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Lucian Cook highlights the impact of mortgage debt, the influence of government policies on housing, and his five-year predictions for the UK's property market

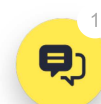
### Searching for the calm after the storm

The fountain of modern-day knowledge that is Wikipedia tells us that “turbulence is characterised by chaotic changes in pressure”.

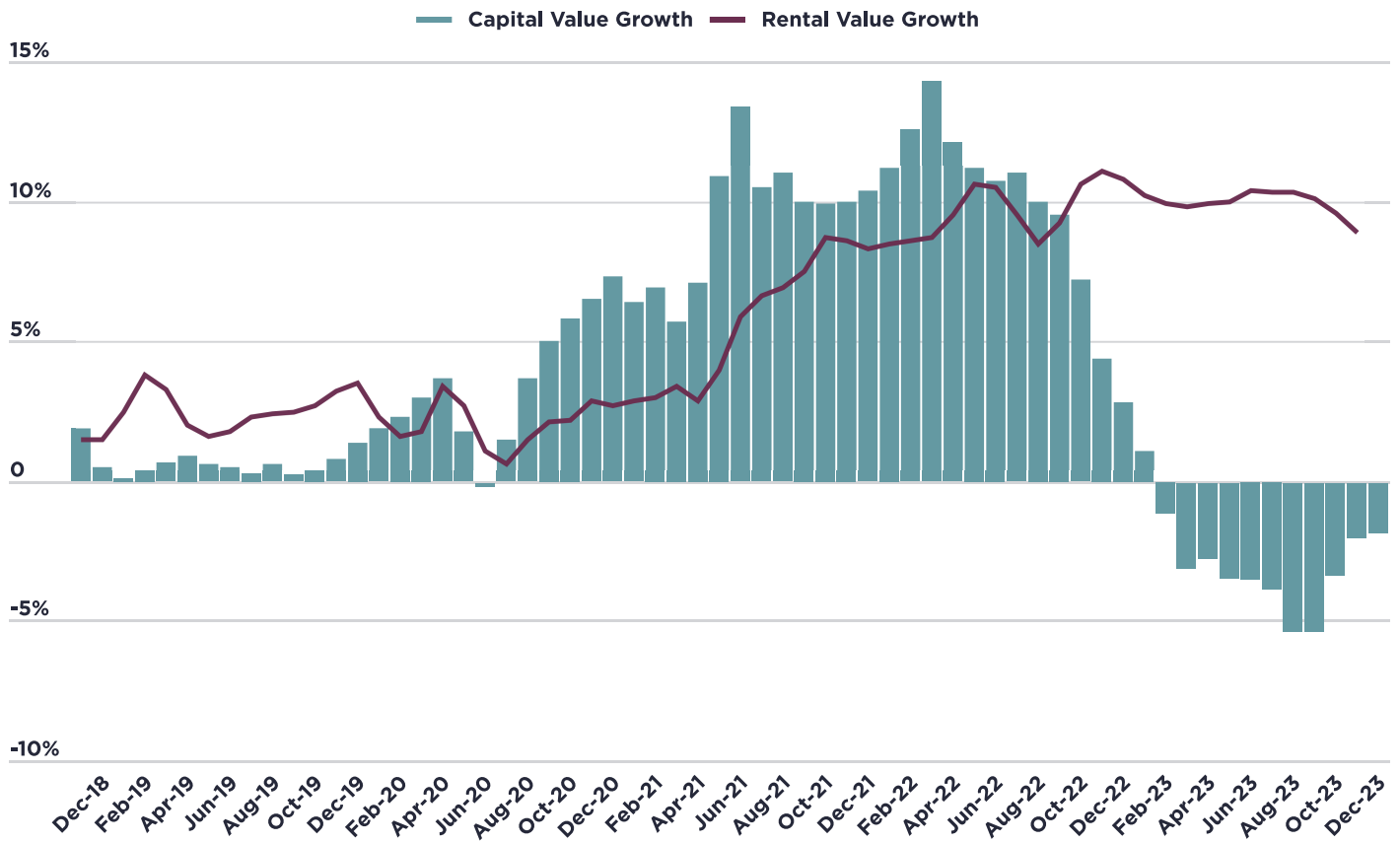
By that definition, there is little doubt that home movers, private renters, investors, lenders, homebuilders and affordable housing providers have all endured varying degrees of turbulence in the housing market over the past 18 months.

