



United Kingdom

Residential Snapshot

August | 2024

Contents



Pricing

05



Demand
Side Indicators

06



Mortgage
Indicators

07



New Homes
Supply
Side Indicators

08



View on the ground



Andrew White

Head of UK Residential & International Properties Asia
andrew.white@colliers.com

"The housing market is showing early signs of recovery, marked by a notable increase in demand within the land and development sectors. Housebuilders and developers are demonstrating substantially more interest in acquiring sites for housing across the country, signalling renewed confidence in the market's future. This surge in activity suggests that we may soon see an uptick in new construction projects, boosting housing availability.

This recovery is unfolding against a backdrop of falling interest rates and declining mortgage rates, which are making borrowing more affordable for both developers and homebuyers. These favourable economic conditions are laying the groundwork for the start of a new cycle in the housing market. As financing becomes more accessible, the renewed interest from developers is likely to drive growth, setting the stage for a period of sustained expansion in the housing sector."



Sara Lindblom

Research Analyst – Living Research
sara.lindblom@colliers.com

"We expect more optimism in the UK residential real estate market in the remaining months of the year as the Bank of England just had their first rate cut in August, marking the beginning of its rate cutting cycle.

Residential property transactions have increased from 254,090 in Q1 to 272,700 in Q2 2024. This is the second quarter in a row where residential property transactions have increased and this was coupled with a marginal rise in sales expectations in the RICS survey, signalling that the market is starting to recover.

In the rental market, a demand and supply imbalance remains as rents continue to increase (+7.1% y/y in Q2 2024). This highlights the need to build more rental properties across the country, however, the build-to-rent pipeline has decreased by -10.8% y/y in Q2 2024. This highlights that the construction of new rental properties is falling short of demand, making further rental inflation likely."



The PMI's Residential Activity Index averaged

48.5

in Q2 2024 (marginally up from 48.0 in Q1)



Rental growth increased to

7.1%

y/y in Q2 2024 (up from 6.8% y/y to Q1 2024)



House prices increased by

1.1%

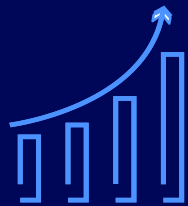
y/y in Q2 2024



Sales expectations have increased to

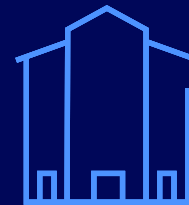
+10.2

in Q2 2024 (up from +9.7 in Q1 2024)



Number of residential property transactions increased from

254k in Q1 2024 to
273k in Q2 2024



The proportion of the total loan balances with mortgage arrears increased to

1.3%

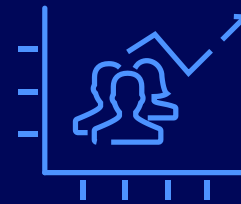
in Q1 2024 (up from 1.2% in Q4 2024)



Total build-to-rent (BTR) pipeline was

146k

units in Q2 2024



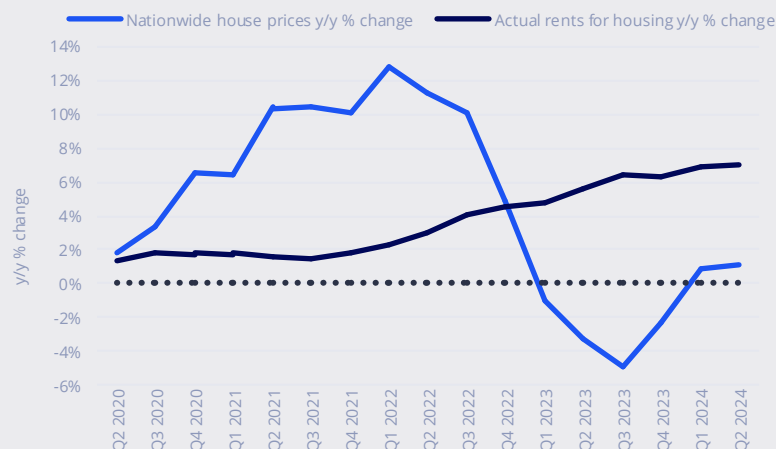
Number of mortgage approvals increased from

177k in Q1 2024 to
181k in Q2 2024

Pricing

The below chart shows the y/y % change in house prices alongside the y/y % change in rents in the private rented sector.

