research

RESIDENTIAL RESEARCH | 1ST HALF 2024

MIDTOWN, CITY & EAST LONDON

HURFORD SALVI CARR

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THE MARKET HAS REVERTED TO ITS SEASONAL NORM

HURFORD SALVI CARR

MARKET OVERVIEW

SALE VOLUMES IMPROVE

The expectation that interest rate cuts were just around the corner gave a boost to confidence in the early months of the year. Mortgage providers eased their terms and the buyer numbers bounced back, causing volumes of enquiries, viewings and offers accepted, all to consistently outperform their 2023 levels. Although no rate cut materialised, most commentators agreed that mortgage rates will fall before the year is out and we expect this higher level of activity to be sustained for the next 12-18 months.

And then the Prime Minister broke the news of a general election on July 4th, taking the country and his MPs by surprise. Following the unexpected announcement on May 22nd there was a palpable sense of relief that the uncertainty would be over within 6 weeks but the announcement had very little impact on housing market confidence in Midtown, the City and East London which remained focused on affordability and the prospect of interest rate cuts later in the year.

Prices across the City, Midtown and East London are broadly the same today as they were in 2013. While that may be a stark reality for some, it is an attractive proposition for others. Committed buyers have been out in force this year securing centrally-located homes, while more cautious buyers have missed out. The majority of buyers favour freehold houses, or flats in period conversions, over those in purpose-built blocks - mainly because service charges have risen so steeply.

The flight to quality we reported in 2023 persisted into 2024 and some of the larger 'best in class' homes attracted multiple bids. On average though, there were modest price rises of around 2% in the first half of 2024, driven by these larger best in class properties.

Demand for one-bedroom apartments on the other hand, is much lower. Even first-time buyers, who were once the primary source of demand for one beds, are now looking for two bedrooms. As a consequence, there is currently an oversupply of entry level one bedroom apartments in our markets, which is causing prices to stall and owners with no urgency, to sit on properties until conditions are more enticing.

Again and again, buyers frightened away by high service charges. Even highly desirable apartments struggle to attract buyers because of the level of service charges. Unfortunately, these charges are unlikely to fall in the foreseeable future because of a cocktail of rises in insurance premiums, utility bills, and management costs - including increased compliance checks since the introduction of the Building Safety Act 2022.

The extraordinary period of rental growth since the pandemic does seem to have finally subsided. This year, the market has reverted to its more normal seasonal cycle, with a downward rental adjustment in the early months of the year, which we expect to be followed by an uplift in Q3. Rents dropped around 2% in the first half of 2024, as supply increased and renters had more choice so landlords conceded on rents to avoid costly void periods. Lease renewals have become much more common in recent years – initially it enabled renters to avoid steep price rises in the open market - but this year it is more likely to be motivated by avoiding the cost and inconvenience of a move.

Housing markets are historically highly sensitive to any hint of uncertainty. Threats such as volatility in the wider economy, the introduction of new legislation or the prospect of political change can all be unsettling. - In the build-up to a general election on July 4th all three are looming.

Only the Leaseholders and Freeholders Reform Bill made it through 'wash-up'. The Renters' Reform Bill did not, so its range of far-reaching changes to laws governing the rental of residential property have been deferred – but probably not abandoned. The government had also announced an intention to introduce a new Short Let register, following the registers for High Risk Buildings and Overseas Owners. All of these legislative initiatives are likely to be looked on favourably by a Labour administration – if that is the outcome of the election.

FARRINGDON EC1 – 1 BEDROOM LOFT, LET FEBRUARY 2024, £3,250 PER MONTH

Assuming the long awaited Renters' Reform Bill is picked up by a new government, landlords will be faced with yet more compliance. If that persuades more to exit the market, we cannot rule out further rent rises, as supply contracts and landlords seek to cover their additional costs.

New construction looks unlikely to deliver significant new supply in our markets for the foreseeable future and this will place further upward pressure on prices and rents.

Along with many parts of central London, housebuilding is on a downward spiral around Kings Cross, Shoreditch, Aldgate and Clerkenwell. For over 20 years, the inner London boroughs have discouraged development by increasing taxation such as Section 106 and Community Infrastructure Levy (CIL) payments.

Local Authorities in Central London continue to adopt anti-development planning policies which has effectively halted the supply of new residential homes. To compound the problem, these same inner London boroughs continue to opt out of the scheme for permitted development rights which would otherwise allow the automatic conversion of commercial premises to residential use ignoring the obvious changes in working patterns since the pandemic.

ECONOMIC OVERVIEW

MARKETS WAIT FOR RATE CHANGE

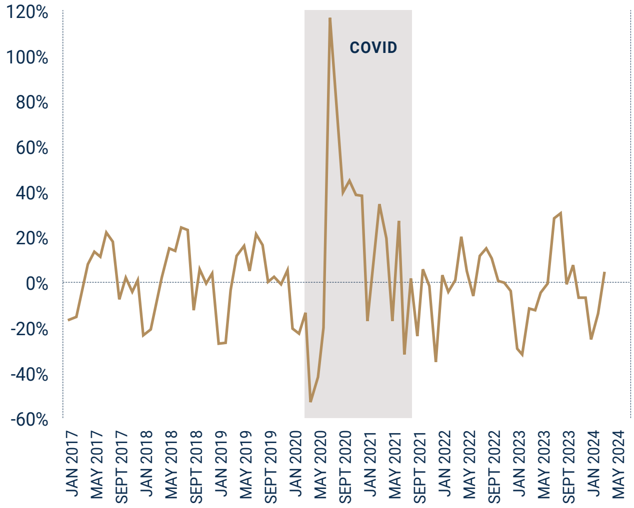
The early July election came as a surprise as most had thought an autumn date more likely. The prospect of an election has often paused market activity, but generally when a manifesto promises a significant policy change (such as the threat of a Mansion tax), the 2024 election holds no such fear.

The UK housing market has distinct seasonal patterns (except when disrupted like covid), with sale completions peaking in summer and dipping over the winter. The delay between sale agreed and completion can be several months, but we end the half year with a strong book of sales agreed and we have seen no evidence of buyer concern over the result of the election.

