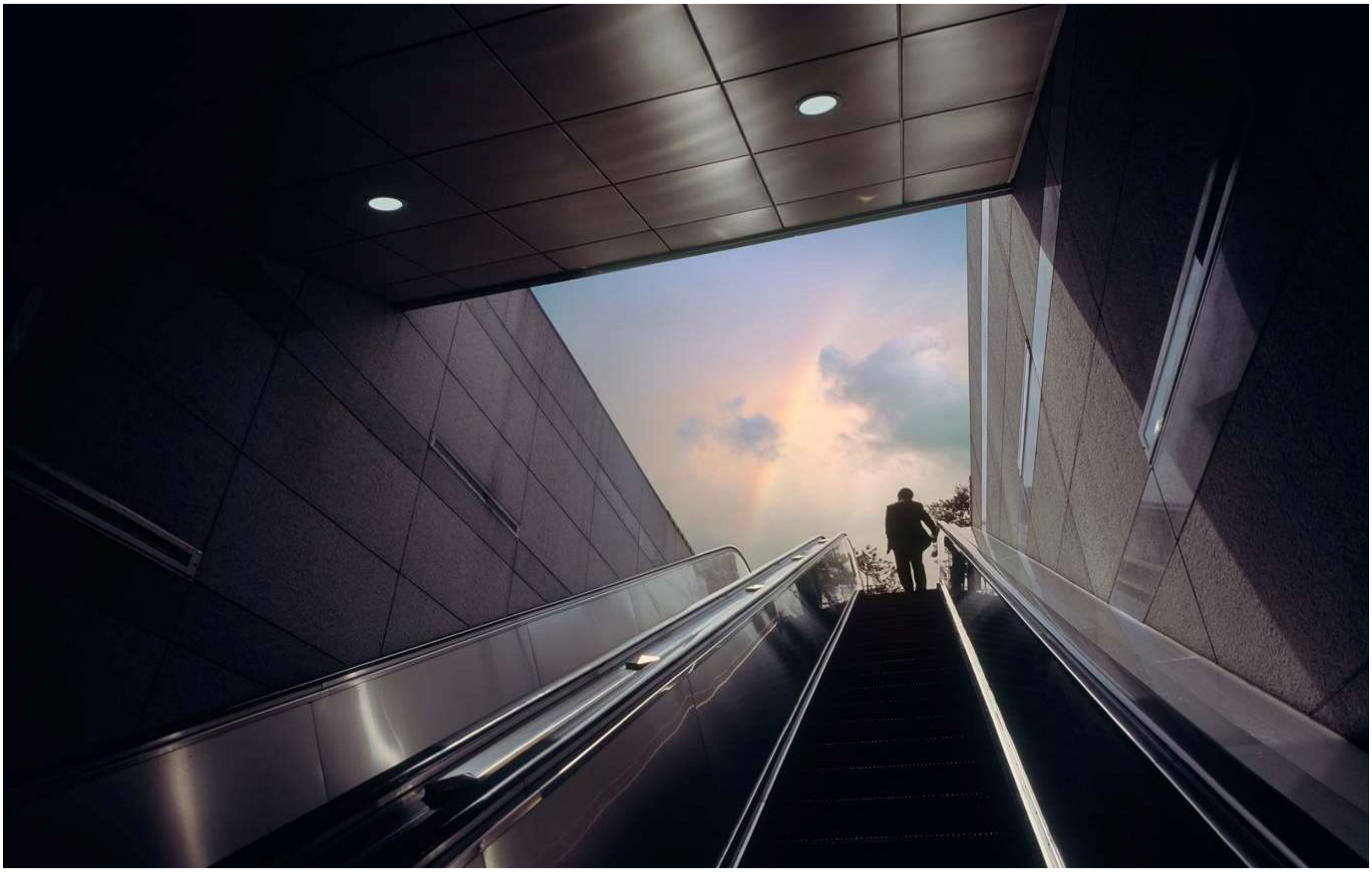

UK Residential Forecasts

2024-2028

SEE A BRIGHTER WAY

Residential forecasts 2024 - 2028

The UK housing market has been resilient in the face of rising rates, increases in the cost of living, and negative market sentiment.

More stringent lending rules following the global financial crisis (GFC) and higher levels of equity mean that while we have seen stress in the market, we are yet to see significant signs of distress.

