



Big Six Residential Development Report

Summer 2023

Introduction

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Introduction

The JLL Big Six Residential Development Report compares activity, prices, and rents across six UK cities outside London: Birmingham, Bristol, Edinburgh, Glasgow, Leeds and Manchester. This report incorporates data from the JLL UK Cities index, comparing changes in prices and rents across mainstream and prime developments in each city.

In the 2023 JLL Buyers and Tenants Survey 80% of respondents worked at least one day a week from home. Yet more flexibility on where we work has not dampened demand for city living. Younger residents have been flocking back to the city, accompanied by overseas and domestic students. This has supported high demand for homes, with both sales values and rents seeing significant increases in recent years.

Of course, there are obviously some challenges facing the housing market in 2023. Inflation, albeit appearing to have peaked, is running higher than target, which has led the Bank of England to increase the base rate to a 15 year high. Higher rates, tightening household budgets and weaker overall market sentiment are all impacting prices and activity. We have seen the rate of growth in prices slow as purchasers contend with higher rates. But city centre markets are proving resilient.

Landlords too are being challenged by higher costs. Yields have risen on the back of significant rental increases but landlords requiring higher loan-to-value mortgages, particularly those purchasing using interest only debt remain exposed. With fewer new landlords entering the market stock remains down across all our Big Six cities, which when combined with high demand has resulted in double digit growth in rents across most markets this year.



Economic and demographic health

Economic powerhouse

The Big Six cities have all seen their economies grow by more than 11% in the last decade. GVA growth forecasts for each city (GVA measures the value generated by the production of goods and services) suggest all will see the size of their economies increase by 17% or more over the next ten years.

A city's economic health supports the local housing market. House prices tend to rise in line with a growing economy. Production increases, alongside wages, disposable income and spending power.

The Big Six cities saw their economies grow by an average of 17% in the last decade. Higher than the UK average of 15% over the same period.

Manchester saw the highest GVA growth of the Big Six cities over the past ten years, its economy growing by 32%. Over the next ten years, Bristol is expected to see the highest GVA growth of 24%, followed closely by Manchester at 23%. Nationally Oxford Economics expect growth of 18%.

Demographics

All of the Big Six cities have seen higher population growth than UK as a whole, averaging 8.7% over the past ten years. UK population growth over the same period totalled 6.3%.

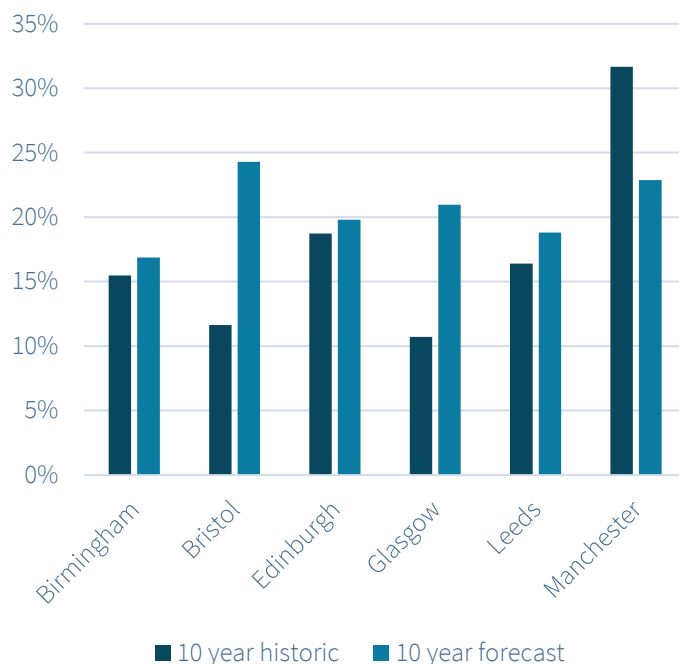
In most of the Big Six cities, young professionals make up just under a third of the population. The UK average is 22%.

All of the Big Six cities are home to at least one Russell Group university, encouraging large employers to invest in the city, and in turn supporting graduate retention and overseas student demand.

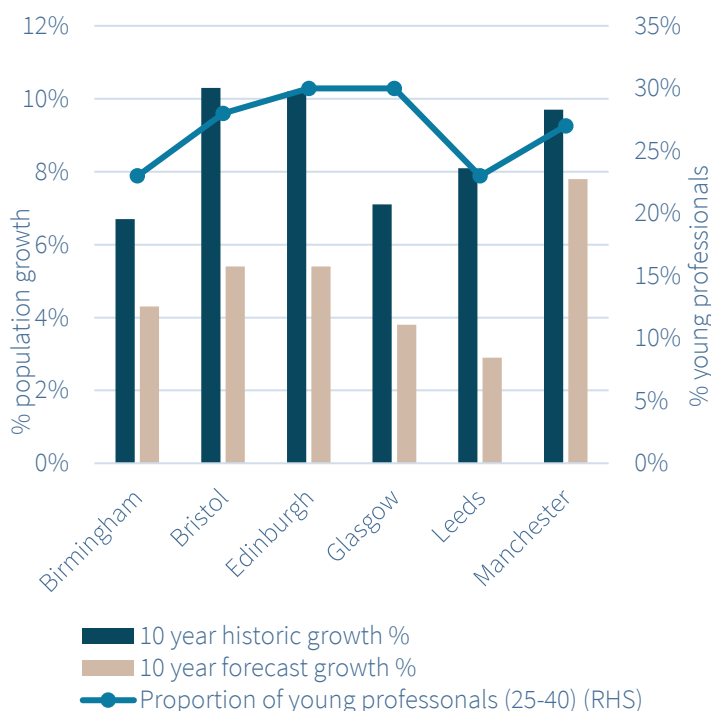
Younger residents, who are flocking to our Big Six cities are tempted by the convenience, energy efficiency, and location of modern city centre apartments. In the latest JLL Buyers and Tenants Survey, residents noted proximity to public transport, shops, leisure facilities and the quality of pubs and restaurants in an area, as important factors in determining the location of their new home.

Residents are prioritising the neighbourhood in which they live and there is increasing appetite for homes in central locations, close to key amenities.