In the world of residential real estate, the eddy currents of disruption have primarily taken the form of a sharp rise in mortgage costs, an increasingly uncertain planning environment, build cost inflation and the prospect of regulatory change in the private rented sector.

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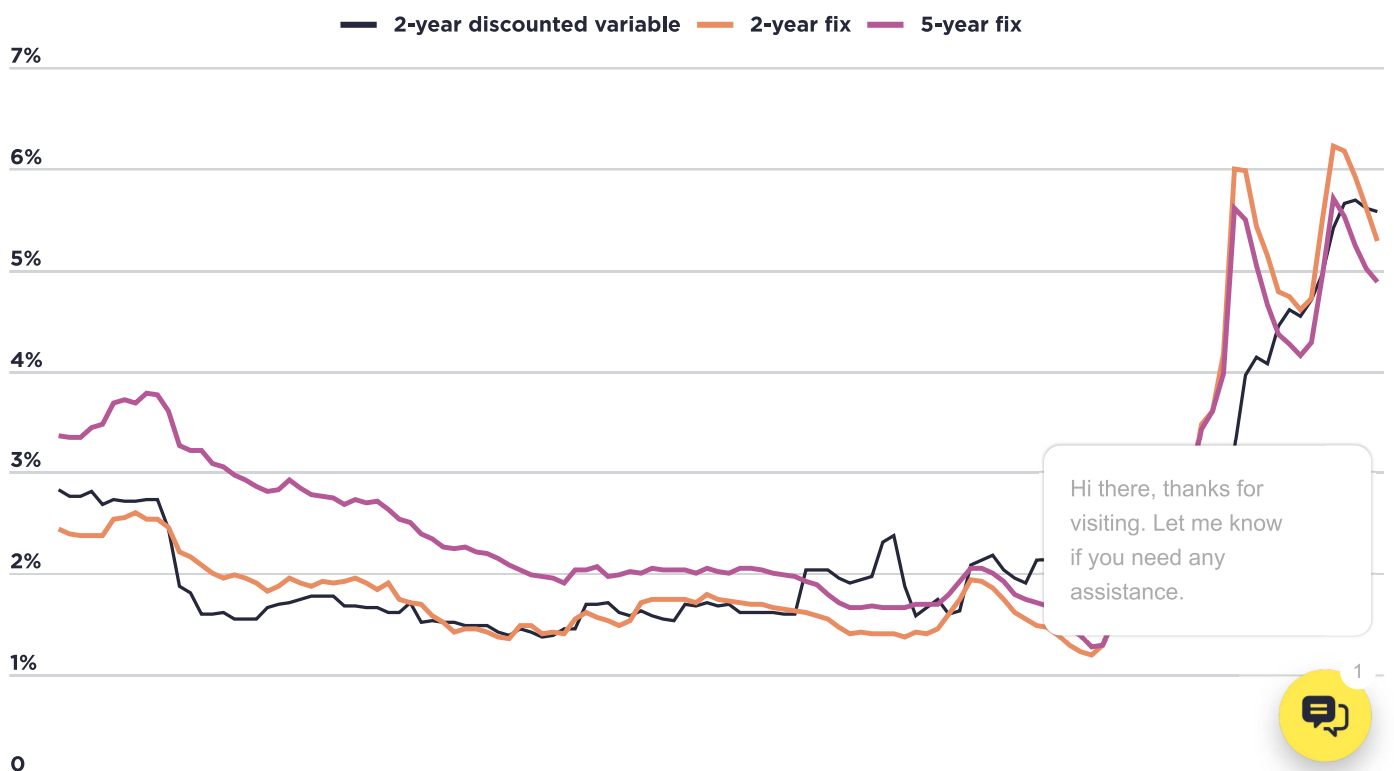


## Annual House Price and Rental Value Movements



Source: Nationwide, Homelet

## Average Quoted Mortgage Costs at a 75% LTV



Source: BoE

### Less disturbance in the force

With inflation heading back towards the Bank of England target of 2.0% and more stability in the mortgage markets, we expect to see the primary sources of financial disturbance ease back over the course of 2024 as the narrative turns to when we might start to see interest rates cut.

