MARKET INSIGHT ::: SPRING 2024

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Hamptons

THE HOME EXPERTS

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MARKET UPDATE

LONDON LEADS THE RECOVERY

It is almost always the case, that the pace of the market in January and February sets the tone for the year ahead. As we entered 2024, it felt as though there had been a step change. A pick-up in market activity, primarily led by a recovery in London.

The data provides proof of this new-found confidence. In January, more people registered to buy a home - and more homes came up for sale - than have done so during this month for over a decade.

In recent weeks, demand has held up well. The number of prospective buyers is 14% higher than during the same period of 2023, tracking slightly below 2022 levels - which was a strong year for the market. At the front of the queue are first-time buyers and upsizers.

What has caused this shift? The steady fall in mortgage rates has been the key catalyst, helping affordability. But, more generally, although the economic backdrop has been somewhat dull, it has also been relatively stable. This has given a boost to sentiment, encouraging action among buyers who were hanging back in 2023.

Inflation has been heading downwards, and is now widely forecast to be close to the Bank of England's 2% target in April. Based on this outlook, financial markets currently expect the Bank to embark on rate cuts in June, with two further reductions pencilled in for the second half of the year.

But, since these predictions are already priced into current mortgage rates, we do not foresee that the cost of these loans will change much over the next few months.

The UK technically entered a recession in the final quarters of 2023. But the latest metrics suggest that this was short-lived. This apparent upturn and the easing of pressures on household finances, have boosted confidence in the housing market among buyers and sellers alike.

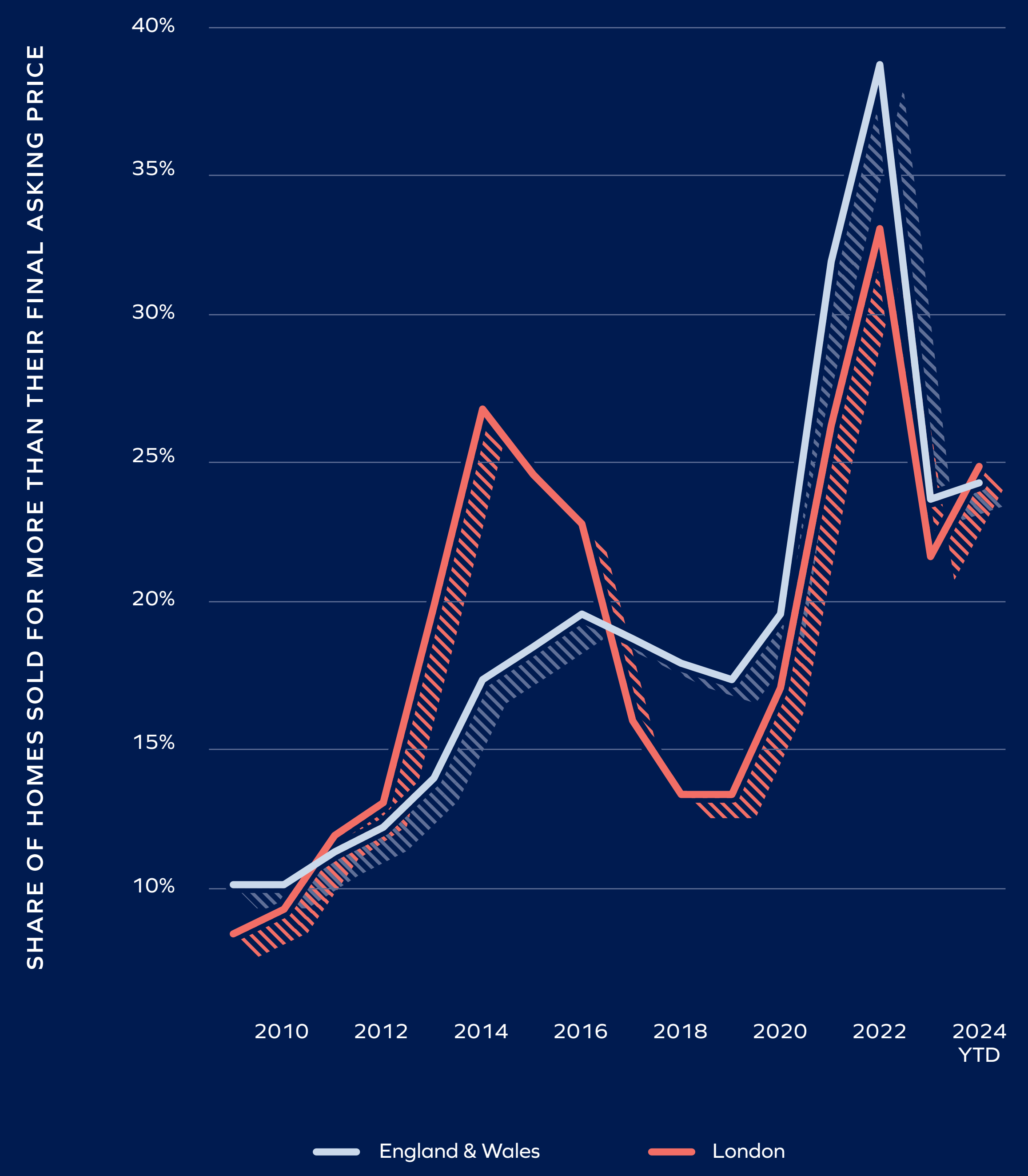
"For the first time since 2016, properties in the capital are more likely to sell above their asking prices than those in other regions."

