# research

## RESIDENTIAL RESEARCH | 2023

MIDTOWN, CITY & EAST LONDON

HURFORD SALVI CARR

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BUYERS COMPETE
FOR BEST IN
CLASS HOMES

HURFORD SALVI CARR

# MARKET OVERVIEW

## RENTS STABILISE

Interest rates were the main housing market story for 2023 in London, as they were throughout the UK and in other parts of the world, with governments battling to suppress inflation. In central London, around 4% was chipped off house prices which had already been broadly flat for a decade. That modest fall, combined with a fall in enquiry levels created an opportunity for cash buyers or first time buyers with large deposits, to secure homes in prime locations. The upshot was that sales volumes held up better than could have been expected and ended the year at the same level as 2022.

Our market performed better than the outer London boroughs and other regions of the UK where higher interest rates caused a more dramatic fall in demand. We note that reduced demand and price falls were also reported in the United States and Europe. The Wall Street Journal reported in October that the highest mortgage rates in 23 years were dragging down home sales in the US to their lowest levels since the subprime crisis of 2008.

In the UK, interest rates rose rapidly from 3.5% in December 2022 to 5.25% in August 2023 before a slow down in inflation enabled the rate to stabilise ending the year at 5.25%.

Steep increases in service charges had an impact on demand in our markets because so much of the housing stock is apartment blocks rather than houses. Service charges have been driven sharply upwards over the past 2 or 3 years by a combination of high inflation, spiralling energy costs and insurance for fire safety.

While higher borrowing costs can be built into a buyer's budget, the level of annual service charge is out of a leaseholder's control and this is now the single biggest drag on sales in the City, Midtown and East London. 2023 was another lost year for up to 1.5 million flat owners who are unable to sell their properties and continue to wait for fire safety remedial works to their buildings.

The complexity of fire safety regulation also acts as a barrier to sales. Additional requirements fell on the shoulders of owners from January under the 2022 Building Safety Act, which required the production of a Leaseholder Deed of Certificate and a Landlord Certificate. While this was intended to streamline the process, it has actually created greater delays and confusion for buyers, sellers and even for their legal advisors.

Neither service charges nor fire safety regulations apply to freehold houses and buyers of houses in our markets are often less affected by interest rate rises. In consequence, demand in this part of the market has been resilient and buyers continue to compete for long term family houses.

The most sluggish part of the sales market this year has been one-bed apartments but there is still nothing sluggish about the rental market. The rate of rental growth has subsided since the frenzy of 2021 and 2022 but the supply of properties to rent is still far below levels of demand and the upshot is that there are fewer new lettings as renters opt to stay in their current homes rather than expose themselves to the open market.

BLOOMSBURY WC1 – 3 BEDROOM MEWS HOUSE, SOLD SEPT 2023, £2,475,000

Rates of rental growth have settled back to between 3% and 5% and for larger apartments in the City, there was no rental growth in 2023. Rents are now some 40% above their low point in December 2020 and 20% above 2019.

With higher rents and lower purchase prices, projected gross rental yields on a one-bedroom apartment now average 6.25%, the highest they have been for 22 years and yet new investors are not returning to our markets. The anti-landlord legislation introduced by successive governments over the past 20 years, has driven some landlords out of the market and deterred new ones. The double consequence has been to reduce the number of buyers, so depressing sale prices and reduce the supply of rental properties, so driving up rents. The list of measures bearing on landlords deserves to be repeated: a stamp duty premium, the withdrawal of tax allowances, local licencing, a tenant fee ban and plans to introduce the Renters Reform Act next year. UK buy to let investors have all but disappeared from our markets, leaving overseas investors to take their place.

With prices unchanged in a decade, they are at a level that is highly attractive to committed buyers. This powerful pool of buyers sustained sales activity in 2023 and they had less competition to secure "best in class properties". We fully expect this trend to continue into 2024 with only the prospect of a General Election to interrupt this pattern.

LIVERPOOL STREET E1 – 2 BEDROOM FLAT, SOLD JULY 2023, £605,000

# ECONOMIC OVERVIEW

## INFLATION FALLS TO 3.9%

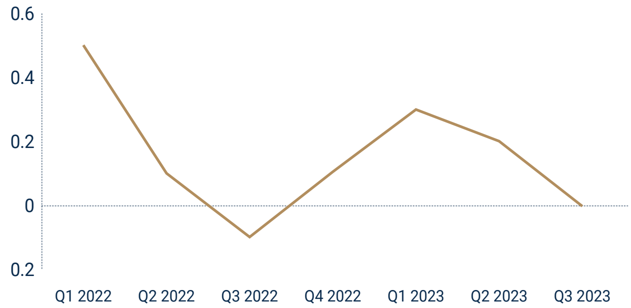
Lacklustre performance continues to plague the UK economy. Latest GDP data showed the economy had stagnated in the 3 months to end of October, with 0% growth rate. High borrowing costs are holding back business and consumer activity, while the cost-of-living crisis is squeezing household budgets and limiting consumer expenditure.

Output in the service sector fell by -0.1% in Q3, driven particularly by a contraction in real estate related services - indicative of the harsh operating environment, with higher interest rates driving significantly lower residential sale volumes.

As part of the Autumn statement, the Office for Budgetary Responsibility revised its economic forecasts. Over the whole of 2024, the economy is expected to perform very similarly to this year with just 0.4% GDP growth, (compared to +0.5% expected by the end of 2023).

FIGURE 1

UK GDP

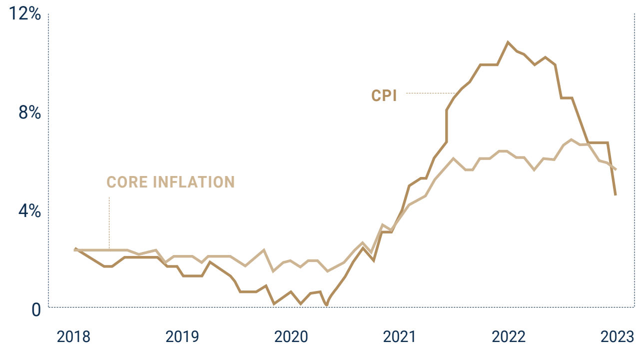



*Source: Dataloft, ONS*

So many 2023 headlines have been about inflation but, as we near the end of the year, it seems that inflation is finally trending consistently lower. There was a marked fall in CPI (Consumer Price Index) inflation in Q3 with a rate of 4.6% for the year to end October, and a further fall to 3.9% in November down from 11.1% in October 2022. Current consensus forecasts suggest it will continue to fall, down to 2.5% by Q4 2024. These expected lower levels will get the economy back towards the target rate and represent a vast improvement on 2023.

