Big Six Residential Development Report

H1 2024

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Research

Big Six Residential Development Report, UK
H1 2024

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Introduction

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

In the sales market, higher rates, both interest and mortgage, have continued to put pressure on both development viability and buyers' budgets. We are beginning to see this reflected in annual price growth across the Big Six cities, with growth across the cities remaining flat or marginal over the past year. More affordable markets including Glasgow and Leeds have seen the highest annual growth.

Demand for rental properties across the Big Six cities has remained robust, with continued demand for city centre homes, particularly from young professionals seeking the lifestyle benefits and vibrancy of urban living. But the market is more balanced this year, with annual growth dropping back from double digit highs in H1 2023, now averaging 6.6% across the Big Six.

The prime markets across the Big Six have outperformed both the mainstream rental and sales market in most of our city markets. New prime rental stock coming to the market continues to push quality and amenity provision, commanding higher rents, while in the sales market prime developments have benefitted from attracting buyers (in a higher interest rate environment) with less reliance on debt.

Looking ahead, we anticipate an uptick in activity across the Big Six. The Bank of England reduced base rates by 25 basis points in August to 5%, the first rate cut since 2020. Markets and mortgage lenders have already reacted positively to improving economic conditions and have already made cuts to fixed rate mortgages.

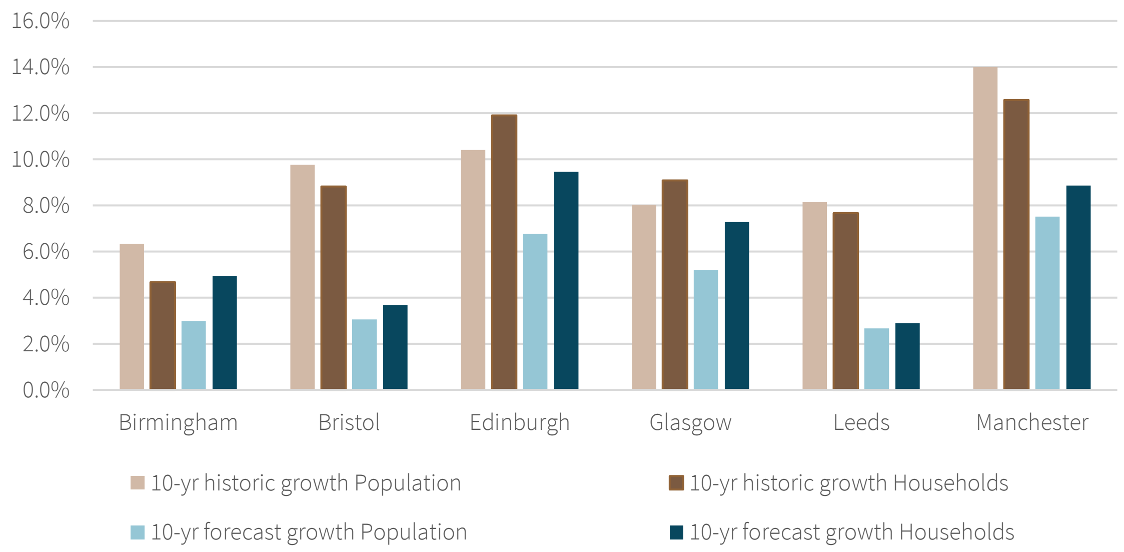
As rates continue to fall and the market welcomes some much-needed stability, this is likely to feed through into prices and rents towards the end of the year. We anticipate continued strong rental growth across the Big Six, underpinned by lack of rental stock and high demand.

Big Six Forecast GVA and Working Population growth

City	10-year forecast GVA Growth	10-year forecast Working Population Growth
Birmingham	14.0%	1.7%
Bristol	14.7%	1.4%
Edinburgh	14.4%	8.5%
Glasgow	16.9%	5.8%
Leeds	14.8%	2.0%
Manchester	21.1%	7.8%

Note: Forecast = 2023 - 2033

Big Six – Population and household growth



Source: JLL Research

Big Six BTR

- Investment in BTR across the Big Six fell 77% Y-o-Y in H1 2024.
- Manchester and Leeds were the only Big Six markets to see BTR investment in H1 2024.
- Total BTR pipeline across the Big Six (31,100) exceeds current total number of operational units (28,400).