Consensus forecasts on the outlook for base rates suggest they are set to plateau until mid-2024, before starting to fall later in the year. We expect fixed rate deals to improve as the prospect of further rate rises recedes, but this will still mean households facing higher rates for longer.

We expect that prices will bottom out in 2024 but anticipate that falls earlier in the year will outweigh any increases in the second half, meaning single digit annual falls are likely at the 2024-year end.

We are forecasting a return to growth in our 2025 forecast as fixed rates begin to fall and we have more certainty on the outlook.

Some more bearish forecasters are expecting higher house prices falls. But rather than seeing significant nominal falls we expect it will be real house prices where we see a more substantial fall.

One of the reasons why price falls have been modest compared with the GFC is inflation. High inflation means that even if house prices remained static in nominal (non-inflation adjusted) terms we are effectively seeing prices fall.

We are forecasting nominal house price falls of 3% nationally in 2024, following -6% in 2023. This means in nominal terms prices at the end of 2024 are expected to be 12.7% down on their mid-year 2022 peak. But adjusting for inflation shows a fall of more than -20%.

Of course, few think about the price of their house in real (inflation adjusted) terms. But at times when inflation is higher, and affordability is stretched, real house prices falls can address affordability issues without eroding (nominal) houses prices and ultimately equity too significantly.

What about the election?

Both political parties are emphasizing their support for home ownership leading up to the election. January 2025 is the latest the next general election could be held, but rumours abound of an election being called earlier, possibly when inflation hits 3%.

As a rule, the market does not respond well to uncertainty, but analysis of activity and prices pre- and post-election back to 1997 shows a mixed picture, suggesting economic factors rather than the election itself have a far greater impact on prices and sales volumes.

Outlook for rents

The imbalance between rental stock and tenant demand drove rental growth to double digit highs in 2023.

We are seeing more balance in the market as stock levels start to rise, but volumes still lag long run averages.

Over the next five years, we expect the lack of new rental stock - through fewer new home completions and a more challenging interest rate environment, will mean we see rental growth exceed wage growth.

We are forecasting rents will increase across the UK by 5% in 2024. From 2025 onwards we expect more attractive mortgage rates will result in an increase in tenants moving into owner occupation bringing more balance between tenant demand and rental stock.

Rental growth is expected to be higher in London, as greater competition for stock and affordability challenges in the sales market bolster demand.

> “JLL forecast growth of 5.0% in 2024 with UK rents rising by an average of 4.2% per annum between 2024 and 2028.
>
> **Marcus Dixon**
> *Director -UK Residential Research*

JLL house price forecasts

Sales price growth (% pa)	2024	2025	2026	2027	2028	Cumulative 2024-28	Average pa 2024-28
UK	-3.0	3.0	4.0	4.5	5.0	14.0	2.7
Central London	0.0	4.0	4.5	4.5	5.5	19.8	3.7
Greater London	-2.0	3.5	4.5	4.5	5.0	16.3	3.1

JLL rental growth forecasts

Rental growth (% pa)	2024	2025	2026	2027	2028	Cumulative 2024-28	Average pa 2024-28
UK	5.0	4.5	4.0	4.0	3.5	22.8	4.2
Central London	6.0	6.0	5.0	4.5	4.5	28.8	5.2
Greater London	5.5	5.0	4.5	4.5	4.0	25.8	4.7
UK BTR	6.0	5.5	4.5	4.5	4.0	27.0	4.9

JLL transactions forecast

	2024	2025	2026	2027	2028
Transactions (millions)	1.0m	1.1m	1.2m	1.2m	1.2m

Source: JLL Research

UK economic uncertainty to ease

The outlook for the UK economy is predicted to improve over the next 12 months following nearly two years of uncertainty driven by heightened inflation.

Forecasts from Oxford Economics predict inflation will gradually fall back to below the Government-set 2% target rate at some point between the end of 2024 and end of 2025.

Against this backdrop, with inflation more under control, it would be expected that the Bank of England would enact a period of base rate reductions.

As a result, the UK economy is expected to see accelerating GDP growth from 2025 through to 2028, following a period of constrained growth in 2024.

Meanwhile, UK unemployment is expected to peak at circa 4.6% in 2024 and 2025 – still well below the long-term average of 6.7% between 1971 and 2023.

As the economy starts to see rising economic growth, unemployment is then forecast to reduce back to current levels of circa 4%.