FIGURE 2

CORE INFLATION




*Source: Dataloft, ONS, Core inflation excludes energy, food, alcohol & tobacco*

The largest contribution to the fall came from housing and household services due to gas and electricity – gas costs fell by 31% in the year to October 2023. That said, the price of gas is still around 60% higher today than it was in October 2021. Likewise, electricity costs fell by 15.6% in the year to October 2023, compared with a rise of 6.7% in September, but again, they remain 40% higher than in October 2021. It is important to remember that the impact of inflation is cumulative over time, so lower rates today do not cancel out the impact of previous high rates.

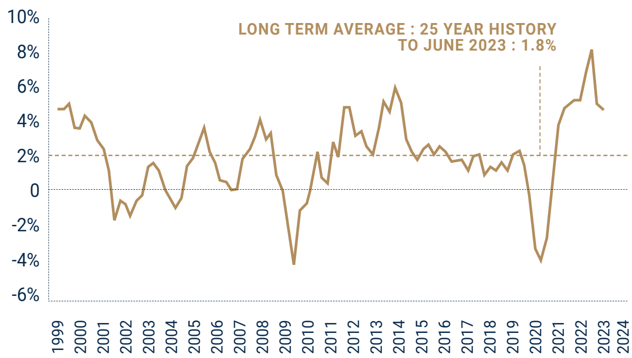
CLERKENWELL EC1 – 2 BEDROOM LOFT, SOLD OCT 2023, £1,575,000

The price of food in October 2023 was also significantly higher than October 2021 by around 30% – and while this is not a direct housing cost, it impacts on household budgets and affordability.

For London's labour market, this was a landmark year with service sector employment exceeding 6 million jobs for the first time in the city's history. The service sector makes up the vast majority of London's 6.5 million jobs and It has taken only one decade to add this latest million.

FIGURE 3

LONDON SERVICES SECTOR WORKFORCE



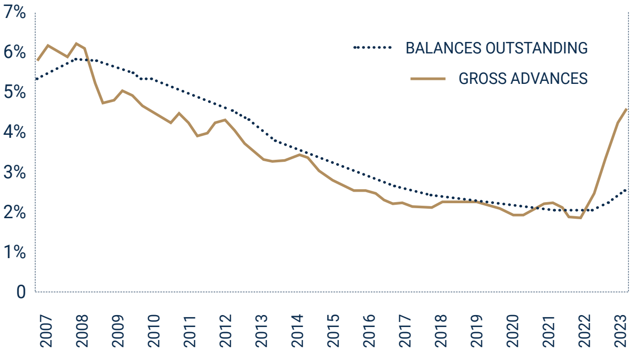

*Source: Dataloft, ONS*

However, the beginnings of a weaker job market have been reflected in the KPMG/REC jobs survey for several months now.

The November index saw a sharp fall in permanent staff appointments combined with a fresh decline in temporary placements, suggesting pay pressures will ease too.

FIGURE 4

AVERAGE INTEREST RATES
ON FIXED RATE MORTGAGES




*Source: Dataloft, FCA Mortgage Data*

The Bank of England appears keen to push back on expectations that interest rates will fall quickly in 2024 suggesting there is no scope to cut interest rates anytime soon and so the second half of next year feels the more feasible. Consensus forecasts suggest that the Bank Rate will be 4.7% by the end of 2024.

Whilst the Bank of England is keen to urge caution, the 5-year swap rate reflects a better outlook for interest rates. The swap rate, on which fixed rate mortgages will be priced, rapidly accelerated to above 5% in the aftermath of the Truss Growth Plan and then again in mid 2023 on the back of concerns over persistent core inflation. With the Bank of England holding rates at 5.25% in September, November and December the swap rate has started to edge back below 5%. Coupled with mortgage lenders wishing to driver higher business volumes, we expect 5-year fixed rates will start to improve.

LIMEHOUSE E14 – 3 BEDROOM PENTHOUSE, SOLD NOV 2023, £1,000,000

The full impact of higher interest rates has not filtered through to all borrowers yet. The lag for those on fixed rates means there is a wide difference between the new lending rate and fixed rates on outstanding balances for existing borrowers. Longer term forecasts for the Bank rate (annual average 4.1% 2025, 3.3% 2026, 3.1% 2027) remind us that interest rates are not going back to the lows of the prior 5 years and households will need to adjust to a higher rate environment.  Many existing borrowers might never experience the full impact of the last year's highs.

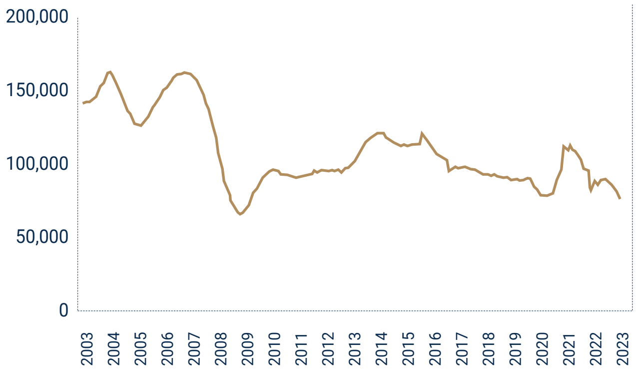
The health of the housing market is critically linked to the health of the economy. So, it should perhaps be no surprise that price growth has moderated in 2023. Given the state of the economy and the dramatic rise in interest rates, residential markets have shown incredible resilience over the last year. Prices in most regions have typically lost just a few percent. Sharper quarterly falls were evident earlier in the year but have since stabilised.

Whilst pricing has been resilient, many would-be buyers in 2023 opted to sit tight and wait and see what happens with interest rates.