House price versus rental growth



Source: ONS, Nationwide



House prices surged in 2021 and H1 2022 but **decreased in 2023**. In H1 2024, average UK house prices have started increasing again.



Nationwide reported a +1.1% y/y increase in house prices in Q2, which is **the largest increase since Q4 2022**.



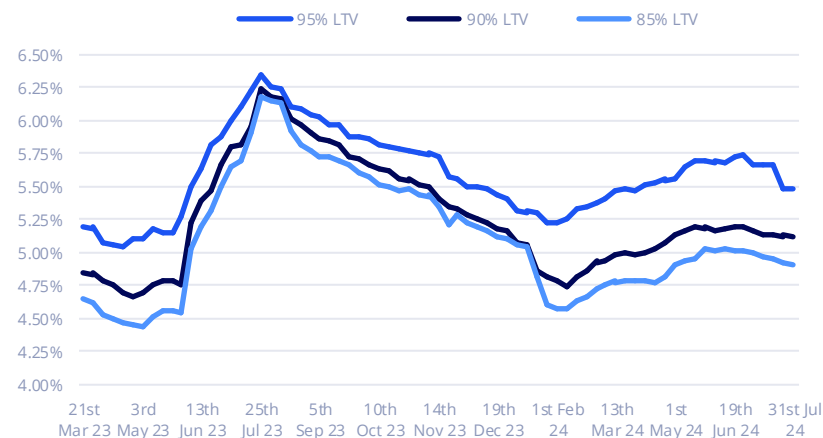
Rental growth accelerated further, standing at **7.1% y/y** in Q2 2024. This is an increase from 6.8% y/y in Q1 2024.

The Colliers' Take

House prices declined throughout 2023 due to rising mortgage rates. However, as mortgage rates started to decrease in 2024, house prices have started to rise again. Meanwhile, rental inflation continues to climb, highlighting the need to build more rental properties in the UK.

The chart below shows high LTV mortgage rates with a five-year fix. This shows the most likely mortgage rates for first time home buyers.

Recent average mortgage rates (5 year fixed, with £995 fee)



Source: Rightmove



Average mortgage rates increased during 2022, and H1 2023 as the Bank of England raised interest rates. However, in H2 2023 average five-year fixed mortgage rates started to decrease.



Looking into the current year, although rates increased since the beginning of February, they have **started to decrease again over the past month**. The average 85% loan-to-value rate is at 4.91% on a five-year fix, as of 31st July 2024.

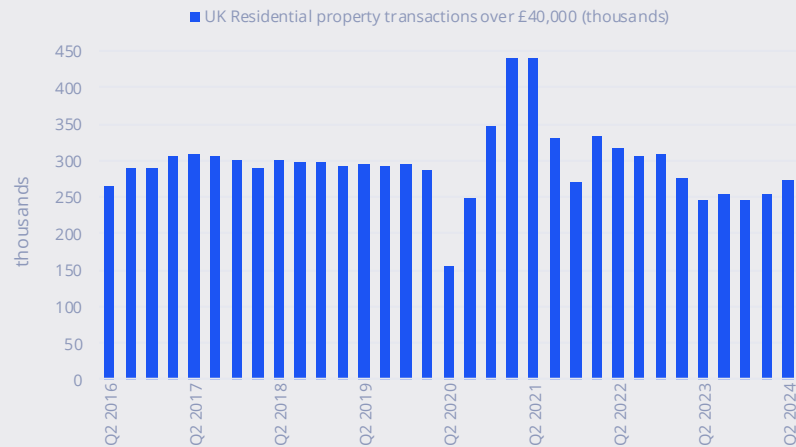
The Colliers' Take

The recent decrease in average five-year fixed mortgage rates suggests that residential property transactions in the UK are likely to increase in the coming months. This trend is further supported by the Bank of England's first rate cut, which took place in August.

