

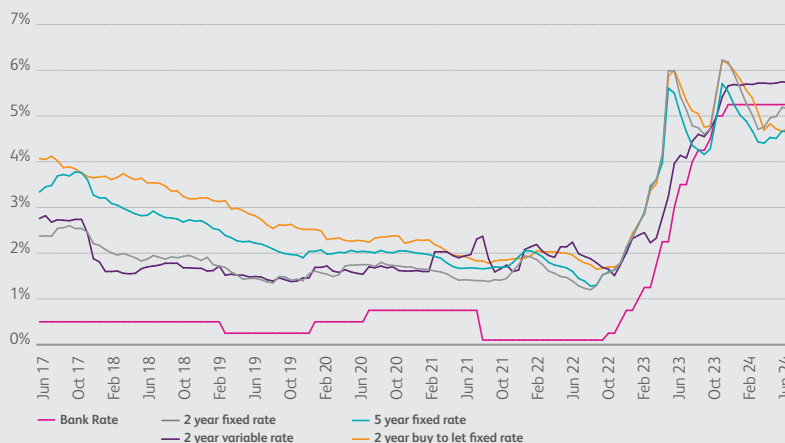
# LONDON PROPERTY PULSE: Q2 2024 SALES AND LETTINGS REPORT

## ECONOMIC OVERVIEW

- The Bank of England finally dropped interest rates from 5.25% to 5% on 1st August, having held them unchanged since August 2023. Despite inflation hitting the Bank's 2% target in May, policymakers had been wary of price increases in the services sector and of the pace of wage growth, leading to concerns about a potential inflationary rebound if rates are cut too quickly as was recently the case in the Eurozone. However, with inflation on a more stable footing, this widely-expected drop has had a knock-on-effect on mortgage rates, which had been increasing since earlier in the year and can now be found at under 4%.
- Labour won a landslide victory in July's General Election after winning more than 400 seats. The new government's manifesto offers a glimpse of a programme of initiatives, which focus on a range of issues, from increasing housing supply, offering further help for first-time buyers, reforming tenancy laws to favour renters, and adjusting tax policies to address fairness and avoidance issues. In particular, we expect to see early movement on a Renters Rights Bill, which like the failed Renters Reform Bill of the previous government will abolish Section 21 to remove the threat of 'no fault evictions' and strengthen renters rights and living standards.