Mortgage approvals, a lead indicator for future transaction volumes, are currently running at 20% below the levels in the 10 years prior to covid but are widely anticipated to improve in 2024.

FIGURE 5

TRANSACTION VOLUMES : ANNUAL
FOR LONDON 2003 - 2023




*Source: Dataloft, Land Registry*

In the Prime Minister's speech delivered on 20 September 2023, he announced key changes to environmental targets previously set by the Government, one of which is of particular importance to landlords. Mr Sunak abandoned plans to introduce mandatory energy efficiency targets for private landlords, which were going to require all newly let properties to have an Energy Performance Certificate (EPC) rating of C by 2025 and all private rented sector homes to reach the grade by 2028. It looked likely that homeowners would be required to do so by 2035, which would ultimately have had knock-on implications for the ease of obtaining mortgages. This, too, has now gone.

# SALES MARKET

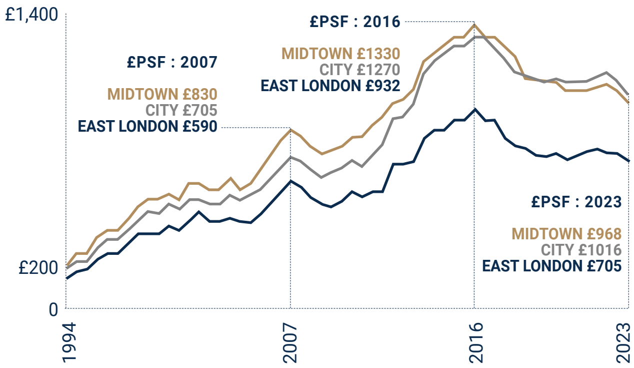
## CONVEYANCING TIME INCREASES

Sales volumes in our central London markets remained at the same level in 2023 as they had been in 2022 - despite reduced enquiry levels. Serious buyers were looking for 'best in class' homes that represented good value. With higher interest rates and wider economic and political uncertainty it is understandable that buyers should be cautious. Buyers who focused more on reasons not to buy, rather than take the step of buying a new home, lost out.

Sellers recognised the change in sentiment and responded positively with realistic pricing, often coupled with professionally staging their properties for sale. This led to successful sales across a range of different property types. Owners not able or willing to adapt in this way often decided not to list at all until conditions improve, to avoid crystallising a loss. Their choice ensured that supply remained broadly in balance with demand, thus protecting prices.

FIGURE 6

PRICE TRACKER £PSF OF A ONE BEDROOM APARTMENT IN THE CITY, MIDTOWN AND EAST LONDON, 1994 - 2023




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

In general, freehold houses performed better than apartments. Higher interest rates seemed to have less impact in this part of the market, where buyers still continued to compete for a limited supply of houses suitable for long term family occupation. Also still in demand, were larger apartments with outside space, high ceilings, luxury bathrooms and kitchens and reasonable service charges.

The more difficult part of the market this year has been for entry-level one and two-bedroom apartments with one bathroom. Buyers at this level do have more choices and they often hope for substantial discounts – but that does not match the expectations of sellers who have already adjusted their asking price. In our experience, sales have been secured within 5% of asking price for a correctly priced property, with any buyer hoping to secure larger discounts being disappointed.

The price of a one bed apartment dipped over the year by an average of 5.3%, translating into a drop in value of £25,000 by the year end for an average one bed apartment priced at £445,000. The fall was steeper in East London than in City or Midtown - and that fall was from a lower starting point.

TABLE 1

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% | 405,000 | 19,000 |
| 2013 | 20% | 486,000 | 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% | 470,000 | 5,000 |
| 2023 | -5.3% | 445,000 | -25,000 |

*Source: Hurford Salvi Carr*

In East London, a typical one bed apartment lost 8% of its value in 2023, shaving £30,000 off the price, which ended the year at £360,000. This is the hunting ground for many first-time buyers who were forced to reconsider budgets as interest rates rose. The most resilient part of the market proved to be large apartments in the City which maintained their prices throughout 2023 with a greater number of cash buyers looking

ISLINGTON N1 – 3 BEDROOM PENTHOUSE, SOLD OCT 2023, £1,875,000

TABLE 2

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

| | £ 2021 | £ 2022 | £ 2023 | £ PER SQ FT | CHANGE 22-23 |
|---|---|---|---|---|---|
| MIDTOWN | | | | | |
| 1 BED | 525,000 | 530,000 | 520,000 | 1,040 | -2% |
| 2 BED | 850,000 | 875,000 | 840,000 | 1,120 | -4% |
| 3 BED | 1,800,000 | 1,750,000 | 1,700,000 | 1,133 | -3% |
| CITY | | | | | |
| 1 BED | 530,000 | 530,000 | 510,000 | 1,020 | -4% |
| 2 BED | 765,000 | 790,000 | 760,000 | 1,013 | -4% |
| 3 BED | 1,550,000 | 1,500,000 | 1,500,000 | 1,000 | 0% |
| EAST LONDON | | | | | |
| 1 BED | 385,000 | 390,000 | 360,000 | 720 | -8% |
| 2 BED | 535,000 | 540,000 | 510,000 | 680 | -6% |
| 3 BED | 975,000 | 975,000 | 925,000 | 617 | -5% |

*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*

to take advantage of buying in an attractive market with prices stuck at 2013 levels and less competition.

The 'doer-upper' was less popular in 2023 as the cost of refurbishing an unmodernised property has spiralled under pressure from materials and labour. Best-in-class homes attracted far more interest and it showed in our records of viewings per listing. This frequently led to 'best-bid' situations.

The market has accepted interest rates of 5.25% as the 'new normal' but sentiment is being dented by other external factors including: war in Ukraine and the Middle East, the prospect of a UK general election and change of government during 2024 and a highly contested presidential election to come in the USA in November.

The length of time required to complete a sale transaction remains a big problem in the sales market. For leasehold properties, the conveyancing process from sale agreed to sale completed is now typically 4 to 6 months. Such an extended period causes frustration all round, especially when it means that a mortgage offer expires.

