RESIDENTIAL RESEARCH | 2024

MIDTOWN, CITY & EAST LONDON

HURFORD SALVI CARR

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AUTUMN BUDGET PUTS OPTIMISM ON HOLD

HURFORD SALVI CARR

FRONT COVER - The Elizabeth Line, winner of RIBA Stirling Prize 2024, designed by Grimshaw, Maynard, Equation and AtkinsRéalis

MARKET OVERVIEW

POST ELECTION SLOWDOWN

There was a sense of rising optimism in the early months of 2024 as it became increasingly clear that there would be a change of government and, at the same time, there were widespread hopes of a cut in interest rates as inflation began its downward trajectory. Interest rates are a key driver of activity in the housing market for those who are borrowing but also for cash buyers who have money on deposit.

The election result came as little surprise but the long lead time that ensued between election victory and the budget on the 30th October incubated fears about tax rises and inflationary pressures. That meant that the market remained subdued for the critical early Autumn period and activity levels did not recover by the year end.

The new government took office in July after 14 years, with a determination to grow the economy and to tackle the deeply entrenched housing crisis in the UK. It is an ambitious target to deliver 1.5 million new homes during its first parliament. That would mean doubling the rate of new homes construction achieved this year - and for each of the next 5 years - and reaching volumes of delivery not seen in the last 40 years. Despite widespread scepticism as to whether it is a remotely realistic target, most people do support the aspiration in principle.

They began by announcing an intention to reform the planning system, streamlining the process of securing planning consents and identifying 'new town' locations for fast-track delivery. Other key objectives are to boost the involvement of SME builders, review the green belt and improve pathways for public and private sector collaboration.

CANARY WHARF E14 – 1 BEDROOM FLAT, LET JULY 2024, £2,775 PER MONTH

Matthew Pennycook, the new Housing Minister, is a highly respected figure who seems to have a thorough understanding of the housing market but he comes to the job with challenges on multiple fronts: interest rates remain relatively high; there are not enough construction workers; we can expect resistance from local communities; there are many competing demands on limited government funds; the need to retrofit existing homes to raise energy efficiency and the enormous elephant in the room for any urban market like ours: the cost of fire safety remediation.

The Autumn budget at the end of October vowed to raise £40bn of taxes through increases to inheritance tax and stamp duty, among other measures. Capital gains tax remained unchanged for property - a welcome reprieve for investors but the Stamp Duty surcharge on additional homes was raised from 3% to 5%. This will undoubtedly affect the future supply of rental properties. And there was no reprieve for first time buyers on stamp duty - the concession on stamp duty thresholds will expire in April 2025 as planned. That will increase the transaction costs for first time buyers. Otherwise, there was little in the budget to directly impact the housing market. Now the industry awaits the promised publication of a housing strategy in spring 2025.

The main consequence of all this for our markets is the loss of investors. Existing owners are exiting the market in growing numbers because of the burden of anti-landlord regulation and they are not being replaced by a new generation of investor buyers. While that could, in theory, leave the door open for first time buyers, today's first time buyer is more likely to leap-frog the one-bed stage, opting instead for a two bed with space to work from home – and which is a longer term proposition, (avoiding the transaction costs of successive moves).

During 2024, a large number of one bedroom apartments were listed for sale, which resulted in a fall in values for smaller entry level homes. The most resilient part of our market has been for best-in-class houses and larger apartments. These remain in demand and in short supply. Prices have crept upwards as a result.

Service charges, which have been rising steadily over the past 3 years, are now a major cost consideration for buyers, sellers and landlords. A report by The Property Institute showed that they have risen by 41% over the past 3 years (49% for buildings 18m+), driven by increases in building insurance and additional fire safety checks, higher utility costs and inflation on services provided to residents at apartment blocks.

At the end of November, the government confirmed that they would progress the Leasehold and Freehold Reform Act in 2025 to grant leaseholders greater rights, protections and controls over their homes. At the same time they announced an intention to bring forward commonhold for new apartments to replace leasehold.

By the end of the 2024, average sale prices in our markets were down by 1%, wiping out the 2% gains we reported in our half year research. The rental market had another good year, with rents holding firm, albeit at 2023 levels. This stability is likely to be disrupted in 2025 if the government goes through with the Renters Rights Act (as planned). We fully expect the additional risks for investors to translate into higher rents for tenants.

ECONOMIC OVERVIEW

INTEREST RATES FALL

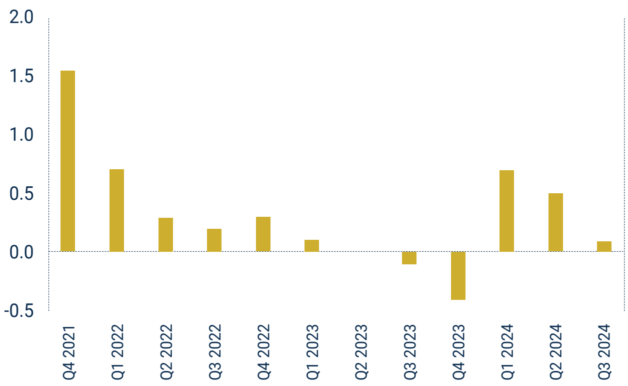
The new government came to power in the summer with a bold commitment to driving economic growth. It is much too soon to judge them on the success of that ambition but what is already clear is that it will not be an easy-win. Very quickly, they announced the discovery of a fiscal black-hole that would need to be filled and before the year was out. There were noisy protests from farmers arguing against the loss of inheritance tax relief on agricultural land and discontented rumblings from businesses that rely on large numbers of relatively low-paid workers – particularly retail, hospitality and care-work – because of the increase in employers' national insurance and the raising of the Living Wage – both announced in the Autumn Budget.

LIMEHOUSE E14 – 1 BEDROOM FLAT, SOLD SEPTEMBER 2024, £485,000

The Autumn Budget unsettled business more generally. Despite generous commitments to spending on the NHS, infrastructure projects and affordable housing, there is concern that it was not a 'business-friendly' budget. The composite PMI index, a measure of the health of the UK's manufacturing and services sectors produced by S&P Global, dipped below 50 in November, its lowest level for over a year, signifying a loss of confidence and reports of worsening conditions. At around the same time, the October consumer spending figures were disappointing.

FIGURE 1

REAL GDP
QUARTERLY GROWTH RATE



Source: Dataloft by PriceHubble, ONS

On the other hand, the GfK consumer confidence index, a measure of how people view their personal finances and economic prospects, rose in November, suggesting that the public had been reassured by a government that kept to its manifesto promise not to raise taxes and by the confirmation of another interest rate cut hot on the heels of the budget – the second of the year.

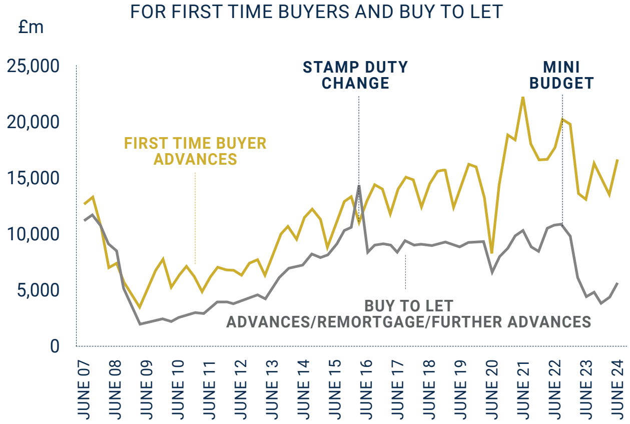
Plans to spend and invest will ultimately boost GDP and create jobs over the medium to long term, but not necessarily in the short term (although the pledge to complete the HS2 link from Old Oak to Euston will no doubt be a boon to Midtown). A series of spending reviews will reveal more details in the months to come, along with more on the industrial strategy, devolution and planning reform – all of which are designed to boost economic growth. Of course, economic growth will poke the embers of inflation.

