

UK Residential Market Forecast

2020-2024

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SALES MARKET FORECAST

UK house price growth has moderated from recent peaks, although markets remain highly localised

The headline rate of house price growth across the country continued to slow through 2019, leaving annual house price growth for the UK 0.7% at the end of October, down from 3% at the same point last year and down from more than 6% as recently as 2016.

Uncertainty regarding the outcome of Brexit weighed on buyer sentiment through the year, particularly in London and across the South, where prices are expected to end the year either flat or falling.

The clarity afforded by a Conservative majority in the General Election should remove some of that uncertainty – as well as the threat of an economic recession – increasing the likelihood that the UK will leave the European Union on 31 January.

In the short-term, this will pave the way for the release of some of the

pent-up demand that has built in recent years, though the extent to which this translates into transactions will depend on the size of the pricing expectation gap between buyers and sellers.

The risk of a no-deal has not completely disappeared, however, and December 2020 marks the end of the transition period, potentially raising the spectre of a no-deal in the second half of 2020.

Elsewhere, interest rates are also likely to begin a gradual process of normalisation in 2020, which could mark the end of a period of ultra-low mortgage rates and squeeze affordability for some purchasers. Even so, we expect rates to be low compared to long-term norms by the end of the forecast period, with economists expecting interest rates of below 2% by 2023.

We have examined this, as well as other factors with the potential to impact



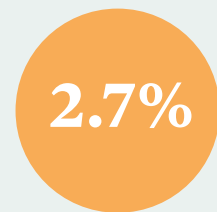
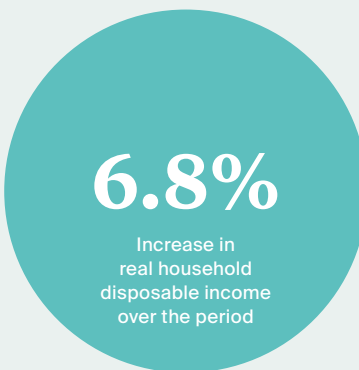
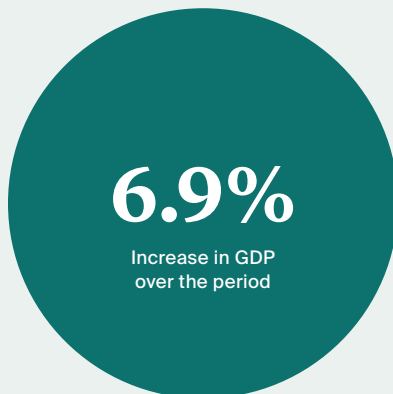
Forecast cumulative UK house price growth between 2020 and 2024

the market in more detail in our Risk Monitor on page 6.

Overall, we are forecasting price growth of 2% across the UK in 2020 and of 15% cumulatively between 2020 and 2024.

As ever, we argue that headline figures can only tell you a very general

UK: Key economic forecasts 2020-2024



Source: Oxford Economics

story and the variations in different parts of the market are set out in the table opposite.

Slightly stronger growth is expected in the South East and East of England supported by a more positive outlook for economic and employment growth over the next five years. Once the Brexit deal is completed, we forecast rising momentum across all markets, with price growth reflecting this from 2021 onwards.

In prime London markets, the erosion of the currency discount as well as the possibility of stamp duty changes for non-residents will weigh on demand in the short-term. After that we expect

stronger growth to return before a dip in 2024, the date of the next scheduled General Election.

While development levels are rising across the country the shortage of new homes is unlikely to be fully reversed in the coming years and this will underpin values. On the other hand, factors such as deepening affordability pressures and property taxes, will continue to weigh on pricing.

Despite the more certain political backdrop, forecasting future trends in this environment still has unique challenges. If any of our key assumptions change, we will revisit these forecasts.

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The certainty afforded by the General Election result has paved the way for the UK to leave the European Union in January, potentially removing some of the short-term uncertainty weighing on the market.
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2019-2024 FORECASTS

MAINSTREAM SALES MARKETS	2019	2020	2021	2022	2023	2024	5-YEAR
UK	1%	2%	3%	4%	4%	3%	15%
London	-2%	0%	2%	3%	4%	3%	13%
South East	0%	2%	3%	4%	4%	3%	17%
South West	0%	1%	3%	3%	3%	2%	13%
East of England	0%	2%	3%	4%	4%	3%	17%
East Midlands	3%	2%	3%	3%	3%	2%	14%
West Midlands	1%	1%	3%	3%	3%	2%	13%
Yorks and Humber	2%	2%	3%	3%	3%	1%	13%
North West	3%	2%	3%	3%	3%	1%	13%
North East	1%	1%	3%	3%	3%	1%	11%
Wales	3%	2%	3%	3%	3%	1%	13%
Scotland	2%	2%	3%	3%	3%	1%	13%

PRIME SALES MARKETS*	2019	2020	2021	2022	2023	2024	5-YEAR
Prime Regional	-2%	1%	2%	2%	3%	3%	11%
Prime Central London	-3%	1%	3%	4%	5%	4%	18%
Prime Outer London	-2%	0%	2%	3%	4%	3%	13%

Source: Knight Frank Research
 NB. Price forecasts are for existing homes. Property values in the new-build market may perform differently.
 *Based on Knight Frank indices and boundaries, existing homes only.