Solicitors place the blame on managing agents, search providers and lenders (for their ever-lengthening list of criteria particularly relating to The Building Safety Act), but even when there is no lender involved, they apply the same stringent tests to ensure their clients have a comparable level of protection. We work with our vendor clients to gather up-front information to eliminate avoidable delays at the beginning of the process as it can often take the solicitor 2-3 weeks to onboard a seller as a new client and issue draft contract papers to a buyer.

Prices in our markets have broadly doubled since the start of the millennium – and more than that in the City, meaning average growth is around 5% per annum (4% in Midtown and 6% in the City). Of course, it depends on the date of the initial purchase.

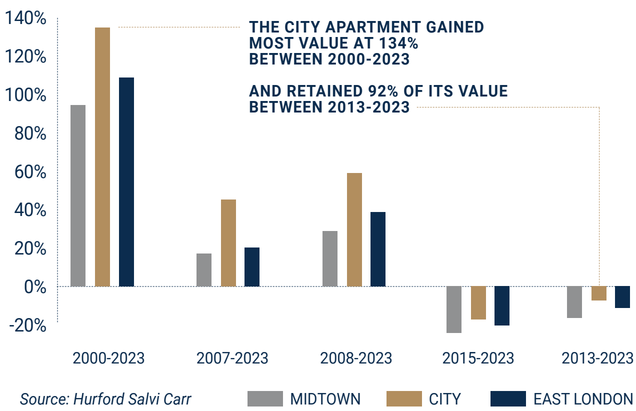
Anyone who bought in 1994, when our records began, has capital growth equating to around 15% per annum. For these owners, although they might regret not selling at the peak of the market in 2016, they can still crystallise an attractive return on their investment. This is the generation now passing on housing wealth to the next generation.

There have been many column inches given to the topic of 'the housing crisis' in the UK press and most commentators agree that the root of the problem lies in our failure as a nation to build enough new homes. Capital Economics has reported a 20% year on year drop in housebuilding starts and a 50% fall in private sector starts in two years. Our markets are unlikely to offer any solution as the limited opportunities for new build have been constrained by lack of resource in the planning system.

Planning permissions for new homes continue to fall across the inner London boroughs with applications delayed by planning departments struggling to cope with even routine cases. This year, only 19% of planning applications have been processed within the prescribed 13-week period, compared to 57% in 2013. Many Local Authority teams now work from home, which saves direct costs but has contributed to some of the delays.

FIGURE 7

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




*Source: Hurford Salvi Carr*

The cost of finance is also a factor in the number of planning applications, as interest rates have risen. Anecdotally, we understand that the fall in construction could translate into lower construction costs as contractors look for new projects which would help to rebalance viability.

In July a group of almost 200 small and medium sized housebuilders wrote to Prime Minister Rishi Sunak claiming that they are being driven out of business by changes in the planning system including environmental restrictions and fire safety regulation.

The Government has given housebuilders a 30-month transitional period to implement second staircases in new residential developments above 18m. Existing planning consents have 18 months to start construction failing which they will have to submit a new planning application to comply with the new rules.

## LEASEHOLD REFORM

In the King's Speech on 7th November the government confirmed its plans to introduce changes to leasehold ownership. The Leasehold and Freehold Reform Bill will deliver on the government's manifesto commitment to reform the system and, in their words, will "make the long-term and necessary changes to improve home ownership for millions of leaseholders".

IF THE BILL IS PASSED IN ITS CURRENT FORM, IT WILL:

- Make it cheaper and easier for leaseholders to extend the term of their lease, or buy the freehold, including a new valuation formula that scraps "marriage value" and caps the treatment of ground rents in the calculation to 0.1% of the freehold value.
- Increase the standard lease extension term to 990 years (from 90 for flats, 50 for houses). On payment of a premium, any extension will enjoy a peppercorn (nominal) ground rent.
- Remove the two-year ownership requirement before a leaseholder can extend their lease.
- Allow leaseholders in buildings with up to 50% non-residential floorspace to acquire the freehold or exercise the right to manage the building. The current 25% non-residential requirement is highly prohibitive, requiring a 75% residential element before rights may be exercised.
- Amend existing legislation to allow tenants participating in a collective enfranchisement claim to require the freeholder to take a leaseback of particular units in the building, enabling the tenants to reduce the price payable for taking the freehold.

Landlords will also be held to greater transparency around service charges, ensuring that leaseholders regularly receive key information to allow them to assess and challenge unreasonable costs.

IN ADDITION, THE BILL:

- Removes the presumption that leaseholders should pay their landlords' legal costs when challenging poor practices
- Replaces building insurance commissions with a transparent administration fee
- Gives freehold homeowners on managed estates the same rights of redress as leaseholders in relation to rights to information transparency and to challenge charges

## SERVICE CHARGES

The level of Service Charges is a major concern in the London residential market, particularly alongside the rise in the cost of borrowing. Service charges now regularly hit £10 per sq ft even in buildings with limited offering. There are three main drivers of the increase: higher building insurance premiums; rising utility bills for heating and lighting common parts and the new regulations associated with fire safety requirements incorporated in the Building Safety Act 2022.

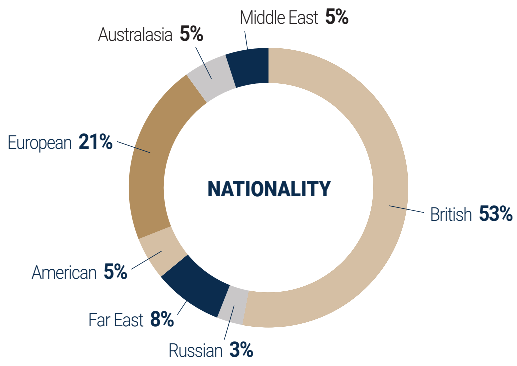
A recent survey of a sample of city apartment blocks found that annual charges regularly approach £6,000 pa for one bedroom apartments and £10,000 for two/three bedroom apartments.