Inflation ticked upwards in October to 2.3% but remains well within the guard-rails and, although interest rates did not deliver the steep fall many had hoped for, they are moving in the right direction.

It felt like a long wait for the first interest rate cut in August and, although it was followed by a second in November taking the rate to 4.75%, progress has been measured and cautious and no further cuts are expected before 2025. Before the budget, forecasters were predicting 3.5% by the end of 2025, but that now seems to be in doubt especially if inflation creeps upwards.

FIGURE 2

MORTGAGE TRENDS
FOR FIRST TIME BUYERS AND BUY TO LET



Source: Dataloft by PriceHubble, ONS

Mortgage rates eased significantly during 2024. The 5 year fixed rate, which peaked at 5.7% in July 2023, was down to 4.1% by November 2024. This is broadly in line with the swap rate which has remained at around 4% for some time now and suggests that the new norm for mortgages could settle around there.

The budget measure with most direct bearing on the housing market was the extra 2% added to the stamp duty surcharge on additional homes – taking it to 5%. The Chancellor announced; an increase from 3% to 5% in the higher rate of SDLT payable on the purchase of additional properties by individuals ("the additional dwellings surcharge") and an increase from 15% to 17% in the higher rate of SDLT payable by companies and other "non-natural persons" purchasing qualifying residential property not used for commercial purposes.

WHITECHAPEL E1 – 1 BEDROOM FLAT, LET JULY 2024, £2,695 PER MONTH

While this no doubt achieves the policy objective of freeing up properties for owner occupiers, it is yet another disincentive to investors who have virtually disappeared from our markets. Stamp duty tax falls most heavily in areas with high values meaning that London and the South East are most affected.

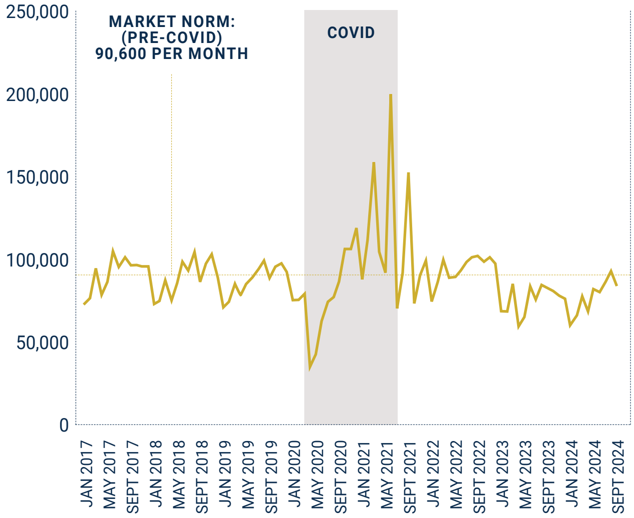
This comes on top of the imminent loss of stamp duty relief for first time buyers, which will expire on 31st March 2025. While it will add to the cost for the buyer, it is likely to put downward pressure on prices in our markets. The applicable SDLT rates from 1 April 2025 will be as follows. SDLT nil-rate threshold – will return to the previous level of £125,000 (currently £250,000). SDLT nil-rate threshold for first-time buyers – will return to the previous level of £300,000 (currently £425,000).

The much anticipated increases to Capital Gains Tax on second homes did not materialise in the budget however. The Chancellor's decision to keep rates at 18% for basic rate taxpayers and 24% for higher rate taxpayers offered some relief – good news for long term owners but a tax on capital gains is of little significance to anyone who bought within the last decade in our markets, since there have been no material capital gains to tax.

Across the country as a whole, there has been some price growth and activity levels for mortgage lending and transactions returned to a pre-Covid trend. The time from offer to completion has become much longer in recent years which creates more risk of fall-throughs and means there are lags in the reporting data at Land Registry.

FIGURE 3

TRANSACTIONS : ENGLAND AND WALES
MONTHLY TRANSACTIONS (NOT SEASONALLY ADJUSTED)



Source: Dataloft by PriceHubble, HMRC

The post-budget consensus forecasts were revised only marginally upwards for GDP, and were also adjusted slightly upwards for interest rates and inflation. However, there were significant uplifts in the forecasts for house prices and wages. Wage growth is, of course, the primary driver of rental growth but in this case, the wages growth is more likely to be playing 'catch up'. For the year ahead, the primary driver of rental growth is most likely to be the continued reduction of stock as investors exit the market.

TABLE 1

CONSENSUS FORECASTS 2024 - 2025

	2024	2025
GDP (ANNUAL GROWTH)	0.9%	1.3%
INTEREST RATES (LEVEL IN Q4)	4.75%	3.8%
INFLATION (Q4 ON Q4 YEAR AGO)	2.4%	2.3%
EARNINGS GROWTH (Q4 ON Q4 YEAR AGO)	4.7%	3.4%
HOUSE PRICES (Q4 ON Q4 YEAR AGO)	2.8%	2.2%

Source: Dataloft by Price Hubble. HM Treasury Forecasts, November 2024

SALES MARKET

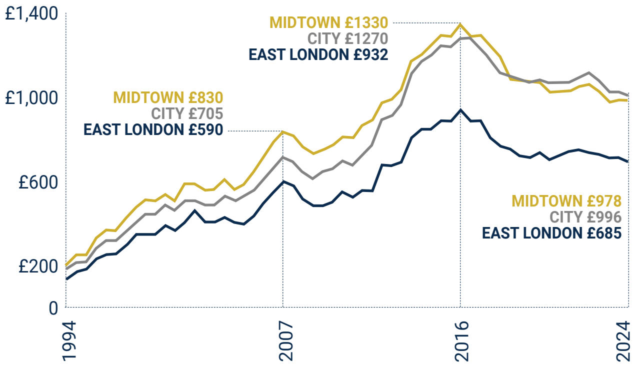
SERVICE CHARGES INCREASE

The price of owning a piece of residential real estate in Central London, one the world's great global cities, remains stagnant, in fact it is marginally lower than it was 6 months ago and obstinately clawing on to 2013 prices. A decade ago, this would have been hard to envisage but successive policy interventions have suffocated price growth.

The shape of the line on the one-bed price tracker (fig 4), clearly shows the impact of fiscal policy with a peak in 2016 ahead of the deadline for SDLT additional homes surcharge, followed by a steady drift downwards as demand from investors ebbed away. In the Autumn 2024 budget, the Chancellor imposed a further 2% on the additional homes surcharge. This is an added deterrent to buy homes in the capital for pied a terre and investment buyers at a time when many landlords are looking to exit the market. The top rate of SDLT for overseas buyers is now 19% which will hit new homes and top end sales.

FIGURE 4

PRICE TRACKER £PSF OF A ONE BEDROOM APARTMENT IN THE CITY, MIDTOWN AND EAST LONDON, 1994 - 2024



Data based on the value of a 500 sq ft, one bed apartment in the re-sale market
Source: Hurford Salvi Carr

After having a relatively strong start to 2024, the sales market slowed in the second half of the year. A number of things contributed to the loss of buyer confidence: concerns over higher taxes trailed ahead of the budget; an oversupply of smaller one and two-bedroom rental flats and the level of service charges in apartment blocks.