This renewed optimism is highlighted in our key market metrics. Homes are now selling more quickly than before: about 8% of properties are going under offer within a week of being put up for sale, against 6% last year. More properties are being priced realistically - and buyers have more purchasing power thanks to lower mortgage rates.

As a result, fewer homes are being reduced in price, with more achieving closer to, or more than, their asking price. In the year to date, 24.3% of homes sold in England

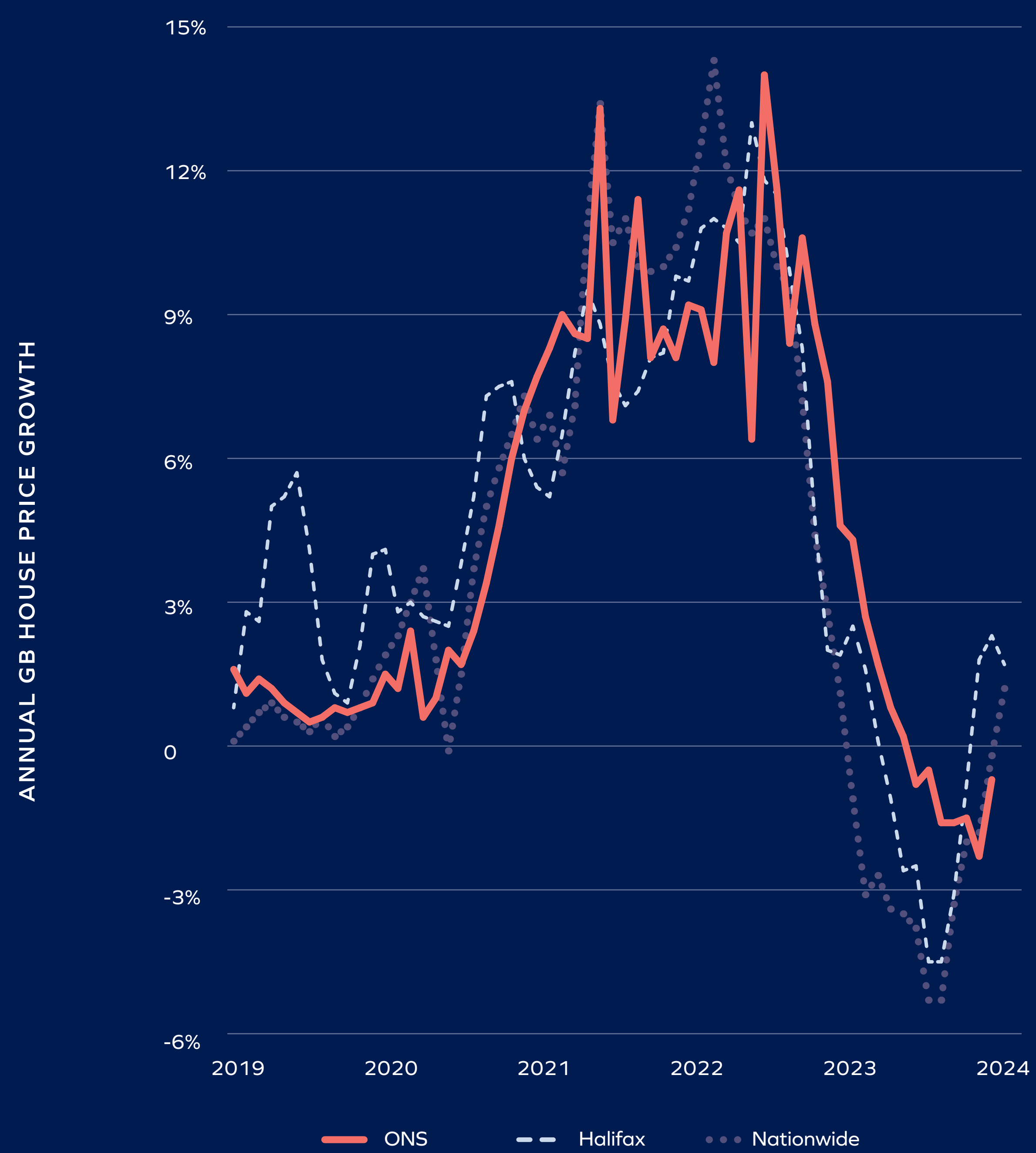
PROPORTION OF HOMES SOLD ABOVE ASKING PRICE