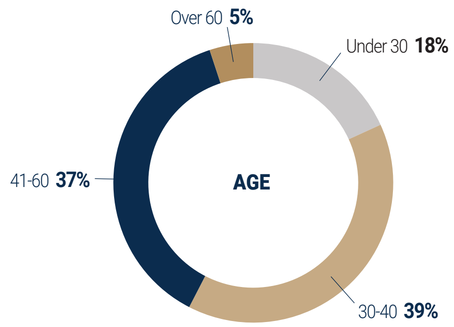
A report by the Department of Levelling up Housing and Communities in July suggested that the majority of leaseholders have little interest in playing an active part in the management of their building. It found that people prefer leasehold to commonhold as residents are not required to organise repairs or maintenance, liaise or negotiate with neighbours or have legal responsibility for fire safety and ensuring that leaseholders pay service charges.

Leaseholders should benefit from greater transparency in 2024 after The Financial Conduct Authority took action following its review of insurance for multi-occupancy buildings. Under new rules, insurers will be obligated to act in leaseholders' best interests and treat them as customers when designing products. Insurers will also be required to ensure that their insurance policies offer fair value to leaseholders and provide important information about their policy and its pricing, including the detail of any commission paid.

# SALES MARKET

## BUYER PROFILES 2023



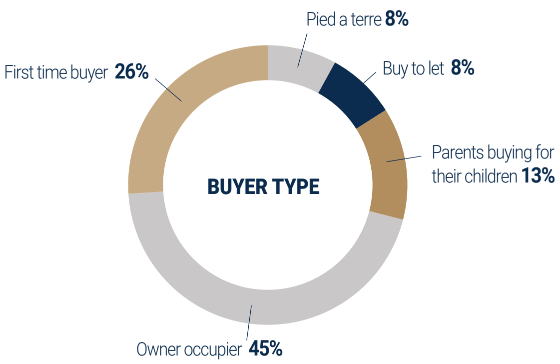



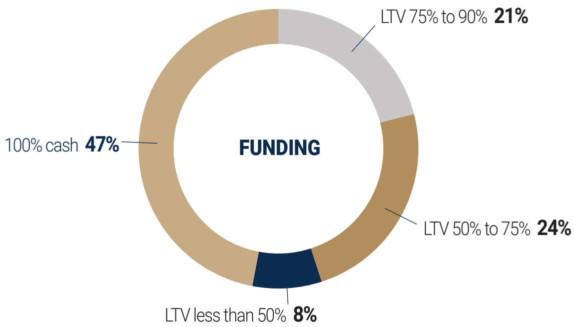

26% of buyers in our markets this year originated from outside of the UK and Europe. That is significantly higher than the long term average of 16%. There was above average activity from USA, Middle East and Australasian buyers. Far East was higher than in the most recent 3 years but in line with the long term average. This reflects the favourable pricing in the UK and for some an exchange rate advantage too.

There was also much higher representation this year of European buyers, who accounted for 21% of all sales, compared to their long term average of 16%. All of this means that British buyers were reduced from the average of 68% to just 53% this year – which we put down to the combination of interest rates and service charge rates both of which have deterred domestic buyers.

The age distribution this year was very much in line with the long term average. In the first half of 2023, we noted a steep increase in younger buyers (29% under 30 years old) but that trend had faded by the year end and the twenty-somethings accounted for 18% overall in 2023 – because activity in this age group dipped well below the long term average during the second half of the year.

The counter-balancing trend was a reversal of the decline in thirty-somethings – as a group, they were back to their long term average by the year end, after being significantly down in Half 1. Interest rates have been the primary driver of buying decisions for young people this year but for those who have saved a large deposit, there are opportunities to buy at a favourable price. We assume that this benefited those slightly older buyers who have had longer to save a capital sum.




The proportion of sales to Buy to Let investors in our markets has halved from a long-term average of 16% to just 8% this year. It is interesting to note that there has been a corresponding increase in the category 'Parents buying for children' up from 8% over the long term to 13% in 2023. These figures from sales in our own offices reflect a wider social trend of people using capital to help the next generation of their own family navigate the housing market, rather than become a third party landlord.

Almost half of buyers in our markets this year were entirely funded by cash. That is not unprecedented, cash buyers have always been a significant force for us, but it has risen in the past 3 years, from the long-term average of around a third. The proportion of buyers relying on a mortgage to finance more than 75% of the property value has been fairly consistent over time at around a fifth of buyers.

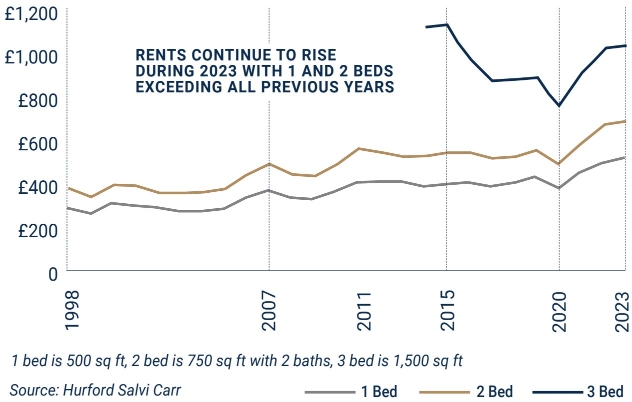
# LETTINGS MARKET

## YIELDS INCREASE FOR INVESTORS

There will always be a strong rental market in central London. What has changed, is the rate of rental growth. The extraordinary growth that followed in the wake of covid subsided in 2023. There was the usual sharp upturn in the summer months driven by demand from students and particularly, wealthy overseas students, but overall, rents ended the year around 2-3% up on the previous year.

FIGURE 8

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*

There were differences – East London had the strongest growth, reaching 5 or 6% for one and 2 bed apartments and one beds in the City also reached 5% but even these were modest compared to the previous 2 years.

ALDGATE E1 – 1 BEDROOM APARTMENT, LET NOV 2023, £3,650 PER MONTH

Of course, a 2% rental increase looks tame compared the way rents performed in 2021 and 2022 but this growth is from a much higher base level and for some, rents have become prohibitive. Rents are now over 20% higher than they were in 2019 and almost 40% higher than in 2020. Renters who moved into our areas during covid, when landlords were willing to accept substantial discounts, have generally moved back out, taking some of the pressure off competition for homes.

Demand from overseas students settled back to a more normal level after the exceptional post-pandemic boom in summer 2022, caused by the backlog of students taking up university places in London. At the same time, the supply of homes to rent has been boosted by homeowners unwilling to sell at prices that do not meet their expectations. For all these reasons, the rental market has returned to a more balanced state and rental growth this year, at 2%, is much more in line with the long-term average.