Interest rates are likely to be a much bigger and more beneficial driver of market activity this year. The first interest rate cut will send a very strong signal to prospective buyers to reinvigorate purchase plans that may have been put on hold.

FIGURE 1

TRANSACTIONS : ENGLAND AND WALES
MONTHLY TRANSACTIONS: 3 MONTH CHANGE %



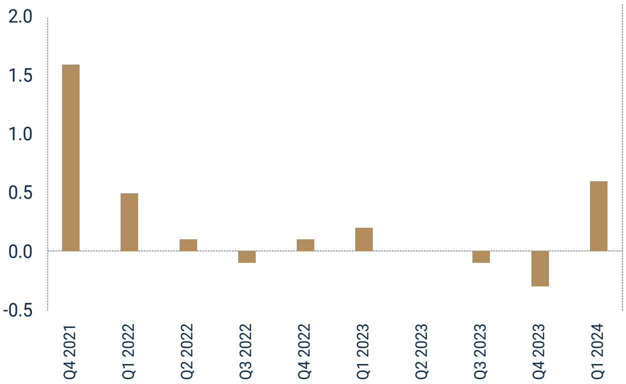
Source: Dataloft a Price Hubble Company, HMRC, data is for England and Wales

DALSTON E8 – 2 & 3 BEDROOM FLATS, LET SPRING 2024, £2,700 - £3,700 PER MONTH

There has been some better news for the economy. The Q1 2024 GDP growth rate showed the strongest quarter of growth since the bounce out of the covid downturn in the final quarter of 2021. UK GDP is estimated to have increased by 0.6% over the quarter, following on from declines of -0.3% and -0.1% in the prior two quarters (Q4 2023 and Q3 2023) which had technically put the UK into recession. Over the last year as a whole, GDP is estimated to have grown by 0.2%. Services growth was relatively strong (+0.7% over the quarter) but construction sector activity fell (-0.9%). Looking ahead, forecasts for the year as a whole are for 0.6% growth over 2024 and 1.2% over 2025.

FIGURE 2

REAL GDP
QUARTERLY GROWTH RATE



Source: Dataloft a PriceHubble Company, ONS

The fall in construction activity is of concern to the housing market as it will be aligned with falls in house building levels. In 2023, 231,000 new homes were built (according to EPC data) which was 9% lower than the previous year. 2024 is expected to be lower again and these numbers are clearly well below the 300,000 homebuilding target. Build cost inflation, higher cost of finance and concerns over pricing have deterred development activity.

In addition to the improvement in economic data, the other good news relates to lower inflation. The Figures for May showed that on CPI measure prices rose by 2.0% in the 12 months to May 2024, down from 3.2% in March. The largest contributions to this downward trend were falling gas and electricity prices helping to offset the effect of an upward contribution from motor fuels.

Core CPI (excluding energy, food, alcohol and tobacco) which has been under close scrutiny by the Bank of England over the last year, rose by a higher 3.5% in the 12 months to May 2024. For households the good news is that earnings growth is now outstripping inflation, boosting household finances.

Interest rates are still expected to fall in 2024. Forecasts are for the Bank rate to be 4.5% by Q4 2024, a 75bp reduction from its level of 5.25% as at May 2024. The mortgage market has shown some nervousness around longer-term rates as the Bank of England has pushed rate cuts back into the second half of 2024.

SMITHFIELD EC1 – 2 BEDROOM FLAT, SOLD APRIL 2024, £2,385,000

TABLE 1

CONSENSUS FORECASTS 2024 - 2025

	2024	2025
GDP % (ANNUAL GROWTH)	0.6%	1.2%
INTEREST RATES (LEVEL IN Q4)	4.5%	3.6%
INFLATION (Q4 ON Q4 YEAR AGO)	2.2%	2.2%
EARNINGS GROWTH (Q4 ON Q4 YEAR AGO)	4.0%	2.9%
HOUSE PRICES (Q4 ON Q4 YEAR AGO)	-1.2%	1.6%

Source: Dataloft a Price Hubble Company. HM Treasury Forecasts, May 2024

Mortgage approvals are a good leading indicator for transaction volumes, so they are keenly watched for signs that sales activity is building momentum. The latest data is for March 2024, which at 61,300 over the month is a significant improvement on the 2023 monthly average of 48,100 - and the highest since October 2022, from when mortgage approvals started to trend lower in the immediate aftermath of the Truss mini-budget.

ISLINGTON N1 – 2 BEDROOM FLAT, SOLD APRIL 2024, £875,000

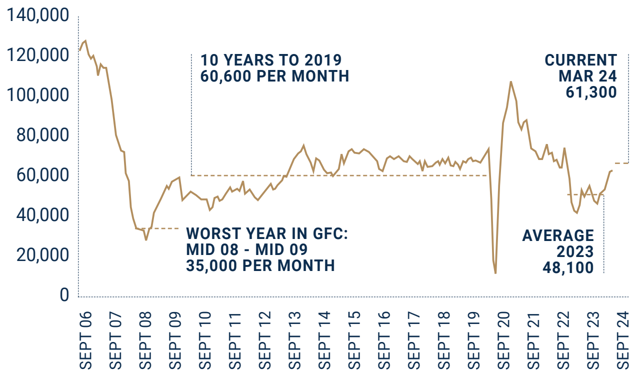
The UK unemployment rate was estimated at 4.4% in February to April 2024, above estimates of a year ago, and increased in the latest quarter. Annual growth in employees' average regular earnings (excluding bonuses) in Great Britain was 6.0% in February to April 2024, and annual growth in total earnings (including bonuses) was 5.9%.

In the March Budget the Chancellor abolished Multiple Dwellings Stamp Duty Relief. This will negatively impact bulk sales on new developments as well as Build to Rent developments resulting in an increase in SDLT charges for buyers.

The special tax rules for rental income from properties that qualify as furnished holiday lettings will be abolished from 6 April 2025. This will eliminate the tax advantage for landlords who let short-term furnished holiday properties over those who let residential properties to longer-term tenants. The government claimed the changes will "encourage landlords and second-homeowners to sell their properties, making more available for a variety of buyers, including those looking to get on the housing ladder for the first time".