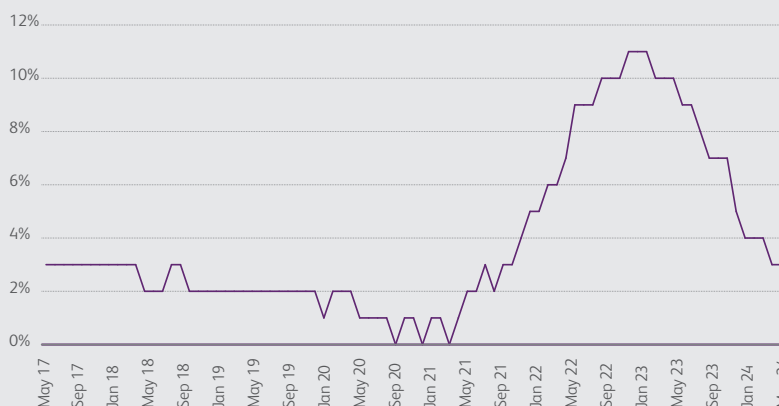
## UK bank rate and mortgage rates

Source: Bank of England, Chestertons  
 Note: Mortgage rates based on 75% LTV



## UK Inflation

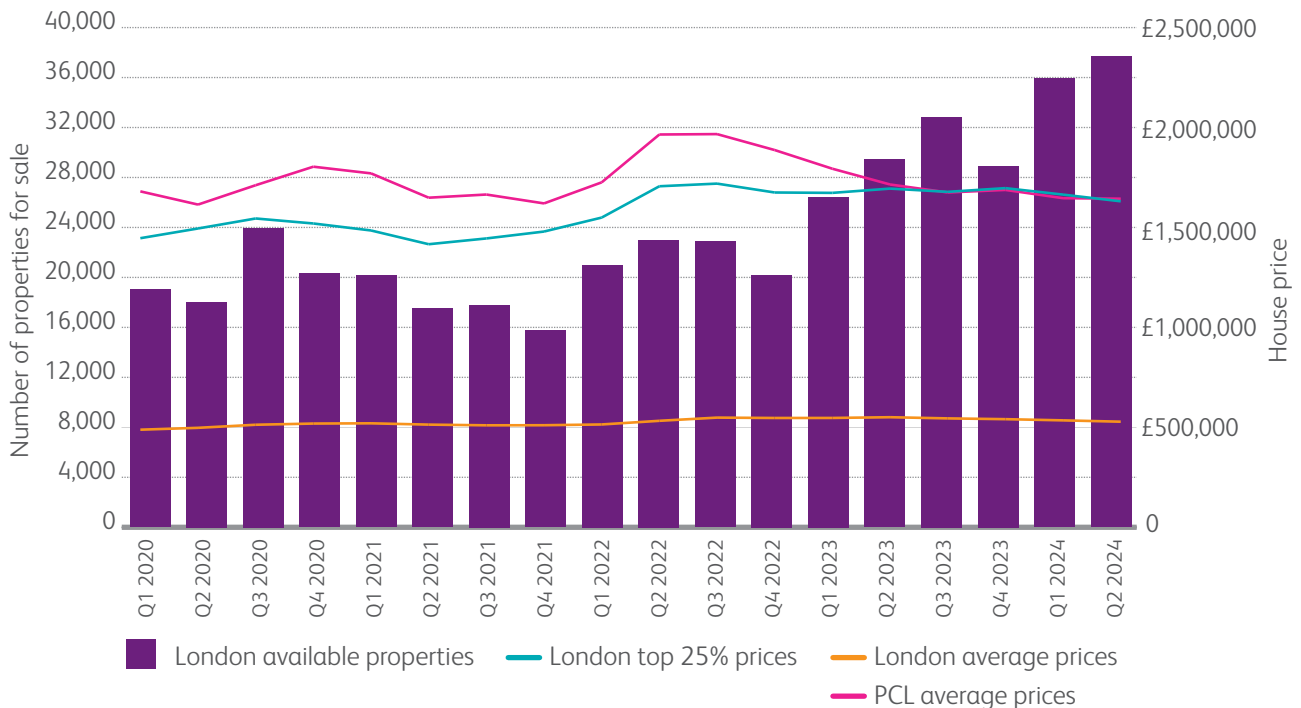
Source: ONS, Chestertons



## SALES

- Unlike the UK, which has seen a small increase in house prices since the start of the year, London prices have been falling very slightly for the past two years. The latest data shows that London's average house price fell by -0.9% between March and May to £654,800. The top 25% of the market fell by -1.8% over the same period to an average of £1,643,600
- Over the past 12 months, prices have fallen by -3.0% in London; properties in the top 25% dropped by -3.4%; and prices in Prime Central London fell by -3.7%.
- Chestertons attributes this decline to rising interest rates over the past two years, making the cost of debt more expensive to finance. This has had two effects on the market.
  - Firstly, the cost of purchasing property for new buyers has increased at a time when the cost of living has also risen, making it more challenging for buyers to save for a deposit. This has dampened demand from buyers, who have also adopted a more patient approach in the hope of acquiring bargains due to falling prices.
  - Secondly, higher interest rates have increased the cost of refinancing mortgages for existing home owners, meaning some owners have had to bring their properties to the market as they cannot afford to pay the higher rates of interest. Consequently, the number of properties on the market increased significantly after the Bank started raising interest rates. Between April and June, the number of available properties in inner London increased by 4.9% to 37,700, the highest level in five years and 28% higher than in June 2023.

### Number of available properties and average house prices



Source: Dataloft by PriceHubble, using Information Works, Chestertons

Note: PCL = Prime Central London

## Looking Ahead

- Looking to the second half of the year, Labour’s victory in the General Election should provide a boost for first time buyers, who Labour have promised to support. We will wait and see how Labour’s victory will influence the higher end of the market, given the new chancellor’s recent comments regarding potential changes to capital gains and inheritance tax in Labour’s first Autumn budget in October.
- Having made the first rate cut in August, the Bank of England may cut rates again before the end of the year, which would cause mortgage rates to fall further.
- In addition, mortgage approvals have picked up in recent months, which should translate to higher sales volumes in the coming months. This, combined with falling inflation and rising wages, should support house price growth over the course of the next three years.
- That said, prices are not expected to increase rapidly as the general economic outlook remains muted. Projections for house prices over the next three years are similarly subdued, although deeper interest rate cuts or tax incentives could quickly change this.
- Chestertons forecasts that 2024 will see a small recovery in house prices across London and the UK, whilst the outlook for Prime Central London is slightly stronger due to the higher number of cash buyers.
- The prospect of an improving economic outlook from 2025 feeds through to a more meaningful uplift in house prices in 2025 and 2026. However, we caution that any house price growth is likely to be slow and steady rather than spectacular.

