

research

from Hurford Salvi Carr

MIDTOWN, CITY AND EAST LONDON

RESIDENTIAL 1ST HALF 2023

“

Monthly rents
unchanged in the
first half of 2023.

”

Market Overview

PRICES STABILISE

2023 could hardly match the drama of its predecessor 2022 and as expected, the UK political landscape became more settled this year. The residential market across Midtown, City and East London performed in line with our expectations, with demand recovering for both sales and lettings in Q2, after a slow start to the year.

However, conditions remain challenging. Inflation has been more persistent than most commentators hoped, and The Bank of England responded with a 13th consecutive interest rate rise on 22nd June. At 5.0%, interest rates are now at their highest level since 2008 and while they are not close to levels of the late 90s, they sit against a backdrop of much higher multiples of house prices to earnings.

Cash buyers have taken advantage of the slowdown in sales but first time buyers and second steppers have struggled to come to terms with the new rates of interest – particularly as they come alongside increases in other living costs and, in our markets, service charges driven upwards by higher energy and insurance costs, and the ever-increasing burden of regulation around fire safety.

The result is that larger homes and freehold houses are in demand while entry-level one bed apartments have been out of favour - and their prices have dipped another 2% this year. Overall, values in our markets have remained stubbornly fixed at 2013 levels for another year – which makes them highly attractive to buyers with the means to act but at the same time offers little motivation to owners to put homes on the market unless they have strong reasons to sell at this point in the cycle. As ever, what is an incentive for buyers, is a disincentive to sellers.



LIMEHOUSE E14 – VIEW FROM 2 BEDROOM FLAT, SOLD MAY 2023, £755,000

All of our markets, City, Midtown and East London, suffered from a shortage of homes for sale in the first half of 2023. Most homeowners in our areas are in a position to wait until confidence returns to the wider economy before putting properties up for sale and the negative sentiment in the press will only prolong the drought.

The complexity of fire safety regulation also acts as a barrier to sales. Additional requirements fell on the shoulders of leaseholders looking to sell from January, under the 2022



KINGS CROSS N1 – 3 BEDROOM LOFT, LET MAY 2023, £5,000 PER MONTH

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.

These issues do not impact the rental market, other than by slowing the rate at which landlords can sell investment properties. Renters are not exposed to escalating service charges – or at least not directly – because those costs are borne by the landlord.

The balance of power lies with the landlord in the current market and has done since the end of lockdown. After making up for lost ground, rents have grown as much as 19% beyond their pre-pandemic levels although they remained unchanged in the first half of 2023.

The landlord has not always had the upper hand and many feel bruised by the changes to taxation in recent years and, for those holding mortgage debt, by interest rates. Certainly, we are not seeing new investors coming into the market despite the fact that gross yields are moving back towards 5%.

More renters are electing to extend existing tenancies rather than risk the vagaries of the open market especially as other living costs are so volatile. This has helped reduce turnover in the rental market and contributed to the sense that stock of rental properties is no longer enough to meet demand. To some extent, today's imbalance is still a legacy of the extraordinary conditions during the pandemic which have not yet reverted to normal.

Rental markets are always quieter in the winter months and this year was no exception. There was no rental growth in the early months and, although pressures inevitably push rents up in the busy summer months, we fully expect that to subside towards the end of the year.

All in all, the market has remained surprisingly balanced this year. In the sales market, new sales have been proceeding with lower numbers of buyers being matched by low numbers of sellers and for rental, after a period of heightened activity, it has settled to a more measured pace.

Economic Overview

INTEREST RATES RISE TO 5%

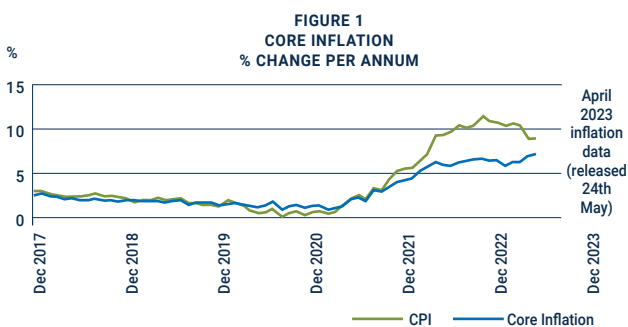
Latest forecasts suggest the economy will grow by a modest 0.3% in 2023, certainly impressive compared to economic forecasts which at the start of the year expected a recession. Unfortunately, though the resilience of the economy is part of the problem, with the Bank of England desperately trying to curb demand and therefore inflation. The more protracted the inflationary period becomes the more likely the Bank of England has to take more significant action to suppress demand. So, a recession is not yet off the cards.

**TABLE 1
CONSENSUS FORECASTS FOR 2023**

	As at January 2023	As at June 2023
GDP (% annual growth)	-0.9%	0.3%
Inflation (CPI)(Q4 on Q4 a year ago, %)	4.5%	4.7%
Interest Rates (level in Q4 %)	4.3%	5.1%
House Prices (Q4 on Q4 a year ago, %)	-6.8%	-6.2%
Earnings (Q4 on Q4 a year ago, %)	4.4%	5.2%
Employment (% change)	-0.3%	0.9%

Source: HM Consensus Forecasts, June 2023

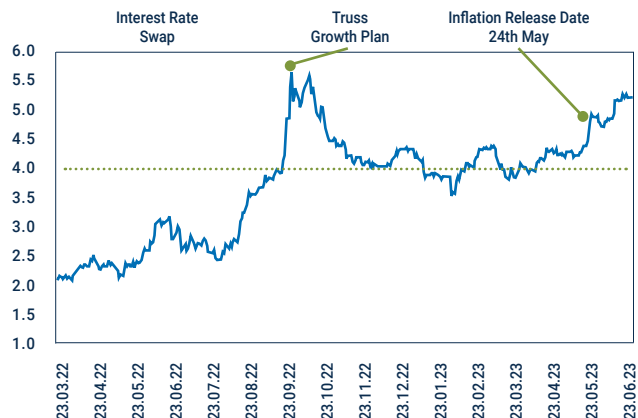
Fresh concerns have arisen over the inflation numbers. For much of the last year the concern has centred on the headline rate of inflation. This finally started to fall back in the April 2023 data, predominately as wholesale energy prices eased and have started to flow through to consumer prices (albeit slowly). Although the headline rate eased, core inflation increased. Core inflation strips out the more volatile components of food and energy prices. This is concerning as it shows that inflation might have become more domestically entrenched.



Source: Dataloft, ONS

The reaction to the April inflation numbers (released on 24th May) was immediately felt in the interest rate markets. The 5-year swap which had settled around 4% post the Liz Truss growth plan reacted by rising to 4.75%-5%. This reflected the fact that interest rates were likely to have to go higher. And indeed, the Bank of England did just that, raising rates by 50 basis points to 5%. Uncertainty in the mortgage market led to several mortgage lenders pulling mortgage products as they re-evaluated the new interest rate outlook and the rate at which they wanted to underwrite new business. The market feels very much like it is hanging on every piece of economic data released and inflation remains the most watched indicator.