Demand Side Indicators

The chart below shows the total number of residential property transactions in the UK over £40,000, per quarter.

Residential property transactions



Source: UK Government



Residential property transactions increased from 254,090 in Q1 2024 to **272,700 in Q2 2024**. This is the second quarter in a row where transactions have increased.



The figure is below the **five-year quarterly average** of 297,418.

The Colliers' Take

Despite increasing recently, residential property transactions are currently lower than the five-year quarterly average and the high levels recorded in 2021. This is due to the BoE having raised interest rates in 2022 and 2023, making property ownership more unaffordable. However, as mortgage rates have decreased so far in 2024 in comparison to 2023, and the BoE having made its first rate cut in August, we expect property transactions to continue to increase in the coming months.

In the RICS Survey on sales expectations, a positive result indicates that more agents believe house prices will increase rather than decrease, and vice versa. Similarly, in the RICS Survey on new instructions, a positive result means that more agents expect their number of instructions to increase rather than decrease, and vice versa.

New instructions and sales expectations



Source: RICS



Sales expectations have increased from +9.7 in Q1 to +10.2 in Q2 2024. This is notably above the five-year average of -6. The **new instructions index is in positive territory** in Q1 and Q2 2024, the first time since Q1 2022.



The index **decreased from +15 in Q1 to +9 in Q2**, which is still in positive territory and noticeably above the five-year average of -7. Although Q2's figure is lower than Q1's.

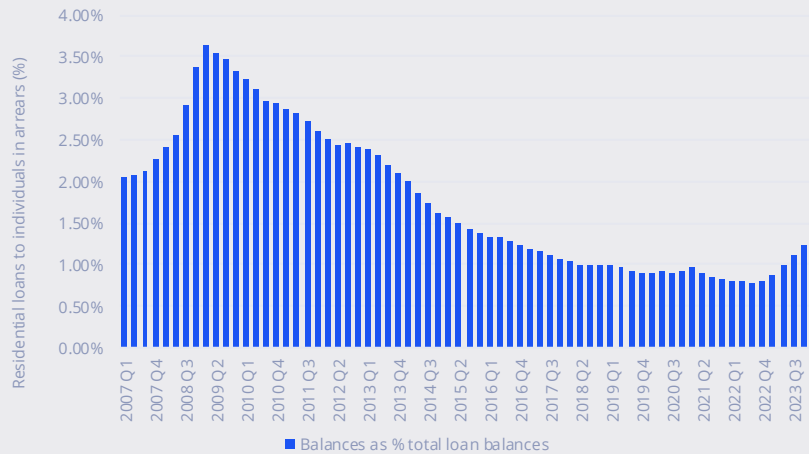
The Colliers' Take

Both the increase in the sales expectations index and the fact that the new instructions index is in positive territory in H1 2024 are positive indicators suggesting the residential property market in the UK is starting to recover. This reinforces our view that residential property transactions will continue to increase in the near future.

Mortgage Indicators

The chart below shows mortgage arrears as a % of total loan balances, has started to tick up slightly over the past few quarters, a lagging result of the BoE's increase in interest rates as many homeowners have fixed mortgage rates. High numbers of mortgage arrears indicates that many homeowners might be forced to sell their home due to financial constraints and vice versa.