Source: Hamptons



ANNUAL HOUSE PRICE GROWTH ACROSS GREAT BRITAIN

Source: ONS, Halifax & Nationwide



& Wales have fetched more than their asking price, slightly up from 23.6% in 2023. This may not seem much of an increase, but it is still above the number that was typical in the period before 2020.

Why is this? There may have been a 14% rise in the number of homes coming on the market since February 2023, but choice remains more limited than during the pre-Covid era.

Significantly, London appears to be at the forefront of the recovery. For the first time since 2016, properties in the capital are more likely to sell above their asking prices than those in other regions. It's also where the time it typically takes to sell has fallen the most this year.

Other indicators underline the comeback of the London market. It is the only region where there are fewer homes available to buy than last year, yet there are 23% more buyers seeking to move.

More sales are being agreed across the capital too, with 10% more deals struck in February this year than in the same month of 2019. This contrasts with a 5% decline in other regions.

The leading surveys add to the evidence that prices are no longer declining in all regions. The Halifax and Nationwide indices are the most up-to-date indicators, being based on these lenders' mortgage approvals. Both surveys now record that prices are rising again on a year-on-year basis, which is starting to reverse the near-5% price falls reported by these indices in 2023.

The Office for National Statistics (ONS) index is the most comprehensive measure of house price growth since it includes both cash and mortgaged Land Registry completions. This index may be slower to record change, but it is also beginning to turn, showing a 0.7% annual price fall in January 2024, against a decline of 2.4% in December 2023 across Great Britain.

Despite much speculation beforehand, the Spring Budget contained few housing-related announcements. The Chancellor may sound eager to provide policies to support homeownership, but frequently rumoured measures, like a stamp duty concession and 99% mortgages for first-time buyers, failed to materialise.

This was a tacit acknowledgment that there is no easy fix to the problems in this segment of the market. Instead, the Chancellor chose to focus on more niche areas, tinkering with the existing rules rather than delivering any big changes.

"It appears prices bottomed out at the end of 2023 - and that we may even see some price growth in 2024."

He aligned the taxation of holiday lettings with long-term buy-to-let, abolished multiple dwellings stamp duty relief and cut capital gains tax for some higher-rate taxpayers (partially reversing previous hikes).

We may have to wait until the next Budget for plans to boost homeownership and housebuilding. In the meantime, the lack of announcements means that the market seems set on its current path. It appears prices bottomed out at the end of 2023 - and that we may even see some price growth in 2024. Conditions could resemble those of 2019 - which was, of course, also an election year.

SALES

A BLUEPRINT FOR A FUTURE GENERAL ELECTION MANIFESTO?

David Fell
Lead Analyst

The Budget may not have contained any measures to help first-time buyers. But it's almost guaranteed that each of the main political parties will head into the general election offering schemes to make it easier to climb onto the housing ladder.

These schemes will, of course, reflect the political priorities of the party concerned. But we expect that the schemes will also lean on the Competition and Markets Authority's (CMA) recently published report into the factors holding back housebuilding in Britain.