Big Six – BTR Markets	H1 2024
Operational units	28,400
Units under construction	10,700
Units with planning granted	20,400
Total BTR units across Big Six	59,600

Investment in BTR across the Big Six experienced a sharp slowdown in H1 2024, falling 77% year-on-year to £217m. Only two markets - Manchester (with Salford) and Leeds - have secured capital so far this year, split almost equally between the two.

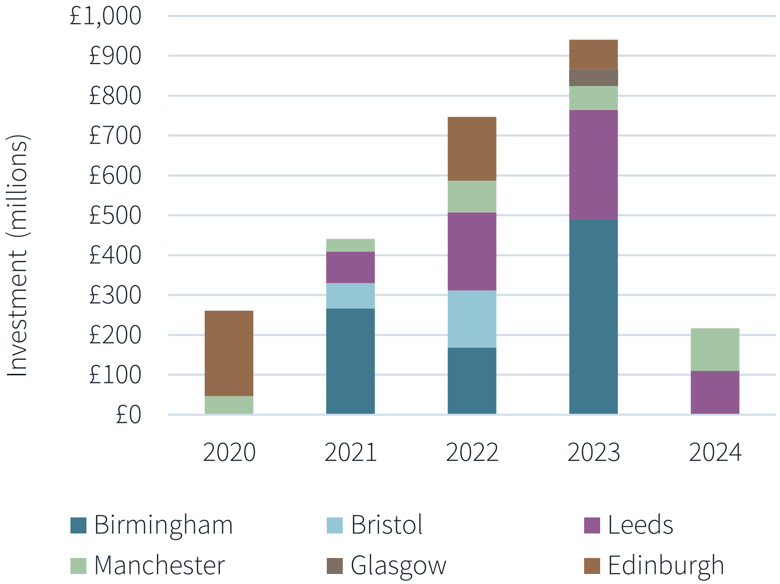
The largest deal was Heim Global Investor's £81.5m forward funding of McLaren Living's BeckYard in Leeds. The 375-home development is the first deal for Heim, which recently launched as an affiliate of European real estate investor and manager Heimstaden AB.

Although investment is down overall in the Big Six, Manchester recorded its highest first half total since 2019. L&G's UK Property Fund acquired a 50% stake of Deansgate Square's North Tower from another L&G fund, while CBRE IM forward funded plot C2 at ECF's Salford Central, which will deliver 196 homes, in a deal advised by JLL on the sell side.

The slowdown in the Big Six is a reflection of the changing dynamics in UK BTR. Investment in the sector (£2.9bn in H1 2024) has been relatively stable, falling just 6% year-on-year and rising 16% against the five-year average. However, for the first time on record, more than half of this activity has come from suburban single-family rental.

Overall multifamily investment is down 45% on H1 2023 and at its lowest level since 2016 as investor caution and uncertainty around pricing continue to stall activity. As a result, investment in regional city centres is at its lowest level in close to a decade.

Big Six BTR Investment – H1



Source: JLL Research

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Birmingham

- Supply and demand imbalances in the rental market drives annual rental growth for new build apartments (+10.3%)
- Higher interest rates impacted development viability and budgets in the sales market in H1.
- Birmingham's BTR pipeline of 12,200 units is 1.9 X the existing number of operational units.

Birmingham – BTR Market	H1 2024
Total investment volume since 2020	£1.721 bn
Operational units	6,400
Units under construction	4,700
Units with planning granted	7,500
Total BTR units (operational & pipeline)	18,600

The average price of a new build apartment in Birmingham has remained flat over the past year. There is limited for-sale stock coming to the market in the city and higher interest rates impacted both viability for developers and the budgets of buyers in H1. Over the last five years price growth for new build apartments has averaged 14.8%.

Birmingham has seen the highest annual rental growth of the Big Six cities. Average rents of new build apartments in the city have risen 10.3% over the past twelve months.

New build three-bed rental apartments recorded the highest annual rental growth of 12.5%, followed by one-beds at 10% and two-beds at 7.7%.

Prime rents for new build one- and two-bed apartments have remained flat over the past year, while prime three-bed rents have risen 5.3%.