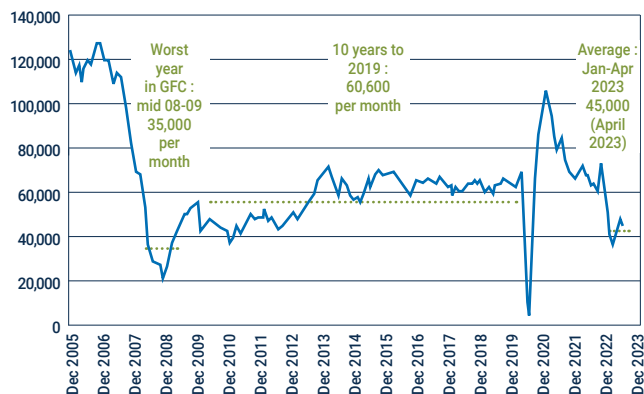
**FIGURE 2
FIVE YEAR INTEREST RATE SWAP**



Source: Dataloft, Investing.com

For the UK wide residential market, prices have stabilised somewhat over the last few months but this might be a false dawn, as the market digests the latest interest rate flux. Mortgage approvals are certainly already low: 26% below their 10 year average pre-Covid but still a margin above the worst year in the financial crisis. As and when the path of interest rate becomes clearer, these low mortgage approval levels should lift.

**FIGURE 3
MORTGAGE TRENDS
MONTHLY VOLUME OF MORTGAGE APPROVALS**

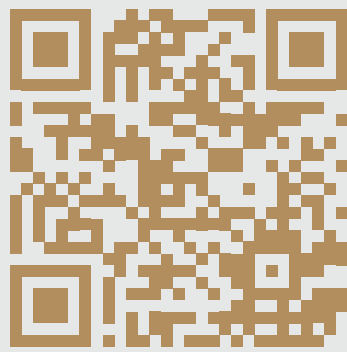


Source: Dataloft, Bank of England

Employment has been a key factor in the resilience of the economy. In prior economic downturns employment typically has fallen. In the Global Financial Crisis, London lost 4% of its service sector jobs. Through Covid London lost 4% of service jobs and total jobs declined by 5%. Since Covid, London service sector jobs have bounced back and grown +9% beyond pre-Covid levels. The strongest growth beyond pre-Covid levels has been for 'Financial and Insurance Services' which is 21% above pre-Covid levels.

Some sectors have only just recovered their Covid-losses, for instance 'Accommodation and Food service activities' fell 18% through Covid and remains -2% below pre-Covid levels. Construction fell 24% through Covid and remains -6% below.

Amazing Spaces



Our Blog

HURFORD

SALVI

CARR

Sales Market

CONVEYANCING DELAYS LENGTHEN

The price of a one-bedroom apartment is essentially the same today as it was in 2013. At these prices, owners in our markets tend to hold on to their assets long term, rather than sell at unappealing prices. It's a message we have restated many times in recent years and it remains true in the current market.

We have seen no shortage of motivated buyers but unfortunately with interest rates rising on a monthly basis in the first half of 2023, confidence amongst buyers has been understandably missing. The upshot is that prices have held fairly stable, but transaction volumes are lower than 2022.

UK mortgage approvals – a lead indicator of future sales - have remained low so far 2023, averaging 45,000 per month compared to a 10-year average pre-Covid of 60,000 a month. At the end of May nearly 10 per cent of mortgage deals disappeared overnight and rates are now not expected to peak until the end of this year. Inflation is not falling as quickly as had been hoped and that is driving the decision to move interest rates upwards.

There has been a modest decline in prices averaging around 3% in the first six months of the year as the market reacted to the succession of interest rate rises, which is in line with our published expectations at the end of 2022. That makes the average one bed apartment, £15,000 cheaper than it was in December.

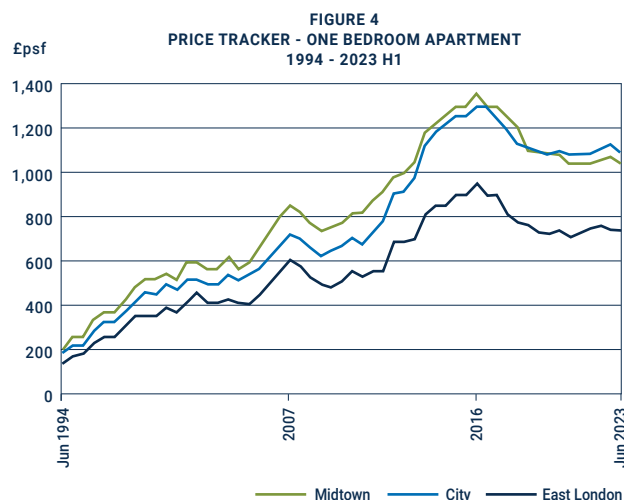
With less stock coming to the market we expect prices to hold firm for the rest of the year. In any event, prices are not the barrier to sales given that they are at the same level as they were a decade ago. The real barriers are lack of stock on the supply side and lack of confidence on the buyer side - which results in a calm and balanced market. That said, our offices continue to see strong levels of enquiries for 'best in class' homes as cash buyers are less affected by higher interest rates and multiple bids are still being received for well priced homes.

Interest rate rises are not the only cause of stagnation in the market. Around 30% of UK house purchases are financed without any mortgage debt at all, using cash and, in our markets, cash buyers have always been an important driver. At the same time domestic Buy to Let investors seem to have retreated altogether, discouraged by the increased cost burden of being a landlord and the uncertainty created by the government's evident dislike of small-scale property landlords.

A major drag on the sales market is the time it is taking to complete transactions. For leasehold properties, conveyancing typically takes between 4 and 6 months to reach completion, from the time a sale is agreed. These delays cause frustration all round especially when a mortgage offer expires. Solicitors blame the lenders for their ever-lengthening list of criteria particularly relating to The Building Safety Act, but even where there is no lender involved, buyers' solicitors look to apply the same stringent tests to ensure their clients are offered a comparable level of protection.

All of this means that first time buyers with large cash deposits are in a stronger position than they have been for some time to secure a home in City, Midtown or East London. They will not

be competing with domestic Buy to Let investors and second home buyers although there is interest from some overseas buyers for family homes there are fewer overseas investors.



Data based on the value of a 500 sq ft one bed apartment in the re-sale market

Source: Hurford Salvi Carr

TABLE 2
PRICES AND ANNUAL GROWTH FOR ONE BEDROOM APARTMENTS IN
THE RE-SALE 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	-3.2%	455,000	-15,000

Source: Hurford Salvi Carr

For dollar-denominated investors, current market conditions with historically low prices remain attractive. We have particularly noted Hong Kong buyers since the start of the British National Visa scheme in January 2021, showing interest in family houses. We have also seen an increase in Turkish and Israeli buyers being active in the London market in the past 18 months.