Finally, wage growth is expected to fall back in line with the outlook for inflation. However, wages are predicted to grow at between 70bps to 150bps above inflation each year over the five-year forecast period.

UK macroeconomic forecasts

	2024	2025	2026	2027	2028
GDP growth (%y/y)	0.4	1.4	1.9	1.4	1.5
CPI inflation (%y/y)	2.9	1.3	1.5	1.9	1.9
Unemployment rate (%)	4.6	4.6	4.1	4.0	3.9
Wage growth (%y/y)	4.4	2.7	2.2	2.6	2.9

Source: Oxford Economics

UK housebuilding's wall of problems

Since housing targets were introduced in the UK in the mid-2000s, there has been a cumulative undersupply of circa 1.5m homes. Over the next five years, JLL predicts the rate of undersupply will worsen further with a cumulative shortfall of 720,000 homes between 2023 and 2028.

As we move into an election year, the scale of housebuilding ambition from the major political parties must be applauded.

But the UK's housebuilding industry is facing more headwinds than ever before plunging the UK towards an ever-worsening supply crisis.

JLL has identified five structural barriers to supply, which must be addressed before there will be a meaningful increase in UK supply.

More so than ever before, public and private sector organisations will need to work in partnership bringing their various resources, expertise and solutions to the table.

Otherwise, the perennial shortfall in housebuilding will continue underpinning strong house price and rental growth and continuing to exacerbate housing affordability issues in the UK.

Five barriers to new supply

1

Build costs - Construction labour and materials costs have increased by around 25% compared with pre-pandemic. A big part of the problem for UK housebuilding is the reliance on imported products. More than a quarter of UK construction materials are imported, according to the Construction Products Association, with 60% of those imports coming from the European Union. These materials have faced disproportionately elevated cost increases following Brexit and the Covid pandemic.

2

Financing costs – At the end of 2021, the UK base rate was 0.1%. Over the next 18 months the cost of borrowing increased at one the sharpest rates in the history with the base rate reaching 5.25% in August 2023. Not only has this rendered a significant proportion of debt-reliant construction projects unviable, it has also significantly reduced the potential pool of viable buyers for new homes – monthly mortgage approvals are now around 25% lower than they were in Summer 2022.

3

Construction capacity - Around 1m of the UK's 2.5m construction workers are employed in housebuilding. This workforce is already at full-capacity and currently builds only 60% of the UK housing target for 300,000 homes per annum. Manufacturers' organisation Make UK estimates there is a shortfall of nearly 1m construction workers to meet UK housebuilding targets. The capacity issue will worsen further with around 32% of the construction workforce aged over 50 and expected to retire in the next decade. The construction industry's capacity problems have heightened in recent months with several notable modular and traditional-build construction companies falling into administration.

4

Land availability - The UK population has increased by 12million over the past 40 years, with all that growth in urban areas. Finding sufficient land for this continued city growth is incredibly difficult due to planning and viability constraints. Brownfield land registers show an estimated capacity for 1.2m homes in England – only equivalent to four years housing need. Meanwhile around 12.5% of England is designated as Green Belt, restricting the ability of the UK's most densely populated areas to expand.