Mortgage arrears (% of total loan balances)



Source: Bank of England



The proportion of the total loan balances with arrears, relative to all outstanding mortgage balances, **increased from 1.23% in Q4 2023 to 1.28% in Q1 2024.**



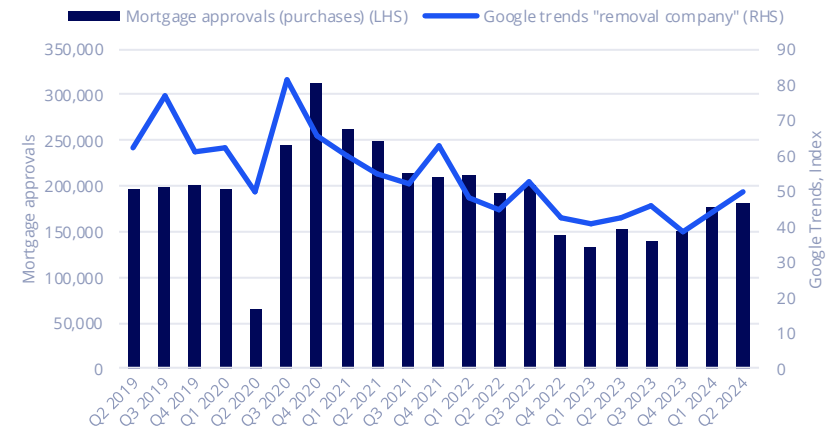
The proportion of total loan balances with arrears have increased over the past few quarters.

The Colliers' Take

It's important to note that this increase in mortgage arrears is far from the high levels recorded during the Global Financial Crisis (GFC). As this is a lagging indicator, mortgage arrears are likely to either continue at current levels or slightly tick up over the next half of the year. However, since the BoE has already had its first rate cut and is likely to continue to cut rates in the coming months, we don't think that we will see a significant spike in mortgage arrears.

The chart below displays the number of mortgage approvals per quarter, an indicator of how many people have purchased a new home. This data is compared with a Google index tracking how often people in England have searched for the term "removal company," serving as another indicator of home moves.

Mortgage approvals and Google Trends data



Source: Bank of England, Google



The number of **mortgage approvals** increased from 177,399 in Q1 to **181,024 in Q2 2024**. This is the highest quarterly total since Q3 2022, but it remains below the five-year quarterly average of 193,153.



Google Trends data suggests that the number of people searching for the term "removal company" has increased further from Q1 to Q2 2024.

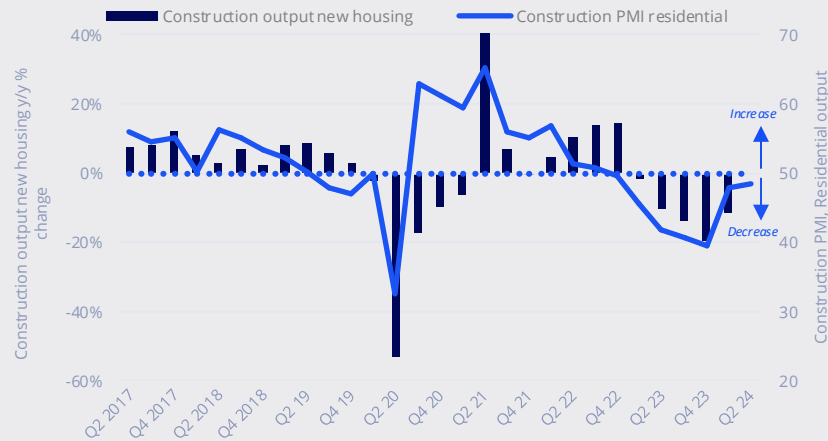
The Colliers' Take

The increase in both mortgage approvals and the number of people searching for the term "removal company" in Q2 suggests that more people want to or have to move in the coming months. This is yet another indicator of increasing activity in the coming months.

New Homes | Supply Side Indicators

The PMI's Residential Activity Index tracks changes in total residential housing work, with a reading of 50 showing no change in activity. This means that the residential construction activity has neither increased nor decreased.

Construction output for new housing and the PMI



Source: ONS, S&P Global



The PMI's **Residential Activity Index** averaged 48.5 in Q2 2024, the highest figure since Q4 2022.