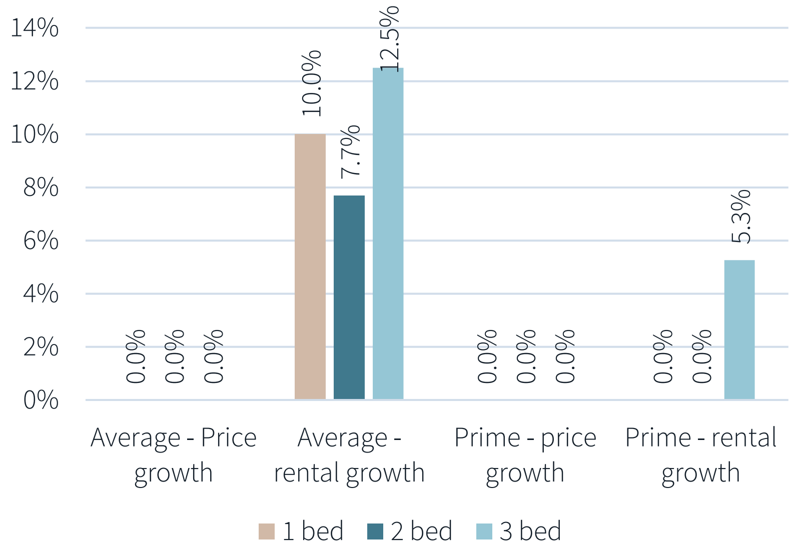
Despite little movement in prime rents over the past six months, Birmingham has historically enjoyed significant rental growth in the prime market.

Outlook

Rate cuts will help to stimulate activity in the sales market, improving both development viability and funding, and buyers' purchasing ability. We anticipate an uptick in activity feeding through into price increases. Our latest JLL Residential Forecasts anticipate house price growth across Birmingham of 19.9% over the next five years, the best performing sales market across the Big Six cities.

There is significant demand for rental property across the city and the current lack of supply is expected to continue to drive rental growth. Birmingham currently has the largest BTR pipeline of the Big Six markets (12,200), equating to 1.9 times the existing number of operational BTR units.

Birmingham - Annual price and rental growth



Source: JLL Research

Research

Bristol

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Bristol

- The prime rental market outperforms the mainstream market, with annual growth of 12.1%.
- Average prices of new build apartments in Bristol have risen 15.5% over the past five years.
- Average rents for new build apartments Bristol have risen 30.8% over the past three years.

Bristol – BTR Market	H1 2024
Total investment volume since 2020	£275.8m
Operational units	1,400
Units under construction	500
Units with planning granted	200
Total BTR units (operational & pipeline)	2,100

The sales market in Bristol has remained robust over the past six months, with average prices of new build apartments either remaining flat or seeing marginal growth in values. Average values of new build apartments in the city have risen by 1% over the past year and 9.8% over the past three years.

The average price of prime new build apartments have also mostly remained flat over the past twelve months. Much like the other Big Six cities, we anticipate activity and price growth in the prime market improving towards the end of the year, as the UK welcomes more political and economic stability.

New build apartment rents have risen 6.7% over the past year, driven largely by sustained high demand, particularly for three bed flats which saw an annual increase in rents of 12.8%.

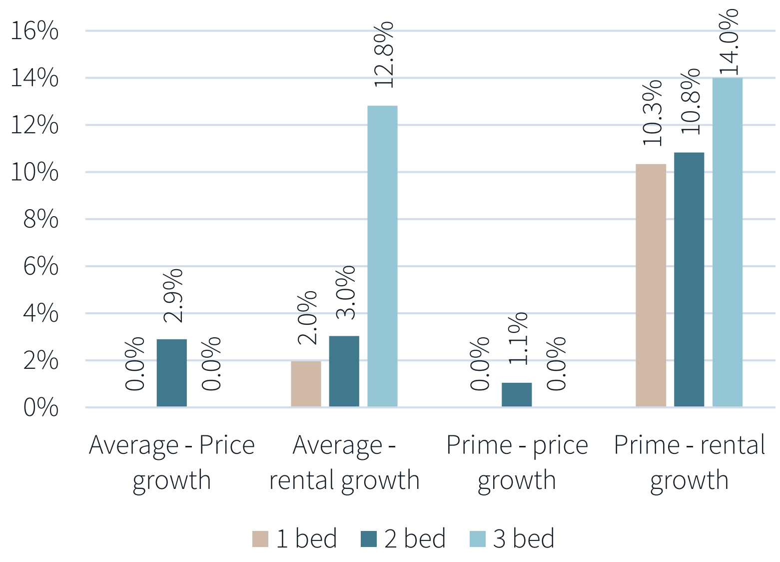
Prime new build city centre apartment rents have seen large annual increases, averaging 12.1%. This is primarily a result of Grainger's latest BTR scheme, Millwrights Place, coming to market at the beginning of the year. Over the past year, the average rent of a prime new build one bed apartment has risen 10.3%, two beds have risen 10.8% and three beds 14%.