Big Six GVA Growth



Big Six Population

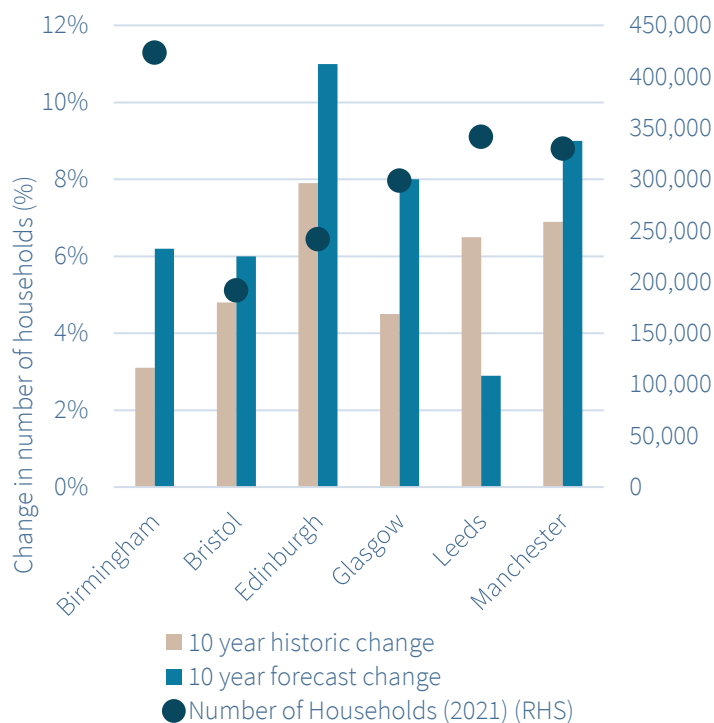


Demographics Focus: High Income Households

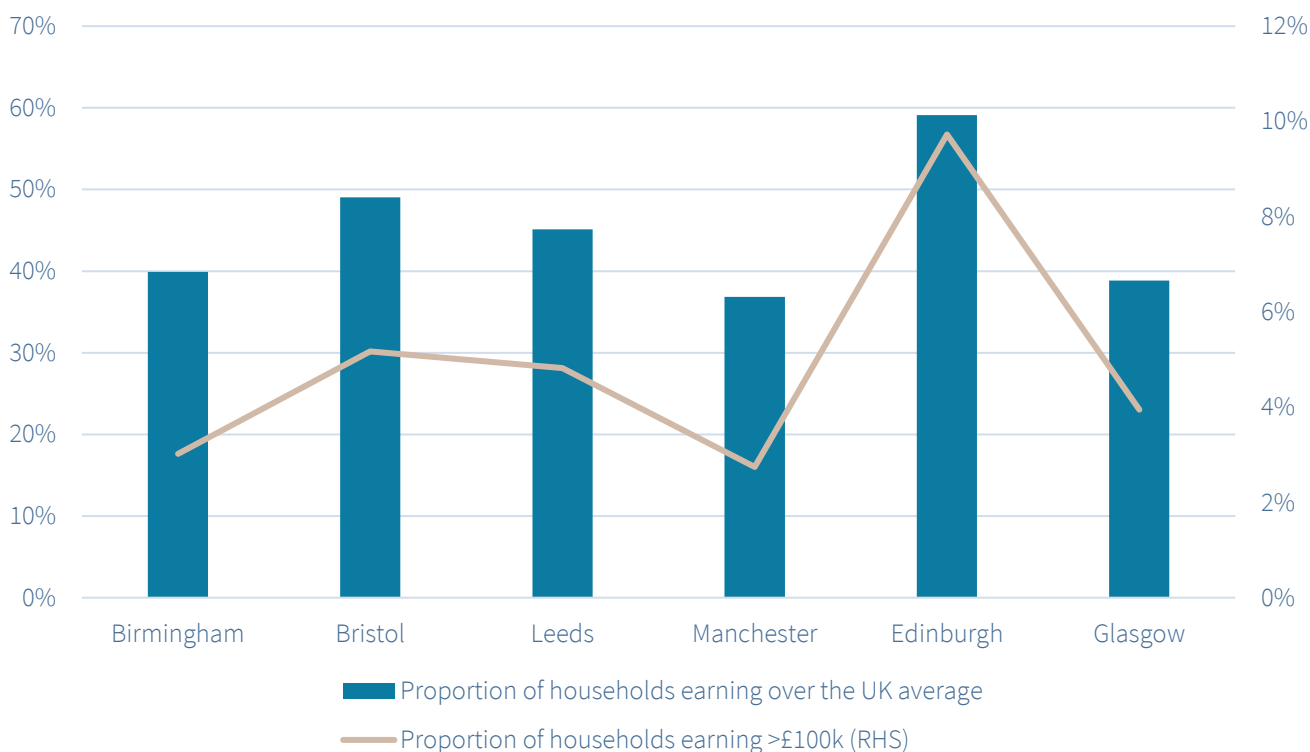
Edinburgh has seen the highest growth in the number of households of the Big Six cities over the last ten years. With all the cities bar Leeds forecast to see higher growth in the number of households over the next ten years than they have experienced over the past decade.

At least a third of households in each of the Big Six cities has a household income higher than the UK average (£32,300). For ease, we have grouped all households across the Big Six with a household income over £35,000. Edinburgh has the highest number of high earning households, and is the only Big Six city where the majority of households earn over the UK average. Almost 10% of households in Edinburgh have a household income of over £100,000 per annum. An increase in higher earning households across the Big Six is supporting demand for new properties.

Big Six Households



High income households



Cities Index Prices and Rents

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Cities Index - sales

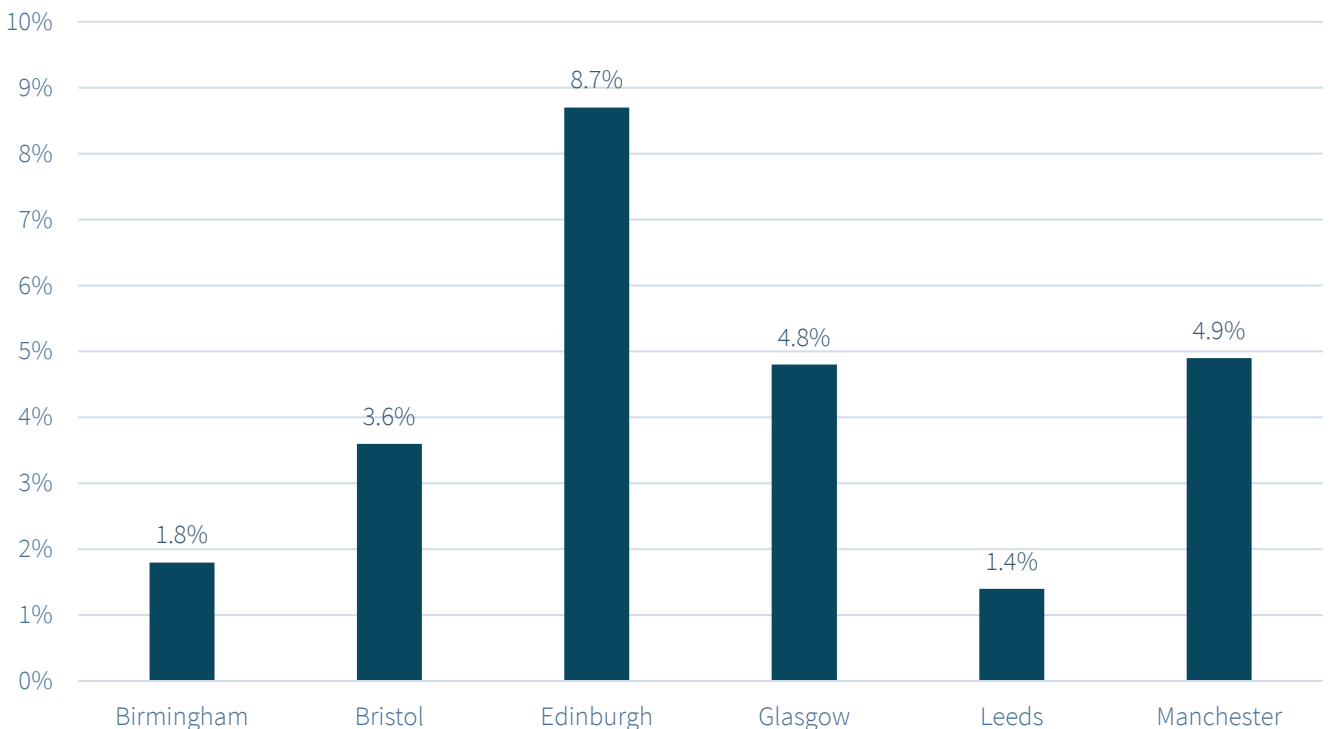
2023 has been a challenging year for the UK housing market. The rising cost of debt has meant prospective buyers are seeing their spending power eroded and those thinking of moving home or stepping onto the ladder have been deterred by uncertainty on the outlook for rates and the economy. This has been compounded by the end of Help to Buy in October 2022. Some who are looking to take advantage of the scheme pulled their decision to buy forward and others took time to reassess their options.