FIGURE 3

MORTGAGE TRENDS
MONTHLY VOLUME OF MORTGAGE APPROVALS



Source: Dataloft a Price Hubble Company, Bank of England

Data from the government's Office of National Statistics (ONS) released in June showed wages rising at 6% annually partly fuelled by a rise in the National Living Wage in April 2024 to £11.44 an hour up 9.8% from last year. The consensus was that this pushes back any Bank of England rate cut.

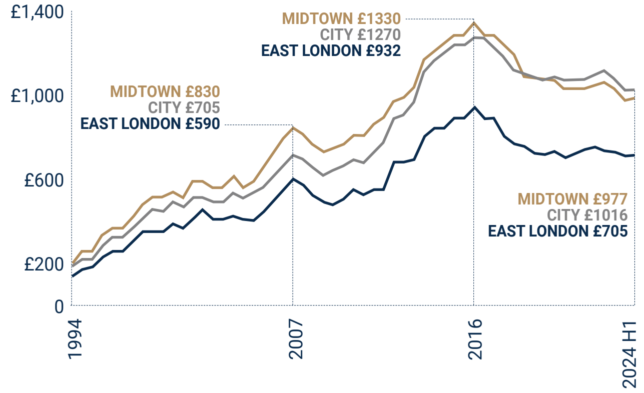
SALES MARKET

LARGER HOMES IN DEMAND

The story of prices in our markets is in many ways remarkable. In a global financial centre, with three of the world's top ranked universities, a population approaching 10 million and a flourishing tech economy, the price of a home in the centre of the city, is virtually the same today as it was a decade ago. This alone makes a compelling proposition for many buyers but owners have little motivation to sell, particularly if they have bought in the intervening 10 years.

FIGURE 4

PRICE TRACKER £PSF OF A ONE BEDROOM APARTMENT IN THE CITY, MIDTOWN AND EAST LONDON, 1994 - H1 2024



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

We are pleased to report that there was some modest price growth in parts of the market during the first half of this year - which is not surprising, given the improvement in the sales market reported at the end of 2023 and the strength of the proposition. The expectation that interest rates cuts are not far away bolstered confidence and boosted demand. Buyers see the opportunity to secure a foothold in a city where supply is fundamentally constrained by planning restrictions, heritage is protected and owners have long time-horizons. Demand is focused on homes with two or more bedrooms, (even first time buyers) and price growth was mainly for larger properties. In fact, some 'best in class' larger properties attracted multiple bids. Period properties and conversions have become significantly more popular than purpose-built blocks because of their lower service charges.

The prospect of lower interest rates later this year resulted in stronger demand from buyers in the first half of 2024. Prices rose by an average of 2% in the first 6 months of 2024 with stronger demand for larger 2 and 3 bedroom apartments. The flight to quality reported in 2023 continued in 2024 with 'best in class' homes attracting multiple bids.

We noted in previous reports that a new type of buyer has emerged. These are: first time buyers with large deposits committed to city living and looking for a spacious two bed two bath home with outside space, a long lease of over 150 years and a service charge between £3,000 and £5,000 per annum. This latter requirement is particularly challenging since the average is now likely to be in the range of £6,000 to £8,000 per annum given the increases in the cost of insurance, utilities and compliance. Period conversions in Hackney, London Fields and Victoria Park can now command prices similar to more central areas in the City, Bloomsbury and Kings Cross.

This flatters the price of a one bed in a purpose-built block in parts of East London such as Poplar, Bow and Limehouse where buyers can secure an entry level apartment with a much smaller budget and buyers are increasingly drawn by a sense of value for money. The Elizabeth line has undoubtedly contributed to the rise in popularity as has the enhanced retail and leisure offering at Canary Wharf.

The average price for a one bed apartment across the whole of our market area (City, Midtown and East London), did not change in the first six months of this year but stabilised at £445,000 after dropping 5% in the previous year. Only in Midtown was there a small uplift of 1% for one bed apartments. We believe that has been driven by renewed demand for the pied a terre in this part of the city. This demand had all but disappeared after the pandemic and its return is welcome, particularly as second-home owners are generally more willing to absorb the service charges in return for all that a home in central London can offer.

TABLE 2

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

YEAR	ANNUAL PRICE CHANGE %	MARKET VALUE £	ANNUAL CHANGE IN VALUE £
1998	N/A	150,000	N/A
1999	26%	189,000	39,000
2000	11%	210,000	21,000
2001	10%	230,000	20,000
2002	13%	260,000	30,000
2003	-8%	245,000	-15,000
2004	0%	246,000	1,000
2005	10%	270,000	24,000
2006	26%	340,000	70,000
2007	9%	371,000	31,000
2008	-15%	318,000	-53,000
2009	8%	338,000	20,000
2010	4%	351,000	13,000
2011	10%	386,000	35,000
2012	5%	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
H1 2024	0.0%	445,000	-

Source: Hurford Salvi Carr

The strongest growth was for three bedroom apartments. They gained 4% in the City over the last six months, 3% in Midtown and 2% in East London - underlining the preference for larger properties and reversing the trend of previous years when three bed apartments have been the most difficult to sell. In Midtown, the price per square foot for a three bed apartment now exceeds smaller properties by around 10%, whereas normally, we would expect a discount for size.