International students at University College London and London School of Economics now make up half of undergraduate admissions in London. Overseas students who can pay up to £40,000 a year are essential in funding London's universities and have grown at more than four times the rate of domestic students since 2015. While Chinese students are the largest in number the fact remains that London attracts students from over 150 countries and the capital is not reliant on one geographical region.

TABLE 3

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

| | £ 2018 | £ 2019 | £ 2020 | £ 2021 | £ 2022 | £ 2023 | % CHANGE 2022-2023 |
|---|---|---|---|---|---|---|---|
| MIDTOWN | | | | | | | |
| 1 BED | 475 | 500 | 450 | 550 | 600 | 620 | 3% |
| 2 BED | 640 | 680 | 575 | 700 | 775 | 800 | 3% |
| 3 BED | 1,100 | 1,100 | 875 | 1100 | 1200 | 1250 | 4% |
| CITY | | | | | | | |
| 1 BED | 450 | 490 | 390 | 510 | 550 | 575 | 5% |
| 2 BED | 560 | 600 | 500 | 650 | 750 | 750 | 0% |
| 3 BED | 950 | 975 | 800 | 1000 | 1100 | 1100 | 0% |
| EAST LONDON | | | | | | | |
| 1 BED | 340 | 350 | 325 | 350 | 400 | 425 | 6% |
| 2 BED | 425 | 440 | 400 | 450 | 525 | 550 | 5% |
| 3 BED | 575 | 575 | 540 | 600 | 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*

The delivery of more privately built student accommodation across the capital helps to manage the increase in demand but still the presence of overseas students in our markets is the strongest driver of rents and the reason that growth peaks during the summer months.

Although rents have risen more steeply in East London this year, the differential between our markets remains stark. The monthly cost of a 2 bed apartment in East London is less than for a one bed in either City or Midtown. In the same way, a three bed in East London can be rented for less than the cost of a 2 bed and only a little more than a one bed in Midtown. Renters with budget constraints do make these trade-offs and this has helped drive rents higher in East London and other London suburbs.

Overall, rents have settled at a new high. An investor measuring income return over the past 3 years (since covid) would be delighted by growth averaging 12% per annum but that does not reflect the longer term picture which is between 2% and 4% per annum.

TABLE 4

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

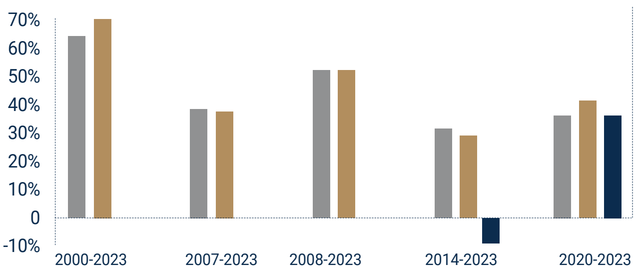
| | WEEKLY RENT £ | SQ FT | TOTAL RENT PAYABLE P.A. £ | RENT PSF £ |
|---|---|---|---|---|
| MIDTOWN | | | | |
| 1 BED | 620 | 500 | £32,240 | £64 |
| 2 BED | 800 | 750 | £41,600 | £55 |
| 3 BED | 1250 | 1500 | £65,000 | £43 |
| CITY | | | | |
| 1 BED | 575 | 500 | £29,900 | £60 |
| 2 BED | 750 | 750 | £39,000 | £52 |
| 3 BED | 1100 | 1500 | £57,200 | £38 |
| 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*

The strength of rental growth over such a short period gives landlords more scope to be flexible and this year we have seen some willing to reduce asking rents in order to secure a good tenant for their property. Higher rents off-set the additional costs of service charges and, for those with mortgage debt, rising interest rates.

FIGURE 9

LONG TERM RENTAL GROWTH




*Source: Hurford Salvi Carr*

Despite the rental growth, there has been a sharp rise in the number of landlords choosing to exit the market. In our experience, they are not being replaced by new investors (see buyer profiles). 51% of buy to let mortgages in England were taken out between 1996 and 2007 and we recognise this demographic of landlords as our clients who wish to sell their properties and to use the capital in other ways (sometimes to help the next generation to buy). Rental supply in London has fallen year on year in response to rising costs, higher taxation and expanding regulation in the sector, which will soon include the Renters' Reform Act, now expected in 2024, although the prospect of a General Election means the timing is uncertain.

There is no new policy designed to attract buy to let investors. Instead, the government continues to prioritise first time buyers. The exodus of buy to let landlords is clearly the outcome envisaged when George Osborne (then Chancellor of the Exchequer) announced a Stamp Duty surcharge for second-home owners and investors in December 2014.

Research conducted by Capital Economics on behalf of The Residential Landlords Association concluded that 735,000 homes could be lost from the private rental sector by 2027 if the Bank of England base rate remains above 2.5%. That would equate to one in 8, or 13% of all current rental stock. The researchers calculated that would mean a £1 billion loss of income and corporation tax revenue each year for the Treasury and higher rents for all.

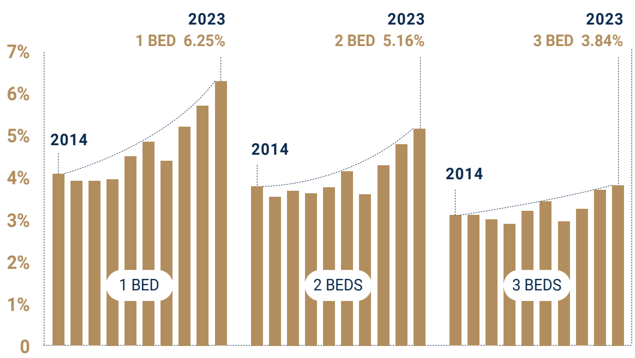
REGENTS CANAL N1 – 1 BEDROOM LOFT, LET JULY 2023, £2,850 PER MONTH

There have been some concessions however. In October Michael Gove Secretary of State in DLUHC, gave assurances that the government would not implement the ban on no-fault evictions (Section 21) until court services had been improved. The improvements envisaged included digitising court processes, improving bailiff recruitment and retention and providing early legal advice to tenants.