That said, demand for new homes across our Big Six cities remain robust. With rising migration into our cities alongside strong student demand bringing in new buyers and tenants. Which in turn is encouraging investment.

The rate of growth in prices has slowed across the Big Six cities, but all saw average prices increase over the last 12 months. Edinburgh recorded the highest annual price growth averaging 8.7%. Leeds saw the lowest annual increase, with prices up 1.4% in the year to June 2023. One bed flats in Leeds were the only property type to record an annual fall in prices, down 3.2% on June 2022. Prices across our Big Six cities are, on average, 2.0% higher than they were six months ago in December 2022.

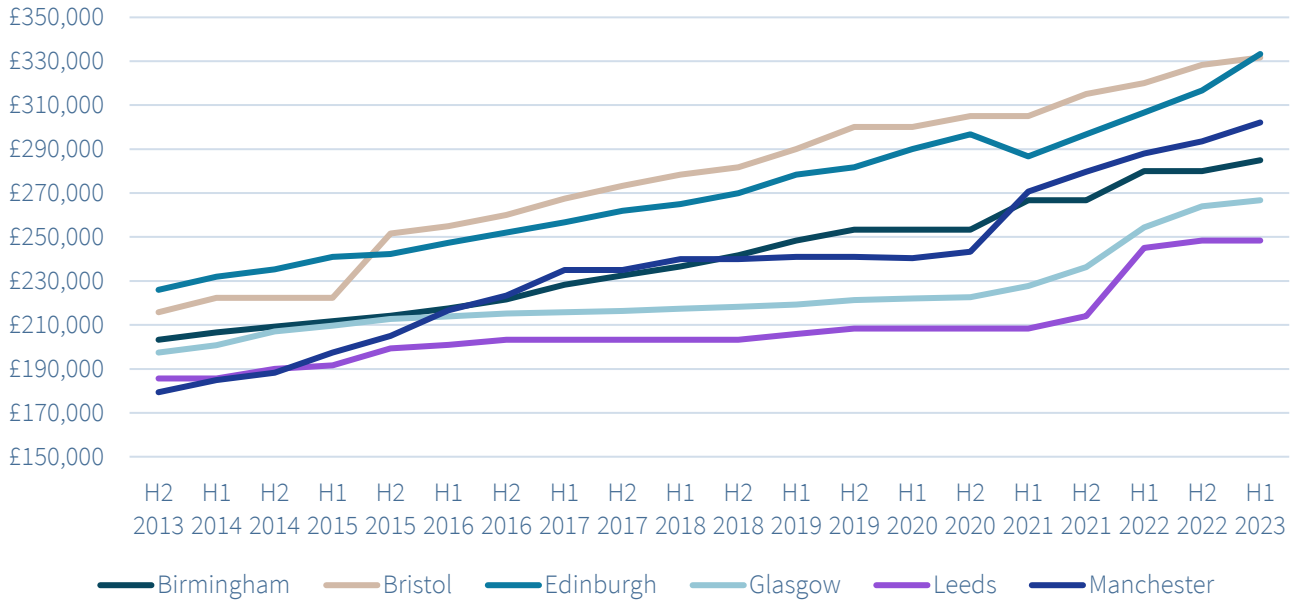
One and two bedroom new build flats saw higher growth than three bedroom homes. With rising mortgage costs hampering growth prospects for larger properties and prime homes in the majority of markets. Only Leeds and Glasgow saw the value of prime new homes outperform mainstream. Due in part to a new wave of higher specification homes reaching the market in both cities.