This extensive report, published in February, sets out what the CMA believes should be the four underlying principles with which future measures to help first-time buyers should comply with. These are outlined on the page to the right.

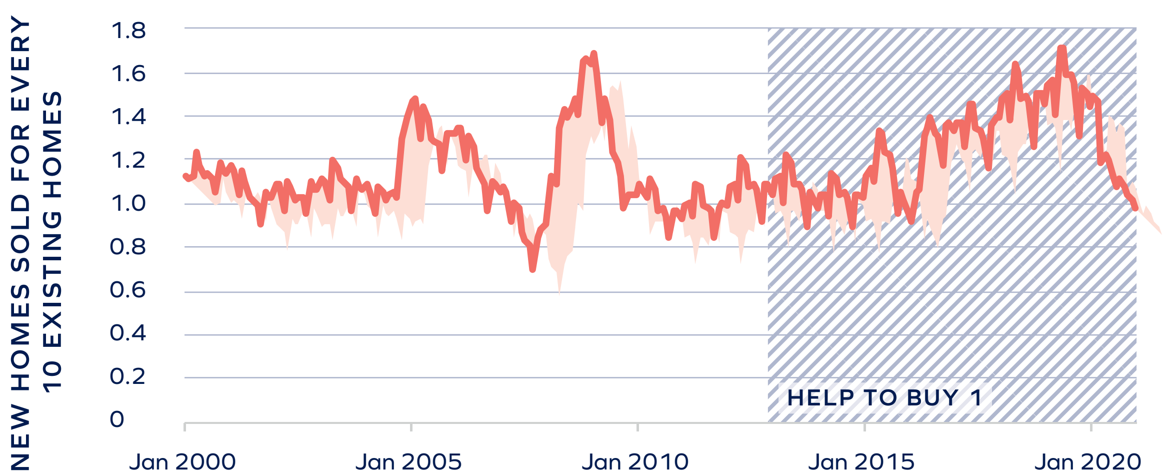
Based solely on these criteria, it's hard to see, in retrospect, how Help to Buy or some of its predecessors could have got off the ground.

Unlike its forerunners, Help to Buy did not have an income cap. This meant anyone could use it, exposing the scheme to criticism that some beneficiaries could probably afford a home without government support.

Meanwhile, from 2022 onwards, the 5% deposit requirement potentially left buyers more exposed to higher mortgage rates and falling prices.

RATIO OF NEW TO SECONDHAND SALES

Source: Hamptons & ONS



THE FOUR PRINCIPLES OF A FUTURE SCHEME TO HELP FIRST-TIME BUYERS

(ACCORDING TO THE CMA)

PRINCIPLE 1

A scheme should incorporate supply-led reforms to weaken its potential to push up house prices. Which would benefit housebuilders more than buyers.

PRINCIPLE 2

New demand reduces the incentive for housebuilders to cut prices. In light of this, the scheme should be designed to attract only those who would not otherwise be able to buy.

PRINCIPLE 3

The scheme's design should also consider that reducing deposit requirements leaves buyers vulnerable to higher mortgage rates and falling house prices. This raises the risk of negative equity.

PRINCIPLE 4

It must be remembered that any temporary scheme creates winners and losers. This has the potential to make it harder for others to buy.

QUICK FACTS

1 in 8

At Help to Buy's peak, a record number of new homes were being sold for each secondhand sale.

But the relative openness of Help to Buy was also a big strength. During its first nine months, the scheme enabled more people to buy homes of their own than FirstBuy or NewBuy did during their lifetimes of two and three years respectively. This is predominantly because the latter schemes were more restrictive, with income caps in place.

Over a decade, a total of 387,000 buyers used Help to Buy. Their average household income was £50,000, and they spent an average of £259,000 on their property.

These figures do not particularly paint a picture of a scheme that was used in large numbers by those with many other options. But it is also true that many who took advantage of Help to Buy would have been able to buy without its support. As a consequence, the scheme stood accused of boosting buyers' borrowing power, so pushing up prices.

At the same time, Help to Buy may have persuaded some who would otherwise have bought a second-hand property to opt for a new build home. This gave a boost to sales - and so the construction of new homes. This meant that the number of new homes sold, relative to the number of second-hand sales, increased over the course of the scheme. This increased the number of sales built to a number closer to government targets.