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5

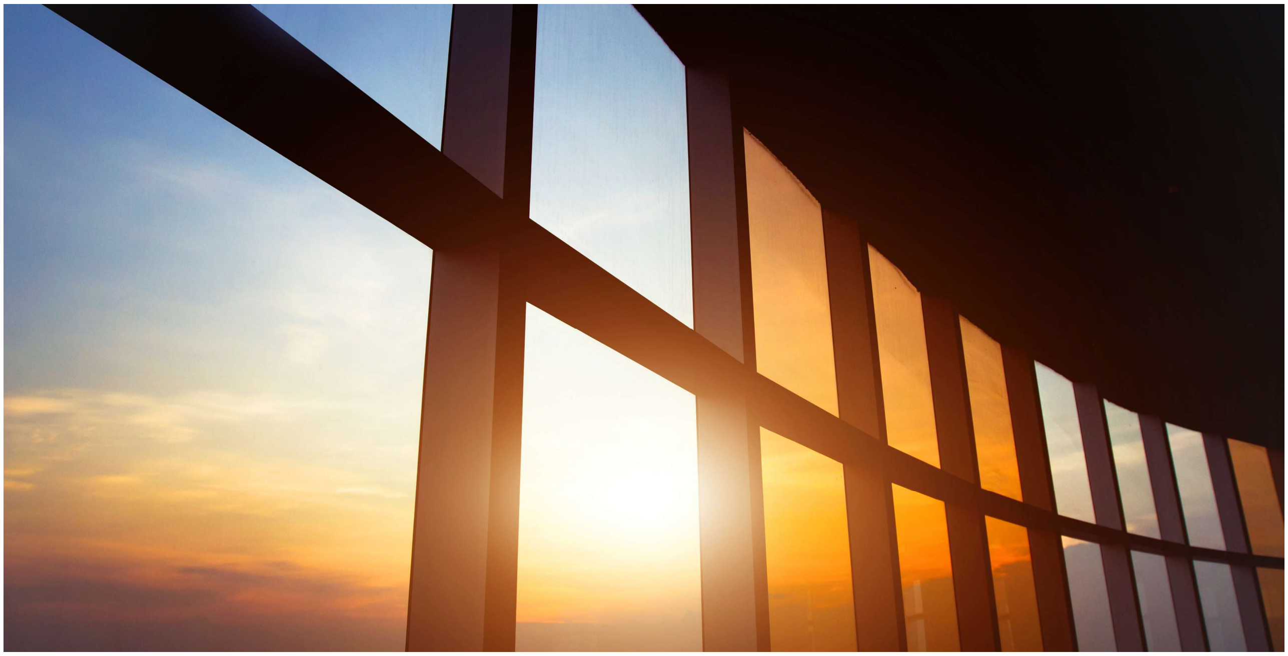
Building regulations - There has been nine changes to UK building regulations between 2020 and 2023 alone, particularly in relation to building safety improvements and the environmental performance of the UK's housing stock. These nine changes are estimated to have increased building costs by around 15% in the past three years. Together with the materials and labour cost increases, the overall cost to build homes in the UK is nearly 40% higher than before the Covid pandemic.

JLL UK housing construction forecasts

	2023	2024	2025	2026	2027	2028
Total starts	150k	150k	170k	190k	210k	220k
Shortfall vs. annual housing target	150k	150k	130k	110k	90k	90k

Source: JLL Research

> Over the next five years, JLL predicts the rate of undersupply will worsen further with a cumulative shortfall of 720,000 homes between 2023 and 2028.
>
> **Nick Whitten**
> *Head of UK and EMEA Living Research*



2023… Weathering the storm

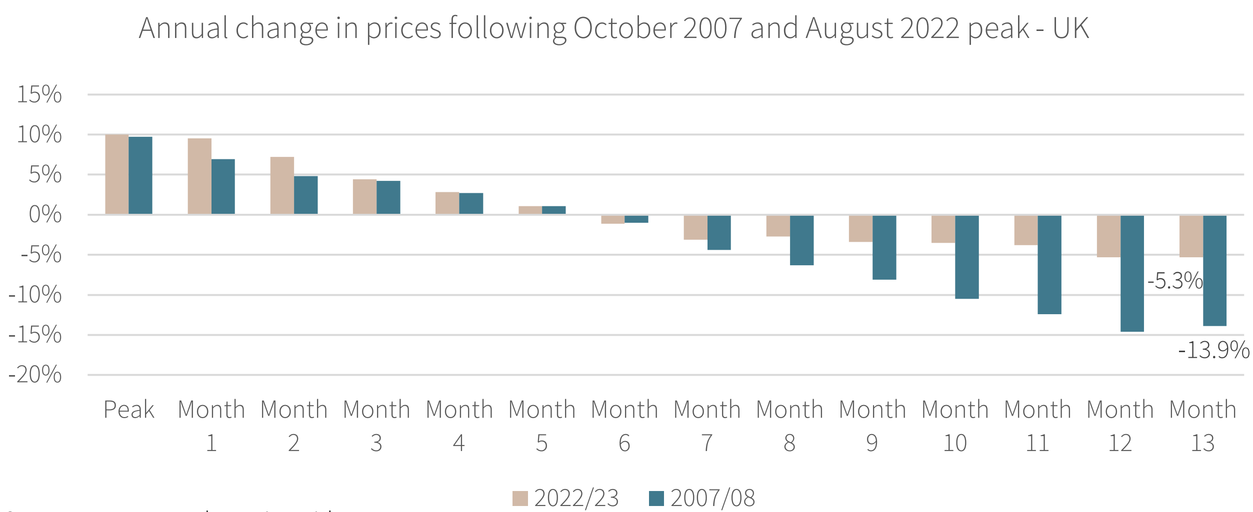
A year ago, the UK had reached peak uncertainty. The short-lived Truss/ Kwarteng government had left number 10, and the repercussions of the mini budget were still very much evident in the markets.