CLERKENWELL EC1 – 3 BEDROOM PENTHOUSE, SOLD AUGUST 2024, £2,900,000

Today, 40% of the apartments for sale in our markets are rental investments. In general, these homes do not present well because renters have little motivation to speed up the sales process. For this reason, they often sell at a discount to owner occupier listings as buyers set aside budget to refurbish. Landlords who fail to recognise the importance of preparing a property for sale, continue to lose out financially.

London offers strategic advantages of political stability and military defensiveness – which look precarious in many other parts of the world. We remain hopeful that London's long-standing 'safe haven' status will attract new money again in future and current owners will reap the rewards. Changes to non-dom status, present an additional threat in the immediate future.

High service charges and new fire safety requirements in apartment blocks are now major considerations for buyers and sellers. Service charges have been affected by increases in insurance costs, utilities, fire safety works and general maintenance. They have reached a level where they deter buyers

TABLE 2

PRICES AND ANNUAL GROWTH FOR ONE BEDROOM APARTMENTS IN THE RESALE MARKET AT YEAR END : AVERAGE FOR MIDTOWN, CITY & EAST LONDON

YEAR	ANNUAL PRICE CHANGE %	MARKET VALUE £	ANNUAL CHANGE IN VALUE £
1998	N/A	150,000	N/A
1999	26%	189,000	39,000
2000	11%	210,000	21,000
2001	10%	230,000	20,000
2002	13%	260,000	30,000
2003	-8%	245,000	-15,000
2004	0%	246,000	1,000
2005	10%	270,000	24,000
2006	26%	340,000	70,000
2007	9%	371,000	31,000
2008	-15%	318,000	-53,000
2009	8%	338,000	20,000
2010	4%	351,000	13,000
2011	10%	386,000	35,000
2012	5%	405000	19,000
2013	20%	486000	81,000
2014	8%	520,000	34,000
2015	6%	550,000	30,000
2016	1%	555,000	5,000
2017	-4.5%	530,000	-25,000
2018	-8.5%	485,000	-45,000
2019	-2.1%	475,000	-10,000
2020	-3.2%	460,000	-15,000
2021	1.1%	465,000	5,000
2022	1.1%	470000	5,000
2023	-5.3%	445,000	-25,000
2024	-2.2%	435,000	-10,000

Source: Hurford Salvi Carr

because they add so much to the monthly outgoings and reduce the capacity to borrow for a mortgage. See summary of the Property Institute report on service charges below.

While fire safety costs are a component of the increased service charges, the bigger issue is that there are still thousands of apartments without a valid EWS1 certificate that have become effectively unsaleable. There is more detail on this issue on page 7.

CITY EC1 – 2 BEDROOM FLAT, SOLD OCTOBER 2024, £800,000

Some of the issues around service charge transparency will be addressed by The Leasehold and Freehold Reform Act which will be fast-tracked in 2025. It will enable more leaseholders to buy their freehold or extend their lease without waiting two years from the point of purchase. It will also allow homeowners to take over the management of their building, to ensure they have more transparency on costs and can challenge unfair service charges.

The government is committed to abolishing leasehold and that commonhold will become the default tenure but this was not included in the Leasehold and Freehold Reform Act introduced by the Conservative government in 2024. It has been reported that a group of major freeholders are bringing a legal challenge under the Human Rights Act over proposed changes to the calculation used to compensate landowners when leases are extended.

The average price of a one bed apartment today is £435,000, having lost around £10,000 in value (2.2%) over 2024.

Sales are now taking an average of 4-5 months to reach exchange of contracts, even when buyers are not in chains. As a result, more sales are falling through. More buyers and sellers are complaining about their own and the other party's solicitors, blaming them for delays in providing the information required for sales to proceed.

SERVICE CHARGE INDEX

For the first time, The Property Institute published a report on service charge data. The report sets out how costs have risen in the period from 2019 to 2024 and the breakdown by expenditure category. While there is no regional breakdown (it is planned for future reports), it is a useful guide to explaining the steep increases we have reported in our markets.

The data was compiled in March 2024 and is based on data reported for 13,754 homes in 108 estates. Just under half (46%) were over 18m with the balance fairly evenly split between 11-18m and under 11m in height. A fifth of them (22%) were said to be 'awaiting remediation work'.

Key Findings

- Annual service charges have increased, on average, by 41% in the five years from 2019 to 2024.
- Cumulative inflation over the same period was 21%.
- The average increase in the last 12 months, was 3%.
- The five-year increase was greatest for tall buildings (over 18m) at 49%.
- Buildings insurance costs have risen by 92% over the 5 years for tall buildings (69% for buildings below 18m). In 2024, buildings insurance accounted for around 16% of the service charge.
- The biggest cost element was 'on-site staff' accounting for 25% of the service charge on average – but these had only risen by 37% over the 5 years – still significantly above inflation.
- Utilities – a cost that is known to have been punitive in recent years, have increased by 73% over the 5 years although they have fallen by 15% in the past 12 months. Overall they account for 11% of the service charge.
- Management fees appeared reasonable, having risen in line with inflation by 21% and accounting for only 6% of the total costs.

Midtown has been our most resilient market this year. Here, apartments did not lose value and for larger apartments, prices actually grew by 3%. In all three markets, larger properties have held their value and the price falls of between 1% and 3% have been for smaller one and two bed properties in the City and East London. Overall, the picture is one of low transaction volumes and modest price change. The market continues to focus on houses and larger apartments.

TABLE 3

PRICES & PRICE CHANGES FOR
1,2 & 3 BEDROOM APARTMENTS
IN THE RESALE MARKET AT YEAR END 2024

	£ 2022	£ 2023	£ 2024	£ PER SQ FT	CHANGE 23-24
MIDTOWN					
1 BED	530,000	520,000	520,000	1,040	0%
2 BED	875,000	840,000	840,000	1,120	0%
3 BED	1,750,000	1,700,000	1,750,000	1,167	3%
CITY					
1 BED	530,000	510,000	500,000	1,000	-2%
2 BED	790,000	760,000	750,000	1,000	-1%
3 BED	1,500,000	1,500,000	1,500,000	1,000	0%
EAST LONDON					
1 BED	390,000	360,000	350,000	700	-3%
2 BED	540,000	510,000	500,000	667	-2%
3 BED	975,000	925,000	925,000	617	0%

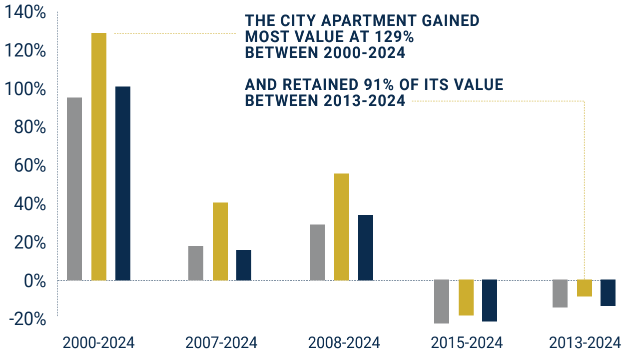
1 bed is 500 sq ft, 2 bed is 750 sq ft with 2 baths, 3 bed is 1,500 sq ft
Source: Hurford Salvi Carr

Still for anyone who bought in the noughties or earlier, there are capital gains to be realised from homes in our markets and that is partly what drives landlords to exit. A property bought in the mid 1990s, has more than quadrupled in value and even one purchased around the turn of the millennium will have doubled. Those who bought in 2015 or 2016 have been most burnt by capital value losses but if they had bought as a rent producing investment then the uplift in rental values will have compensated for the capital reductions (see page 11 for long term rental value trends).