Average annual price growth

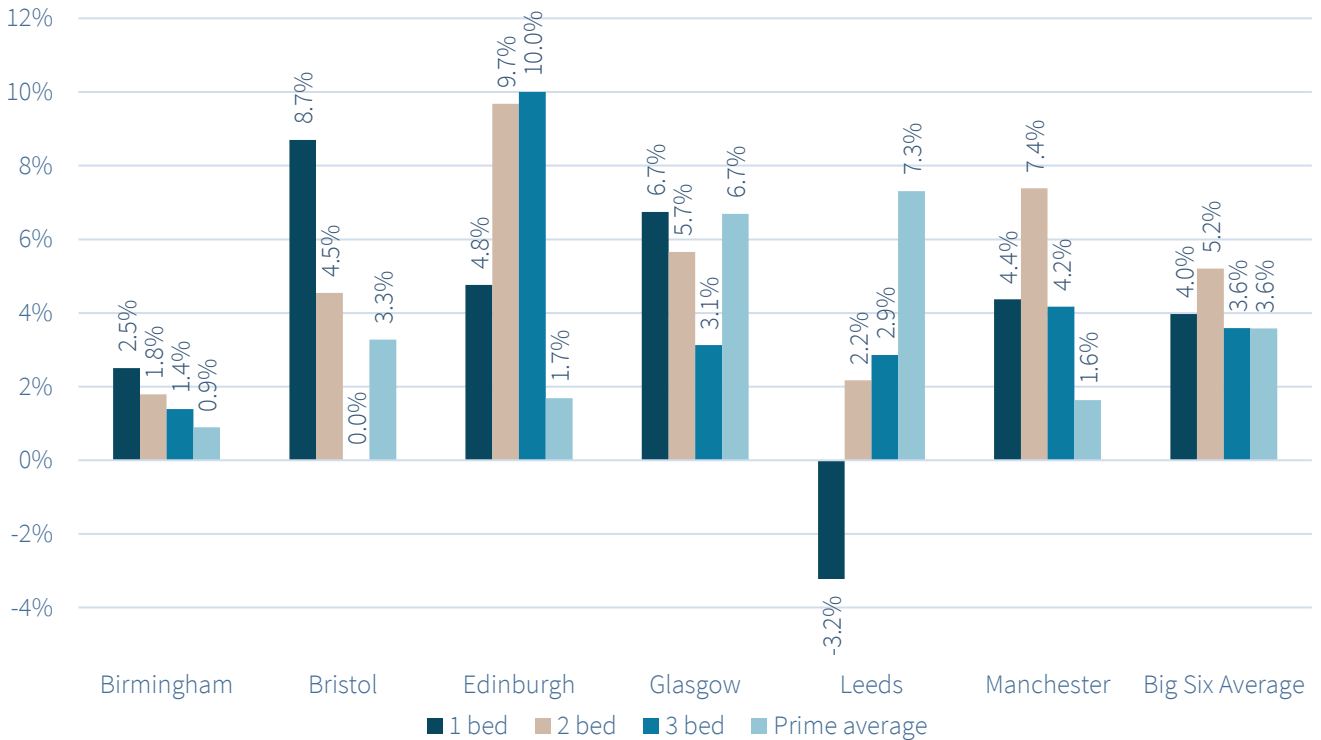


Cities Index - sales

Cities Index - Average new build flat price



Annual change in prices - year to June 2023



Cities Index - rents

Low supply drives rents higher

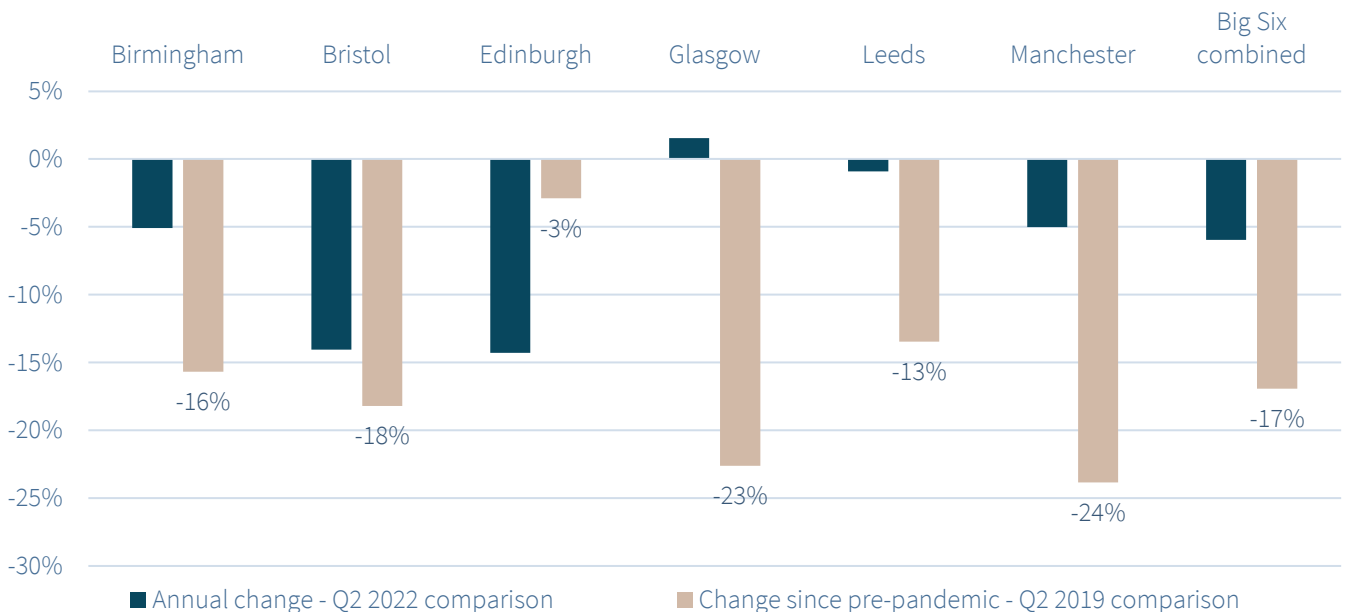
Fewer rental properties are reaching the market to let across all six cities. The number of homes listed to let on Rightmove in the three months to June 2023 was down 17% on the same period pre-pandemic in 2019 and 6% lower than 2022, when supply shortages were already becoming more acute.

Manchester and Glasgow have seen the most significant fall in rental stock reaching the market, with listings down 24% and 23% respectively compared with 2019. Edinburgh recorded the highest annual fall, with 14% fewer listings than in Q2 2022. Issues of stock shortage are being exacerbated by a rise in renewals. A more competitive rental market, higher mortgage rates deterring prospective first-time buyers, and in Scotland rent caps on existing tenancies all contributing.

Rising mortgage rates and a higher proliferation of interest only debt means landlords remain more exposed. Putting further pressure on rental stock as some landlords reassess their future in the rental market. Analysis of the English Private Landlords Survey suggests 38% of landlords have no debt secured against their rental properties. Of those with debt just over half (51%) have loans of 50% LTV or more, with 16% of landlords with debt have 70% LTV or higher. Assuming 5.2 million privately rented homes UK wide this suggests 2 million are debt free. This leaves 3.2 million rental properties. Of those 1.6 million have an LTV of 50% or more, with circa 500,000 having 70% LTV or higher. This means affordability pressures will be most acute for around 10% of the PRS.

Of course, many landlords will have other sources of income and assets to fall back on. But higher costs for landlords could exacerbate rental increases and stock scarcity for tenants, as landlords who find themselves having to 'top up' their mortgage payments are tempted to leave the sector.

Change in rental listings - Q2 2023



Cities Index - rents

Improving quality of new developments is driving rental growth

The Big Six cities recorded average annual rental growth of 14.3% in the year to June 2023. With Manchester experiencing the highest annual growth at 19.6%. Over the last 12 months, there have been several new schemes completed in Manchester. The improvement in the quality of these schemes, alongside high demand from prospective tenants, has contributed to the increase in rents, resulting in higher rental growth than we have seen across the other Big Six cities.

In Scotland, the rental cap on existing properties has been extended. New lets fall outside of this rent cap, and the high demand for rental homes is driving strong rental growth for new lets. The cap is now set at 3% for existing tenancies and is expected to stay in place until September 2023. For landlords renewing rental contracts with tenants, this means they should not increase the rent by more than 3%, and must do so within 21 days of receiving the rent increase notice.

Across the Big Six one and two bedroom flats have seen the highest annual growth, averaging 15.2% and 18.3% respectively. In comparison, the average increase in rent for a three bed flat across the six cities was more modest at 6.6%. In comparison to the other Big Six cities new homes in Leeds have seen a lower annual increase in rents, averaging 3.9% in the year to June 2023. But this follows three years of strong growth, with rents 29% higher than they were in June 2020.