Outlook

Despite higher mortgage rates and cost of living pressures still impacting sentiment and activity, Bristol remains a desirable location for prospective buyers and tenants. Demand for apartments in the city centre continues to outstrip supply.

We have already seen major lenders reduce rates on fixed rate loans since the election result on 5th July, with markets reacting favorably to the result. And with the Bank of England having started the rate cutting cycle we anticipate increased activity in the Bristol sales market during the second half of the year.

Bristol – Annual price and rental growth



Source: JLL Research

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Edinburgh

- Prime rents outperform in Edinburgh, with annual growth of 12%.
- Annual price growth of new build apartments has cooled to 2.5%, impacted by higher rates and market sentiment.
- Following a period of significant rental growth, rents have stabilised with annual growth cooling to 4%.

Edinburgh – BTR market	H1 2024
Total investment volume since 2020	£470.2m
Operational units	740
Units under construction	1,270
Units with planning granted	2,200
Total BTR units (operational & pipeline)	4,200

The average value of a new build apartment in Edinburgh has risen 2.5% over the past year, with annual growth slowing from 5.8% in the year to December 2023. Back in December Edinburgh had experienced the highest annual price growth of our Big Six cities. Five-year price growth for new build apartments in the city remain high at 22.8%.

Like other Big Six markets, prime new build properties in Edinburgh outperformed the rest of the market, with average annual growth of 5%. This growth was led by the growth in values of prime new build one bed apartments in the city centre (+12.5%). Average values of prime new build two and three bed apartments increased by 4.3% and 2.4% respectively.

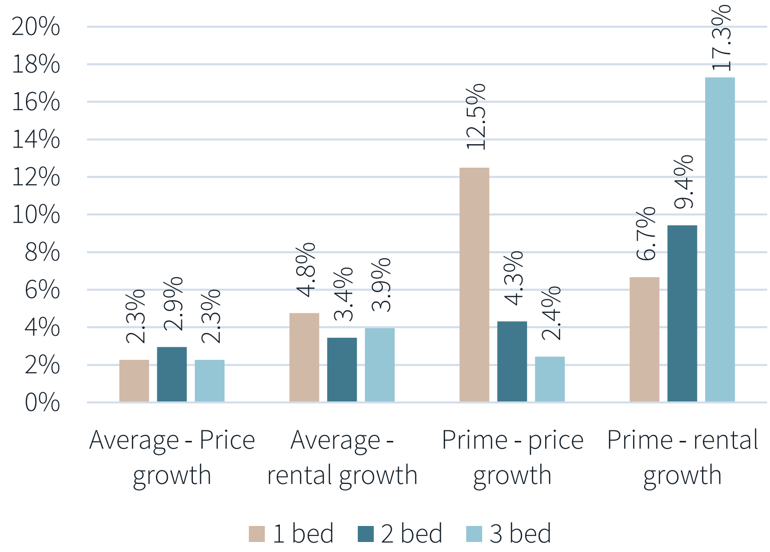
In the rental market, new homes falling outside of the previous rent cap, coupled with high demand from prospective tenants, meant we saw a 35% increase in rents from the beginning of 2021 to December 2023. Over the last twelve months, the market has been much calmer, with average new build rents in Edinburgh increasing 4% in the last 12 months.

Outlook

We expect the prime market in Edinburgh will continue to outperform the rest of the market, while rates remain elevated for the rest of the year. The prime market benefitting from a higher proportion of cash buyers, meaning less reliance on debt and fewer waiting for rates to drop back.