RENTAL FORECAST

*Rental growth across the UK has continued in 2019.
We expect this steady rate of growth will be replicated over
our forecast period*

The private rented sector accounted for 4.5 million households in 2017/18, with the market having doubled in size since 2002 for reasons that include affordability constraints in the sales market.

The impact of this trend can be seen most clearly in London, where private renters accounted for 29% of all tenure types, which compares to 19% for the whole country.

Tenant demand will continue to exert upwards pressure on rental values in



Forecast cumulative UK rental growth
between 2020 and 2024

UK mainstream rental markets during the next five years and the largest cumulative growth is forecast to take place in the capital.

We expect rental value growth to gain momentum after 2020 as more political certainty returns to the UK after it enters the transition phase in 2020.

We forecast a similar pattern in prime London rental markets, with rental value growth over each of the following five years.

2019-2024 FORECASTS

MAINSTREAM RENTAL MARKETS	2019	2020	2021	2022	2023	2024	5-YEAR
UK	1%	1%	2%	3%	2%	2%	10%
London	1%	2%	3%	3%	3%	3%	15%
South East	1%	2%	2%	3%	3%	3%	14%
South West	2%	1%	2%	3%	2%	2%	10%
East of England	1%	1%	2%	3%	2%	2%	10%
East Midlands	1%	1%	2%	3%	2%	2%	10%
West Midlands	1%	1%	2%	3%	2%	2%	10%
Yorks and Humber	2%	1%	2%	3%	2%	2%	10%
North West	1%	1%	2%	3%	2%	2%	10%
North East	0%	1%	2%	3%	2%	2%	10%
Wales	1%	1%	2%	3%	2%	2%	10%
Scotland	1%	1%	2%	3%	2%	2%	10%

While private investment and public spending will stimulate demand as the economy strengthens, there will also be downwards pressure on supply as more meaningful house price inflation returns to the sales market, prompting more owners to sell.

We expect lower-value rental markets in the capital to outperform in the short-term, with 3% growth in prime outer London forecast for 2020, a trend that will be driven by this lack of supply as owners try to capitalise on any post-election 'bounce'.

Furthermore, housing will remain a key political issue as the Conservative government looks to redress perceived imbalances across the country and any reversal of recent tax changes for buy-to-let investors appear unlikely. This will put further upwards pressure on rental values as stock reduced and lead to the increased professionalization of the private rented sector.

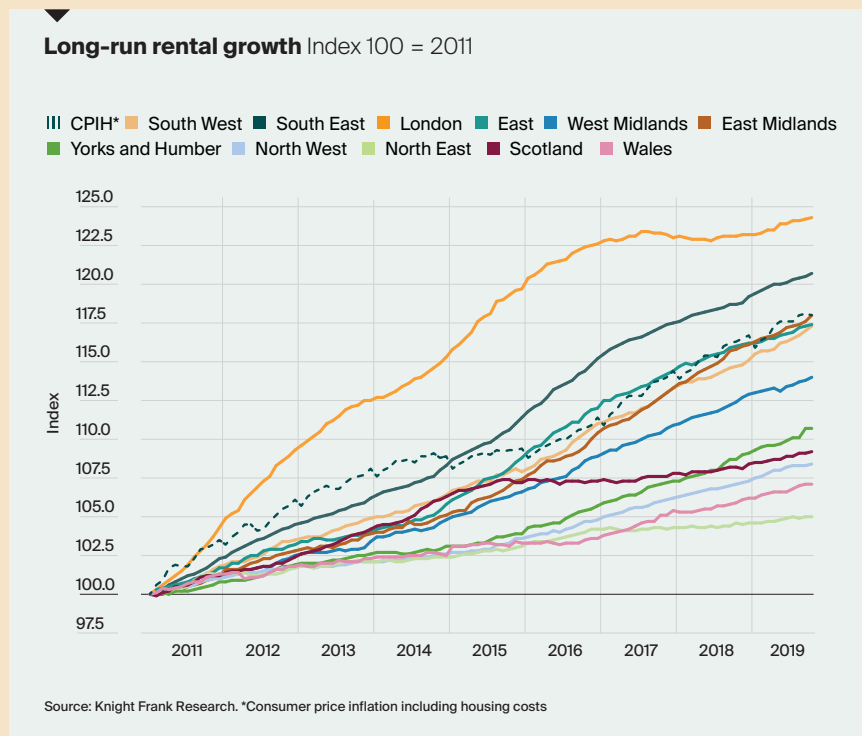
New supply will come from the Build-to-Rent sector and there are currently around 132,000 units of purpose-built rented accommodation in the pipeline. However, while the BTR sector will play an increasingly important role, its relative scale compared to 4.6 million PRS households across the country should be seen in context.

