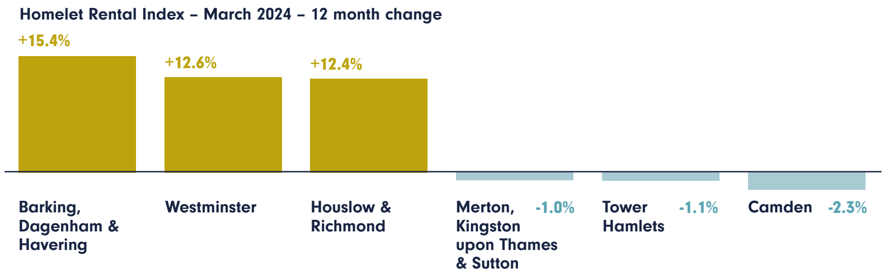
Rightmove's Rental Price Tracker for Q1 2024 also indicates inflation-beating returns in all regions. At the head of its table are Scotland and the North East, both of which have delivered average yields of 8.1%, followed by the North West, Yorkshire & Humber and Wales, all yielding 6.8%.

Prime Central London

Rightmove's April price index includes a feature on London boroughs. It notes that, on an annual basis, asking prices grew most strongly in Westminster (+9.2%), followed by Hammersmith & Fulham (+8.1%). Those, however, were outliers. In other boroughs, the change in values ranged from +3.5% in Barnet to a fall of -1.6% in Bexley. Most PCL markets saw small gains, but below the current level of inflation.



The 'London Focus' section of [Homelet's March Rental Index]() ranks the individual boroughs in terms of rental growth. It notes that "following four months of falls, average rents across London rose in March. The monthly increase means the annual rate of growth has also started to increase again," rising by +6.2% year-on-year. It adds that the strongest performer was Barking, Dagenham and Havering, where rents rose by +15.4% over the last 12 months. Other leaders included Westminster (+12.6%) and Hounslow and Richmond (+12.4%). Declines were only seen in three districts: Merton, Kingston upon Thames and Sutton (-1.0%), Tower Hamlets (-1.1%) and Camden (-2.3%). Over the last five years, rents have grown most strongly in Westminster (+59.6%).



We will provide a more detailed analysis of the Prime Central London market in our Q2 Quarterly Market Report.

Average Earnings

On 16th April, ONS published its latest data on [average UK earnings](). It reported that although the rates of unemployment and economic inactivity had risen slightly, year-on-year, those that were in employment had seen strong, above-inflation growth in average earnings. It stated that:

> "Annual growth in employees' average regular earnings (excluding bonuses) in Great Britain was 6.0% in December 2023 to February 2024, and annual growth in total earnings (including bonuses) was 5.6%."

Adjusting for inflation, that means that real-terms earnings have grown by +1.9% (regular pay) and by +1.6% (total pay).

Inflation and Interest Rates

On 2nd April, the British Retail Consortium announced that Shop Price annual inflation had fallen from 2.5% in February to 1.3% in March, reaching its lowest rate since December 2021. It added that "Non-Food inflation fell to 0.2% in March, down from 1.3% in the preceding month." This was below the three-month average rate of 0.9%, and is now at its lowest rate since January 2022.

With respect to food prices, BRC wrote that "Food inflation decelerated to 3.7% in March, down from 5.0% in February. This is below the three-month average rate of 4.8% and is the tenth consecutive deceleration in the food category. Inflation is its lowest since April 2022." Many commentators have taken this as evidence that the UK is finally winning its battle against inflation and, consequently, that a cut to the base rate of lending may happen sooner rather than later.

On 17th April, official figures from ONS showed that the Consumer Prices Index had fallen again, from 3.4% last month to 3.2%. The drop wasn't perhaps as great as some forecasters had predicted and it means that inflation is still above the Bank of England's 2% target. That, together with strong wage growth and high interest rate policies elsewhere in the world, puts pressure on the Monetary Policy Committee to leave the official Bank rate where it stands. On the other hand, employment statistics have recently shown a weakening labour market and the UK is still showing slow economic growth, so there are pressures in the opposite direction too.

On Friday 19th April, the Bank's deputy governor Dave Ramsden suggested that inflation was on course to fall to its 2% target sooner than the MPC had previously forecast. He also expressed the view that inflation could stay "close to the 2% target over the whole (three-year) forecast period." A widespread view within the market is that the MPC will make it first rate-cut in or around August, with two further cuts to follow before the end of the year.

The MPC will make its next decision on 9th May.

Summary

April brought no big surprises for investors but the news was generally good. Since the September 2022 mini-budget, a combination of high inflation and high interest rates had been acting to strain household incomes and dampen confidence in the market. However, inflation has fallen dramatically from its previous highs and most economic indicators point to an eventual reduction in interest rates. What's more, average earnings have stayed well ahead of inflation, so many of the affordability pressures that were working against investors are now in retreat. As a result, the outlook is improving.

- CPI inflation looks set to continue on its gradual downward track, and could hit the Bank of England's 2% target this quarter.
- A reduction in the official Bank rate is looking increasingly likely.
- Market confidence has been growing.
- So too have sales volumes and new instructions from sellers.
- Most indices show that house prices are rising steadily again.
- There remains a North/South divide, with northern markets seeing the strongest price growth, but some indices suggest that the gap is now beginning to close.
- Rental returns in most regions are still very good.
- In most cases, the more affordable regions are tending to produce the best yields.
- Yields generally have been rising, even in the poorest-performing markets.
- Average earnings are still rising faster than inflation, easing cost-of-living pressures.

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

TO FIND OUT MORE,
PLEASE CONTACT US TODAY

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