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

		£ 2019	£ 2020	£ 2021	£ 2022	£ 2023 H1	£ per sq ft	Change 2022 - 2023 H1
Midtown	1 Bed	550,000	525,000	525,000	530,000	525,000	1,050	-1%
	2 Bed	850,000	850,000	850,000	875,000	850,000	1,133	-3%
	3 Bed	1,650,000	1,700,000	1,800,000	1,750,000	1,700,000	1,133	-3%
City	1 Bed	560,000	530,000	530,000	530,000	510,000	1,020	-4%
	2 Bed	765,000	765,000	765,000	790,000	765,000	1,020	-3%
	3 Bed	1,400,000	1,450,000	1,550,000	1,500,000	1,500,000	1,000	0%
East London	1 Bed	390,000	375,000	385,000	390,000	375,000	750	-4%
	2 Bed	525,000	525,000	535,000	540,000	530,000	707	-2%
	3 Bed	900,000	900,000	975,000	975,000	950,000	633	-3%

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 is very little difference between our markets in the way prices for apartments have behaved this year (Table 3). Midtown one beds and City 3 beds have been most resilient with virtually no change in price, while one beds in City and East London lost 4% of their value. These small changes are minimal over a short period and they are more about timing. We generally see corrections from year to year which bring all price bands broadly in line over a 12 month period.

Where there is a notable change is in the demand for family houses. The desire for outside space, which was highlighted during the pandemic, has persisted in our markets and particularly for families living in the city.

The preference for houses over flats also reflects the additional burden of service charges and increased regulation around fire safety and the requirements for various certifications which, despite being well-intentioned, are unfortunately causing confusion, severe delays and more costs. (See page 7 for more detail on fire safety).

The owner of a one bedroom apartment in the City, who bought in the wake of the 2008 financial crisis, will be holding an asset worth 67% more than they paid. One who bought in 2015, would not be able to recoup their purchase price. Property investment always comes with a health warning but that same investor who bought in 2015, could have earned well over £200,000 in rental income during that period, far in excess of the interest rates available on cash.

Table 4 illustrates the opportunity and the risk associated with property price cycles. The difference between buying in 1994 and 2000, just 6 years apart, is stark. This helps to explain why owners in our markets are reluctant to sell at decade-old prices – as they are today – particularly when they have been significantly higher in the interim. We do not expect to see activity levels restored until prices rise.

That said, there remains a glamour around owning real estate in central London that is hard to value. London still tops the rankings of global cities and its cultural and leisure scene has bounced back to life. The 21% growth of jobs in the financial

and business services sector since the pandemic has been extraordinary and means that even with fewer days in the office, the number of workers in the city is rising.

Experience has become the watchword in the office market, as it did in retail a few years earlier. Employers keen to have their workforce in attendance are well aware that they need to offer an attractive working environment. These days that means lively and appealing spaces for collaboration and interaction, combined with quiet spaces, often cubicles, for calls and concentrated work. Stringent requirements for environmental and energy efficiency standards will, in any event, drive demand towards higher quality building stock.

Meanwhile the hunt for alternative uses for obsolete office space has begun with homes an obvious candidate. The City has, until now, fiercely defended its role as a commercial centre and put measures in place to resist the loss of office space to residential but it seems likely that their policies will be under review as all city centres move to a more mixed-use environment.

**TABLE 4
LONG RUN PRICE CHANGES
FOR A ONE BEDROOM APARTMENT IN THE RESALE MARKET**

Submarket	1994 - 2023 H1	2000 - 2023 H1	2007 - 2023 H1	2008 - 2023 H1	2015 - 2023 H1	2013 - 2023 H1
Midtown	436%	104%	23%	35%	-20%	-1%
City	511%	146%	52%	67%	-13%	12%
East London	454%	112%	22%	41%	-18%	5%

Source: Hurford Salvi Carr



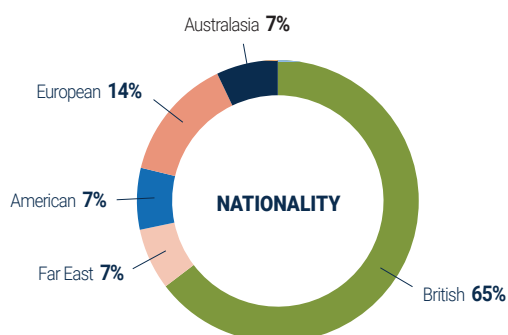
CLERKENWELL EC1 – 3 BEDROOM HOUSE, SOLD JUNE 2023, £2,100,000

The construction sector is a problem, weak numbers for the sector were noted in the latest monthly GDP figures as being a drag on economic growth. The outlook for the sector is of concern given the supply constraints the housing sector already faces. Developers though are faced with much higher build cost inflation and selling into a current market with lower transaction volumes and prices.

BUYER PROFILES 2023

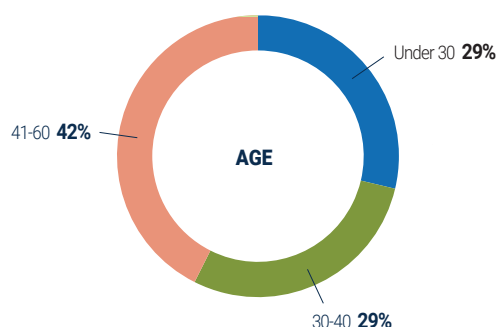
Nationality

American buyers are back on our radar for the first time in several years. Accounting for 7% of buyers in the first six months of this year, their presence is clearly motivated by the strength of the pound against the dollar. The long term average for Americans (2015-2022) was just 2% of sales.



Age

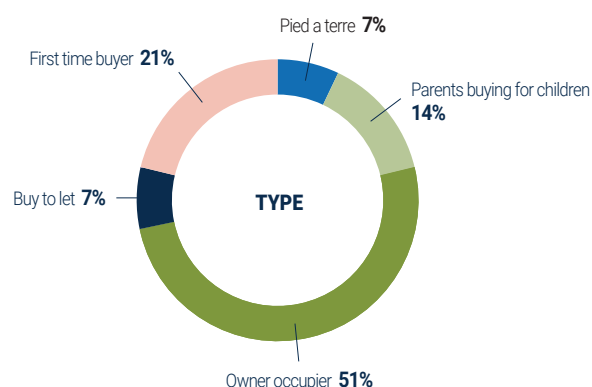
There has been a dramatic change in the age structure of our buyers this year. Whether it will endure for the long term we cannot say, but so far this year almost 30% of our buyers have been aged under 30, compared with an average of 19% between 2015 and 2022. This is in line with first time buyers moving from long term rental.



Type

Buy to let investors have virtually disappeared from our markets, compared to a long term average of 17%. On the other hand, there is a significant increase in the proportion of parents buying for children – up from a long term average of 8% to 14% so far this year.