At the start of Help to Buy in early 2013, one new build home was sold for every 11 second-hand homes. While the scheme was in operation, this figure peaked at one for every eight. It is unlikely that a scheme targeted solely at a narrow group of lower-income borrowers who were frozen out of the market would have stimulated housebuilding in such a way.

The design of any first-time buyer scheme will very much depend on its objectives. A scheme set up to help relatively small numbers of lower-income first-time buyers is unlikely to stimulate large amounts of housebuilding - relative to the wider market. This was the case with FirstBuy and HomeBuy Direct.

But we should acknowledge that higher interest rates have suppressed the demand - but not the need - for new homes. Against this background, a more open-ended scheme would help first-time buyers from a wider range of backgrounds. It would also boost housebuilding.

Most major housebuilders are reporting falls of 20-30% in the number of new homes completed during 2023 on the back of squeezed profit margins. As a consequence, the government is probably further than ever from delivering its 2019 manifesto target of 300,000 new homes a year. But, as Help to Buy has shown us, the politics of a more open-ended scheme can be difficult.

"The government is probably further than ever from delivering its 2019 manifesto target of 300,000 new homes a year."

MARKET METRICS

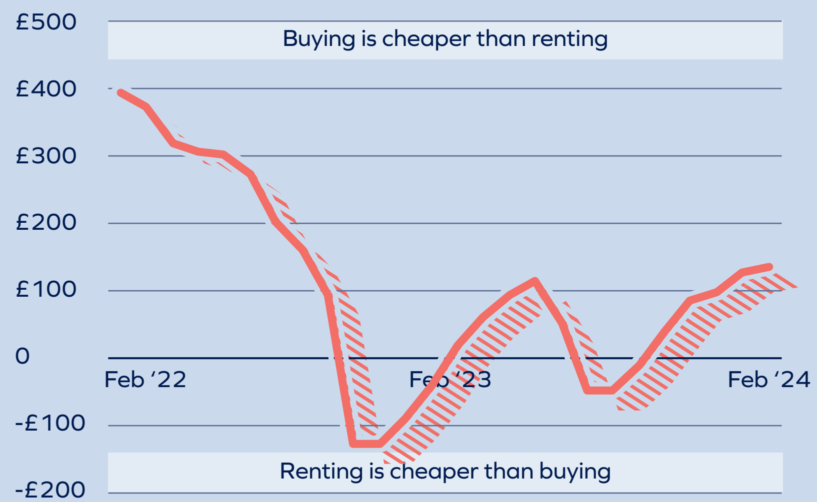
MONTHLY DIFFERENCE BETWEEN RENTING AND BUYING

Source: Hamptons, ONS & BoE

With rents continuing to grow (albeit more slowly than last year) and mortgage rates falling, the monthly cost difference between buying and renting appears to have returned back in favour of buying.

In February, the average first-time buyer would find themselves £136 better off every month by purchasing a home with a 10% deposit than renting. This is despite the average mortgage rate on a 2-year fixed 90% LTV loan remaining above 5%.

While there are other costs associated with buying, not least the need to save up for a deposit, the stability of ownership and longer-term prospect of equity growth remain a key driver.



AVERAGE MORTGAGE RATES

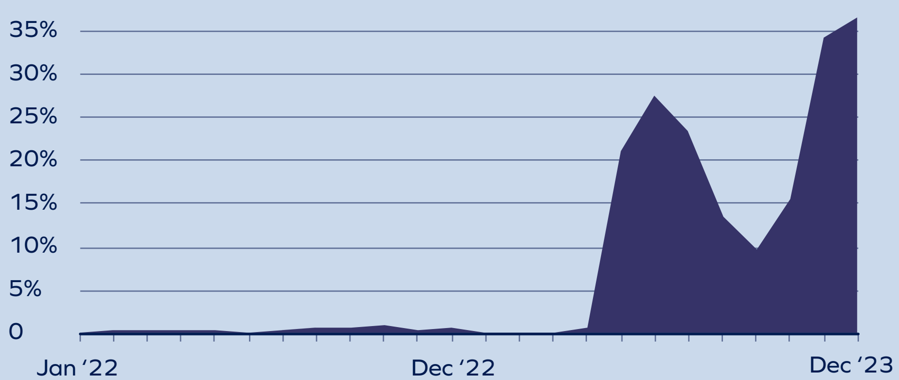
Source: BoE

Date	95% LTV	90% LTV	75% LTV	60% LTV
Feb-24	5.74%	5.25%	4.77%	4.62%
Feb-23	5.86%	5.35%	4.79%	4.71%
Feb-22	4.10%	3.49%	1.61%	1.30%