After a period of significant rental growth across the city, average rents have now settled to more sustainable levels. We expect sustained growth in rents across the city, albeit at far lower rates than recent double-digit highs.

Edinburgh– Annual price and rental growth



Source: JLL Research

Glasgow

- Glasgow records highest average annual price growth of new build apartments across the Big Six (5.6%).
- Prime rental apartments see strong rental growth, with average annual growth of 14.6%.
- Improved affordability across the city aiding growth in prices and rents.

Glasgow – BTR Market	H1 2024
Total investment volume since 2020	£288.4m
Operational units	2,200
Units under construction	-
Units with planning granted	4,000
Total BTR units (operational & pipeline)	6,200

The sales market in Glasgow continues to see high demand for homes. Average annual growth in the price of new build apartments in the city is 5.6%, the highest across the Big Six.

New build one bed apartments recorded annual growth of 5.3%, two beds at 7.1% and three beds at 4.5%.

New homes prices in Glasgow are the second lowest of the Big Six cities, meaning the city has remained attractive to prospective buyers, particularly during a time of higher mortgage rates and economic uncertainty.

The prime market has also experienced significant growth over the past year, with the average price of a prime new build apartment rising 29%. There remains a significant demand-supply imbalance in the prime market. Prime new build development is typically located In Glasgow's West End, where there is limited development opportunities and values are highest.

Glasgow has continued to see strong rental growth over the past year (+7%). New build one and two bed flats have both recorded annual growth of 7.6%, while the average rent for three beds has risen 6.3%.

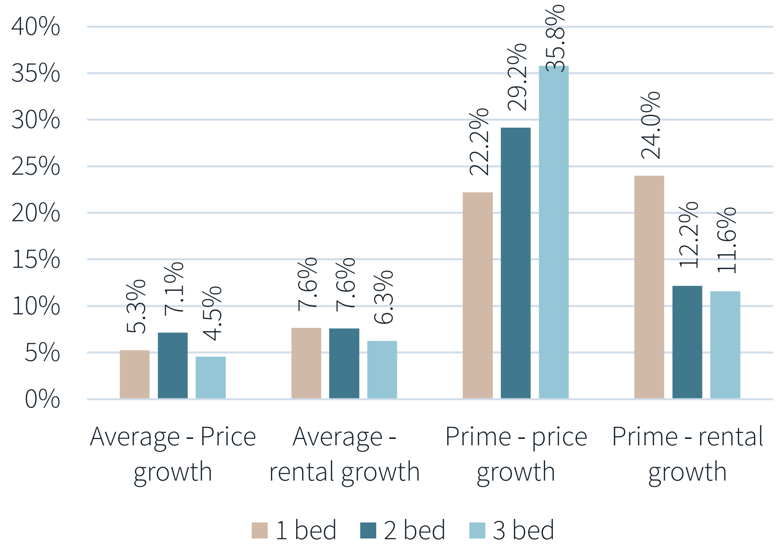
Like the sales market, the prime rental market across the city has outperformed mainstream. Prime new build one beds recorded annual rental growth of 24%. In part reflecting the improvement in the quality of prime stock in the city.

Outlook

Lower average prices in Glasgow compared to other major cities has meant that the sales and rental markets have seen sustained levels of demand. Now the first cut to interest rates has been made, we expect demand for homes in the city will increase, supporting further increases in achieved prices.

Although the number of properties on the market to let has risen across Glasgow, there is still a large demand and supply imbalance across the city which underpins our outlook for rental growth over the next five years.

Glasgow – Annual price and rental growth



Source: JLL Research

Research

Leeds

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Leeds

- Leeds sees second highest average annual price growth of Big Six cities, at 2%.
- The largest BTR deal in H1 2024 was in Leeds; Heim Global Investor’s £81.5m forward funding of Beck Yard.
- Average rents of new build apartments Leeds have risen 29.2% over the past three years.

Leeds – BTR Market	H1 2024
Total investment volume since 2020	£953.4m
Operational units	4,300
Units under construction	2,600
Units with planning granted	4,800
Total BTR units (operational & pipeline)	11,700

Annual growth for new build apartments in Leeds averaged 2% in H1 2024, the second highest of our Big Six cities after Glasgow.