SHOREDITCH N1 – 1 BEDROOM LOFT, SOLD SEPTEMBER 2024, £825,000

FIGURE 5

LONG RUN PRICE CHANGES
FOR A ONE BEDROOM APARTMENT IN THE RESALE MARKET



Source: Hurford Salvi Carr

New Homes

New home building has declined dramatically in our markets. In 2024 planning permissions were 14% below 2023 levels. Higher costs of borrowing and construction, combined with softer buyer demand and the removal of the Help to Buy scheme, have all contributed to undermine development viability and cause this slowdown.

The OBR forecast that the government will struggle to meet its 1.5 million new homes target came as no surprise. Since the extension of Permitted Development Rights in 2013, which was designed to allow change of use from office, light industrial and retail into residential, the inner London authorities have chosen to protect employment uses by banning Permitted Development Rights in their boroughs.

Before 2013 office and warehouse conversions were common-place in Islington, Camden, Hackney, Tower Hamlets and Southwark and they continue to be popular with buyers and renters. The fundamental change in working patterns since the pandemic, seems to be a golden opportunity to re-purpose commercial space as residential to encourage inward investment and create thriving mixed use communities.

According to JLL, 21 million sq ft of office space is vacant in London, enough to create up to 42,000 new flats. London workers spend an average of 2.7 days a week in the office. Around Aldgate on the eastern edge of the City of London, 25% of the office space is vacant and in Canary Wharf it is 16% not including leases due to expire in a number of the towers over the next 5 years.

FIRE SAFETY UPDATE

It has been over seven years since the fire at Grenfell Tower. The disaster exposed nationwide fire risks that trapped 700,000 people living in dangerous buildings and almost 3 million with flats they could not sell.

As of August 2024, 4,771 buildings were within the MHCLG's remediation portfolio, but with an estimated total of 9,000 – 12,000 buildings requiring remediation. Of the 4,771 buildings earmarked for remediation only 1,392 have had remedial works completed and a further 985 schemes have started.

The introduction of legislation such as the Building Safety Act 2022 was intended to ensure buildings were built safely. The Building Safety Act also gave leaseholders and the new Building Safety Regulator additional powers to act on unsafe buildings but the thousands of buildings await remediation work and leaseholders remain trapped unable to sell their homes.

The number on the register continues to grow with the new government regulations requiring the registration of high-rise buildings with the appropriate regulator and the completion of a Safety Case is required for each block. Government numbers do not include buildings below 11m in height that require safety works.

The current version of Building Safety Fund (BSF) was introduced in June 2020 for buildings over 18 metres in height. The BSF is intended to protect leaseholders from having to pay large bills by providing funding to fix fire safety problems. The Cladding Safety Scheme (CSS) began in July 2023 and expands funding for these fire safety problems to buildings between 11 metres and 18 metres in height.

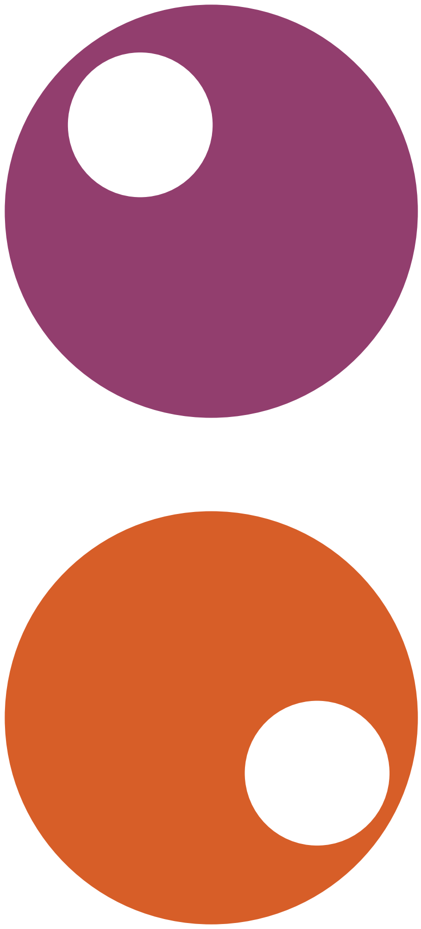
Applications to the BSF and the CSS are complex and time consuming. There are multiple stages to the applications, and it is taking years of surveys and programmes before any works commence on a building. Stripping dangerous cladding from 9,000 to 12,000 buildings over 11m in England could cost between £12.6 billion and £22.4 billion — with a best estimate of £16.6 billion, according to current modelling by the housing ministry under Angela Rayner.

Thousands of buildings are awaiting works with both government and developers claiming that they are setting aside funds for the works, but in 2024 there was little sign of works commencing on buildings across our area.

In December the government announced that all buildings over 18m with unsafe cladding registered with the government scheme will have been fixed by 2029 and that buildings over 11m tall will either have to be remediated or have a date for completion by 2029. A report by the National Audit Office published in November found that fixing all flats with flammable cladding will take until 2037 — 20 years after the Grenfell Tower fire — and is likely to cost £16.6 billion. As part of the Governments Remediation Acceleration Plan, developers must commit to make every effort to assess all their buildings by the end of July 2025, start or complete remedial works on 80% of their buildings by the end of July 2026 and start or complete remedial work on all their buildings by the end of July 2027.

In response to the findings of the Grenfell inquiry, investment to fix fire-risk flats will rise to £1 billion next year. The Treasury says this includes new investment to speed up remediation of social housing, which had very little taxpayers' support to date. However, it is not clear how much of the £1 billion is newly found. The previous government promised £9 billion to fix blocks, but just a quarter of that has been spent, including £501 million over the past year.

NO TWO SPACES ARE THE SAME



WHAT’S YOUR SPACE WORTH?

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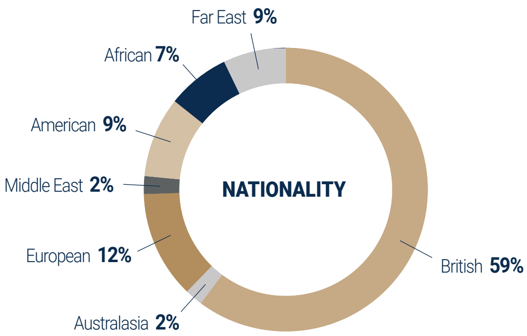
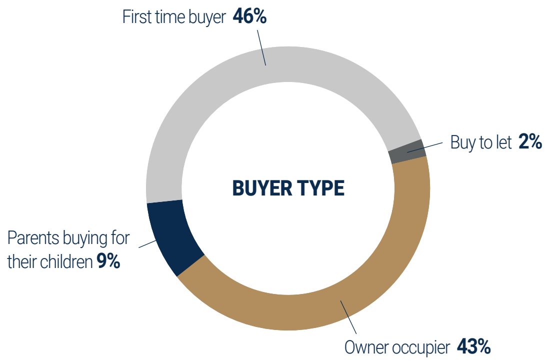
SALES MARKET

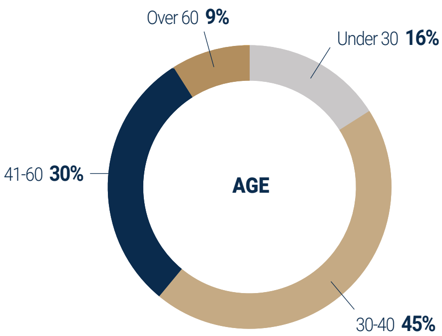
BUYER PROFILES 2024

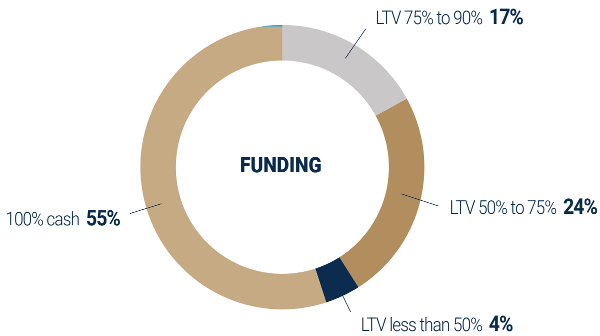




The notable addition to the range of nationalities buying property in our markets this year was Africa. For the first time we have added a category to our pie chart to represent the 7% of buyers who originated from that continent. The most notable decline was in the proportion of buyers hailing from European countries. Only 12% of our buyers were from Europe this year, compared to a long term average of 16% and over 20% in 2022 and 2023. We do not always have a clear explanation for these trends but the widely reported rise in students from Nigeria studying in the UK is likely to be one explanation. US buyers have also been more prominent in 2024 than recently. We were pleased to see the return of Far East buyers after being absent in the first half of the year.

