

Research

UK Residential | Forecasts 2024-2028

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# UK Residential Forecasts – Spring 2024

# Outlook for prices and rents

JLL is updating its house price forecasts for 2024, with the latest projections suggesting a more positive outlook for the market. We now expect prices to rise by +2% nationally this year, which marks an improvement compared to our previous forecast of -3% made in October 2023.

Lower value markets are expected to outperform this year as higher mortgage rates persist. As rates improve, we expect London to lead the pack, with growth in both central and Greater London expected to be higher over the five-year forecast period.

Central London prices are forecast to remain flat this year, as fewer discretionary purchasers enter the market. But the central London new build market could well buck the trend, as scarcity of stock and fewer new starts mean buyers will be competing for small number of available properties.

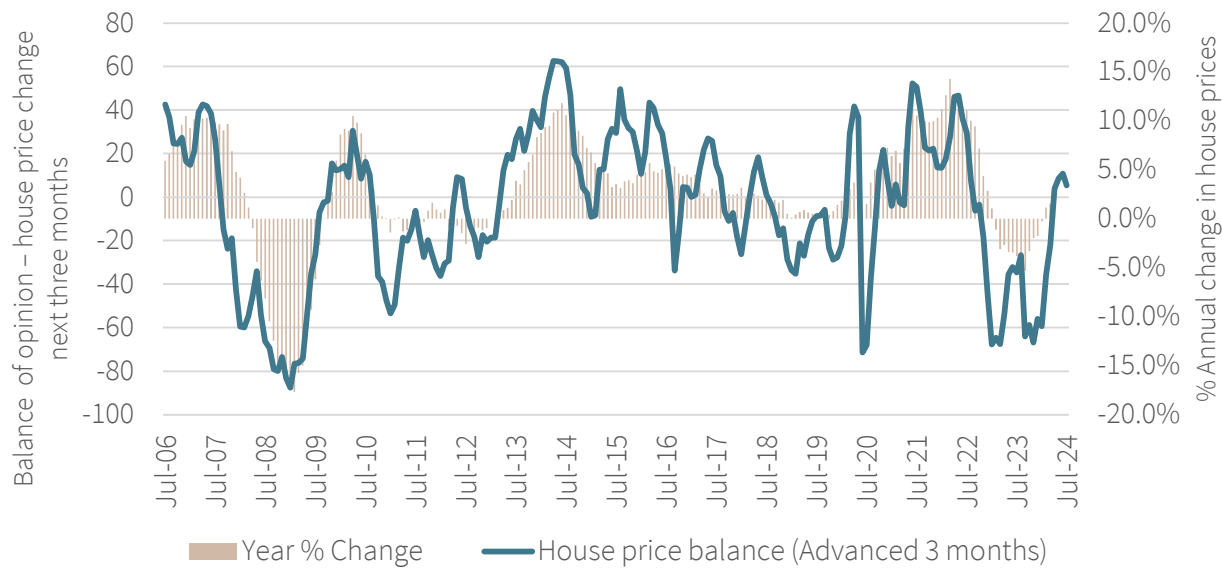
Back in October 2023, when we conducted our most recent reforecast, we were expecting 2024 would be a year of two halves, a view we still subscribe to, but thought higher mortgage rates would mean price falls would be more significant in the first half.

In the second half we predicted lower rates would bring buyers back to the market but increases in activity and spending power would not be sufficiently high to counter falls in the first few months. With prices remaining broadly flat in the first half of the year we now expect a more buoyant market in the second half will translate into modest price rises across all regions.

The announcement of the election on 4<sup>th</sup> July could mean some prospective buyers hold back, but we do not expect this will have a significant impact on prices or activity by the year end.



Annual change in UK house prices compared with RICS outlook for house prices



Source: Nationwide HPI, RICS

We have seen some softening in the jobs market, with unemployment rates rising and levels of vacancies falling back, but both are still lower than longer term norms. Wages are now rising in real terms too, meaning while households continue to be impacted by cost-of-living pressures this is not translating into distress in the housing market.

But fewer people are moving home. Transaction volumes in the last 12 months have fallen by -18%, with the latest monthly figures showing volumes down -12% on the five-year average.