Even though costs of debt are expected to stay “higher for longer”, progressive cuts in the cost of mortgage debt over the next five years should open up capacity for a return to house price growth and an increase in activity levels. Put simply, falling mortgage costs should translate into a wider range of buyers in the market and less pressure on buyers’ budgets, whether among owner occupiers or investors.

	2024	2025	2026	2027	2028	Total
<b>Average UK House Price (Savills)</b>	-3.0%	3.5%	5.0%	6.5%	5.0%	17.9%
<b>Year end Bank Base Rate (Oxford Economics)</b>	4.75%	3/75%	2.75%	1.75%	1.75%	N/A
<b>Average Mortgage Rate (Savills)</b>	<b>5.21%</b>	<b>4.51%</b>	<b>3.81%</b>	<b>2.88%</b>	<b>2.88%</b>	<b>N/A</b>
<b>Year end CPI Inflation (Oxford Economics)</b>	1.9%	1.7%	1.4%	1.9%	2.0%	9.3%

Source: Savills Research

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### Political interference

However, even if the first rate cut materialises towards the middle of next year, the potential for this to hit up against a general election suggests caution will hang over most parts of the housing market over the next 12 months. This indicates that 2024 will remain a buyers’ market with a more sustained return to price growth only from 2025 onwards.

With wealthier households’ finances better able to withstand the buffeting from higher costs of living and higher costs of debt, we would expect the prime market to respond quickest to a change in sentiment. This said, if the pollsters and the bookies have got it right and there is to be a change in government, there is little prospect that price growth at the top end of the market will run away with itself.

### Central London

Take the prime central London housing market as an example. Here, prices remain 19% below their 2014 peak, having been bounced around for the best part of a decade by a series of fiscal headwinds, political crosswinds and societal updraughts. It looks, smells and feels like it is overdue a recovery.

But such recovery will have to take place in a much tighter tax and regulatory environment than before, at a time when the current parliamentary opposition has non-doms tax status and overseas buyers stamp duty firmly on its radar. In keeping with the analogy threaded throughout this article, while neither measure is likely to cause a further fall in altitude, they could inhibit the ability of the market in London’s most exclusive neighbourhoods to pick up airspeed.

### Development

The prospect of a more widespread recovery in market conditions will come as welcome news to the industry, which has been at the sharp end of the housing market downturn of the past year. The cessation of Help to Buy, substantial increase in build costs and a substantial shift in planning policy, this has been a bruising experience for all concerned, but especially the smaller and medium-sized housebuilders.

One result has been a squeeze on developer profits. Another, a fall in development land values (though mitigated by a lack of sites coming through planning). But perhaps inevitably, the biggest impact has been on the ability and