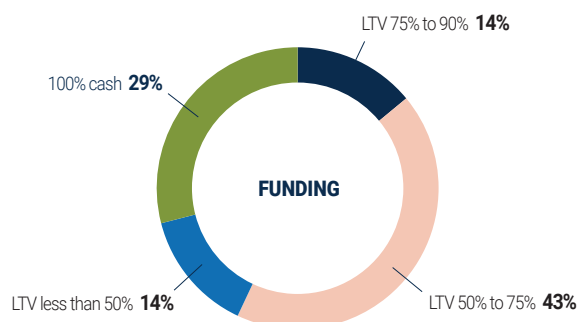
First time buyers are in line with the long term average, accounting for about one fifth of purchases, as were owner occupiers at around half of all purchases.



Funding

There was more mortgage debt behind this year's purchasers than has been the average for the period 2015-2022. The proportion buying with 100% cash buyers was 29%, down from a long term average of 34%.

The most common category by far was of people using cash to fund between half and three quarters of the cost of the purchase and borrowing the remainder. They made up 43% of all buyers.



FIRE SAFETY UPDATE

In April, the government signed an agreement with major developers for fire safety measures. Under the agreement, the developers will commit a minimum of £2bn to fix their own buildings, plus a further £3bn through an expansion of the Building Safety Levy.

There are 39 signatories to the agreement including the UK's ten biggest housebuilders. They pledge to fix life-critical fire-safety defects in buildings more than 11m high in England, where they had a role in developing or refurbishing. The pledge also requires them to reimburse the taxpayer where remediation has already been paid for.

Companies that do not sign the agreement will not be able to commence new developments in England or receive building control approval for work already under way.

So far, the contract covers about 1,500 developments which represents around 12% of the almost 12,700 buildings requiring works.

It will not however, help residents in the remaining 88% of unsafe buildings. In another potential shortcoming, the assessors who will identify works required, can be appointed by the developers themselves. They are not obliged to accept surveys commissioned by owners, resident companies or the government. We understand that this is delaying works commencing.

According to the latest government estimates there are 374,000 fire-risk flats (in blocks taller than 11m) and only 8% have been fixed - leaving some 640,000 residents still in danger.

Despite ministers repeatedly claiming that leaseholders should not pay for the mistakes of developers in the wake of Grenfell, there are thousands of non-qualifying leaseholders excluded from protection in the Building Safety Act. Buy to let investors owning three or more properties, including their own home, are not protected nor will they be included in the protective cap on non-cladding fire safety works. The exclusion of these investors is likely to lead to additional delays particularly in buildings with a high percentage of rental flats.

The Fire Safety (England) Regulations 2022 which came into force on 23rd January 2023 have expanded the duties of 'Responsible Persons' for multi-occupied residential buildings in England. The regulations apply to all buildings of at least 5 storeys or 11 metres in height, which contain two or more domestic premises, including the residential parts of mixed-use buildings. It includes blocks of flats, student accommodation, and sheltered housing which are defined as buildings containing two or more domestic premises and are at least 18 metres in height or have seven or more storeys.'

Landlords are required to:

- Repair any existing building defects.
- Assess the safety of buildings.
- Mitigate any identified risks.
- Display fire safety instructions and evacuation strategy in a prominent place.
- Provide information about fire doors.
- Conduct annual checks on entrance doors and quarterly checks on fire doors in common areas.

The Act sets out whether a landlord can recover the costs of any non-cladding repair works from the owners of flats and provides a cap on how much owners have to pay.

Under the Building Safety (Leaseholder Protections) Regulations 2022 the Landlord's Certificate is intended to create a snapshot of the position of the building as at the qualifying time of 14 February 2022. The Certificate should capture all details needed to enable leaseholders to understand the extent to which, if at all, they will be required to contribute via service charge to the costs of the remediation of relevant defects in relevant buildings i.e., those of at least 11 metres in height or five storeys, containing at least two flats.

LANDLORD CERTIFICATES

The practical impact of the Building Safety Act 2022 on the recovery of service charges for remediation costs is beginning to be felt across the real estate sector, with it becoming increasingly apparent that the new obligations are even more extensive than first anticipated, leaving landlords and leaseholders alike scrambling to ensure that they are compliant.

Under the Regulations, it is the current landlord who must provide the Certificate, enclosing an exceptionally detailed and comprehensive volume of supporting evidence. This includes company accounts for each company in the landlord's group, a statement from a chartered accountant or the landlord's finance director setting out the net worth of the landlord's group, details of relevant works carried out since 28 June 2017, and details of any costs paid or due to be paid towards those works, concluding with a statement of the leaseholder's maximum remaining liability. Where there is a superior landlord holding relevant information, the Regulations contain provisions for the current landlord to request information from that superior landlord, who must respond within three weeks of request.

If the landlord is part of a large group and there are superior landlords involved, the scale of the challenge cannot be underestimated, with potentially hundreds of documents required to be served on the leaseholder along with the certificate. With many landlords having now signed up to the Government's Developer Pledge and self-remediation terms (or owning a building which was constructed by a developer who has signed up to such terms), the purpose and utility of the Landlord's Certificate may be open to question – why go through the time and cost of preparing the Landlord's Certificate if the developer is going to pay for the remediation costs anyway?

However, given the breadth of the scope of relevant costs which are caught by the leaseholder protection provisions under the Building Safety Act (going well beyond replacement of cladding), it is still a material risk for a landlord to decide not to provide a Landlord's Certificate when requested to do so, as the landlord will then be prevented from recovering any remediation costs from the particular leaseholder who has requested the Landlord's Certificate. Landlords therefore face a substantial obligation to gather together large amounts of documentary evidence and paperwork in order to be able to complete the Certificate, even if they do not currently intend to recover any remediation costs from the particular leaseholder.

Not only is there a significant obligation on landlords, but buying a flat has become increasingly complicated due to recently introduced changes to the conveyancing process. In January 2023, the Law Society updated its standard leasehold enquiries forms TA7 and LPE1, to each include additional enquiries to sellers and landlords (respectively) as to whether a Landlord's Certificate or a Leaseholder Deed of Certificate has been issued.

Likewise, the UK Finance Mortgage Lenders' Handbook has been updated to include requirements on conveyancers to raise enquiries in respect of building safety on all leasehold transactions, regardless of whether the flat being purchased is situated within a relevant building to which the leaseholder protection provisions apply. Certain lenders also require conveyancers to verify information in Landlord's Certificates and Leaseholder Deeds of Certificate.

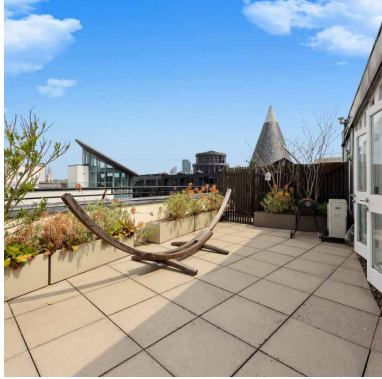
All this has led to much confusion in the residential conveyancing sector, with many leasehold sales stalling when Landlord's Certificates are not forthcoming. As with the EWS1 form difficulties, it appears that a measure that was introduced to improve the position of leaseholders may in fact cause detriment to them by slowing down the conveyancing process.