TABLE 3

PRICES & PRICE CHANGES FOR
1,2 & 3 BEDROOM APARTMENTS
IN THE RESALE MARKET AT H1 2024

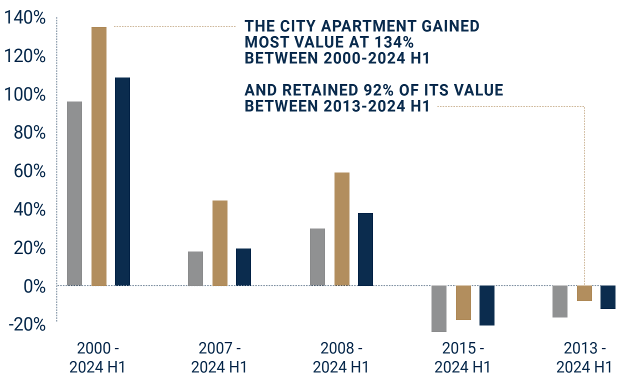
	£ 2022	£ 2023	£ 2024 H1	£ PER SQ FT	CHANGE 23-24 H1
MIDTOWN					
1 BED	530,000	520,000	525,000	1,050	1%
2 BED	875,000	840,000	855,000	1,140	2%
3 BED	1,750,000	1,700,000	1,750,000	1,167	3%
CITY					
1 BED	530,000	510,000	510,000	1,020	0%
2 BED	790,000	760,000	780,000	1,040	3%
3 BED	1,500,000	1,500,000	1,560,000	1,040	4%
EAST LONDON					
1 BED	390,000	360,000	360,000	720	0%
2 BED	540,000	510,000	510,000	680	0%
3 BED	975,000	925,000	940,000	627	2%

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 East London, the discount has endured. The price per square foot for a three bed apartment is 13% lower than for a one bed – although, even here, the gap is narrowing as the only price increases so far this year have been for larger apartments. As we explained earlier, first time buyers are tending to skip the one bed apartment stage, instead, aiming for two beds as their first rung on the housing ladder.

FIGURE 5

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



Source: Hurford Salvi Carr

New instructions in our offices were up by 30% in the first half of 2024 compared to the same period last year. Some of this is down to investors deciding to sell. Anyone who bought in 1994, when our records began, has seen 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.

Disposal of rental investments is a recurring conversation between our sales teams and our portfolio landlords. As tenancies and fixed rate mortgages come to an end, landlords take the opportunity to list their property for sale. All too often the market does not achieve the prices they expect. The upshot is a merry-go-round of landlords testing the sales market and then returning to rentals for another year in the hope that house prices will pick up while they enjoy a modest income to cover their holding costs.

Conveyancing delays continue and we have yet to see digitisation or AI deliver any significant improvement in the conveyancing process. Over the past 2 years conveyancing on leasehold apartments has taken an average of between 4 and 6 months, from the date that a sale is agreed to completion. In the recent past, the same process used to take 8- 10 weeks. Where a chain is involved, it can be significantly longer.

Unsurprisingly, circumstances can change on many fronts during that 4-6 month period. Delays occur while the buyers' solicitor waits for third party information from the managing agents, local authorities and lenders. All parties are prone to dissatisfaction and abortive costs. The requirements of the Building Safety Act 2022 have added to the information now required from sellers and freeholders. In March, the Law Society faced a backlash from conveyancers after issuing new property information TA6 forms for sellers to complete which now include more material information. The weight of information required now outweighs any advances that technology has provided.

The delivery of planning consents for new homes continues to fall in the inner London boroughs with applications delayed by planning departments struggling to cope even with a reduced number of applications that include routine cases.

The inner London boroughs continue to opt out of Permitted Development Rights which would otherwise allow the automatic change of use from commercial to residential space. The boroughs argue that they wish to preserve employment space to support the local economy. Others point out that working from home and hybrid working are now an accepted part of the economic landscape and this amounts to an 'anti-development agenda' and deprives London of much needed construction jobs as well as new homes. They argue that this intervention will ultimately lead to higher property prices and rents.

Existing buildings are an important resource for the housing market in cities, and warehouses have created a popular and valuable housing typology. Converted office buildings have been less successful however, and the fear is that they make poor quality homes. If housebuilding declines, Section 106 and

Community Infrastructure Levy income that local authorities have enjoyed collecting over the past 30 years will also evaporate.

The proposal to require a second staircase in new residential buildings above 30m has been revised to include new blocks above 18m, and, according to The London Assembly Labour Group, this has blocked the development of 38,000 homes in the capital. The requirement for a second staircase will add to the developers' cost and make development unviable, or flats more expensive.

In the spring budget, the higher rate of capital gains tax was reduced from 28% to 24% for anyone selling a property that is not their primary home. This has only marginal impact in central London where property values today remain below their 2014 levels thus reducing the number of sales caught by this tax.

BUILDING SAFETY UPDATE

There are in excess of 4,000 buildings over 11m high, with unsafe cladding across England and Wales, according to a report from the Department for Levelling Up, Housing and Communities' (DLUHC) at the end of February. That was an increase of 120 over the previous month. The data includes buildings in the Building Safety Fund, Cladding Safety Scheme, developer remediation contract, those reported by registered providers of social housing, and high-rise buildings with ACM cladding systems.

The Governments latest data set shows that remediation work had been completed on 863 buildings and started on another 952, meaning that, in total 44% of buildings identified as having unsafe cladding had been tackled 7 years on from Grenfell - but 56% had not. The government estimated the cost of remediation work at around £2.7 billion, (an average of £2 million per building). Barratt, Bellway, Taylor Wimpey, Vistry and Crest Nicholson have been named by the government as the developers with most buildings to fix.

On 8th February 2024 the government published a Register of High-Risk Buildings under the Building Safety Act 2022, listing buildings of 18 metres and over, or seven storeys tall, with two or more residential units. It is now an offence to allow residents to occupy an unregistered building. Now that higher-risk buildings are registered, the next step is for the building safety regulator to assess their safety and, if the accountable person (AP) (or principal accountable person, PAP) has complied with their duties to assess and manage building safety risks, to issue a building safety certificate.

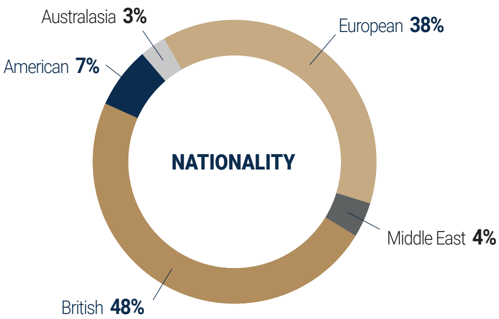
The Building Safety Act sets out to protect leaseholders from the unfair burden of remediation costs to make their home safe. The Act ensures that those who built defective buildings take responsibility for remedying them, that the industry contributes to fixing the problem, and that leaseholders are protected in law from crippling bills for historical safety defects. The government is clear that developers must pay to fix buildings they had a role in developing or refurbishing, even where they no longer own the building. The Act ensures that building owners who are - or are associated with - the developer must pay for the remediation of historical safety defects.