The Government has announced that rent controls (like those in Scotland and under consideration in Wales) will not be introduced in England and that rents in the private rented sector should be agreed between landlords and tenants.

FIGURE 10

CHANGE IN YIELDS FOR MIDTOWN, CITY AND EAST LONDON
2014 - 2023



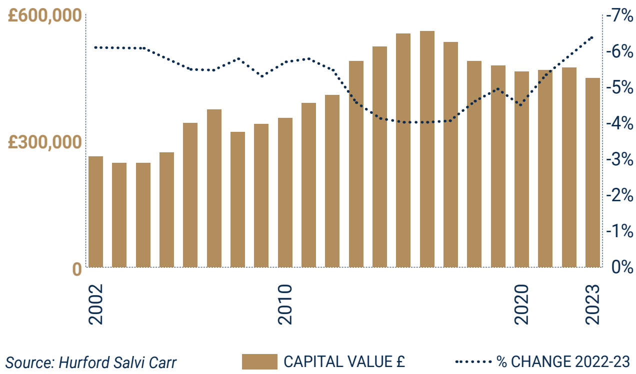

*Source: Hurford Salvi Carr*

LIMEHOUSE E14 – 3 BEDROOM PENTHOUSE, LET OCT 2023, £4,200 PER MONTH

We are clear that for the private rental market to function efficiently landlords must be able to raise rents in line with market prices, but equally that proposing rent increases significantly above market rates, should not be used as a means of backdoor eviction.

FIGURE 11

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




*Source: Hurford Salvi Carr*

All this is happening against a backdrop of improved returns for investors. The combination of rising rents and, at best, static prices, has led to a significant rise in the Gross Initial Yield in our markets which is now 6.25% for a one bed apartment.

At this level it compares well with many alternative investments and embodies the prospect of capital growth too - but the associated costs still weigh heavily on many investors, especially if they are carrying hefty services charges and interest costs. The yield is lower for larger apartments but remains over 5% for a 2 bed and just under 4% for a 3 bed. In other parts of the country, larger properties suitable for sharers tend to attract the highest yields but that is not the case in our markets where the values are so much higher.

There has been some renewed interest from overseas investors as yields have risen and we would expect that interest to continue in 2024 as London prices are now priced competitively compared to other international cities.

TABLE 5

GROSS INVESTMENT RETURNS FOR ONE BEDROOM APARTMENTS
AVERAGE OF MIDTOWN, CITY AND EAST LONDON 2014 - 2023

| | GROSS ANNUAL INCOME £ | CAPITAL VALUE £ | GROSS INITIAL YIELD % |
|---|---|---|---|
| 2014 | 21,060 | 520,000 | 4.1% |
| 2015 | 21,580 | 550,000 | 3.9% |
| 2016 | 21,840 | 555,000 | 3.9% |
| 2017 | 21,060 | 530,000 | 4.0% |
| 2018 | 21,840 | 485,000 | 4.5% |
| 2019 | 23,140 | 475,000 | 4.9% |
| 2020 | 20,280 | 460,000 | 4.4% |
| 2021 | 24,336 | 465,000 | 5.2% |
| 2022 | 26,760 | 470,000 | 5.7% |
| 2023 | 27,820 | 445,000 | 6.25% |

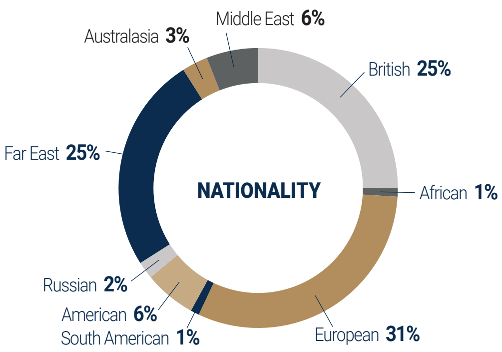
*Gross Yields - Gross to Net is typically depleted by 2.5%*

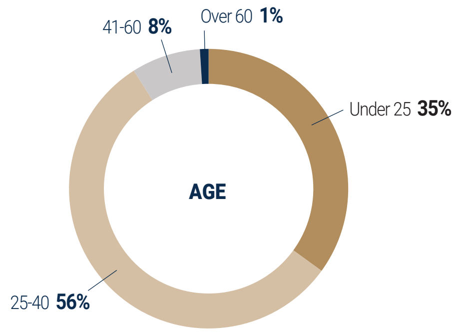
*Source: Hurford Salvi Carr*

CITY EC2 – 1 BEDROOM FLAT, LET SEPT 2023, £3,150 PER MONTH

# LETTINGS MARKET

## RENTER PROFILES 2023



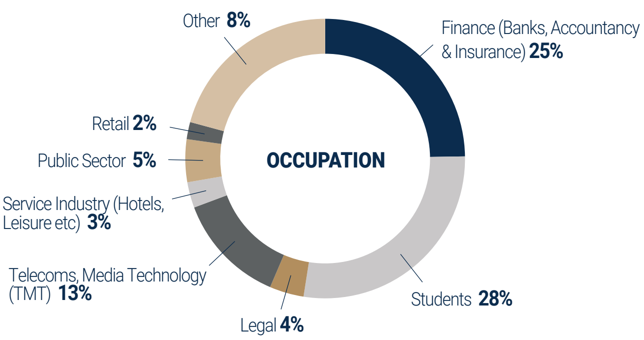



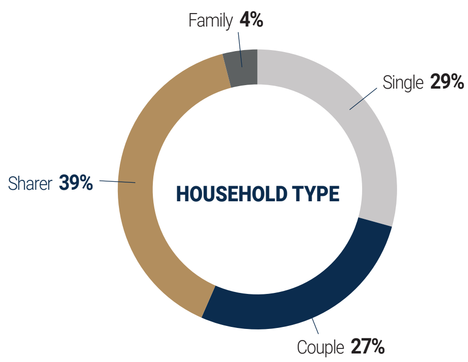

Renters from the Far East represented 25% of all new lets at our offices in 2023, significantly higher than the average of 16% recorded between 2015 and 2023. British renters made up a similar proportion (also 25%) compared to a long-term average of 31%. Renters from European nations have always been a dominant component in our markets and they made up 31% of new lets in 2023 only slightly down on 34% over the longer term.