The most striking thing about the buyer intention data for 2024 is the almost total disappearance of the investor (buy to let) buyer. This year they accounted for only 2% of transactions compared to a long term average of 16%. Similarly, we did not sell any properties as a pied a terre. The long term average for the pied a terre purchase, is 8%. The vast majority of purchasers were in the category of owner occupier or first time buyer. It is the first time buyer category that has taken up the slack – accounting for 21% as a long term average (over 10 years) and 46% in 2024. We should note that these are percentages, and there have been fewer transactions this year, so it is 46% of a smaller total than in previous years.





Buyers in their 30s have consistently been the dominant age group in our markets since we began collecting this data but their dominance has grown in 2024. The proportion of buyers in their 30s nudged up to 45% over 2024, with a corresponding reduction of buyers in their 40s (30% against a long term average of 37%). We note elsewhere in this report that first time buyers are tending to buy larger properties than in the past, with space to work from home and which can make a suitable home for longer. This trend fits the buyer profile – with the 40-somethings a little less active in the market.

More than half of all purchases in 2024, were funded entirely with cash. The proportion of cash buyers has been rising steadily in recent years and is now well above the long-term average of 35%. Conversely, the proportion borrowing more than 50% of the value of a property has fallen from a long term average of 52%, down to 41% of buyers this year. These trends are the more surprising because the majority are not investors or pied a terre buyers, instead they are first tine buyers and owner occupiers – and more than half have the resources to be cash buyers and 83% borrowed less than 50% of the purchase price.

LETTINGS MARKET

CONCERNS OVER RENTERS RIGHTS BILL

Rental values have stabilised after a period of steep growth between 2020 and 2023. The growth, which initially compensated for the Covid-related drop in rental values, has far exceeded previous rental highs – in fact rents have settled at their highest ever level. There was the usual seasonal pattern with rents peaking in summer and early autumn and then settling back in the final months of the year.

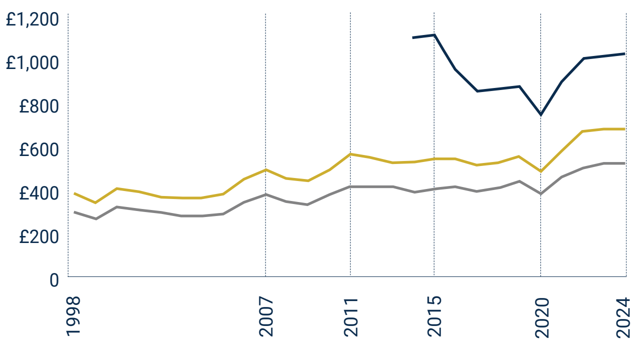
Over the long term, wage growth is the strongest determinant of rental growth but short term imbalances of supply and demand have driven rents up across much of the UK and certainly in our markets. However, we repeat a point we emphasise in all our reports: most renters are not committed for more than 12 months at a time and they can go back into the market with lower budgets, or recalibrated priorities every year. In other words, they can turn to areas with lower values, or they can consider a compromise on size or specification. This means that rental values eventually hit an affordability ceiling.

In the period of very strong growth, renters were reluctant to relinquish an existing tenancy because there were so few options in the open market. Today, the intense competition to rent has abated and with it, the pressure on rents. Of course, if the number of landlords deciding to sell continues, we can only assume that it will remain difficult to find alternatives and the new higher rent levels will be maintained.

In the past eight years, 106,000 build-to-rent homes have been built in the UK and build-to-rent accounts for about 2.5 per cent of the 4.6 million homes in the private rented sector. In London, just over 50,000 homes have been built and there is about the same number again in the planning pipeline – 13,000 under construction and 36,000 with planning consent. This large-scale build to rent stock, often with onsite facilities, is going some way to replacing the individual homes that are being lost from the private rental sector.

FIGURE 6

WEEKLY RENTS FOR 1, 2 AND 3 BEDROOM APARTMENTS
MIDTOWN, CITY & EAST LONDON



1 bed is 500 sq ft, 2 bed is 750 sq ft with 2 baths, 3 bed is 1,500 sq ft

Source: Hurford Salvi Carr

As in the sales market, larger properties have outperformed this year with modest rental growth of around 2% for 3 bed apartments in the City and Midtown, compared to no change for 1 and 2 beds.

TABLE 4

WEEKLY RENTS FOR 1, 2 & 3 BEDROOM APARTMENTS
IN MIDTOWN, CITY & EAST LONDON AT YEAR END 2024

	£ 2019	£ 2020	£ 2021	£ 2022	£ 2023	£ 2024	% CHANGE 2023 -2024
MIDTOWN							
1 BED	500	450	550	600	620	620	0%
2 BED	680	575	700	775	800	800	0%
3 BED	1,100	875	1,100	1,200	1,250	1,275	2%
CITY							
1 BED	490	390	510	550	575	575	0%
2 BED	600	500	650	750	750	750	0%
3 BED	975	800	1,000	1,100	1,100	1,125	2%
EAST LONDON							
1 BED	350	325	350	400	425	425	0%
2 BED	440	400	450	525	550	550	0%
3 BED	575	540	600	700	700	700	0%

1 bed is 500 sq ft, 2 bed is 750 sq ft with 2 baths, 3 bed is 1,500 sq ft
Source: Hurford Salvi Carr

A single renter wanting to live in Midtown will need to find over £32,000 from their annual net income to rent an average sized one bed apartment. The discount for moving eastwards is substantial. Obviously, the economics for a couple sharing the costs are very different and with a central location, working from the office is an easy option. We believe the growing trend for companies to mandate more office-based days, will underwrite demand for centrally-located apartments.

Fears over the loss of workplace culture and continuous learning have fuelled the drive for more in-office work. Companies are recognising the importance of an attractive working environment that encourages collaboration and social interaction for those precious days in the office. Office space

TABLE 5

ANNUAL RENTS FOR 1, 2 & 3 BEDROOM APARTMENTS
IN MIDTOWN, CITY & EAST LONDON AT YEAR END 2024

	WEEKLY RENT £	SQ FT	TOTAL RENT PAYABLE P.A. £	RENT PSF £
MIDTOWN				
1 BED	620	500	£32,240	£64
2 BED	800	750	£41,600	£55
3 BED	1275	1500	£66,300	£44
CITY				
1 BED	575	500	£29,900	£60
2 BED	750	750	£39,000	£52
3 BED	1125	1500	£58,500	£39
EAST LONDON				
1 BED	425	500	£22,100	£44
2 BED	550	750	£28,600	£38
3 BED	700	1500	£36,400	£24

1 bed is 500 sq ft, 2 bed is 750 sq ft with 2 baths, 3 bed is 1,500 sq ft
Source: Hurford Salvi Carr

providers report a polarisation of demand with stiff competition for high specification space but virtually no demand for poor quality offices.