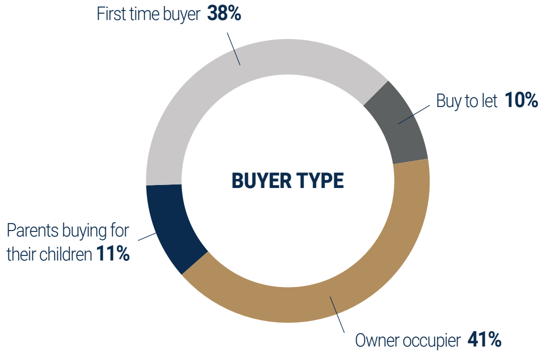
One problem created with the Building Safety Act is that it deems that any leaseholder to be liable for some remediation costs where they own more than 3 properties - including their own home. This affects a large number of leaseholders in a number of ways, including married couples, partnerships, those owning jointly with family members, former relationships and company structures. The government has been asked to consider an amendment to the Leaseholder Protections in the Building Safety Bill to give parity to those holding properties jointly but to date there has been no response from government.

Many people in these groups remain unable to remortgage or sell, unless they sell at a discount to a cash buyer. Mortgage brokers and lenders don't understand non-qualifying leases or will actively avoid them. So as the situation stands, non-qualifying leaseholds even in buildings that have had repairs completed and have a compliant EWS1, are not mortgageable. There is no route by which the non-qualifying status is ever rescinded from a lease, so this problem could remain in perpetuity if it is not tackled.

SALES MARKET

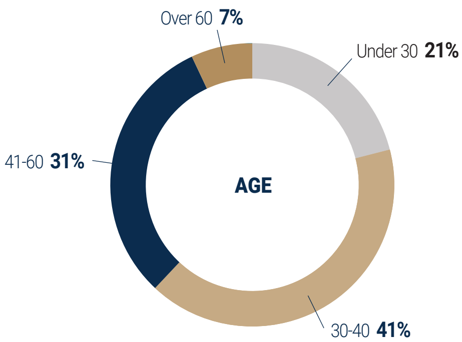
BUYER PROFILES 2024 H1

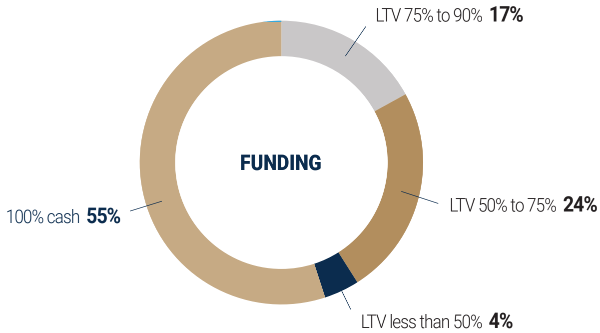




It is very unusual for British buyers to account for less than half of all purchases in our markets, but that is the case so far in 2024. High interest rates and unpalatable service charges have discouraged UK buyers, as we explain elsewhere in this report. Instead, we recorded an unusually high proportion of European buyers in the first half of this year, with buyers from a spread of European countries. Europeans accounted for 38% of all transactions – well above their long term average of 16%. The shares of other overseas buyers were fairly closely aligned with their long-term averages with the notable exception of the Far East, from where we did not have any buyers in the first 6 months of this year.

Almost 40% of our buyers have been First Time Buyers this year, well above the long term average of 21%. It is surprising given the situation with interest rates but our markets do not necessarily follow UK wide trends. Our prices are higher than many first time buyer price points and we generally recognise parental or grand-parental help in the background. We also service areas with high paid workers from the UK and overseas employed in tech, law and financial services. The buy to let purchase is slowly disappearing from our markets, and is much diminished at 10% of transactions so far this year compared to a long term average of 16% and high points of over 20%.





It is always the case that buyers in their 30s are the dominant age group in our markets. They generally make up between 30 and 40% of all transactions and we were at the top end of that range in the first six months of 2024 with 41% of all sales being to buyers in their 30s. Perhaps more surprising, was the uptick in younger buyers, aged under 30, although there is always some overlap between first time buyers and those being helped by parents to become first time owners. Overall, the age profile is younger so far this year.

More than half of all purchases in the first half of 2024, were funded entirely with cash. The proportion of cash buyers has been rising steadily in recent years and is now well above the long-term average of 35%. Conversely, the proportion borrowing more than 50% of the value has fallen from a long term average of 52% down to 41% of buyers this year. The most significant change over the past decade has been to interest rates. Today, our buyers are much more likely to be able to buy with small or no debt.

LETTINGS MARKET

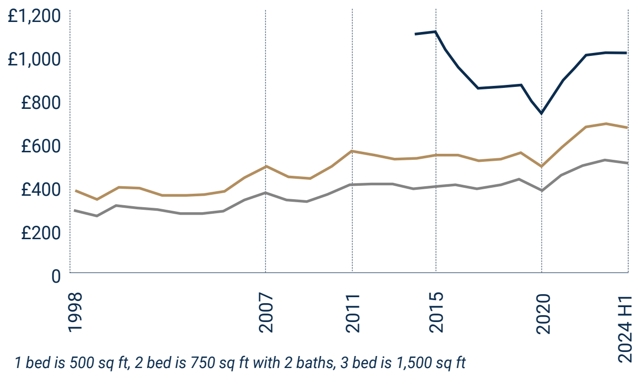
RENTS STABILISE

Rents have stabilised, albeit at a new high level, after their steep growth in the 2 years after the pandemic. Demand slowed down in the first six months of this year and availability picked up, resulting in more choice for renters and a 2% fall in rents - off-setting the 2% rise recorded in 2023. Landlords proved willing to compromise on asking rents in order to secure income and minimise voids, particularly as for many of them, baseline costs have spiralled.