The increases in rents across the Big Six clearly demonstrates not only the demand for city centre living but also the need for more homes. This is not exclusive to the rental market, with a requirement for more homes of all tenures needed to address demand. The UK government has committed to building one millions new homes over the course of this parliament, prioritising building on brownfield sites in inner-city areas where demand is highest, and key infrastructure already exists. This will be welcome news to the Big Six cities, particularly Manchester and Glasgow who have seen the most significant falls in rental stock reaching the market.

Average annual rental growth



Big Six Cities

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Birmingham

Prices and Rents (excluding prime)



1 bed: £205,000
2 bed: £285,000
3 bed: £365,000



1 bed: £1,000
2 bed: £1,300
3 bed: £1,600

Economic & demographic indicators – past ten years



Economy
+15% (GVA)
(UK: 15%)



Population
+6.7%
(UK: 6.3%)



Households
+3.1%
(UK: 6.1%)

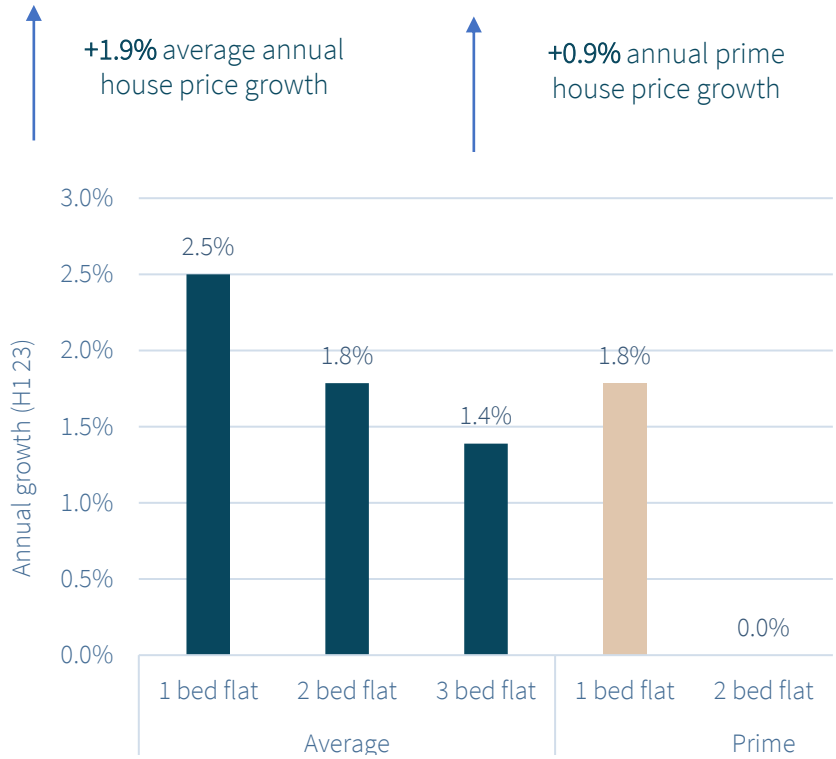


Employment
+13.4%
(UK: 11.1%)

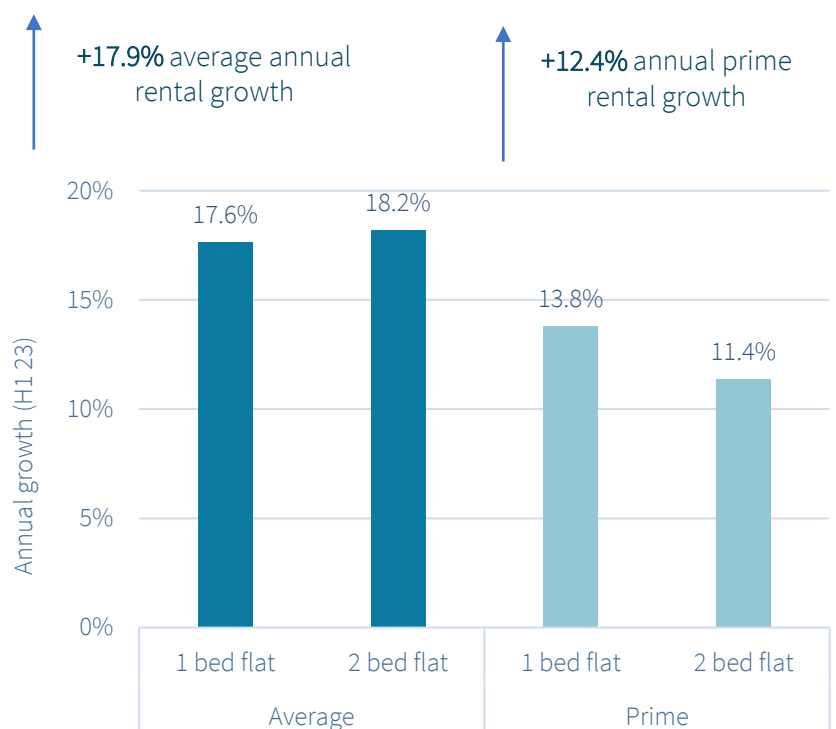


Residents' Income
+24%
(UK: 22.5%)

Birmingham - Pricing



Birmingham - Rents



Bristol

Prices and Rents (excluding prime)



1 bed: £250,000
2 bed: £345,000
3 bed: £400,000



1 bed: £1,275
2 bed: £1,650
3 bed: £1,900

Economic & demographic indicators – past ten years



Economy
+12% (GVA)
(UK: 15%)



Population
+10.3%
(UK: 6.3%)



Households
+4.8%
(UK: 3.1%)



Employment
+24.4%
(UK: 11.1%)

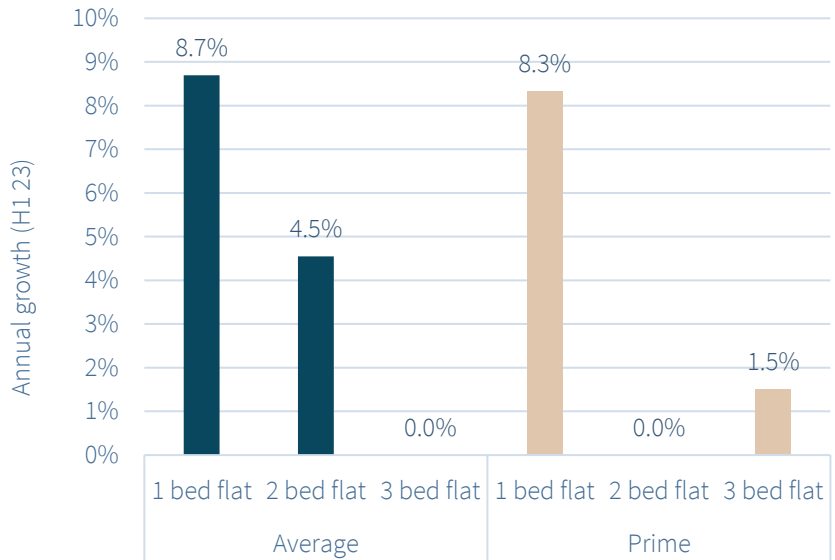


Residents' Income
+28.5%
(UK: 22.5%)