Source: BoE

PROPORTION OF LOCAL AUTHORITIES WHERE FLAT PRICES ARE RISING FASTER THAN TERRACED HOUSES

Source: Hamptons & ONS



In their bid to escape rising rents, first-time buyers have made up a record 33% of all buyers so far this year, up from 23% pre-pandemic. Affordability pressures are also squeezing the budgets of upsizers, in many circumstances prompting them to opt for smaller homes.

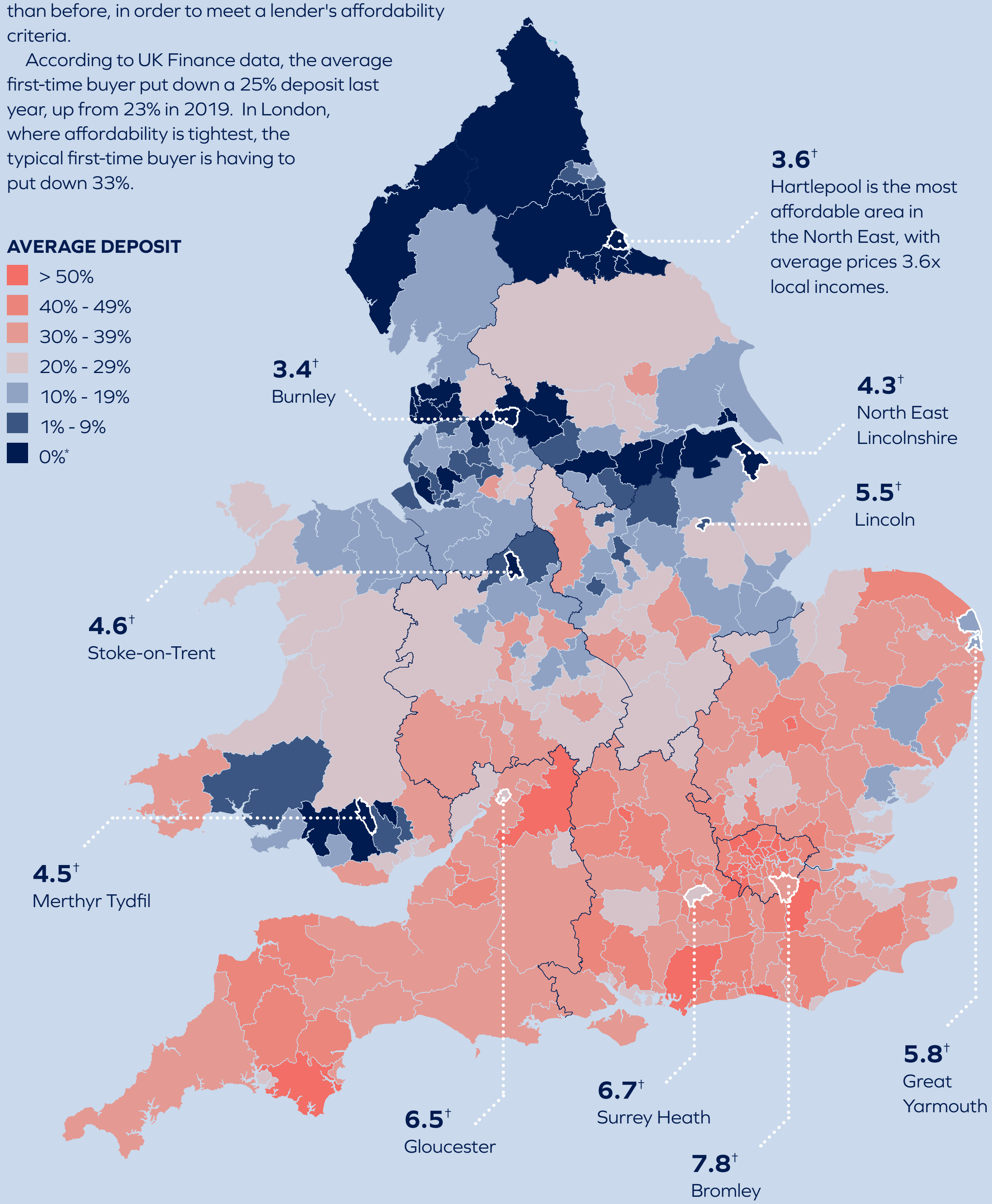
This means that flat prices have staged somewhat of a recovery, rising faster than the value of smaller homes across 36% of the local authorities nationally.