Overall, rents are around 20% higher today than they were in 2019. Some of that is explained by short term disruption to the supply-demand balance caused by the pandemic but some is the result of more long-term structural change, as investors exit the rental market. In the decade leading up to 2019, rental values had changed very little, with only minor fluctuations around the time of stamp duty changes in 2014 and Brexit in 2016. In fact, rental growth averages just under 3% per annum between 2000 and the present day - in line with long term expectations of institutional investors and tracking wages growth.

FIGURE 6

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



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

Source: Hurford Salvi Carr

As in the sales market, rental growth varies between the sub-markets. In the first half of 2024, there has been no movement in rental values in our parts of East London and some gentle falls in Midtown and City. We are confident that these will be reversed in the second half of the year once the statistics take in the usual seasonal activity peak over the summer. Again, larger properties have been more resilient with no change for three bed apartments in City or Midtown, while rents fell by around 3% for one and two bed properties.

There remains a substantial premium for Midtown and City rental homes over their East London neighbours, with the current one bed rent more than 40% higher in Midtown and 30% higher in City. However, the fact that there was no fall in East London rents, even during the quieter months of the year, suggests that the gap will narrow as affordability limits bite.

It is easier to appreciate the trade-offs renters make when we show the data as annual rents. The rent for a one bed in City would get you a two bed in East London and in Midtown, it is only a relatively small step up from a one bed to a three bed in East London. When renters combine resources and form a shared household, the financial attractions of larger homes in East London are self-evident. In the sales market, larger properties are now commanding a premium but for rents, there is still a discount. The rent for a 3 bed in East London translates into £24 per sq ft, compared to £62 per sq ft for a one bed in Midtown.

TABLE 4

WEEKLY RENTS FOR 1, 2 & 3 BEDROOM APARTMENTS
IN MIDTOWN, CITY & EAST LONDON AT H1 2024

	£ 2019	£ 2020	£ 2021	£ 2022	£ 2023	£ 2024 H1	% CHANGE 2023 -2024 H1
MIDTOWN							
1 BED	500	450	550	600	620	600	-3%
2 BED	680	575	700	775	800	775	-3%
3 BED	1,100	875	1100	1200	1250	1250	0%
CITY							
1 BED	490	390	510	550	575	550	-4%
2 BED	600	500	650	750	750	725	-3%
3 BED	975	800	1000	1100	1100	1100	0%
EAST LONDON							
1 BED	350	325	350	400	425	425	0%
2 BED	440	400	450	525	550	550	0%
3 BED	575	540	600	700	700	700	0%

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

Source: Hurford Salvi Carr

TABLE 5

ANNUAL RENTS FOR 1, 2 & 3 BEDROOM APARTMENTS
IN MIDTOWN, CITY & EAST LONDON AT H1 2024

	WEEKLY RENT £	SQ FT	TOTAL RENT PAYABLE P.A. £	RENT PSF £
MIDTOWN				
1 BED	600	500	£31,200	£62
2 BED	7750	750	£40,300	£54
3 BED	1250	1500	£65,000	£43
CITY				
1 BED	550	500	£28,600	£57
2 BED	725	750	£37,700	£50
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

We said earlier that the rental growth experienced in 2021 and 2022 was driven by short term pressures and long-term structural changes. To explain, the short-term pressures came primarily from the backlog of overseas students who had delayed their university entrance during and after the pandemic

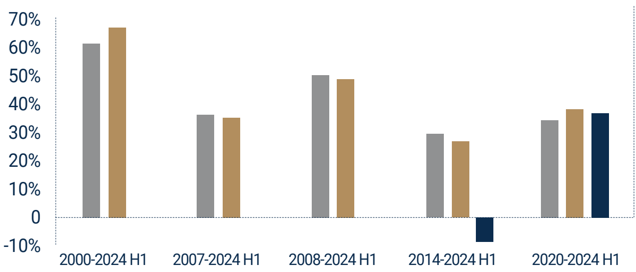
POPLAR E14 – 2 BEDROOM FLAT, LET MARCH 2024, £2,500 PER MONTH

and the return of people who had temporarily moved out from the City, or wanted to live in smaller households and have more space per person to accommodate home-working. Together, these trends boosted demand in 2021 and 2022.

The long-term structural changes are primarily supply-driven. First, a lack of new buy to let investors entering the market over the past 10 years. Secondly, the imposition of minimum sizes for rented bedrooms has effectively taken rooms out of the system. Finally, hybrid working has stayed with us and with it the need for space to work from home. These have combined to limit supply of suitable rental homes. While the institutional investment sector is bringing new homes to the market, it is not at the rate required to address the supply constraints.

FIGURE 7

LONG TERM RENTAL GROWTH

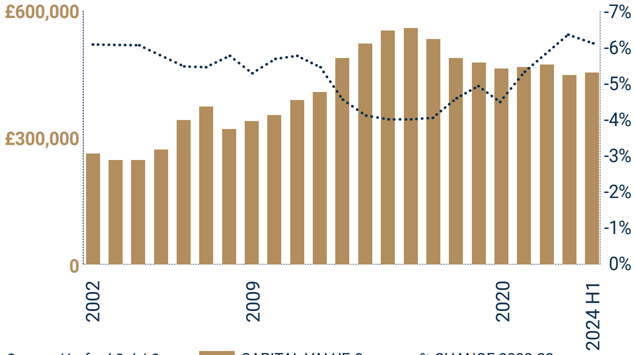


Source: Hurford Salvi Carr 1 BED 2 BED 3 BED

With gross yields in central London in the range of 3.5% to 5%, the income may not cover their rising costs of higher interest rates, maintenance and service charges. Those with available capital can reduce their exposure to interest rate rises by paying down the debt, others are facing tough decisions when fixed rate mortgage terms expire. Anyone who bought prior to 2010 can realise capital growth by selling and often landlords are reallocating to fund retirement plans or support adult children into home-ownership. The risk for the market is the progressive erosion of rental stock. Politicians seeking re-election consistently favour home-ownership over long term rental and there is little support for policies that would make this sector attractive to new landlords.