Bristol - Pricing

+3.6% average annual house price growth

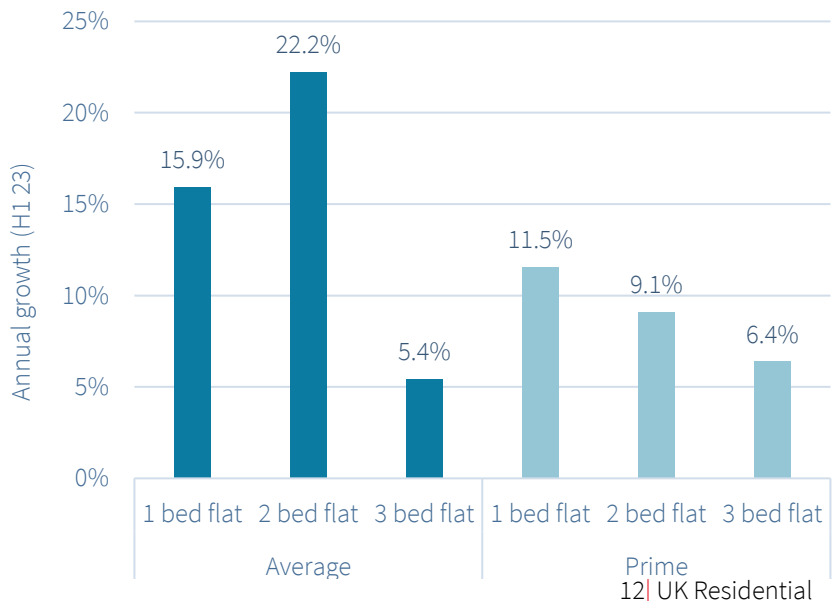
+3.3% annual prime house price growth



Bristol - Rents

+13.4% average annual rental growth

+8.5% annual prime rental growth



Edinburgh

Prices and Rents (excluding prime)



1 bed: £220,000
2 bed: £340,000
3 bed: £440,000



1 bed: £1,050
2 bed: £1,450
3 bed: £1,900

Economic & demographic indicators – past ten years



Economy
+11% (GVA)
(UK: 15%)



Population
+7.1%
(UK: 6.3%)



Households
+4.5%
(UK: 3.1%)

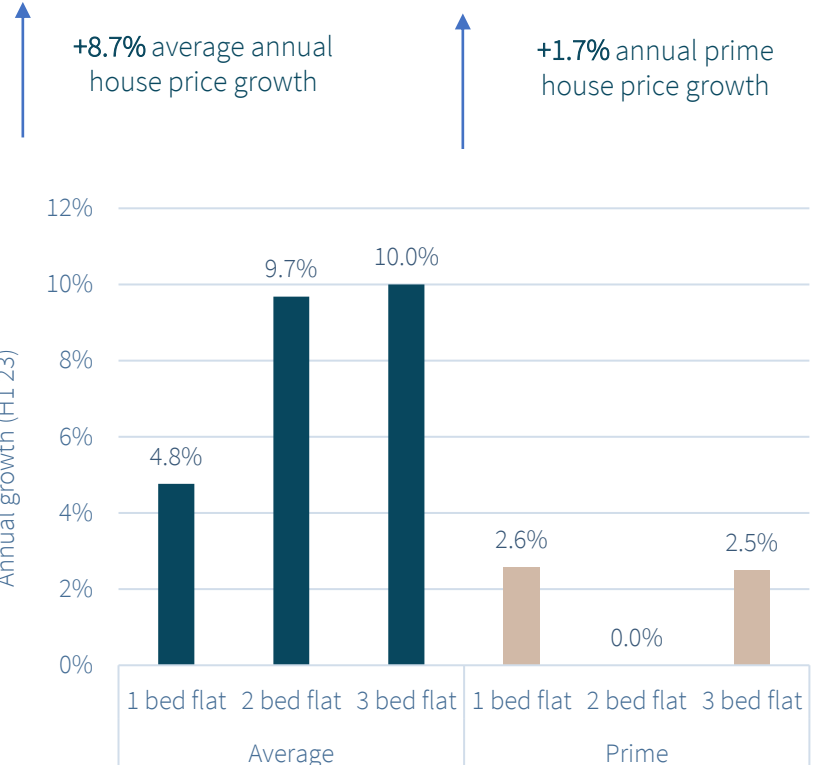


Employment
+7.6%
(UK: 11.1%)

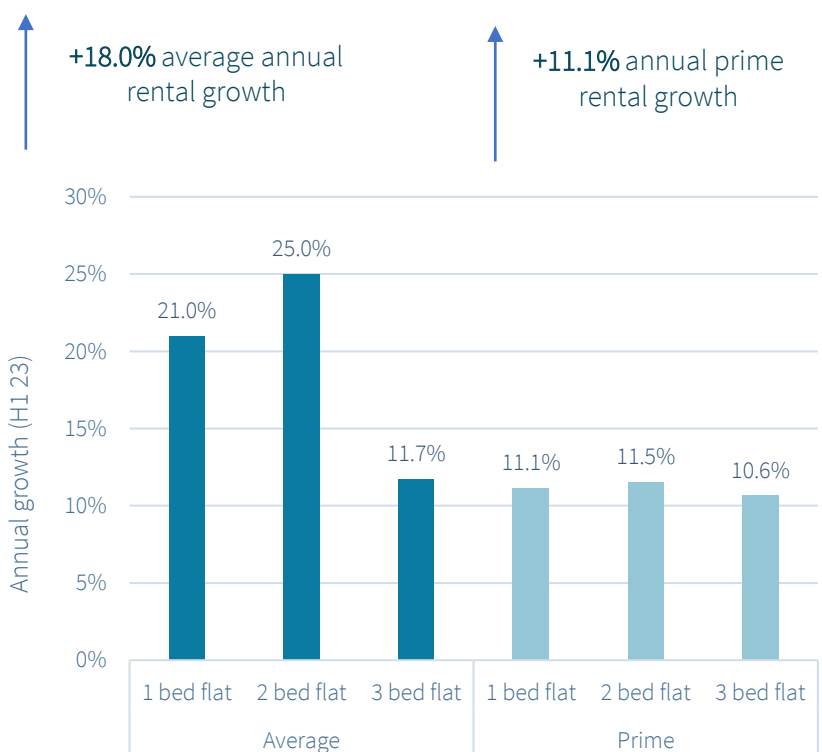


Residents' Income
+25.9%
(UK: 22.5%)

Edinburgh - Pricing



Edinburgh - Rents



Glasgow

Prices and Rents (excluding prime)