AVERAGE DEPOSIT REQUIRED FOR A LOCAL FIRST-TIME BUYER TO PURCHASE THEIR FIRST HOME

Source: Hamptons, ONS & BoE

The move to a higher interest rate era has meant that first-time buyers need to put down bigger deposits than before, in order to meet a lender's affordability criteria.

According to UK Finance data, the average first-time buyer put down a 25% deposit last year, up from 23% in 2019. In London, where affordability is tightest, the typical first-time buyer is having to put down 33%.



* Average earnings here qualify for a mortgage greater than the price of the average FTB home. † Ratio of first-time buyer house prices to average incomes..

LETTINGS

RENTAL GROWTH IS COOLING

The rent spiral is easing, but the pressure on tenants will continue against a backdrop of limited numbers of homes to let.

The average rent rose by 7.1% in the 12 months to February. This was the lowest annual rate of increase for 14 months - and the second time in six months that growth has been in single digits. Growth peaked at 12.0% in August 2023, decelerating to 10.2% in December and 8.3% in January.

The slackening in rental growth since August 2023 was primarily driven by London. The annual pace of increase in the capital fell from 17.1% to 6.1%, the slowest rate for two years. Only in Scotland and the East of England did rents continue recording double-digit rises.

So far this year, 61% of landlords in all regions received a higher rent on a new let which compares with 81% during the same time in 2022 and 80% in 2023. This was in marked contrast to the pre-pandemic era. Between 2015 and 2019, 49% of landlords were able to secure a higher rent when re-letting their property, with rental growth at, or even below the rate of inflation.

It now appears that the summer of 2023 was the high watermark for rental growth which began to take off in December 2021 when interest rates were hiked for the first time.

For a period, landlords were able to raise rents to cover their higher borrowing costs. Landlords who owned smaller homes found it easiest to do so because tenants, hit by the soaring cost of living, were downsizing into cheaper properties. In 2023, 83% of one-bed homes were re-let at a higher price, compared to 67% of four-bed homes - although this gap is now closing.

Towards the end of 2023, tenants' finances became so stretched that, in many cases, they were not able to pay more. This has kept a cap on rental growth and in cash terms, monthly increases have been in double rather than triple figures.

"Rental growth is set to be stubbornly sticky, remaining above the rate of inflation for the rest of 2024."