FIGURE 8

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



Source: Hurford Salvi Carr CAPITAL VALUE £ % CHANGE 2022-23

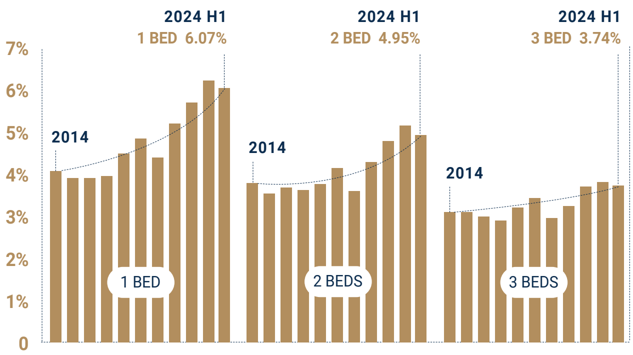
Yields for a one bed apartment look better – primarily because capital values have suffered while rents have been broadly stable. An investor could expect a gross return approaching 6% on a one bed apartment which, combined with the lower initial capital outlay, must surely look attractive – particularly close to London's prestigious universities, LSE, UCL, Kings College and Central St Martins which are located in Midtown or close to Bloomsbury.

There is a strong tie between employment growth and rental growth. At their strongest, renter earnings increased by 12.6% (year to December 2022) but have now moderated and been flat over the last year. The employment market had been running strongly but the latest London claimant count data shows a slight up-tick in this level (to 4.9% in February 2024 from an average of 4.6% over the last 2 years). So, there are some signs from employment and earnings indicators that rental demand will moderate.

Supply has been an issue in the private rental sector over the past decade, and whilst some of these factors have started to unwind (some short let properties returning to the long term rental market) there is still significant undersupply. It is

FIGURE 9

CHANGE IN YIELDS FOR MIDTOWN, CITY AND EAST LONDON
2014 - 2024 H1



Source: Hurford Salvi Carr

likely that rents will continue to rise over the next few years as landlords sell up. This aligns with the trend in rental growth expected by the RICS leading indicator for rents over the next 3 months (a more moderate pace).

The Labour Party wanted the much anticipated Renters Reform Bill to be passed before the dissolution of parliament, as they wanted to avoid taking responsibility for introducing similar measures should they win the 4th July election. A new Bill could be problematic for Labour as pro-tenant lobby groups have strong alliances with the party. So while the status quo will run into 2025 the rental market faces a further period of uncertainty for landlords and tenants until the Renters Reform Bill resurfaces.

In a letter to Housing Secretary Michael Gove a Labour dominated group called London Councils criticised the government's plan to create a new planning use for short lets. The councils claim that transferring existing short let properties into a new planning category under permitted development rights will mean the loss of thousands of homes across London's existing housing stock. London Councils estimates there are at least 43,000 short lets in the capital.

TABLE 6

GROSS INVESTMENT RETURNS FOR ONE BEDROOM APARTMENTS AVERAGE OF MIDTOWN, CITY AND EAST LONDON 2014 - H1 2024

	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%
H1 2024	27,300	450,000	6.07%

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

Source: Hurford Salvi Carr

SHORT LETS

In February Michael Gove, Secretary of State for Levelling Up, Housing and Communities announced changes around planning rules for short-term rentals. The government has confirmed that the reforms will be introduced this summer and will require permission from the local authority where a property is to be let on a short-term basis or as a holiday home for more than 90 nights a year.

The announcement follows the outcome of a consultation on short-term lets last year and the government said that the "changes are part of a long-term plan to prevent a 'hollowing out' of communities, address anti-social behaviour and ensure local people can continue to live in the place they call home".

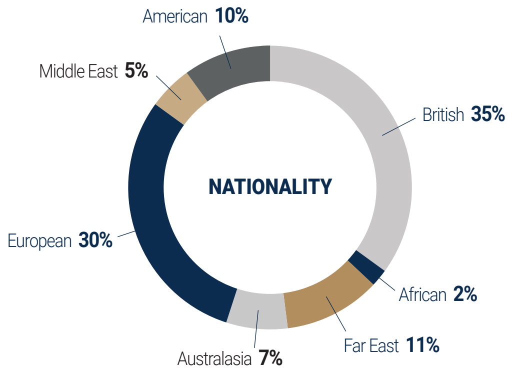
A new use class C5 will be created for future short-term lets that are not used as a sole or main home. Existing short-term lets will be automatically reclassified into the new category and will not require a planning application.

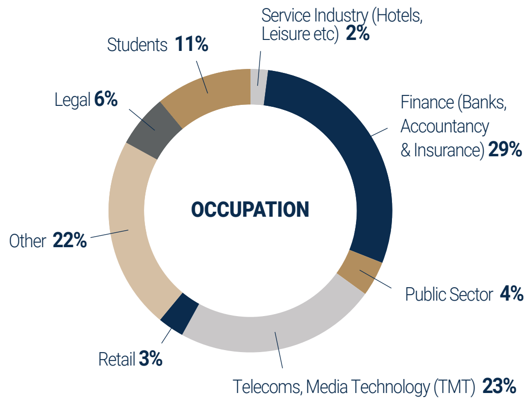
The government also intends to introduce associated permitted development rights – allowing for a property to be changed from a short-term let (C5) to a standard residential dwelling (C3) and vice versa without the need for express planning permission. However, local authorities would be able to remove these permitted development rights by making an "article 4 direction". Article 4 directions enable local planning authorities to withdraw specific permitted development rights across a defined area, thus, if applied to the new permitted development rights, requiring planning permissions for the change of use from C3 to C5 (and vice versa).

A mandatory national register will be set up, to provide local authorities with information on short-term lets in the area and enable them to monitor their use, the impact on the local area and whether health and safety rules are being met.