The index remained just below 50 as of Q3 2022, still signalling weakness. However, the index increased marginally from the previous quarter of 48.0.



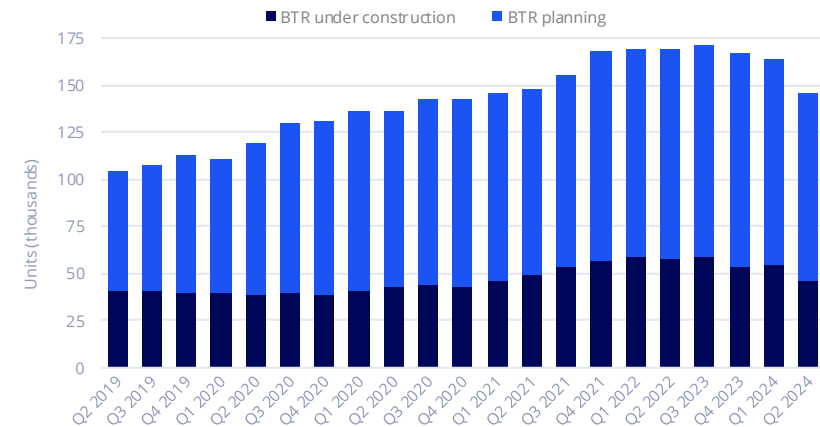
In Q1 2024 new housing construction output fell by -11.7% y/y. This is an improvement of +1% from the previous quarter.

The Colliers' Take

The improvement in new housing construction output from the previous quarter coupled with the increase in the PMI index shows that despite delivery of new housing stock being very slow, due to high build and financing costs, it is improving slowly. We think this is likely to continue to increase towards the end of the year and next year, as financing costs decrease.

The build-to-rent pipeline shows the total number of units under construction and in planning, indicating how many build-to-rent units will come into the market in the short to mid-term.

BTR pipeline (in thousands)



Source: BPF



As of Q2 2024, the total BTR pipeline was over 146,000 units, a decrease of -10.8% compared to a year ago. London has the largest BTR pipeline out of the core UK cities.



A total of 45,410 BTR units were under construction in Q2 2024, a decrease of -19% y/y. 100,681 BTR units were in planning, a decrease of -2% y/y.

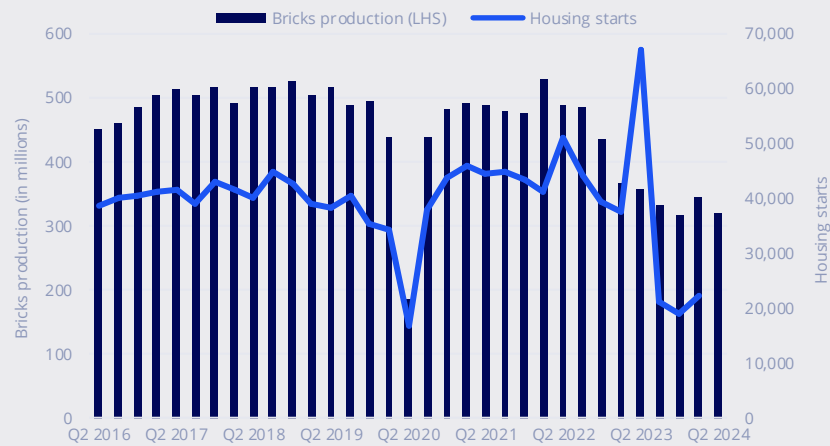
The Colliers' Take

Due to high financing costs and build costs, the build-to-rent pipeline has been decreasing for the previous three quarters. With rents continuing to increase across the country, it demonstrates that the pipeline of rental units is not keeping pace with demand. This is likely to indicate that rents will continue to remain high across the country.