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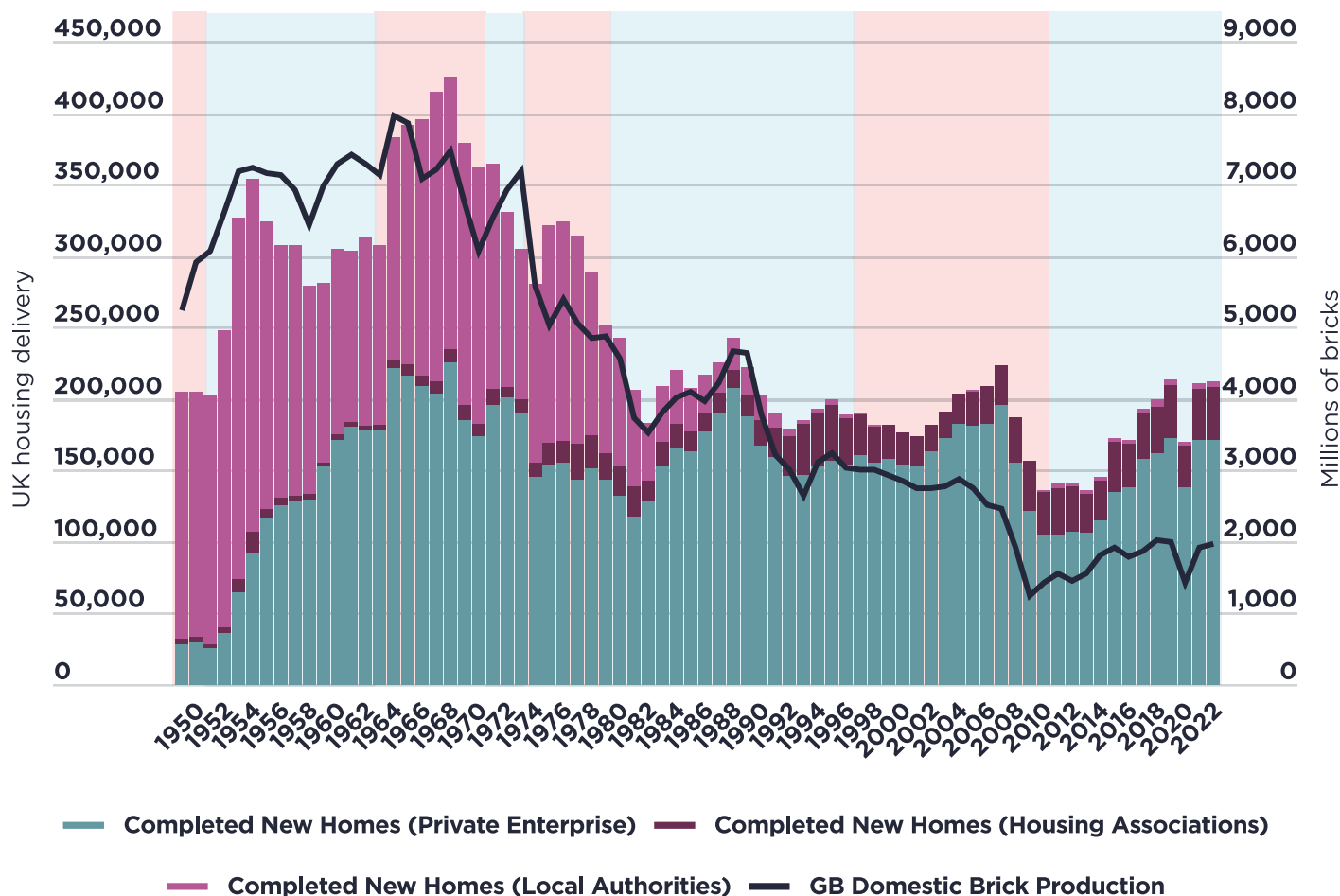


## Labouring the point

Whatever the current government's assertions that it will have met its target to deliver 1 million new homes over the course of the current parliament, recent policy inertia has provided the Labour Party with an opportunity to vie for the mantle of the party of housing delivery and homeownership (adding to the claim it has already staked as the champion of increasing the delivery of affordable housing).

A succession of Labour policy announcements have followed, including a pledge to deliver a much greater 1.5 million new homes over the course of the next parliament, the promise of a blitz of planning reforms, plans for a new generation of towns and proposals for planning passports for urban brownfield land.

## Housebuilding through the political cycles



**Source:** Department for Business and Trade, ONS

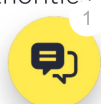
## Planning for a change in conditions

Of course, history tells us that such bold policy pronouncements are easy to make in opposition, but much harder to deliver in power. So, it remains to be seen how quickly they can gain traction, if indeed Labour does secure an outright majority.

In response, the Conservatives have reviewed their own housing offer, given an increasing the status quo just won't cut it. This said a greater focus on brownfield development align agenda comes with no shortage of challenges.

With local housing delivery targets being made advisory and get-out-of-jail cards being handed to local authorities in the greenbelt, viable development opportunities are going to be hard to come by in the short term.