LETTINGS MARKET

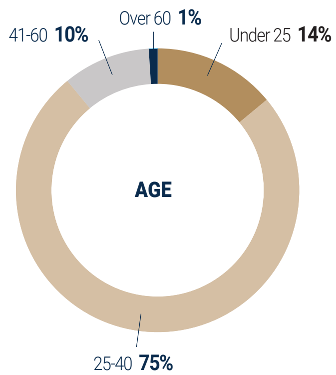
RENTER PROFILES 2024 H1

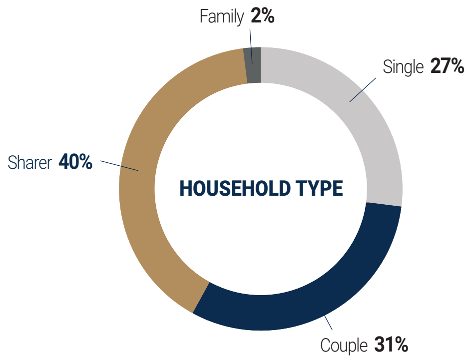




Renters are always a more diverse group than buyers, with overseas nationals accounting for 65% in the first six months of this year - and that is before the seasonal migration of students from across the world. Europeans are, unsurprisingly, the largest component, given their proximity to the UK and they made up 30% of renters, with a significant presence also, from USA (10%) and the Far East (11%). The summer months are by far the busiest period in our markets and analysis of renters in H1 is often very different to the annual trends.

In our markets, the biggest single occupation category outside students, is generally the banking and finance sector accounting for 29% of all rentals in the first half of 2024, and over the long term accounting for 24%. Students have a similar profile over the long term, but they tend to move around in the summer months ready for the start of the new academic year in the autumn. Tech has become increasingly prominent in recent years too. So far this year, it has accounted for 23% of new rentals a similar number to the start of last year.





As students are such a significant element of demand in our markets, we expect the age profile to be very different in our half year report - and that is the case for this edition. Just 14% of renters were aged under 25 in the first six month period, compared to a long term average of 27%. In 2023, as much as 35% of all lets were to renters in this age cohort.

Over the long term, the most dominant age group in our markets is always 25-40 years - but we note that this is also a 15-year age range and so larger by default than the under 25s, which probably covers only 7 years. Our markets have always appealed to a young demographic, drawn by the urban lifestyle.

There were more sharers in our markets this year and fewer singles, probably a reflection of rent rises. Sharing makes a central London address more affordable and more sociable for young people. This year, 40% of the homes we rented have been taken by sharers - significantly higher than the long term average of 33%. This also puts pressure on the supply of apartments with 2 or more bedrooms.

FUTURE PROSPECTS

LOWER MORTGAGE RATES KEY

The housing market has been remarkably resilient over the past 2 years, despite higher borrowing costs and negative economic and market sentiment. The sales market now has positive momentum with an increase in sales agreed in the first half of 2024 and we see this being maintained through to the end of the year and into 2025.

Interest rates are expected to fall in the second half of 2024 now that inflation has fallen to the Bank of England's target rate of 2%. That will give more buyers the confidence to enter the market with renewed optimism in the property market along with the wider economy, factoring in a change in Government for the first time in 13 years.

We expect a new government to support home ownership and first-time buyers in particular. The Labour party, if elected, will look to support increased rates of house-building and affordable homes for those on lower incomes.

Demand will continue to grow from first time buyers with aspirations to leave the rental market and get onto the housing ladder. For all buyers, finding apartments with reasonable service charges becomes an increasingly tough challenge as management costs continue to rise across London.

We see a positive mid to longer term outlook for prices if interest rates fall later in the year, with sound grounds for prices to rise in 2025 and 2026 following a decade of no growth across central London.

The Leasehold and Freehold Reform Bill was passed in the final throes of wash-up in late May. Notably, the controversial provisions relating to the capping and phasing out of ground rents were dropped. However, the reprieve for investors in ground rent income streams and their lenders is likely to be short-lived if the Labour Party forms the next government, as it has stated its intention is to reintroduce the necessary legislation at the earliest opportunity. Leaseholders will welcome the changes that made it into law, which include the reform of lease extensions, enfranchisement and service charges, and the abolition of leaseholds for new houses.

LIMEHOUSE E14 – 1 BEDROOM FLAT, SOLD MARCH 2024, £530,000

It is still the case that owners including landlords are unable to sell flats in blocks requiring fire safety remedial works. We await to see what if any initiatives are introduced by a new government to accelerate the release of grant funding from the Building Safety Fund for thousands of flat owners trapped in unsaleable properties across the capital. The unintended benefit is that it boosts the supply of homes for rent as would-be sellers decide instead to rent out the property.

We expect the next government to support the Renters' Reform Bill in the first year of a new parliament. The prospect of a ban on fixed term tenancies and section 21 evictions, if and when the Renters' Reform Bill is enacted, means that landlords are already more selective when agreeing terms on new tenancies. Labour's manifesto pledged to enact the "immediate" abolition of Section 21 eviction powers, along with other private rental sector reforms.

Rents will be given a seasonal boost over the summer as the new cohort of students and graduates arrive in the city. We do not expect steep growth but it will correct the falls experienced in the first half of this year. Rents have risen 20% since 2019 and have now stabilised. We believe we are returning to a more balanced market after a period of disruption.

Plans to turbo charge the planning system announced by the government include refunds for developers if local authorities miss key timelines for deciding applications. As there appears to be political consensus on the need to reform planning we expect further incentives to be introduced that speed up the planning process and have the potential to deliver a greater number of planning consents.

Councils in England have been given the power to charge second home owners council tax at double the rate from April 2025. This, combined with higher service charges, is likely to reduce the number of second home buyers in central London and encourage more apartment owners to look to sell.

A Labour administration has committed to building 1.5 million homes within five years and to develop 'grey belt' land – currently classified as green belt but with low amenity, such as disused car parks or wasteland.

The Labour Party have committed to work with local authorities to end entire developments being sold off to international investors before homes are even built and to support local authorities, by funding additional planning officers through increasing the rate of the stamp duty surcharge paid by non-UK residents. This will have the unintended consequences of reducing housebuilding where off plan sales are an established funding requirement supporting the sector. Leaseholders were left disappointed that no political party included new initiatives to speed up fire safety remedial works required at hundreds of apartment blocks, within the manifestos.

Whatever the outcome of the election, any honeymoon period is likely to be tempered by concern for the longer term health of the UK economy which is constrained by debt, low growth and over regulation.

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