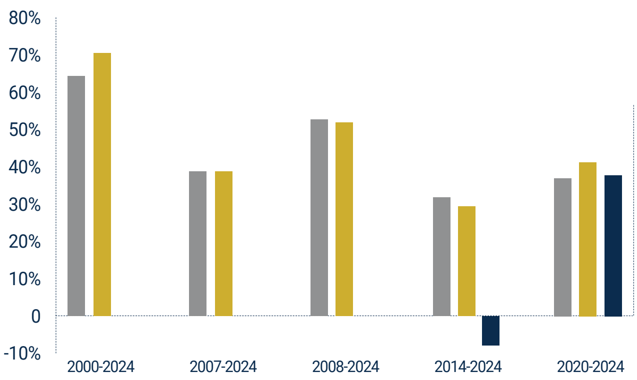
Research from PriceHubble found that younger renters in office-based jobs choose to live close to their place of work even if they have the option of hybrid working – underlining the enduring appeal of city-living for its access to culture and social opportunities.

SMITHFIELD EC1 – 9 FLATS, LET AUTUMN 2024, £3,000-£6,000 PER MONTH

Students have long been a stalwart of demand for rental homes in our markets and overseas students attending top London universities will often choose to live independently of university or purpose-built student accommodation, especially those studying for post-graduate qualifications. Universities have become very reliant on overseas students to support their finances. There are concerns that the numbers of overseas students coming to study in the UK could drop because of visa restrictions and a general sense of being less welcome - but the top universities in our markets seem unlikely to lose their appeal.

FIGURE 7

LONG TERM RENTAL GROWTH

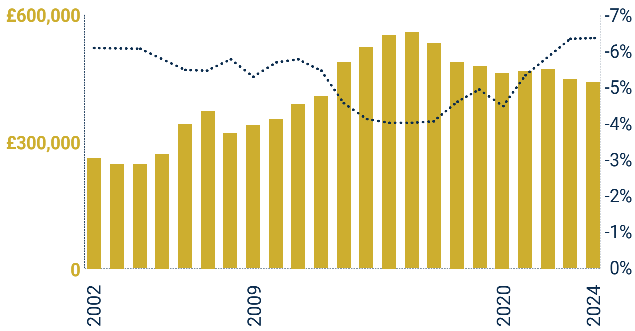


Source: Hurford Salvi Carr

Our long-term view of rental growth, which now dates back almost a quarter of a century, is of continuous steady growth. Rents today are 20% above their pre-Covid levels and around 30% up over the past decade. Over the full 24 years, rents are up by two thirds or more. For an investor, this helps compensate for the lack-lustre capital performance. Any investor can reflect on the receipt of a reliable and steadily rising rental income.

FIGURE 8

CAPITAL VALUES AND YIELDS FOR ONE BEDROOM APARTMENTS MIDTOWN, CITY & EAST LONDON



Source: Hurford Salvi Carr

Yields reflect the relationship between capital values and rental income which is why they have risen sharply in recent years as rents have grown while capital values have stagnated or fallen. Today, an investor can expect a gross yield approaching 6% for a one bed apartment - which would be extremely attractive were it not for the associated costs of being a landlord.

Service charges are the responsibility of the landlord and significantly reduce the return from their investments. Renters receive the benefit of services and facilities at residential apartment blocks within the agreed rent – which may well be higher to reflect those benefits.

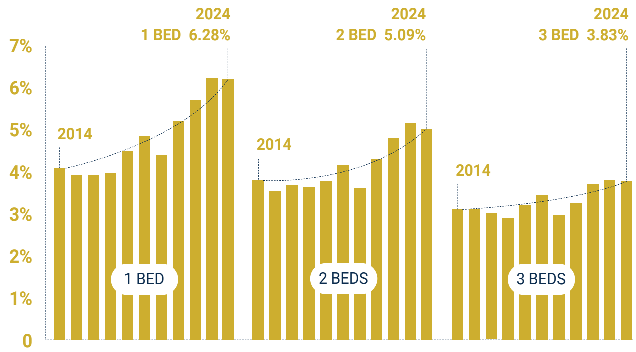
The gross to net revenue relationship is a hot topic of discussion amongst institutional investors too. The Build to Rent sector has established itself by offering high quality apartments with amenities including co-worker spaces, cinema rooms, gyms, shared dining spaces and roof terraces as well as concierge, parcel collection, on-demand maintenance and storage but the cost of servicing these amenities means providers need to charge premium rents and the sector has met considerable obstacles over the past year.

Two of the highest profile and high-quality build to rent developments in our area are: British Land's Alma in Aldgate, and Author at Kings Cross built by Argent Related. Both exemplify the typical build to rent offering with amenities such as co-worker space, roof terrace and gym included in the rent as well as claims of 'best in class service' and curated resident events.

Gross yields are highest for smaller apartments. A one-bed apartment can achieve a yields approaching 6% while a three-bed would generate a return of less than 4%. This reflects the capital value growth. Larger apartments have continued to gain value while the value of a one bed has fallen. Three bed apartments are also a much more rare commodity so the comparison with two beds is perhaps a fairer one. The yield on a two bed is around 5%.

FIGURE 9

CHANGE IN YIELDS FOR MIDTOWN, CITY AND EAST LONDON
2014 - 2024



Source: Hurford Salvi Carr

Our 10-year tracker for average yields suggests that gross yields have risen from a low of 3.9% in 2016 to 6.28% today – but a quick glance at the capital values at those two dates shows a 22% drop in capital value and a 25% uplift in rents.

With the Renters Right Act planned to be introduced in 2025 we note that every well-meaning tenant friendly government initiative over the past 10 years has resulted in the unintended consequence of higher rents for tenants.

TABLE 6

GROSS INVESTMENT RETURNS FOR ONE BEDROOM APARTMENTS
AVERAGE OF MIDTOWN, CITY AND EAST LONDON 2014 - 2024

	GROSS ANNUAL INCOME £	CAPITAL VALUE £	GROSS INITIAL YIELD %
2014	21,060	520,000	4.10%
2015	21,580	550,000	3.90%
2016	21,840	555,000	3.90%
2017	21,060	530,000	4.00%
2018	21,840	485,000	4.50%
2019	23,140	475,000	4.90%
2020	20,280	460,000	4.40%
2021	24,336	465,000	5.20%
2022	26,760	470,000	5.70%
2023	27,820	445,000	6.25%
2024	27,300	435,000	6.28%

Gross Yields - Gross to Net is typically depleted by 2.5%

Source: Hurford Salvi Carr

RENTERS RIGHTS BILL

The Government's new Renters' Rights Bill contains many measures carried forward from last government's Renters (Reform) Bill, however the Renters' Rights Bill more than doubles the number of clauses from 60 to 140. Changes will apply to both new and existing tenancies and are expected to be in force by summer 2025.

A notable difference in the Bill from its predecessor is that there will be no transitionary provisions allowing landlords time to plan for its implementation. When passed into law the Bill will take effect immediately.