Mortgage approvals are rising from their early 2023 lows, with the latest figures showing a 4% annual increase in March, but levels are still behind recent norms. With the announcement of the July election, we are leaving our forecast for transactions unchanged, with 1 million homes expected to change hands in 2024.

The RICS Survey shows expectations on house prices have improved, with the outlook for house

price growth in the next three months moving into neutral territory (a balance of between -5 and +5) from early 2024. Comparing views on house prices historically shows a clear correlation with future growth.

Naturally, mortgage rates hold a significant influence over market dynamics. The path of rate cuts has not followed a linear trajectory, as optimism regarding the speed and timing of rate cuts resulted in the most favourable mortgage rates appearing in the first couple of months of this year. Nonetheless, persistent inflationary challenges faced both domestically and, in the US, have posed difficulties for the Bank of England, making rate cuts, which we'd hoped would appear in the first half of the year, now most likely in the second. Expectations for rate cuts in 2024 have decreased from an optimistic 170 basis points in January to 50 basis points in May, which would imply a year-end bank rate of 4.75%.

## Where are the price falls?

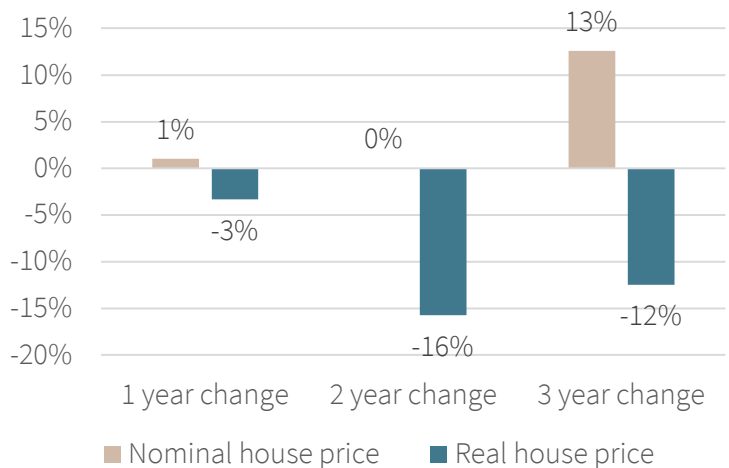
Amidst the current market landscape, it would not be remiss to assume that house prices would fall as the cost of debt outpaces wage increases. However, a closer look at most markets reveals a different reality. Over the past two years, house prices have plateaued rather than declined. For instance, the Nationwide average UK house price in Q1 2024, at £260,791, was £20 higher than the figure from two years ago. Even when comparing prices to the highest quarter within that two-year period, we only see a modest decline of 4.5%.

To understand the impact of higher rates on the market, it is important to consider nominal versus real change. Though it may seem that prices have effectively plateaued, in reality they are experiencing a decline (in real terms)—though it may be less apparent. A comparison of real, inflation-adjusted prices in the UK since Q1 2022 reveals that prices are 16% lower.

Of course, few think of their house price in real terms. And crucially for those with higher loan-to-value mortgages real house price falls don't impact equity levels or risk negative equity.

In fact, a period of real house price declines can enhance affordability, with income-to-house prices ratios improving as wages rise and house prices stabilise. Currently, the rise in mortgage rates is offsetting any improvements in affordability. However, as rates gradually begin to decline, the market is expected to benefit in the short term. Nevertheless, this situation does present additional challenges for the viability of new developments, as building and labour costs rise while sales prices remain static.