In urban centres, there is a real opportunity for localised rental outperformance, especially near transport hubs in towns and cities where the local economy is outperforming.

In 2017, we forecast that the total capital committed to professionally-managed private rented sector accommodation in the UK could reach £70 billion by 2022. Our expectation is now that this figure will rise to £75 billion by 2025.

Young professionals (aged 25 to 34) no longer make up the largest group living in the private rented sector, having been overtaken, albeit marginally, by 35 to 49 year olds. This age-group is also expected to show the biggest growth in households in the private rented sector over the coming years, with difficulty in obtaining a mortgage deposit to buy a home remaining a hurdle.

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We expect rental value growth to gain momentum after 2020 as more political certainty returns to the UK after it enters the transition phase in January 2020.
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2019-2024 FORECASTS

PRIME RENTAL MARKETS*	2019	2020	2021	2022	2023	2024	5-YEAR
Prime Central London	1%	2%	2%	2%	2%	2%	10%
Prime Outer London	0%	3%	2%	2%	2%	2%	11%

Source: Knight Frank Research
 NB. Price forecasts are for existing homes. Rental values in the new-build market may perform differently.
 *Based on Knight Frank indices and boundaries, existing homes only.

RISK MONITOR

The risk score combines the likelihood of these scenarios happening, and their impact. The score illustrates the chances that such a scenario results in pricing moving away from our central forecast.

SCENARIOS

BREXIT/POLITICAL UPHEAVAL

No extension to transition deal at end of 2020 and UK leaves with no EU trade deal in place creating uncertainty and social tensions

INTEREST RATES

Interest rates rise more quickly than anticipated, or move unexpectedly, prompting mortgage rates to rise

UK ECONOMY

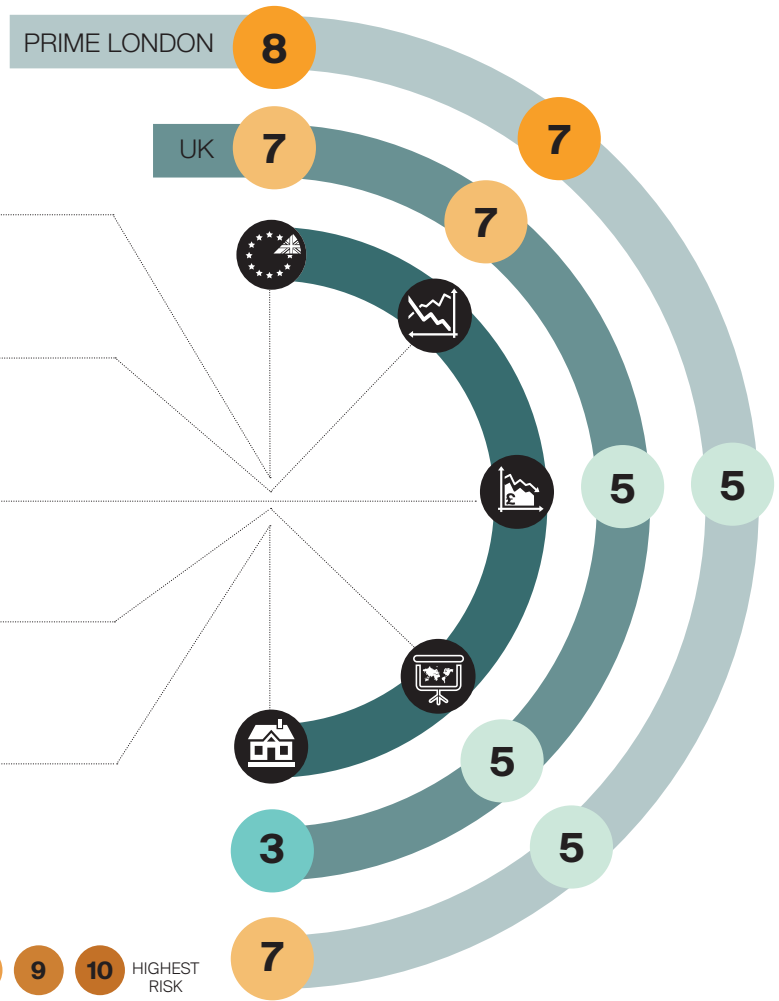
Economy expands more slowly than expected on lower employment and wage growth

GEO-POLITICAL FACTORS

Accelerating recessionary signals in the global economy, enhanced by concerns on climate change and continued trade tensions

PROPERTY TAX CHANGES

3% surcharge for non-resident buyers introduced in isolation with no change to underlying rates of stamp duty



LOWEST RISK 1 2 3 4 5 6 7 8 9 10 HIGHEST RISK

We like questions, if you've got one about our research, or would like some property advice, we would love to hear from you.



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