Prices across Leeds are the lowest of the Big Six cities. This improved affordability means the city has benefitted from higher demand over the past twelve months. Smaller more affordable apartments have proven most popular in the city. New build one bed apartments recorded annual growth of 3.3%, two beds 2.1% and three beds 1.4%.

Annual growth in rents of new build apartments in the city is 2.3%, with smaller more affordable rental homes similarly recording higher annual growth. New build one bed apartments saw rents rise 5.3% annually, two beds 3.6% and three beds remained flat (0%).

The average price of a prime new build apartment in Leeds has risen 1.4% over the past twelve months. New build one bed apartments recorded annual growth of 2.5%, two beds remained flat (0%), and three beds rose 1.9%.

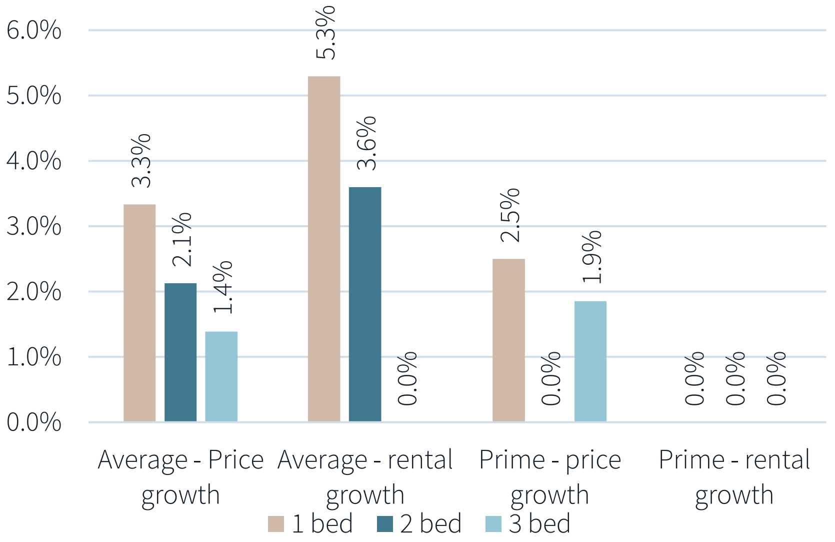
Leeds, alongside Manchester, is one of the only Big Six cities to benefit from significant BTR investment in H1 2024. The largest BTR deal in H1 was Heim Global Investor's £81.5m forward funding of McLaren Living's Beck Yard in Leeds.

Outlook

Interest in the Leeds market is rising, with the city seeing increasing levels of BTR investment over the past few years. We anticipate new stock coming to the market will add to the attractiveness of the city for new entrants and allow tenants to move more freely between developments.

Leeds continues to be a more affordable option than others in the Big Six. An attribute we expect will continue to benefit the city and attract new buyers as mortgage rates begin to fall in the coming months.

Leeds – Annual price and rental growth



Source: JLL Research, Kingsdene Property

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Manchester

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Manchester

- Average three-year rental growth in Manchester reaches 50%.
- New supply of rental homes coming to the market continues to drive rental growth across mainstream and prime markets.
- High mortgage rates, and uncertainty over services charges and ground rents have limited price growth over the past year.

Manchester (& Salford) – BTR Market	H1 2024
Total investment volume since 2020	£1.229bn
Operational units	13,400
Units under construction	1,700
Units with planning granted	1,700
Total BTR units (operational & pipeline)	16,800

Over the past year, the price of a new build apartment in Manchester has remained flat, with average growth of 0.1%. High mortgage rates, increased service charges and ground rents have collectively been barriers for potential purchasers, particularly in the mainstream market.

The prime market is an exception, where new build two bed apartment values have risen 9.2%. New build, highly amenitised schemes continue to be in high demand across the Big Six cities.

The rental market in the city remains strong, with the average rent of a new build apartment rising 9.4% over the past twelve months (cooling from annual growth of 12.2% in December 2023). Demand for two bed rental apartments appears strongest, with rent of average new build two bed apartments rising 12.5% annually, and prime two bed rentals rising 14.9%.

Like other Big Six markets, the prime rental market across the city has outperformed.