Other nationalities accounted for around 20% of new lets between them and their individual contributions to the total this year have been broadly in line with the average over the period 2015-2023.

There is always a substantial difference in the age breakdown between the first and second half of any year because of the dominance of student renters in Q3. Over the whole year, under 25s made up 35% of all new rentals in our markets in 2023, although their share in half 1 was only 19% (meaning the Half 2 share was much higher than 35%).

The 2023 stat is significantly above the long term average (of 27%) and reflects two things: the return of overseas students to London post-pandemic as well as an increase in the number of students. The corresponding fall compared to the long term average was in the next age group 25-40 years old, which is still dominant at 56% of new lets but down on the average of 63%.




The breakdown by 'occupation' highlights the key role of students in our markets at 28% of all new lets and the highest single category. This is always the case in our markets and the long term average was similar at 25% of the total.

The Banking/Finance sector also underpins demand for rental in our markets accounting for 25% this year and a similar proportion over the longer term. People employed by the Tech sector are also an important source of demand making up 13% this year compared with 10% over the longer term.

There are very few families renting in our markets and only 4% of new lets were to families. Of the other three household categories, sharers were the most prominent accounting for 39% of new lets. That is an increase on the longer term average (33%) and probably reflects the rising cost of renting and other costs of living this year. In our experience, young renters will often choose to sacrifice living space rather than a central location and that would explain the rise in the number of sharer households.

# FUTURE PROSPECTS

## GENERAL ELECTION EXPECTED

It is expected that inflation will continue to fall in the first half of 2024, particularly with a General Election in prospect helping to restore confidence to the property market. On that basis, it is anticipated that the Bank of England will be able to cut interest rates by mid-year and rates are widely expected to fall back below 5% by Q4 2024.

Mortgage rates will naturally follow which in turn will encourage more would-be buyers back to the market including tenants with large deposits or parental assistance. Where many would be buyers adopted a wait and see approach in 2023 we will see more commitment in 2024 as confidence returns to the sales market.

We see supply being the bigger problem in 2024 as, in our experience, owners continue to wait for prices to improve before putting their properties up for sale. All in all, we expect another year of caution on the side of buyers mismatched by owners only willing to sell at premium prices. Stronger demand for larger flats and houses will again outperform demand for one and two bedroom apartments.

Politics will play a starring role in the 2024 housing market as the government and the opposition parties vie to offer solutions that appeal to the electorate. No-one yet knows the date of the General Election but whether it is May, October or even later, the uncertainty around the build-up will inevitably be a dampener on activity. In reality, the build-up had began before 2023 ended.

Whatever the outcome, we can expect a post-election bounce in confidence once a new government is elected, with the associated boost to the economy, so the timing of the election is critical to the outlook. There is growing potential to deliver price growth from the current low base in 2025 following a decade of no growth in residential values across the city and City fringes.

Irrespective of the election, the property market faces considerable uncertainty arising from several pieces of new legislation affecting the rental, sales and new homes markets. First the uncertainty over the timing of the Renters' Reform Bill, then the prospect of leasehold reform with its proposed changes to ground rents on existing apartments in the sales market and finally the requirement for two staircases in new residential building above 18m as part of fire safety regulation.

The level of service charges for leasehold flats will continue to be a major issue for buyers. They have been driven up by fire safety requirements, higher insurance premiums, energy costs and inflation and are unlikely to fall in the short term. Demand for freehold houses will remain in favour in 2024 partly due to the fact that they do not come with any service charge risk.

The final pieces of regulation introduced by the Building Safety Act 2022 came into force on 1 October 2023. The new regime is focused on improving building safety in the design, construction and occupation of higher-risk buildings (i.e. multi-unit residential buildings over 18 metres high), but it also aims to improve standards across the whole industry.

We understand that only around 12% of all buildings affected by the fire safety issue are covered by the UK developers' pledge - which leaves 88% of buildings relying on an application for grant funding from the government's Building Safety Fund. In some cases, buildings that had successfully applied to the Building Safety Fund and were ready to start works, had to withdraw from the fund on receiving confirmation that their housebuilder had signed the government's pledge, putting the buildings and leaseholders back to square one.

Following modest rental growth in 2023 we expect rents to stabilise at current levels in 2024. Rents are at an historic high and renters have choices. They can relocate further from the centre of London, or compromise on the amount of space they occupy. We expect growth to revert to its long-term trend of around 2-3% per annum from now on, particularly if inflation is back under control. Over the long term, wage growth is the strongest indicator of rental growth.

Both main political parties have acknowledged the risks of further intervention in the rental market. The lessons from Scotland have been noted. The Renters Reform Act has been scaled back and, in any event, it is now unlikely be implemented until after the next Election. That said, any new legislation designed to disincentive investors would lead directly to the loss of more rental stock and result in further upward pressure on rents. We will be on the alert for any such intentions.

Certainly, we do not expect any tax incentives designed to encourage new buy to let investors, meaning the lost stock will not be replaced by small investors. Policies that attract landlords are politically unpalatable as it would make homes less accessible to first time buyers. This conflict lies at the heart of the UK's housing crisis.

Institutional investors are still keen to deliver rental homes at scale and a fall in interest rates will facilitate their expansion. In our core central markets, the most likely route to market for institutional investors is by converting surplus office space. Office occupancy has plummeted since the pandemic and hybrid working has become an accepted norm. The logic of converting offices into homes is sound – it would help alleviate the housing shortage and spread spending in the local economy across weekends and evenings.

However, there are planning hurdles which ensure that office to residential conversion will not be a short-term fix for the housing market in London. The inner London boroughs continue to opt out of the permitted 'change of use' directive in a bid to protect employment uses. We expect to see a gradual transition over several years but only isolated examples in 2024.

Political manifestos will take priority over economic issues as the dominant factor in 2024. Looking further ahead a post-election surge in confidence, if it occurs, would stimulate a rebound in sales transaction numbers and also provide greater clarity to landlords on what the future holds for their property investments.

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