Of significant concern is that there will be no more fixed term tenancies. Residential tenants will all have periodic tenancies, which they may walk away from at any time on two months' notice. This will, of course, mean that landlords cannot, as they do now, grant successor tenancies of the same premises only in return for a tenant's "agreement" to an increase in rent. The periodic tenancy will continue indefinitely and only come to an end if and when the landlord can prove one of the statutory grounds for termination. The headlines are these:

Tenancy and Possession

- End Section 21, often referred to as the 'no fault eviction'. Section 21 notices served before the commencement date will continue to be valid until they expire.
- Abolish fixed-term tenancies. All tenancies to become periodic with no more than a month at a time for the periods. Tenants can serve two months' notice to end the tenancy, at any time, and via any written method.
- Introduce new 'Landlord circumstance' grounds. A new ground for possession, where the landlord needs to sell, as well as an amended ground where the landlord or their family needs to move in. Landlords won't be

able to use these grounds in the first 12 months of a tenancy, but will need to give four months' notice, and cannot remarket the property for 12 months after the notice expires or the claim is filed at court.
- Amend mandatory rent arrears ground - requiring three months' arrears and four weeks' notice.
- Introduce a new student possession ground – which will require prior notice from the landlord and only applies to HMOs let entirely to students.
- Ban discrimination against tenants in receipt of benefits or with children.

Setting Rents

- Ban rental bidding wars – preventing landlords and agents from encouraging or accepting rents above the listed rate.
- Limit in-tenancy rent rises to a single annual increase capped to whichever is lowest of market rates or the amount proposed by the landlord. Landlords must give two months' notice. Tenants can challenge this via the First-Tier Tribunal. Any increase can't happen until the tribunal has made its decision.

Standards and Enforcement

- Introduce a Decent Homes Standard to the private rented sector with fines of up to £7,000 for failing to meet standards.
- Extend Awaab's Law to private renting – setting clear timeframes within which landlords must make homes safe where they contain serious hazards.
- Create a digital private rented sector database with information for landlords, tenants, and councils
- Extend powers for Local authority enforcement - giving local authorities greater powers to investigate and enter PRS properties and substantially increase the financial penalties for non-compliance.
- Set up a new ombudsman service that will provide fair, impartial and binding resolution to both landlords and tenants, reducing the need to go to court.
- Support landlords who want to initiate disputes It will not be through the ombudsman but the Government is looking at ways to allow this.

The new Act when it becomes law is likely to cause disruption in the private rental sector. This will not take us back to the bad old days of the sitting tenant. Landlords can still charge a market rent provided that they go through the appropriate hoops and the First-tier Tribunal agrees with their assessment of what is market rent.

Landlords can still evict a tenant when they finally get a hearing in front of a county court judge and prove that they are within the statutory grounds. However, landlords do not have the security of a fixed term tenancy. A tenant can walk away on two months' notice at any time, if they so choose.

Although the Government denies that its measures will result in the mass exodus of landlords from the residential sector, there is clearly a risk that these reforms may lead to 'good quality' landlords deciding that it is time to leave this sector to others.

The referencing of tenants will become even more important as the abolition of Section 21, with increased powers given to tenants and no end in sight to lengthy court delays, combine to mean it's more important than ever that tenants are carefully vetted before contract stage.

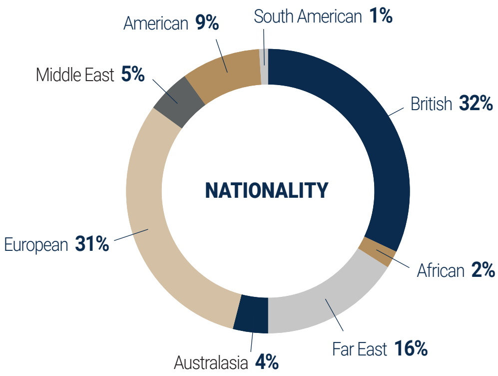
Independent Agents Work Harder

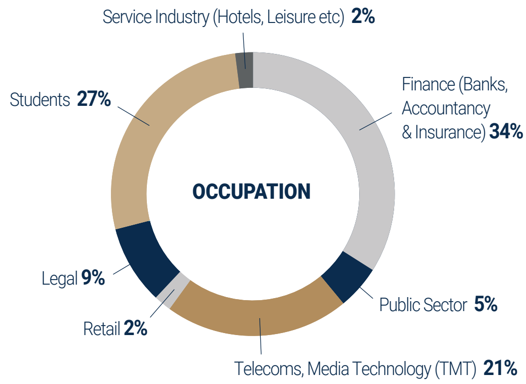
Holywell Row, Landlord - Kirk and the team at HSC are **always great to deal with**. **Canaletto Tower, City Road Seller -** I worked with **Luca Santilli** at Hurford Salvi Carr to sell a one bedroom flat on City Road. **Luca was a clearly experienced agent** who managed a **great sales price** and was able to help navigate difficult markets. Yet another **positive interaction** with a **long-term partnership with Hurford Salvi Carr. Henriques Street, Seller** - Tom and Javier have a strong knowledge of the area and surroundings. **Royal Mint Gardens, Tenant** - Michael J was a great agent to deal with, very efficient and quick responses to queries and messages, always helpful. **Definitely would recommend** leasing through him. **Nothing was too much trouble**. **Berglen Court, Seller** - We have known Sebastian for a while, originally through a property purchase via HSC back in 2006 and we were very impressed with his knowledge and how he kept things on track. Over the years we have kept in touch and when the time came for us to sell another property in the area, we had the benefit of knowing Sebastian and HSC, and that the sale was in good hands. Sebastian was patient and **helped keep both parties on track with the sale. We would 100% recommend Sebastian**. **Basin Approach, Landlord** The service so far has been excellent and we secured an excellent tenant within days of the property being advertised. **Wellesley Terrace, Seller - David Salvi** and **Luca Santilli did a wonderful job** for us in connection with the sale of a leasehold interest in a flat in summer and autumn 2023 from planning out the process we would follow, **working constructively with a joint agent, drumming up demand in a challenging market,** following up with that demand, and **getting from exchange to completion fairly quickly**, they delivered excellent client service, all in a **very professional** and efficient manner. We would not have been able to achieve the **great result** without their expert advice and execution. **Doughty Mews, Buyer** - Hannah and Marco have been exceptional throughout, they are indeed my favourite estate agents. **Charterhouse the Square, Clerkenwell Road, Landlord** - **I strongly recommend HSC for letting your property**. I had excellent advice from Angela Kelly on how to go about letting my place, and throug[illegible] the property was on the ma[illegible]nce with them was very good. [illegible] **responded extremely quick to a[illegible]uestions.** Online viewing of the house was no problem. All the processes are super professional (signing contract[illegible]uestions). **Would definitely recommend! City Road, Landlord - Kirk,** [illegible]**ies for a number of years** and have been very professional and efficient in fin[illegible]e **good tenants and good rates**. He is reliable, responsive, and **provides good local market insight** - something that is very [illegible]uable to overseas landlord like me. **Highly recommended agent and agency! Wenlo**[illegible] **property in Shoreditch for 3 years running with HSC**. They have **always made t**[illegible] as possible for me whilst **providing meaningful and timely updates** that keep me informed. Very happy with them as a reliable and locally available agent. **Orchid Apartments, Seller** - Tom Hill we[illegible] abov[illegible] and beyond in assisti[illegible] with queries by our purchasers and with their solicitors and **certainly earned Hurfor**[illegible]**tments, Buyer** - Tom Hill was great - **always on time for viewings, consid**[illegible]**ate,** [illegible]was being pressured to make a decision. Very grateful for his help and would definitely recommend him to my friends! **Kirk is great. Would recommend! Goswell Road, Landlord - Kirk Parry and his colleagues** at the Islington and Shoreditch office - **did a great job in letting my flat** in the Angel area. **The flat wa**[illegible]e some challenges, **so they had to familiarise themselves quickly**. They were very hands on: Kirk was fully involved in the letting process and navigated me through the process, including **communications with an internationally-based tenant locating to the area,** and showed professionalism and attention to detail that helped **close the deal smoothly**, for the benefit of all parties. **Greatly appreciated, thank you!**