Inflation hit 11.1% in October and would remain in double digits until the spring. Average two-year fixed mortgage rates had jumped almost 200 basis points, exceeding 6.6% in late October 2022.

Our views back then on the outlook for prices and activity in 2023 remained muted. But we expected that higher levels of equity in the housing market, alongside more responsible lending practices post global financial crisis would shield the market from distress. There have been some painful adjustments but a year on the market has proved more resilient than many expected. Prices have fallen back from their summer 2022 peak, but falls have been less significant than in 2008. Indeed, 13 months on from the peak, UK house prices are down 5.3%, compared with a fall of more than 13% at the same point following the 2007 peak.

Prices

UK house prices following a different path to the global financial crisis



Source: JLL Research. Nationwide

A year ago, we were expecting house prices nationally to fall 6% in the year to December 2023. The Nationwide and Halifax Indices show annual falls of circa 5% at the end of the third quarter. Of course, we were already seeing prices fall by the end of 2022, so current levels reflect more of a fall from peak than they will at the year end. We are leaving our 2023 forecast unchanged at -6%.

For Greater London we expected lower levels of growth over the last three years would mean that price falls would be less significant. We are leaving our London and regional forecasts unchanged for 2023, with London expected to see prices down -4% in the year to December.

For central London we are downgrading our 2023 forecast. We had expected the return of overseas travel and the proliferation of cash purchases to support growth this year. The central London new homes market continues to see lower levels of new stock reaching the market for sale, meaning prices have remained relatively static. But in the resale market we have seen fewer overseas buyers than expected alongside weaker sentiment amongst prospective buyers, particularly those looking to buy with a mortgage. We expect prices in central London to fall -3% in 2023, down from +2.5% forecast a year ago.