The government appears to have taken notice of market concerns around these issues and, on 12 June 2023, put new draft regulations before parliament in the form of the Building Safety (Leaseholder Protections)(England)(Amendment) Regulations 2022. This will be the second amendment to these regulations this year, which shows the extent of the quirks and complexities which have emerged as landlords try to put them into practice. It is not yet clear when these amendment regulations will come into force, but the explanatory guidance flags that they are intended to clarify what was always meant by the regulations and remove any confusion, rather than changing the process or imposing a new one.

The effect of the regulations is to break the long list of documents to be provided with landlords certificates down into categories. This means that landlords do not have to provide certain financial information where they accept that they satisfy the net worth test and therefore cannot charge leaseholders in any event. Similarly, landlords do not have to provide such extensive detail on the corporate structure where they admit they are responsible for the defect in question.

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THE Penthouse Collection



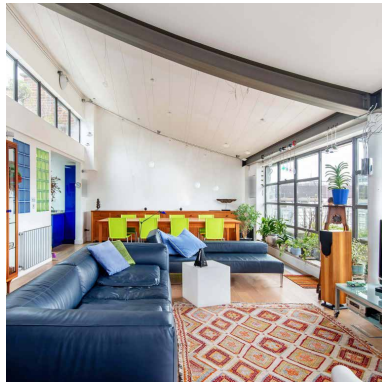
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04



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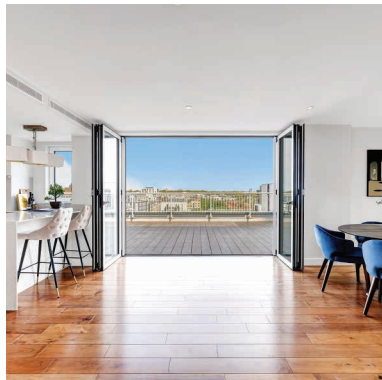
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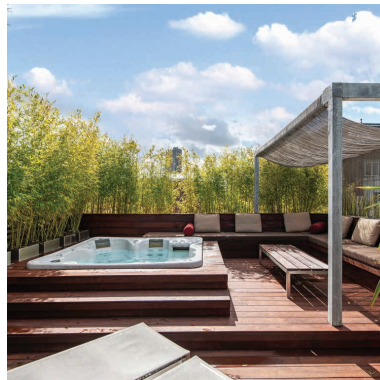
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08



03



06



09

- | | |
|-----------------------------------|-------------------------------|
| 01 Farringdon EC1 | £1,450,000 |
| 3 Bedrooms | 1,399 sq.ft/130m ² |
| 02 Great Sutton Street EC1 | £2,000,000 |
| 2/3 Bedrooms | 1,673 sq.ft/155m ² |
| 03 Islington N1 | £1,995,000 |
| 3 Bedrooms | 1,764 sq.ft/164m ² |

- | | |
|---------------------------------|-------------------------------|
| 04 Dundee Wharf E14 | £1,950,000 |
| 2 Bedrooms | 1,794 sq.ft/166m ² |
| 05 Lothbury EC2 | £2,350,000 |
| 2 Bedrooms | 1,549 sq.ft/144m ² |
| 06 Dallington Street EC1 | £3,000,000 |
| 3 Bedrooms | 2,106 sq.ft/195m ² |

- | | |
|--------------------------|------------------------------|
| 07 Limehouse E14 | £1,100,000 |
| 3 Bedrooms | 1,706sq ft/159m ² |
| 08 Barbican EC1 | £3,250,000 |
| 3 Bedrooms | 2,196sq ft/204m ² |
| 09 Bakers Row EC1 | £2,500,000 |
| 3 Bedrooms | 2,572sq ft/239m ² |

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Lettings Market

STRONG DEMAND

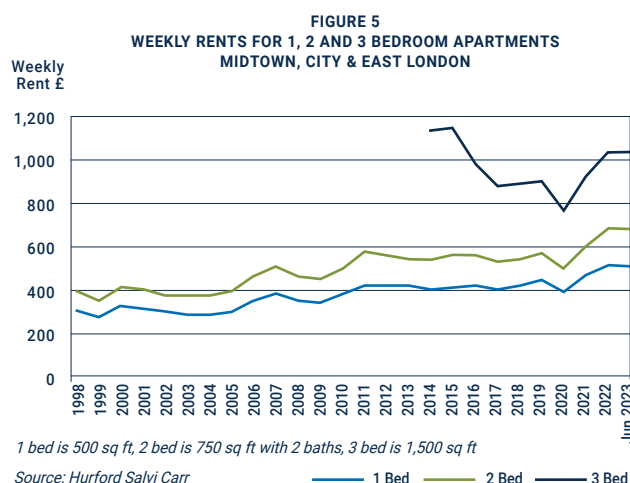
Rents stabilised in the first half of 2023 after an extraordinary period of growth triggered by the post-lockdown return to the city. Although there was genuine excess of demand over supply at that time, the pace of growth was never sustainable – but it does look as though the levels reached will be consolidated as the new normal with some upward pressure in the busy summer months through to October.

As a general rule, rents track earnings over time. Renters, especially young renters living in cities, are normally flexible and can reconsider their living choices each year – which eventually puts a natural cap on rental growth. They will absorb a certain degree of growth in the short term but at some point, unless wages rise, they start to make different decisions such as relocating to lower value locations, or occupying smaller properties.



PRIMROSE HILL NW1 – 6 BEDROOM HOUSE, LET JUNE 2023, £17,500 PER MONTH

Figure 5 plots rents over a 25 year period and it is clear that there is no precedent for the rate of growth experienced in the past 2 years, rental growth is normally far more gradual. The wider cost of living crisis has helped to cap this most recent growth spurt even though demand remains robust and supply limited.



Three bed apartments were the exception in the period 2015 – 2019 because there was an oversupply caused by planning requirements to build ‘family homes’ even though there was no substantial demand from families for apartments - but they do not represent the mainstream market. One and two bed apartments are the mainstay of our markets.

Submarket		£ 2018	£ 2019	£ 2020	£ 2021	£ 2022	£ 2023 H1	% Change 2022-2023 H1
Midtown	1 Bed	475	500	450	550	600	570	-5%
	2 Bed	640	680	575	700	775	775	0%
	3 Bed	1,100	1,100	875	1100	1200	1200	0%
City	1 Bed	450	490	390	510	550	550	0%
	2 Bed	560	600	500	650	750	725	-3%
	3 Bed	950	975	800	1000	1100	1100	0%
East London	1 Bed	340	350	325	350	400	400	0%
	2 Bed	425	440	400	450	525	525	0%
	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

In our markets, East London attracted most attention this year, as more workers returned to their offices in Canary Wharf and the City whereas West End offices seemed to recover earlier in the process. It is still not clear where working patterns will settle but the desire to live in the heart of London remains the primary driver of demand in our areas, whether or not they are commuting to an office every day. The 21% increase in jobs in financial and business services quoted earlier in this report underwrites demand for rental.