HURFORD SALVI CARR

LETTINGS MARKET

RENTER PROFILES 2024



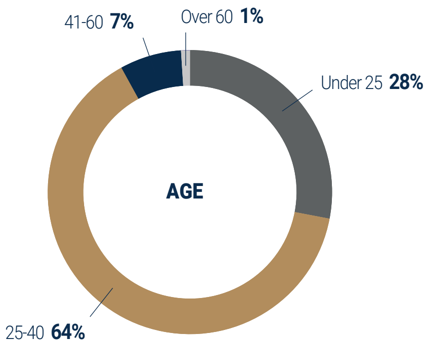


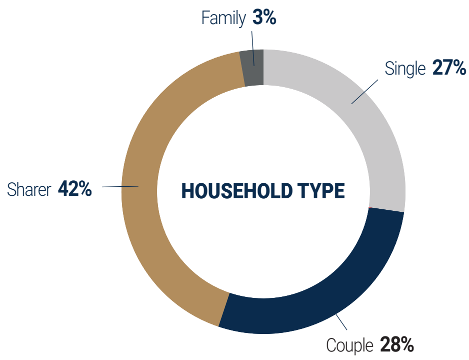
More than two thirds of renters in our markets were of overseas origin in 2024 and the balancing 32% were UK citizens, very much in line with the long-term trend of 31% over the period 2015-2023. Renters originating from Europe, make up a similar proportion of 31% - but remembering that there are 44 nation states in Europe.

The remaining 37% of renters originating outside Europe came from 5 regions of the world, with the Far East being the most prominent, as has long been the case.

Renters in tech sector employment have been a growing segment of our market for some years and in 2024, they made up 21% of the renters where we had an identified sector - compared to 13% over the period from 2015-2023. The proportion of student renters was a little lower than has been the norm at 27% - they have averaged closer to one third over the longer term.

The banking/finance sector has long been a stalwart of our markets and it remained consistent at just over one third of renters in 2024. For all the changes in working patterns post-Covid, our experience is that young people are still drawn to the city life and all it has to offer and choose to live close to the centre of one of the world's great global cities.





Just under two thirds of renters in our markets in 2024 fell within the broad age band of between 25 and 40 years old. That is consistent with the long term average and reflects the typical renter profile. 28% were under 25 – which is predominantly students and early career graduates. As we have pointed out in previous reports, it should be noted that we are comparing a 15 year age band (25-40) with a 7 year age band (18-25).

The 30-something renters are most likely to make the shift into owner occupation and anecdotally, we have seen the trigger point rising from late-20s to mid 30s over the past decade. That has prolonged the period of renting and had some impact on the quality of property most in demand in our markets.

The biggest shift in the make-up of household types in the renter data has been the growth of sharer households and corresponding decline of single-person households. We noted this trend in our half year report and suggested that it is a logical response to rent rises and reflects the financial benefits of sharing the rent. The additional rent for each extra bedroom is not a linear relationship because the kitchen and other living spaces are being shared. This year, 42% of the homes we rented have been taken by sharers - significantly higher than the long term average of 33%. The proportion of single renters has declined in parallel from an average of 34% over the longer term, to 27% this year. Again we note that this puts pressure on the supply of apartments with 2 or more bedrooms.

FUTURE PROSPECTS

LEASEHOLD REFORM

2025 will be dominated by the government's plans to introduce the Renters Rights Act and the consequences of this new legislation for both landlords and tenants. It seems inevitable that rents will rise again in 2025 as investors continue to sell their holdings and are not replaced by a new generation of buy to let investors.

This new legislation will cause natural concern for landlords and a period of transition, including drafting new tenancy agreements, will be required ahead of the enactment. It will be interesting to see how renter behaviour changes under the new Act, particularly as tenancies will no longer be on fixed terms (the end of the 12 month AST).

We expect rents to rise in the second half of 2025 with renewed pressure on supply as more landlords exit the market. Another unintended consequence of the Act is the way the market will adjust to the new restriction on accepting offers over asking rent. While offers over asking are relatively unusual in the rental market, they do occur in strong markets and the safest response for an owner is to boost the initial asking rent, so that there is room for negotiation to the prevailing market level.

At the same time we expect to see sales prices of apartments across central London remain attractive for buyers in 2025, stubbornly pinned to current levels, with no growth since 2013, as service charges continue to suppress growth.

Freehold houses on the other hand, will continue to attract premium prices. Stable pricing will encourage more buyers to enter the market, especially first-time buyers with large deposits who are ready to make the move from renting to home ownership. With the support of a competitive mortgage market in the first half of 2025, we expect to see a pick-up in demand and transactions numbers. Sentiment will be driven by movements in interest rates.

Opportunities for buyers will be limited by owners reluctant to list for sale until they see real price growth. That will create competition for well-presented new listings. It is worth noting that in the majority of cases there have been no capital gains on the asset value of residential property across Midtown, City and parts of East London over the past decade.

After 7 years and a further £1 billion committed by the government to the Building Safety Fund, we hope that we will finally start to see fire remedial works commencing on a long list of apartment buildings in our area, helping to free leaseholders from the nightmare of being trapped in unsaleable properties.

The government will also introduce its draft Leasehold and Commonhold Reform Bill in the second half of 2025. Further reforms will be made to tackle unregulated ground rents. These changes, together with strengthened regulation of managing agents, will ensure existing leaseholders are better protected.

Ahead of that, in January, the government will bring forward more Leasehold and Freehold Reform Act provisions to give leaseholders more rights and security by removing the current 'two-year-rule' meaning leaseholders will no longer have to wait two years after the point of purchase before exercising their right to extend their lease or buy the freehold.

The other major package of measures designed to protect leaseholders will be introduced in the spring. These will reform the rules where leaseholders claim the 'Right to Manage' meaning more homeowners can take over management from their freeholders. The government will consult on changes that will make it easier to challenge unreasonable service charge costs and set the rates used to calculate the cost of enfranchisement.

Conveyancing continues to cause long delays in the sales process as the legal profession struggles with increased regulation including onboarding clients and new fire safety compliance. Unfortunately, technological advances have not yet created any significant improvement to the process of buying and selling homes, especially leasehold apartments.

Second home owners in England could face paying twice the amount for second home council tax from April 2025, under a new law. Under the Levelling Up and Regeneration Act 2023, councils were given the discretion to charge additional council tax of up to 100% on furnished homes not used as a sole or main residence. Each council will need to vote on whether to charge additional council tax on second homes and the council then needs to give a year's notice before implementing the increase.

We may see more properties come to the market in central London if more local authorities double council tax for second homes from April. This targeted tax will impact city apartment owners who will question whether paying 100% increases in council tax on a family London home is viable when service charges have also risen by as much as 41% over the past 3 years. In the City of London 24% of homes are classified as second homes.

Midtown, City and East London will continue to evolve as leading business, tech, education, medical and leisure destinations. Already, infrastructure improvements including the award winning Elizabeth Line, expanded facilities at Canary Wharf and the transformation of Kings Cross are making city living a viable option for more people than ever before.

The announcement in October that HS2 will now be extended to Euston from Old Oak Common as originally planned, will provide a further boost to Midtown and provide fast connectivity to Birmingham from the early 2030s.

London is a dynamic city, continuously evolving and adapting to the demands of its population. Smithfield meat market at Farringdon and Billingsgate fish market in Canary Wharf are to close in 2028 after the City of London Corporation voted to withdraw support. Smithfield will become a new cultural hub linked to the opening of the new Museum of London. Billingsgate is earmarked to provide thousands of new homes.

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