### Change in UK house prices



Source: Nationwide HPI

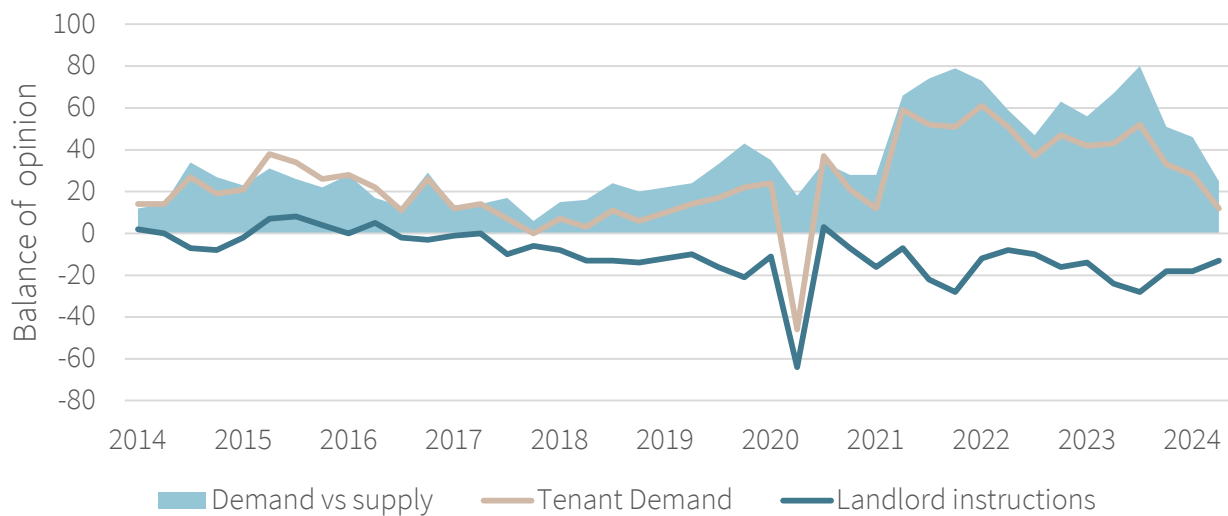
# Rental market

The Royal Institution of Chartered Surveyors (RICS) continues to report demand outpacing landlord instructions in their monthly survey. However, with the narrowing gap between the two and rising stock levels, the market is becoming more balanced. Although still below pre-pandemic levels, rental stock has increased by 8% annually, according to Rightmove figures.

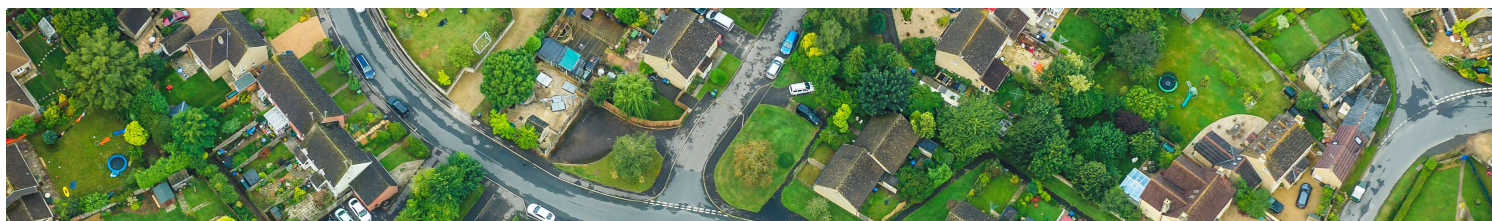
Despite this shift, JLL expect a continued imbalance and anticipate rent increases across all markets year on year for the next five-year period. According to our updated forecast, nationally rents are expected to rise by 4.5% in 2024, with growth of 18.8% between 2024 and 2028.

Our research points to city centre markets as the primary driver of growth, outperforming regional benchmarks. The demand for urban living and the projected growth in households propel these markets forward over the five-year forecast period. As cities continue to attract young professionals and lifestyle seekers, the demand for rental properties in central locations is set to remain strong, contributing to the robust market performance.

## Tenant demand vs landlord instructions – UK



Source: RICS Residential Market Survey April 2024; charts show a net balance of responses (the proportion reporting a rise in demand/supply/rental expectations minus those who do not)