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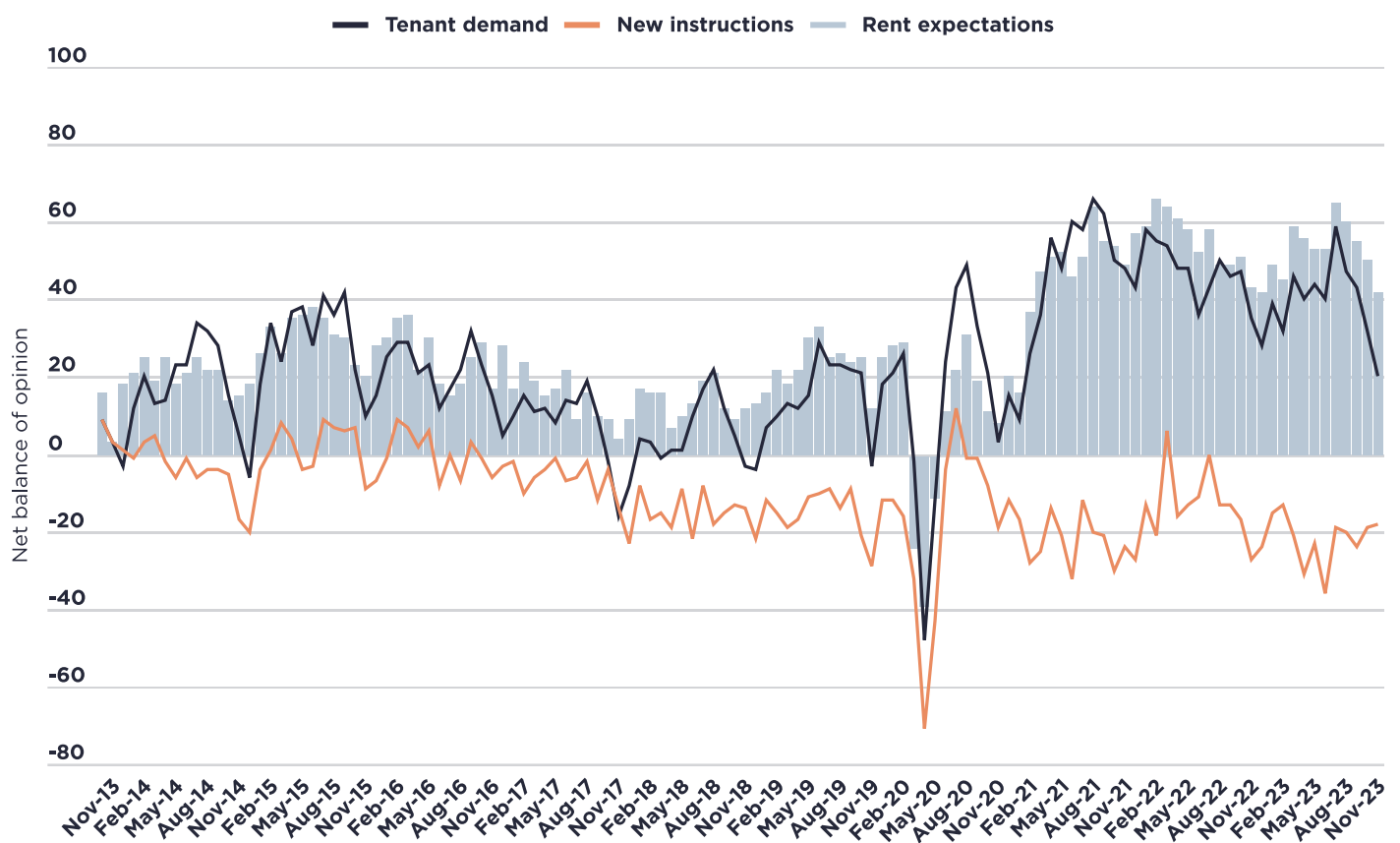
## Tempestuous times for buy-to-let

Levels of turbulence felt by different types of investors have varied in intensity in the recent past.

Smaller, mortgaged buy-to-let landlords with investments in their personal name could rightly argue to have suffered severe to extreme levels of disruption. For them, the income tax changes introduced back in 2015 have exacerbated the detrimental impact of higher interest rates on their finances. The tabling of the Renters (Reform) Bill has compounded matters further, prompting the bulk to curtail their investment activities and others to reach for the oxygen mask.

## A long-term demand : supply disconnect in the rental market

Rental Demand and Supply: RICS Housing Market Survey



Source: RICS

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Buoyed by a burst of strong rental growth, larger equity-rich landlords have been much better placed to weather the storm, being able to take a more sanguine view on the impact of the end of the Assured Shorthold across a portfolio which diversifies tenant-specific risks.

## Unbuckling the institutions

Meanwhile, institutions have sat somewhere between the two, with all of the indications t... upon this period as a time of light to moderate disturbance. For them, the supply-demand imbalance and promise of secure future income streams continue to look compelling. They may have to keep their seatbelts fastened a little longer until returns look competitive once more. But the benefits to developers of selling built-to-order off-plan (post Help to Buy), look more conducive to the process of assembling portfolios of energy-efficient, new-

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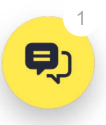
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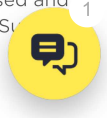
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