New Homes | Supply Side Indicators

The chart below displays the number of mortgage approvals per quarter, providing insight into the number of people purchasing new homes. This data is compared with a Google index tracking how often people in England have searched for the term "removal company," serving as another indicator of home moves.

Brick production and housing starts



Source: ONS, UK Government



Brick production decreased from 343.7 million in Q1 to 318.8 million in Q2 2024. This is the **weakest quarterly figure since Q4 2023**, and below the five-year quarterly average of 440 million.



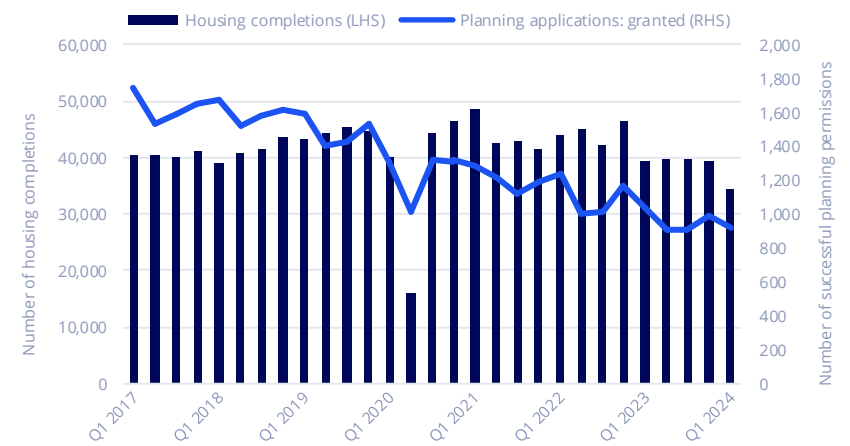
The number of housing starts increased from 20,170 in Q4 to **22,310 in Q1 2024**. The spike in Q2 2023 was due to housebuilders choosing to bring forward the start of projects to avoid the cost of complying with new building regulatory standards.

The Colliers' Take

The chart above indicates that both brick production and housing starts in the UK have decreased significantly over the past year, suggesting a limited number of new residential properties will enter the market in the short to mid-term. However, we expect this trend to reverse as financing costs decrease and construction costs stabilise.

The below chart shows the number of housing completions every quarter, highlighting how many new residential properties are coming into the market. This is then compared with the number of successful planning applications as an indicator of likely future supply.

Planning applications and completions



Source: UK Government



The number of housing completions decreased from 39,290 in Q4 to **34,630 in Q1 2024**. This is down from the strong levels recorded in Q4 2022 (46,540) and **below the five-year quarterly average** of 41,865.



The number of successful planning applications decreased to **918 in Q1 2024**, from 991 in Q4 2023.

The Colliers' Take

Historically, the Lyons Housing Review recommended that the UK needs 234,000 new homes per annum. As shown only c. 193,000 homes were completed in Q1 2023-Q1 2024, highlighting a shortfall, and the planning pipeline is even more alarming. The new Labour Government is planning on building 1.5 million new homes over the next five years.

For more information

Research & Forecasting

Sara Lindblom
sara.lindblom@colliers.com
+44 7795 640 796

Lee Layton
lee.layton@colliers.com
+44 7872 801 737

Head of UK Residential & International Properties Asia

Andrew White
andrew.white@colliers.com
+44 7500 551 958

This report gives information based primarily on Colliers data, which may be helpful in anticipating trends in the property sector. However, no warranty is given as to the accuracy of, and no liability for negligence is accepted in relation to, the forecasts, figures or conclusions contained in this report and they must not be relied on for investment or any other purposes. This report does not constitute and must not be treated as investment or valuation advice or an offer to buy or sell property. © 2022 Colliers.

Colliers is the license trading name of Colliers International Property Advisers UK LLP which is a limited liability partnership registered in England and Wales with registered number OC385143. Our registered office is at 50 George Street, London W1U 7GA.

95 Wigmore Street
London W1U 1FF



Accelerating success.