Families are behaving differently. Higher rents on top of higher costs of living have made it harder for some families to stay in central and inner London and there are reports that this is resulting in some school closures with more put at risk. Camden has closed four schools since 2019 and Islington, Southwark, Hackney and Lambeth are all reported to be considering the same course of action. It looks as though two decades of rebuilding urban living for families in London may be unravelling.



STRATFORD E20 – 16TH FLOOR 1 BEDROOM FLAT, LET JUNE 2023, £2,345 PER MONTH

Table 5 shows that rents have remained virtually unchanged across all of our markets this year and for all property types. The only exceptions are Midtown one-beds where rents lost 5% and City 2 beds which lost 3%. Certainly for Midtown one beds, that loss is likely to be recuperated during the summer when the student market picks up around Bloomsbury.

We will see renewed upward pressure on rents across our markets in the summer simply because supply cannot meet demand.

Submarket		Weekly Rent £	Sq ft	Total Rent payable p.a. £	Rent psf £
Midtown	1 Bed	£570	500	£29,640	£59
	2 Bed	£775	750	£40,300	£54
	3 Bed	£1,200	1,500	£62,400	£42
City	1 Bed	£550	500	£28,600	£57
	2 Bed	£725	750	£37,700	£50
	3 Bed	£1,100	1,500	£57,200	£38
East London	1 Bed	£400	500	£20,800	£42
	2 Bed	£525	750	£27,300	£36
	3 Bed	£700	1,500	£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

It has been widely reported in the press that the pressure on rents has been exacerbated by loss of rental stock because landlords are selling up in the face of higher taxation and other rising costs. There is no doubt that lack of supply is driving rents.



BLOOMSBURY WC1 – 1 BEDROOM FLAT, LET JANUARY 2023, £2,500 PER MONTH

	2000 - 2023 H1	2007 - 2023 H1	2008 - 2023 H1	2014 - 2023 H1	2020 - 2023 H1
1 Bed	57%	32%	46%	26%	31%
2 Bed	66%	35%	48%	26%	37%
3 Bed	N/A	N/A	N/A	-9%	36%

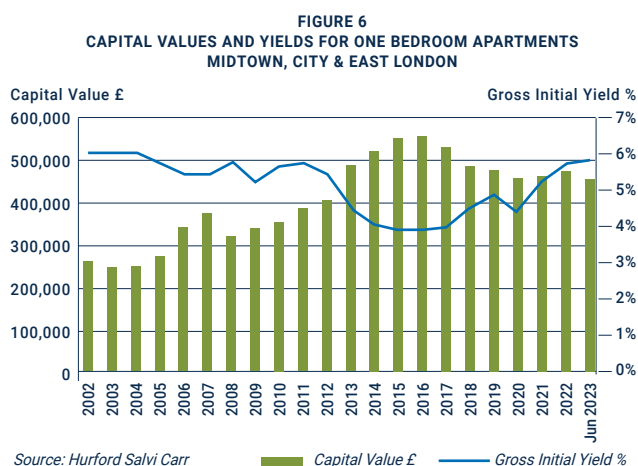
1 bed is 500 sq ft, 2 bed is 750 sq ft with 2 baths, 3 bed is 1,500 sq ft
Source: Hurford Salvi Carr

The reason for selling though, is different, at least in our experience. Investors who purchased between 1996 and 2010 are selling to fund their retirement plans, or to support adult children into home-ownership. It is a natural lifecycle and would not be a problem were it not for the fact that stamp duty increases in December 2014 discouraged new buy to let buyers from investing in central London and so the pool of rental properties is being progressively eroded.

Another trend this year is the number of landlords withdrawing properties from the rental market for their own occupation or for a family member. That reason alone accounted for 10% of all notices given on rental properties at our offices this year. With sales prices stuck at 2013 prices this is unsurprising and indicates the inherent value of owning real estate in the capital to an owner and their family.

In the majority of cases, when a tenancy is ended, it has been initiated by the tenant. Of all the notices received in our offices so far this year, 63% were initiated by the tenant because they were relocating or buying. These moves help to restore the supply demand imbalance and bring stock back to the market.

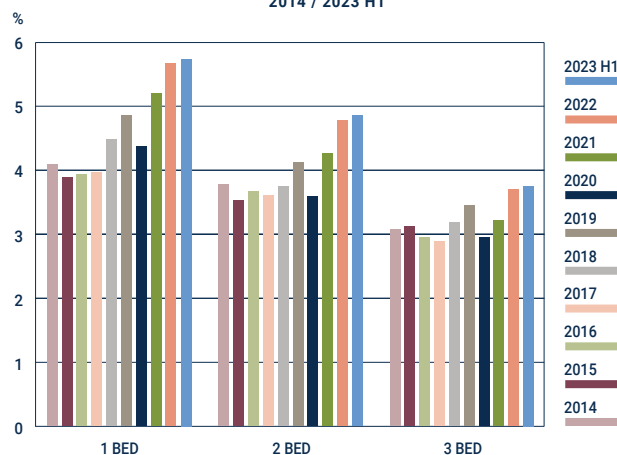
Another 14% were the result of not reaching agreement on a revised rent, these too will return to the market for reletting. However, 9% of notices were served because the owner wanted to sell the property.



These landlords are, as mentioned earlier, normally selling because they want to use the funds elsewhere. Of much greater concern is the absence of new investors buying in our markets. Without government incentives we do not expect to see the return of domestic rental investors anytime soon, which means the central London market becomes more dependent on overseas investors stepping in to fill the gap with the purchase of new homes at overseas sales exhibitions.

One factor boosting demand for rental accommodation is record-high net immigration totalling 504,000 people in the year to June 2022. Some of this will be a backlog following the pandemic when immigration was all but suspended and we can expect numbers to settle back to more normal levels.

FIGURE 7
CHANGE IN YIELDS FOR CITY, MIDTOWN & EAST LONDON
2014 / 2023 H1



Source: Hurford Salvi Carr

This partly explains the jump in student numbers as universities offered extra places to encourage the return. Overseas students studying in the UK totalled 680,000 in 2021/22, up 122,000 in 2 years. However, there was also a major change to the visa rules last year to attract skilled workers and offset the loss of EU nationals in the jobs market.

Following changes to the rules, in a bid to control immigration, international students will no longer be able to bring dependants with them unless they are on postgraduate courses that are currently designated as research programmes.