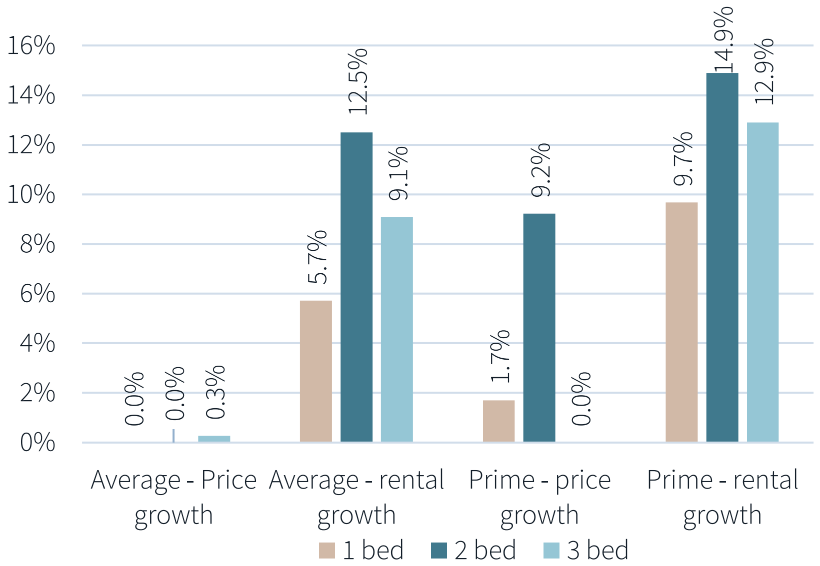
Average rents for prime new build apartments have risen 12.9% annually, with two and three bed apartments seeing the strongest growth. New rental developments coming to the market are continuing to improve in quality and amenity provision and can command higher rents as a result.

Outlook

Markets have reacted favourably to improving economic conditions and the prospect of improved political stability. Major lenders have already made cuts to fixed-rate mortgages. With the rate cutting cycle, now initiated by the Bank of England expected to ease affordability constraints across Manchester and boost sentiment and activity.

As a result, we anticipate prices will begin to rise towards the end of the year. In the rental market, the usual influx of students, graduates and young professionals will continue to underpin demand and drive rental growth.

Manchester – Annual price and rental growth



Source: JLL Research, Kingsdene Property

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Residential Forecasts

- Birmingham forecast to outperform other Big Six cities in both sales and rental markets
- City centre markets will be primary driver of growth.
- JLL forecast the UK BTR market will see rental growth of 24% over the next five years.

JLL's spring forecast update saw the outlook for house prices upgraded UK wide and across many of our city markets. 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.

Our research points to city centre markets as the primary driver of growth. The demand for urban living and the projected growth in households propel these markets forward over the five-year forecast period.

JLL forecast that Birmingham will outperform other Big Six cities in the sales market, with growth of 19.9% over the next five years.

We do not expect the appeal of urban living to wane, meaning demand for rental properties in central locations is set to remain strong, contributing to robust market performance.

Although an improved balance between rental supply and tenant demand appears to be emerging across the UK, JLL expects sustained demand and anticipates rent increases of at least 19% over the next five years across all the Big Six markets.

We anticipate Birmingham and Edinburgh being the strongest performing rental markets, with rental growth of 22.2% over the next five years.

House price forecasts

Sales price growth (% pa)	Total change (2024 – 2028)	Average pa 2024 - 2028
UK	17.6%	3.3%
Birmingham	19.9%	3.7%
Bristol	17.6%	3.3%
Edinburgh	17%	3.2%
Glasgow	15.9%	3%
Leeds	18.8%	3.5%
Manchester	19.3%	3.6%

Rental forecasts

Rental growth (% pa)	Total change (2024 – 2028)	Average pa (2024 – 2028)
UK	18.8%	3.5%
UK BTR	24%	4.4%
Birmingham	22.2%	4.1%
Bristol	21.1%	3.9%
Edinburgh	22.2%	4.1%
Glasgow	21.1%	3.9%
Leeds	19.3%	3.6%
Manchester	21.7%	4%

Source: JLL Research (Spring 2024 forecast)

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Research at JLL

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About JLL

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