1 bed: £190,000
2 bed: £280,000
3 bed: £330,000



1 bed: £850
2 bed: £1,185
3 bed: £1,600

Economic & demographic indicators – past ten years



Economy
+11% (GVA)
(UK: 15%)



Population
+7.1%
(UK: 6.3%)



Households
+4.5%
(UK: 3.1%)

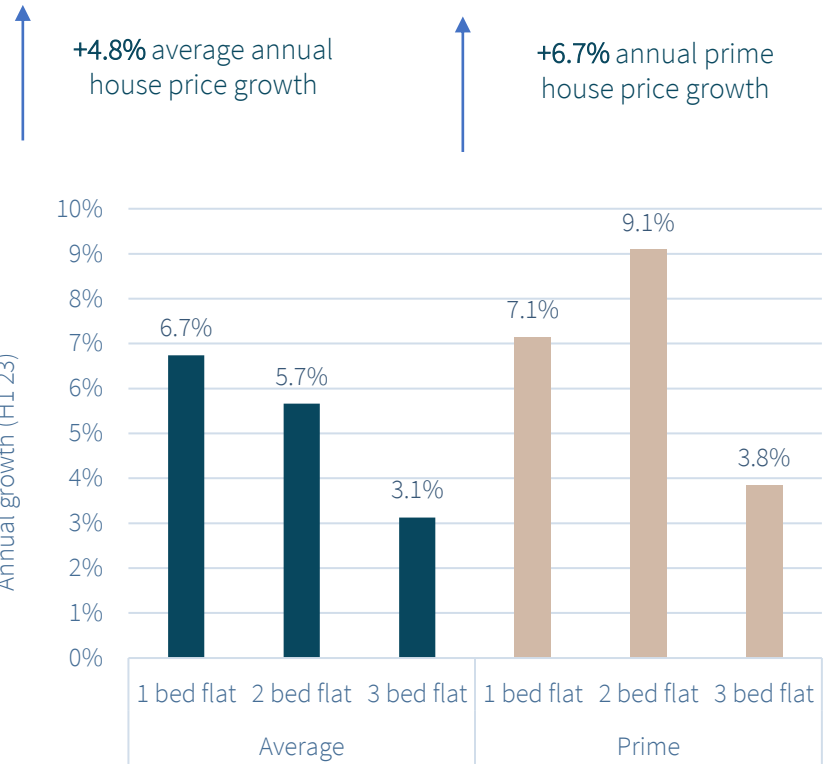


Employment
+7.6%
(UK: 11.1%)

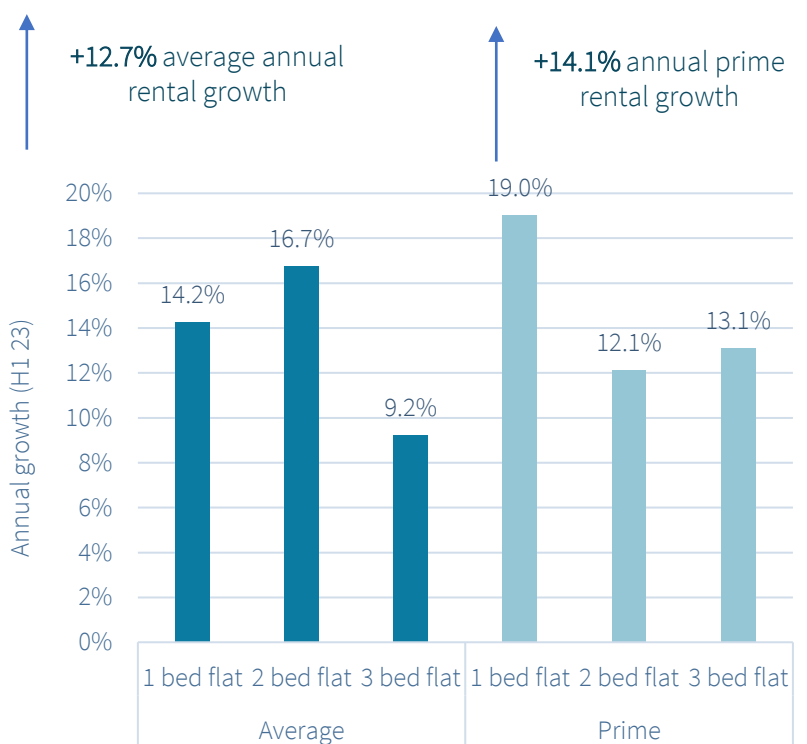


Residents' Income
+25.9%
(UK: 22.5%)

Glasgow - Pricing



Glasgow - Rents



Leeds

Prices and Rents (excluding prime)



1 bed: £150,000
2 bed: £235,000
3 bed: £360,000



1 bed: £850
2 bed: £1,250
3 bed: £1,850

Economic & demographic indicators – past ten years



Economy
+16% (GVA)
(UK: 15%)



Population
+8.1%
(UK: 6.3%)



Households
+6.5%
(UK: 3.1%)

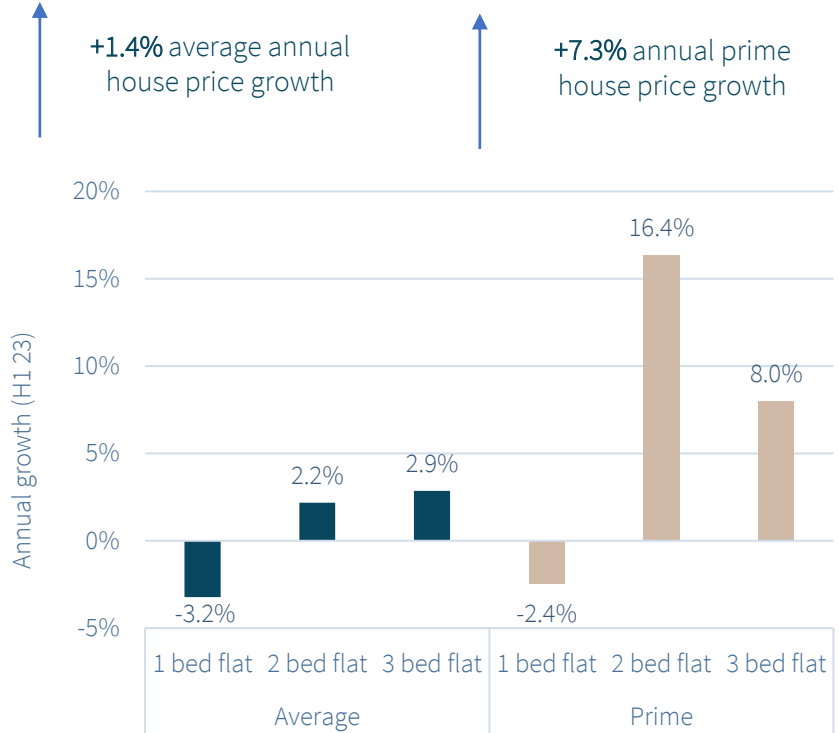


Employment
+14%
(UK: 11.1%)