-6%
UK prices 2023

-4%
London prices 2023

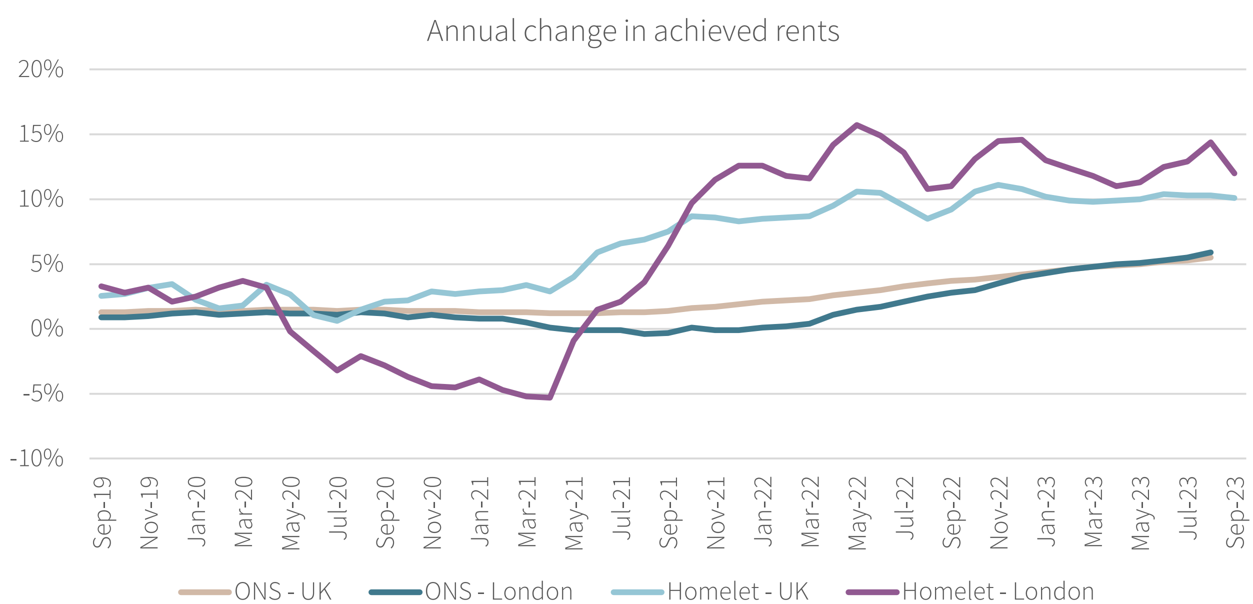
-3%
Central London prices 2023

Rents

The continued imbalance between supply and demand has supported growth in rents this year. Stock levels increased in Q3 2023 but continue to lag pre-pandemic norms. Both the ONS Index of Private Rental Values and Homelet Rental Index continue to show rents rising. The ONS index includes existing tenancies so usually follows a smoother path than indices based solely on new lets.

We are upgrading our rental forecasts for 2023, with UK rents expected to end 2023 +6.0% higher. Our forecast for Greater London is +7.0% while we expect rental value growth of +6.5% in central London.

Rents continue to rise across all UK regions



Source: JLL Research, ONS, Homelet

+6%

UK rents 2023

+7%

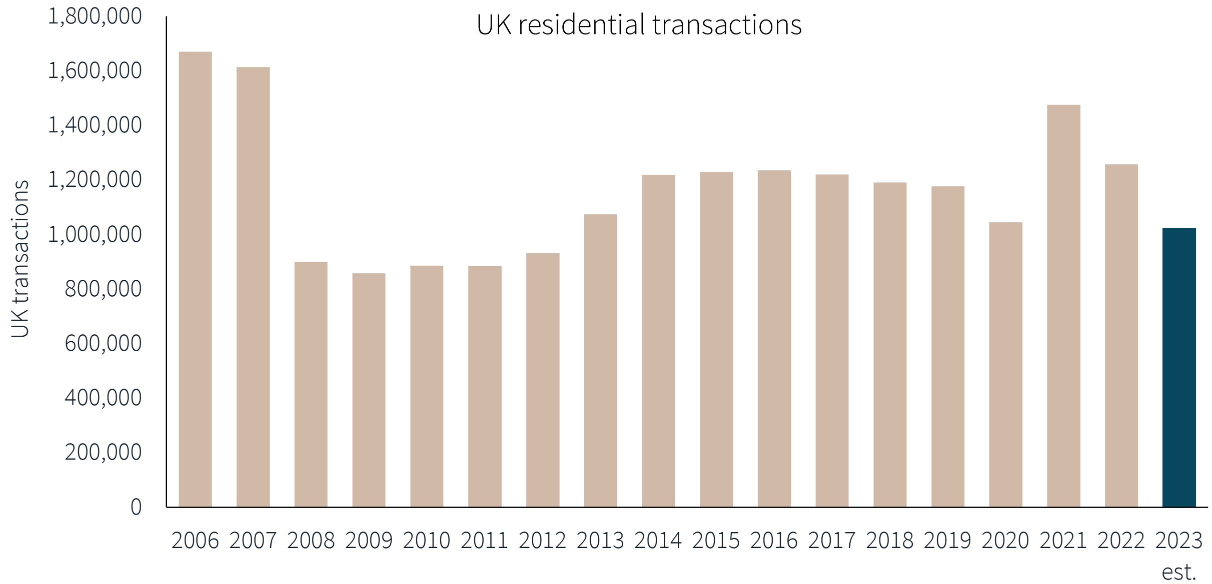
Greater London rents 2023

+6.5%

Central London rents 2023

Transactions and new homes

Transactions expected to fall to 1 million across the UK in 2023



Source: JLL Research, ONS

Transactions across the UK look like they will total one million this year, in line with our forecast. Between January and August 2023 there were 18.5% fewer transactions than in the same period in 2022. Applying this fall to the September to December figures gives a year end figure of 1.02 million sales.

Rising costs, particularly around construction labour and materials, combined with increases in the cost of debt have impacted both the ability and willingness of developers to start on site.

The number of new starts have been skewed by changes to planning rules, meaning Q2 2023 saw an unusually high number of units started. UK housing starts in H1 2023 exceed 112,000, 15% higher than H1 2022. But the rise in Q2 will mean fewer starts in Q3 and Q4, meaning we have reduced our 2023 year-end forecast of 160,000 starts to 150,000.

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Research at JLL

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