## House prices forecasts

| Sales price growth (% pa) | 2024       | 2025       | 2026       | 2027       | 2028       | Total change 2024-28 | Average pa 2024-28 |
|---------------------------|------------|------------|------------|------------|------------|----------------------|--------------------|
| <b>UK</b>                 | <b>2.0</b> | <b>3.0</b> | <b>3.5</b> | <b>4.5</b> | <b>3.5</b> | <b>17.6</b>          | <b>3.3</b>         |
| Central London            | 0.0        | 3.5        | 5.0        | 5.5        | 4.5        | 19.8                 | 3.7                |
| Greater London            | 1.0        | 3.5        | 4.5        | 4.5        | 4.0        | 18.7                 | 3.5                |
| South East                | 1.0        | 3.0        | 4.0        | 4.0        | 3.5        | 16.5                 | 3.1                |
| East of England           | 1.5        | 3.0        | 4.5        | 3.5        | 3.5        | 17.0                 | 3.2                |
| South West                | 0.5        | 3.0        | 4.0        | 3.5        | 3.5        | 15.3                 | 2.9                |
| East Midlands             | 3.0        | 2.5        | 3.5        | 3.5        | 3.5        | 17.1                 | 3.2                |
| West Midlands             | 3.5        | 3.0        | 4.0        | 3.5        | 3.0        | 18.2                 | 3.4                |
| Yorkshire & The Humber    | 3.0        | 2.0        | 3.0        | 3.0        | 2.5        | 14.2                 | 2.7                |
| North West                | 3.5        | 2.5        | 3.5        | 3.0        | 2.5        | 15.9                 | 3.0                |
| North East                | 4.0        | 2.0        | 2.5        | 2.0        | 2.0        | 13.1                 | 2.5                |
| Wales                     | 3.0        | 2.5        | 2.5        | 2.0        | 2.0        | 12.6                 | 2.4                |
| Scotland                  | 3.5        | 2.0        | 3.0        | 3.0        | 2.5        | 14.8                 | 2.8                |
| Bristol                   | 1.5        | 3.5        | 3.5        | 4.0        | 4.0        | 17.6                 | 3.3                |
| Birmingham                | 2.5        | 3.5        | 4.0        | 5.0        | 3.5        | 19.9                 | 3.7                |
| Cardiff                   | 3.0        | 3.0        | 3.5        | 2.5        | 2.5        | 15.4                 | 2.9                |
| Manchester                | 2.0        | 3.5        | 4.0        | 5.0        | 3.5        | 19.3                 | 3.6                |
| Leeds                     | 2.5        | 3.5        | 4.5        | 3.5        | 3.5        | 18.8                 | 3.5                |
| Edinburgh                 | 2.0        | 3.0        | 4.0        | 4.0        | 3.0        | 17.0                 | 3.2                |
| Glasgow                   | 2.5        | 2.5        | 4.0        | 3.0        | 3.0        | 15.9                 | 3.0                |

Source: JLL Research 2024



## Rental forecasts

| Rental growth (% pa) | 2024       | 2025       | 2026       | 2027       | 2028       | Total change 2024-28 | Average pa 2024-28 |
|----------------------|------------|------------|------------|------------|------------|----------------------|--------------------|
| <b>UK</b>            | <b>4.5</b> | <b>3.5</b> | <b>3.5</b> | <b>3.0</b> | <b>3.0</b> | <b>18.8</b>          | <b>3.5</b>         |
| Central London       | 4.5        | 4.0        | 4.0        | 4.0        | 3.5        | 21.7                 | 4.0                |
| Greater London       | 5.0        | 4.0        | 3.5        | 3.5        | 3.5        | 21.1                 | 3.9                |
| South East           | 4.5        | 4.0        | 3.5        | 3.5        | 3.0        | 19.9                 | 3.7                |
| <b>UK BTR</b>        | <b>5.5</b> | <b>5.0</b> | <b>4.0</b> | <b>4.0</b> | <b>3.5</b> | <b>24.0</b>          | <b>4.4</b>         |
| Bristol              | 4.0        | 3.5        | 4.5        | 4.0        | 3.5        | 21.1                 | 3.9                |
| Birmingham           | 5.0        | 4.5        | 4.5        | 3.5        | 3.0        | 22.2                 | 4.1                |
| Cardiff              | 4.0        | 4.0        | 3.0        | 3.0        | 3.0        | 18.2                 | 3.4                |
| Manchester           | 4.5        | 4.5        | 4.0        | 3.5        | 3.5        | 21.7                 | 4.0                |
| Leeds                | 4.0        | 4.0        | 3.5        | 3.5        | 3.0        | 19.3                 | 3.6                |
| Edinburgh            | 5.5        | 4.0        | 4.5        | 3.5        | 3.0        | 22.2                 | 4.1                |
| Glasgow              | 5.5        | 4.0        | 4.0        | 3.0        | 3.0        | 21.1                 | 3.9                |

Source: JLL Research 2024

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