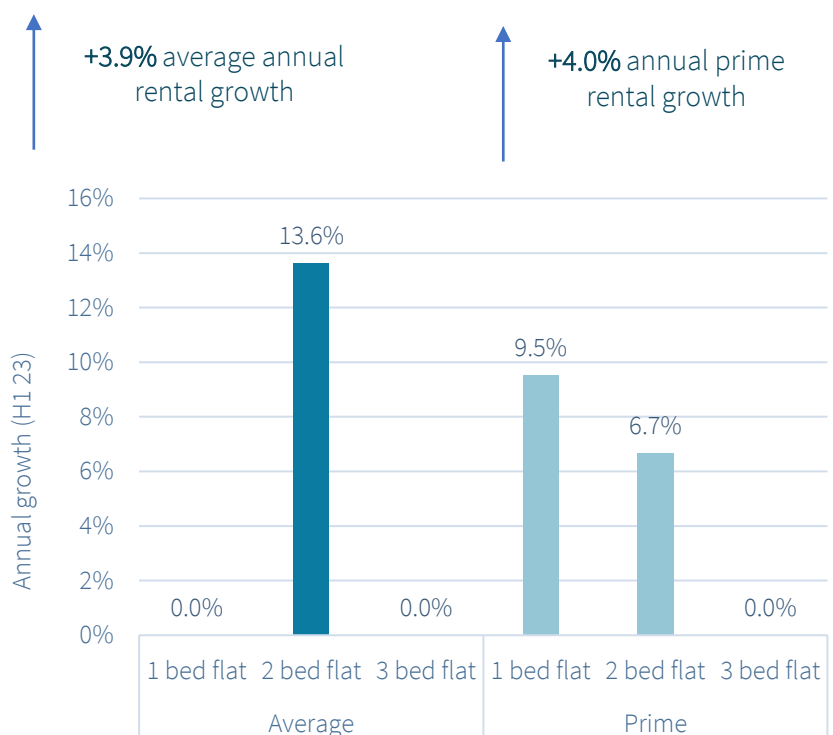


Residents' Income
+23.7%
(UK: 22.5%)

Leeds - Pricing



Leeds - Rents



Manchester

Prices and Rents (excluding prime)



1 bed: £223,500
2 bed: £309,000
3 bed: £374,000



1 bed: £1,225
2 bed: £1,600
3 bed: £2,200

Economic & demographic indicators – past ten years



Economy
+32% (GVA)
(UK: 15%)



Population
+9.7%
(UK: 6.3%)



Households
+6.9%
(UK: 3.1%)

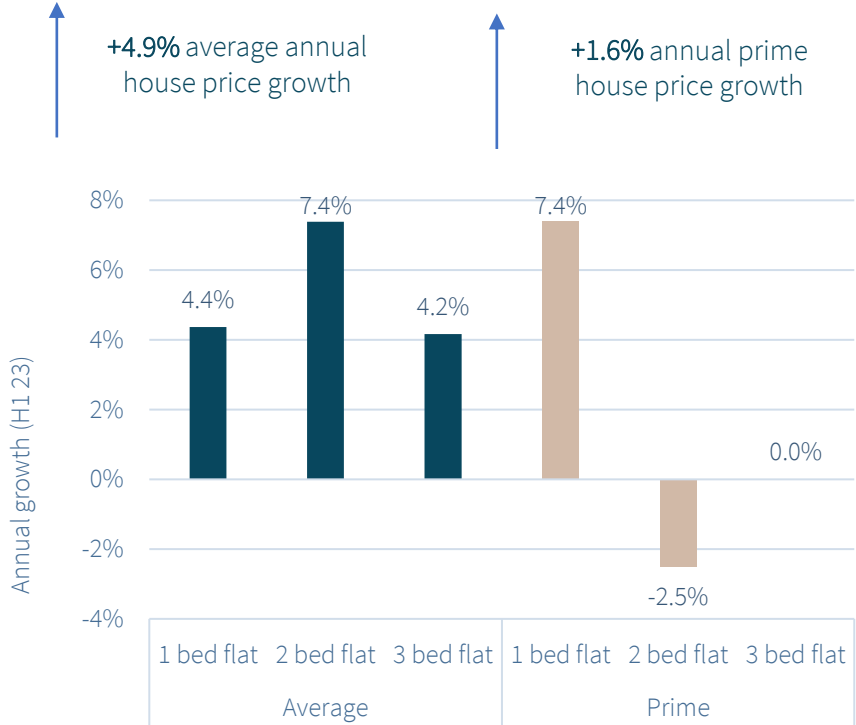


Employment
+28%
(UK: 11.1%)

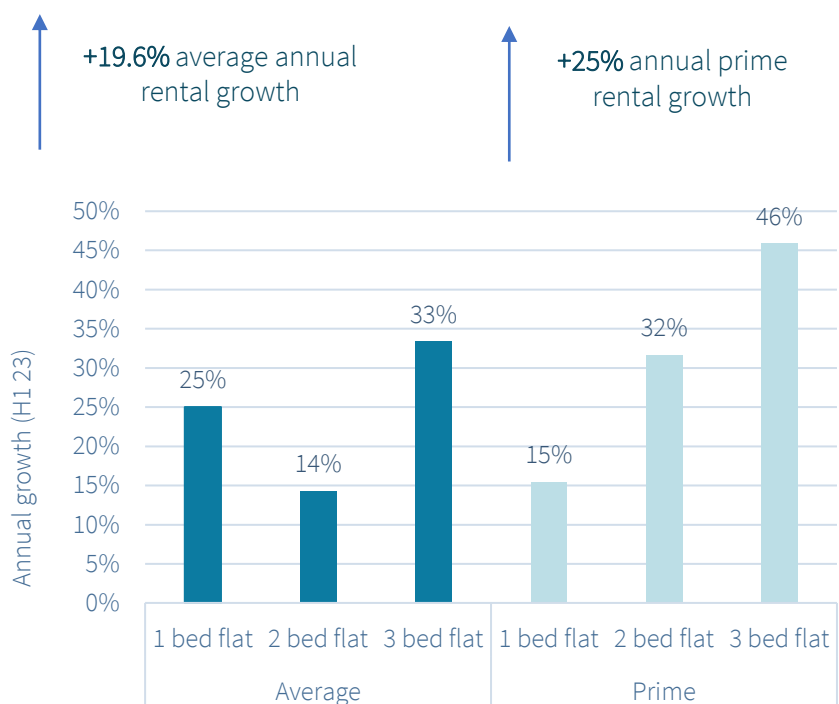


Residents' Income
+27.3%
(UK: 22.5%)

Manchester - Pricing



Manchester - Rents



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About JLL Research

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JLL's Residential and Living team consists of over 300 professionals who provide a comprehensive end-to-end service across all residential property types, including social housing, private residential, build to rent, co-living, later living, healthcare and student housing.

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