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## Average house price and interest rate forecast

	London	Prime Central London	Interest rates
2023	-0.8%	-12.6%	5.25%
2024	2.2%	2.8%	5.00%
2025	3.0%	3.5%	3.90%
2026	4.5%	4.8%	3.30%

Source: Chestertons, Bank of England

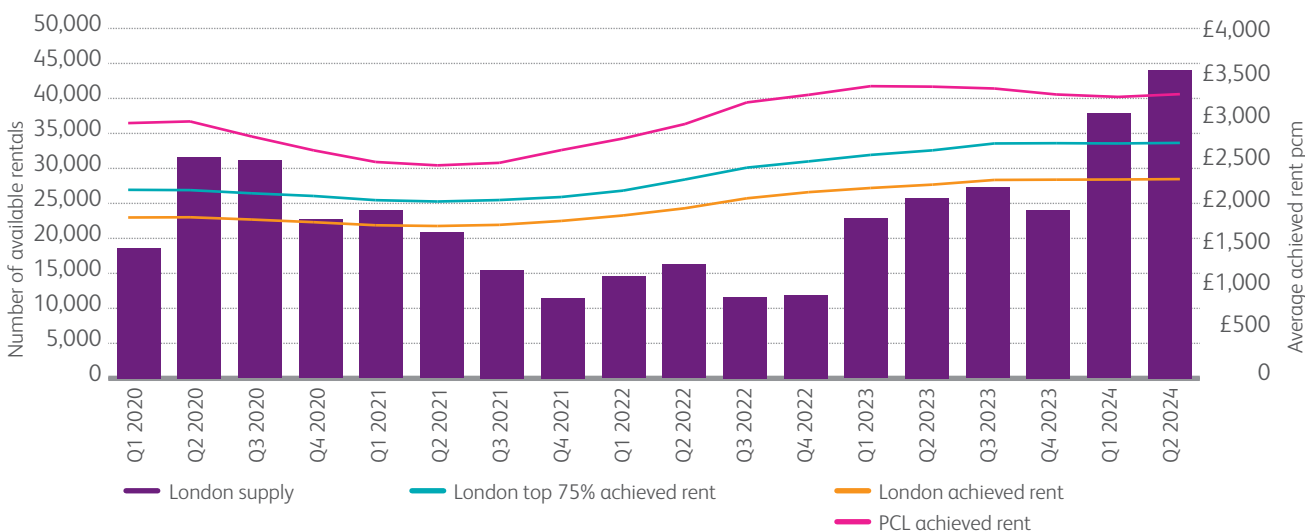


“Flats are enjoying the highest rental growth in London, increasing by 4.2% in the past 12 months”

## LETTINGS

- The number of available rental properties on the market almost tripled to 44,100 in June from the low point in Q3 2022 when there were only 11,600 properties available.
- This is due to a slowdown in tenant demand, caused by concerns over affordability (average rents in London are near 40% of incomes), and because some home owners were forced to let their properties as they couldn't find a buyer. This latter trend is slowly starting to change as many reluctant landlords have begun to re-market their properties for sale.
- Despite there being more rental properties on the market, rents on new leases did, in general, rise in the second quarter of the year (Q2), increasing by 0.2% in London and 1.0% in Prime Central London. Over the past 12 months, rents on new leases have increased by 3% in London but fallen by -2.7% in Prime Central London.
- When broken down by type of rental, it is clear that flats are enjoying the highest rental growth in London, increasing by 4.2% in the past 12 months, whereas rents for terraced houses, semi-detached and detached properties have fallen by an average of -7.0%, -3.6% and -9.7% respectively over the same period. The situation is different at the higher end of the market, where flats (up 6.4%), terraced houses (up 4.2%), semi-detached (up 5.8%) and detached rental properties (up 0.1%) have all seen growth in the past year.
- Rental yields have continued to increase as rents have risen whilst prices have declined. Average yields in London stood at 4.9% in Q2, whilst average yields in Prime Central London rose to 3.7%.

## London available rentals and average achieved rents



Source: DataLoft by PriceHubble, using Information Works, Chestertons  
 Note: all rents are for new leases. PCL = Prime Central London

## Looking Ahead

- Rental growth since 2021 has been driven by the imbalance between limited supply of new rental properties and a growing population of renters. Whilst we expect demand from tenants to remain high – people are typically renting for longer due to the rising costs of buying a home – we believe that rents are approaching a ceiling as asking rents in all markets have started levelling off as more new properties are listed and rents become too expensive.
- Looking further ahead, the rate of wage growth is forecast to slow as the rate of inflation decreases. As rents typically track wage growth, this is likely to have a further dampening effect on rental growth in 2025 and 2026.

‘The rate of rental growth is forecast to slow further over the next three years’

## Average rental growth forecast

	London	Prime Central London
2023	7.1%	1.6%
2024	2.5%	-5.0%
2025	2.0%	2.5%
2026	1.5%	3.0%

Source: Dataloft by PriceHubble, using Information Works, Chestertons



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