Five-year sales and rental forecast for the UK and prime London property markets

UK Residential Market Forecast

2020-2024
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 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 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.

**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.**

### **2019-2024 FORECASTS**

#### **MAINSTREAM SALES MARKETS**

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<th>2019</th>
<th>2020</th>
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<th>2022</th>
<th>2023</th>
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#### **PRIME SALES MARKETS**

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<td>13%</td>
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### **UK: Key economic forecasts 2020-2024**

- **6.9%** Increase in GDP over the period
- **1.7%** Increase in real household disposable income over the period
- **6.8%** Increase in total employment over the period

Source: Oxford Economics

NB: Price forecasts are for existing homes. Property values in the new-build market may perform differently.

*Based on right to buy schemes and exclusions, existing homes only.
UK RESIDENTIAL MARKET FORECAST

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 the whole country. 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.

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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.

While rental value growth is expected to remain steady, we foresee rental value growth will become more pronounced in 2020.

The role of the private rented sector has changed and is now often considered a distinct asset class. 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.

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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 UPEHAVAL
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

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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