The package will also remove the ability for international students to switch out of the student route and into work routes before their studies have been completed to prevent misuse of the visa system. The changes will come into effect for students starting their courses from January 2024 in order to allow future international students time to plan ahead.

This may curb some of the increases especially in universities that have actively promoted themselves to overseas students to bring in revenue. However, we do not see this as a major issue in central London where our international students rarely rent with relatives.

The strength of rental growth over the past 2 years has greatly improved income returns for investors and, since prices have not grown, the gross yield on an investment property in our markets is now close to 6% for a one bed apartment, at 5.8%. The last time yields hit 5.8% was in 2005, and they have not even been close to that level since 2011. (See figure 6)

The average annual rent for a one bed apartment is now around £26,500 per annum. A single renter would need an income of £63,600 to cover the rent and comply with normal referencing criteria. Couples sharing a single bedroom apartment are obviously in a much stronger position.

Overseas students, who are an important source of demand around London's prestigious universities and medical schools in Bloomsbury, are generally supported by their families and in a position to pay 6 - 9 months' rent upfront as a capital payment. The trade-off between owning and renting is a more complex calculation with service charges adding to the annual running costs of owning a home.

Yields for a 2 bed apartment are almost 5% while the larger apartments with 3 bedrooms have risen less steeply and now offer a lower gross yield at just under 3.75%.



CITY ROAD EC1 - 2 BEDROOM FLAT, LET MAY 2023, £3,750 PER MONTH

TABLE 8
GROSS INVESTMENT RETURNS FOR ONE BEDROOM APARTMENTS
AVERAGE OF MIDTOWN, CITY AND EAST LONDON 2014 TO 2023 H1

	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023 H1
Gross Annual Income £	21,060	21,580	21,840	21,060	21,840	23,140	20,280	24,336	26,760	26,520
Capital Value £	520,000	550,000	555,000	530,000	485,000	475,000	460,000	465,000	470,000	455,000
Gross Initial Yield %	4.1%	3.9%	3.9%	4.0%	4.5%	4.9%	4.4%	5.2%	5.7%	5.8%

Source: Hurford Salvi Carr

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

RENTERS' REFORM BILL

The Renters Reform Bill was published in May of this year. It will bring into law the reforms set out in the private sector white paper published in 2022. The Bill is expected to receive royal assent in spring 2024.

The government says it will 'bring in a better deal for renters'. On its website, the government acknowledges that 'for the most part, the [private rental] sector works well for both landlords and tenants'. The main aims of the Bill are to end 'no fault evictions' and introduce a 'decent homes standard' to address the flaws in the current system. On behalf of landlords, they recognise the challenge of evicting tenants who 'wilfully do not pay rent or exhibit anti-social behaviour'.

The most significant change is the abolition of section 21 notices. The bill would ban assured tenancies and assured shorthold tenancies and replace them with a single system of periodic tenancies – meaning there is no end date specified in the rental contract. Landlords will only be allowed to evict a tenant in 'reasonable circumstances'. It is anticipated that properties let to students will be covered by this change in the law, although purpose-built student accommodation will be exempt.

To ensure that landlords are not repeatedly left with vacant properties at short notice, a tenant wishing to move out, will need to give two months' notice.

New mandatory grounds for possession will be introduced for landlords who want to sell the rented property or move into it themselves, although not within the first six months of the tenancy. There will also be new mandatory grounds for repeated serious rent arrears, and also new provisions to ensure that tenants who are behind with their rent have a fair chance of paying off the arrears without losing their home.

Rent review clauses will be abolished and landlords will only be allowed to raise rents once a year and must give two months' notice of any rent increase.

Where a tenant has paid rent in advance, the landlord will have to repay any outstanding amount when the tenancy ends. The level of rent which landlords can require in advance will also be limited.

Under the proposals, a single, Government-appointed, ombudsman will have jurisdiction over all private landlords in England to enable disputes to be settled more quickly at lower cost and without going to court.

Tenants will be entitled under law to request that a pet share their home. The landlord will be obliged to consider such requests and will not be allowed to unreasonably withhold consent. A landlord's refusal can be challenged, but there is not yet any detail on how this will work. A landlord will be able to require the tenant to insure against damage to the property caused by the pet but as yet there is no detail on how landlords should respond if their own superior long lease prohibits pets.

Other provisions proposed are that there can no longer be a blanket ban on renting to families with children, or those in receipt of benefits. The Bill also intends to bring more clarity and confidence to the rental market with a new property portal would give access to information and documents around the tenancy, a new Ombudsman would help sort disputes quickly and fairly and will require all private rented homes to meet the 'Decent Homes Standard', which currently applies to the social housing sector.

SHORT LETS

The short let / serviced apartment market has flourished over the past 10 years and while professional operators were hit badly during the pandemic when international travel collapsed, it has rebounded strongly over the past year. Short lets are now considered to be a significant competitor to the hotel sector in London as well as a threat to the supply of rental homes and the stability of communities.

Since 2014, there has been a 571 per cent increase in the number of entire home listings on short let websites in London, with nearly 45,000 entire properties available to rent. About one in ten "hosts" rent more than one property. That equates to around 5% of London's total stock of rental homes and is a very significant addition to the number of hotel rooms which is estimated at around 140,000 (and note that is rooms not properties).

In April the Department for Levelling Up Housing and Communities announced a formal consultation which proposes the requirement of planning consent for an existing home to start to be used as a short let. It will also consider the option of whether to give owners flexibility to let their home for up to a specified number of nights in a calendar year without the need for planning permission.

The new proposals came as the Department for Culture Media and Sport also launched a separate consultation on a new registration scheme for short lets. The scheme aims to build an accurate picture of the number of short-term lets and where they are located, to help understand the impact of short-term lets on communities. The register of short term lets is being introduced through the Levelling Up and Regeneration Bill, which is currently going through Parliament.

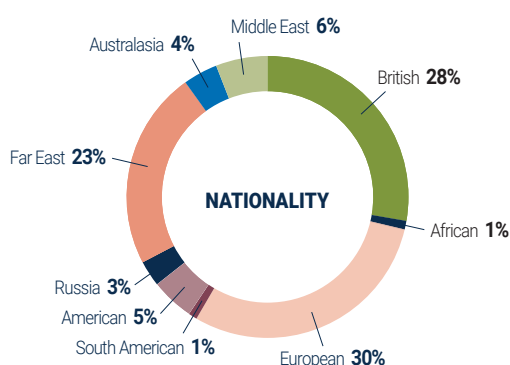
RENTER PROFILES 2023

Nationality

Renters from the Far East made up almost a quarter of the total in the first half of this year. That is far beyond the long-term average of 15% and perhaps reflects the interest from Hong Kong nationals in relocating to the UK since the introduction of the British National Visa scheme in January 2021.

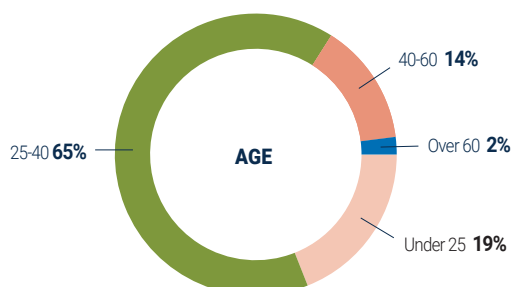
Overseas nationals have long dominated our rental markets and in the first half of this year, only 28% of renters were British (a little below the long term average of 31%). Europeans are consistently around 30%.

However, the majority of letting activity takes place in the summer months when new students arrive and graduate recruitment peaks. For this reason, leases tend to come up for renewal around that time of year and it is not until Q3 that the true picture emerges of who is renting in London in 2023.



Age

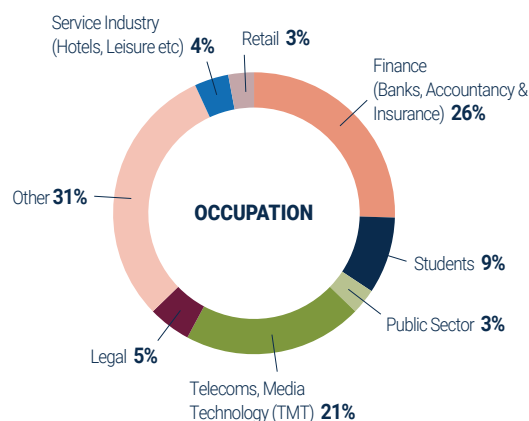
The proportion of renters aged under 25 tends to be lower in the first two quarters of any year because it is not the season for student rentals. In the first half of 2023, the age distribution is skewed towards older age groups and that is entirely consistent with the seasonal pattern of previous years.



Occupation

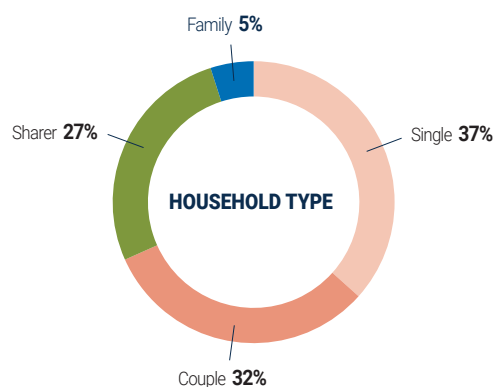
Students accounted for 9% of rentals in Half 1 2023 but we can confidently expect their share to be far higher in the second half of the year in line with the academic year.

The most surprising shift in the employment structure is in the increase of renters employed in the tech sector which has risen to 21% compared to a long term average of just 10%. Given the perception that tech sector employers do not demand an in-person office presence, it is interesting to note that their staff choose to live in central London. It also makes sense to live in a lively urban environment for young people working from home where there is access to co-working spaces, cafes and social interaction. It is a reassuring signal that central London retains its special appeal for footloose young renters.



Household Type

There are notably fewer sharer households renting homes in our markets this year with 27% of the total, down from a longer-term average of 32%. It is consistent with our observation that people working from home are choosing to live in smaller households and reinforced by the numbers for singles and couples, both of which have increased their share of the total.



Future Prospects

INVESTMENT RETURNS IMPROVE

The sales market in Central London is poised for a further period of stalemate with cautious buyers and owners unwilling to reduce prices. The supply-side shortage will persist for the foreseeable future, exacerbated by extended conveyancing periods, fire safety requirements and the lack of new construction in Central London. This will continue to support the recent trend of a low volume market.

On the demand side, confidence will continue to improve as interest rates settle and inflation falls back to more manageable levels, both of which we expect to happen this year. Prices fell by an average of 2% in the first half of 2023 across Midtown, City and East London which is in line with expectations that we published in December 2022.

Banks which have already tightened lending criteria this year will continue to favour low loan-to-value lending in the current economic climate. Cash-rich buyers, including first-time buyers who have saved large deposits in recent years will continue to take advantage of the opportunity to buy with less competition.

Fire safety legislation will however continue to dog our markets for the next decade. Six years on from Grenfell, progress on remedial works is slow and many landlords are prevented from selling until works are completed and paid for. Even then, compliance with the Building Safety Act, causes long delays in conveyancing. Buyers and sellers should allow 4 to 6 months for sales to be concluded from the point that a sale is agreed.

New construction activity will continue to be severely impeded by high construction and borrowing costs and the impact on viability of new requirements such as a mandatory second staircase in any building over 30 metres high - which both reduces saleable floorspace and increases building costs.

Most data now points to a hybrid working model where people are in the office three days a week. That looks like the new norm. The rise of AI, which burst into the headlines this year, will undoubtedly threaten white collar jobs in the decade to come and the prospect of that should encourage a greater return to the physical office for those keen to prove the benefits of human contact.

London prices remain attractive for overseas buyers – particularly those with dollar denominated currencies – and housebuilders with stock to sell will continue to promote schemes overseas while the domestic market is slow.

We expect rents to increase in Q3 and then settle back to their current levels by the end of the year. Demand will be driven by students including overseas students who are often prepared to pay 6-9 months' rent in advance to secure long term accommodation.

Renters who have renewed tenancies for 2 or even 3 years at discounts to the market rent, will find their landlords now expecting to raise rents closer to market values given the punishing service charges and higher mortgage rates many landlords are facing. While some renters will be willing or able to absorb market rents, some of those who moved into these areas when rents were low during Covid, will return to lower value areas, others will make a move onto the housing ladder.

However, the supply of rental accommodation will remain tight as some landlords sold properties, reoccupied them, or reverted to short term rentals.

The gross yield for an average one bed apartment now at 5.8% is still proving insufficient to attract buy to let investors back to the market. The Renters Reform Bill is unlikely to encourage more landlords to enter the market.

The vicious circle of cost of living inflation leading to wage inflation leading to interest rate rises seems to be becoming entrenched in the economy, which means we must wait until 2024 for interest rates to fall. Many employers are struggling to recruit and so further wage inflation looks inevitable. Wage inflation will underpin rental growth and ensure that for rental markets at least, our markets are on pretty solid foundations.

Development has been curtailed by the increase in construction and borrowing costs and we do not expect to see much new construction for the rest of this year or next. The most likely source of new supply will be vacant office space but there are planning hurdles and we do not expect any change of use to materialise in the next 12 months.

The biggest cause of concern in our markets remains the fire safety regulations which have unintended consequences that create new supply for the rental market as owners are prevented from selling and choose to become landlords instead.

Given the turmoil in current politics, an early election in May 2024, while unlikely, is still a possibility. Looking further ahead, we expect the traditional post-election wave of confidence to trigger a bounce-back in sales numbers in the city with the potential to deliver price growth after 10 years of no growth.

The property market has for now weathered the headwinds of higher interest rates but enters the second half of the year in much better shape than economists had predicted at the end of last year. This picture is supported by a shortage of homes for sales or rental.

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