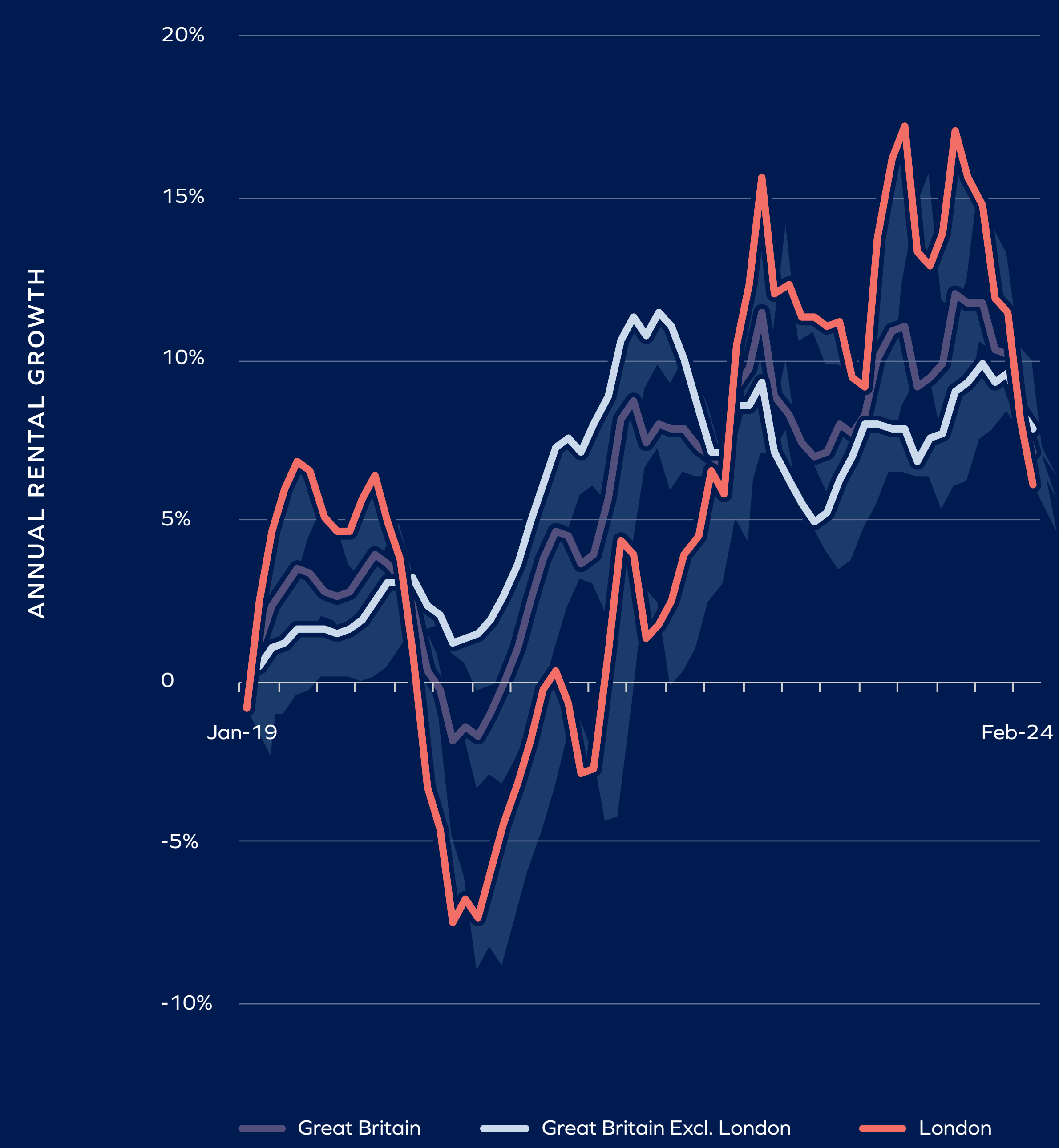
Looking ahead, although mortgage rates are falling, rents will not be heading downwards. The wider squeeze on landlords arising from rental reforms is deterring new entrants to the buy-to-let business. Indeed, on the sales market, first-time buyers are now outnumbering buy-to-let investors 3:1.

There may be 30% more rental homes on the market than a year ago, yet the total stock of properties is still as much as 41% below the number available in 2019, and unlikely to return to that level in the foreseeable future.

As a result, rental growth is set to be stubbornly sticky, remaining above the rate of inflation for the rest of 2024.

ANNUAL RENTAL GROWTH FOR NEWLY LET PROPERTIES

Source: Hamptons



FOCUS

OFF-MARKET SALES

Advertising has always been seen as essential to selling a home. However the popularity of marketing publicly, rather than behind closed doors is often determined by the state of the housing market at that time. Our research shows that, in 2023, one-in-three £1m-plus homes were sold 'off-market', that is without public advertising. This was a return to the levels seen in the record year of 2017, when the prime markets in London and South East were close to their peak.

In the £2m-plus tier, the off-market transaction may be close to becoming the norm, with 51% of such homes changing hands in this low-key fashion in 2023. Among properties valued at £5m or more, it was 54%. With prices sensitive to economic swings last year, the off-market approach allowed sellers the opportunity to test the waters.

Owners of higher-priced homes tend to value the privacy of the off-market method of selling which is based on the effective targeting of the smaller pool of prospective purchasers for expensive real estate.

A property that is sold off-market cannot be viewed on any of the portals such as Rightmove, OntheMarket or Zoopla. Instead, the estate agency approaches suitable individuals in its network. These would-be buyers have registered an interest in a specific type of property, and are most likely to make a serious offer.

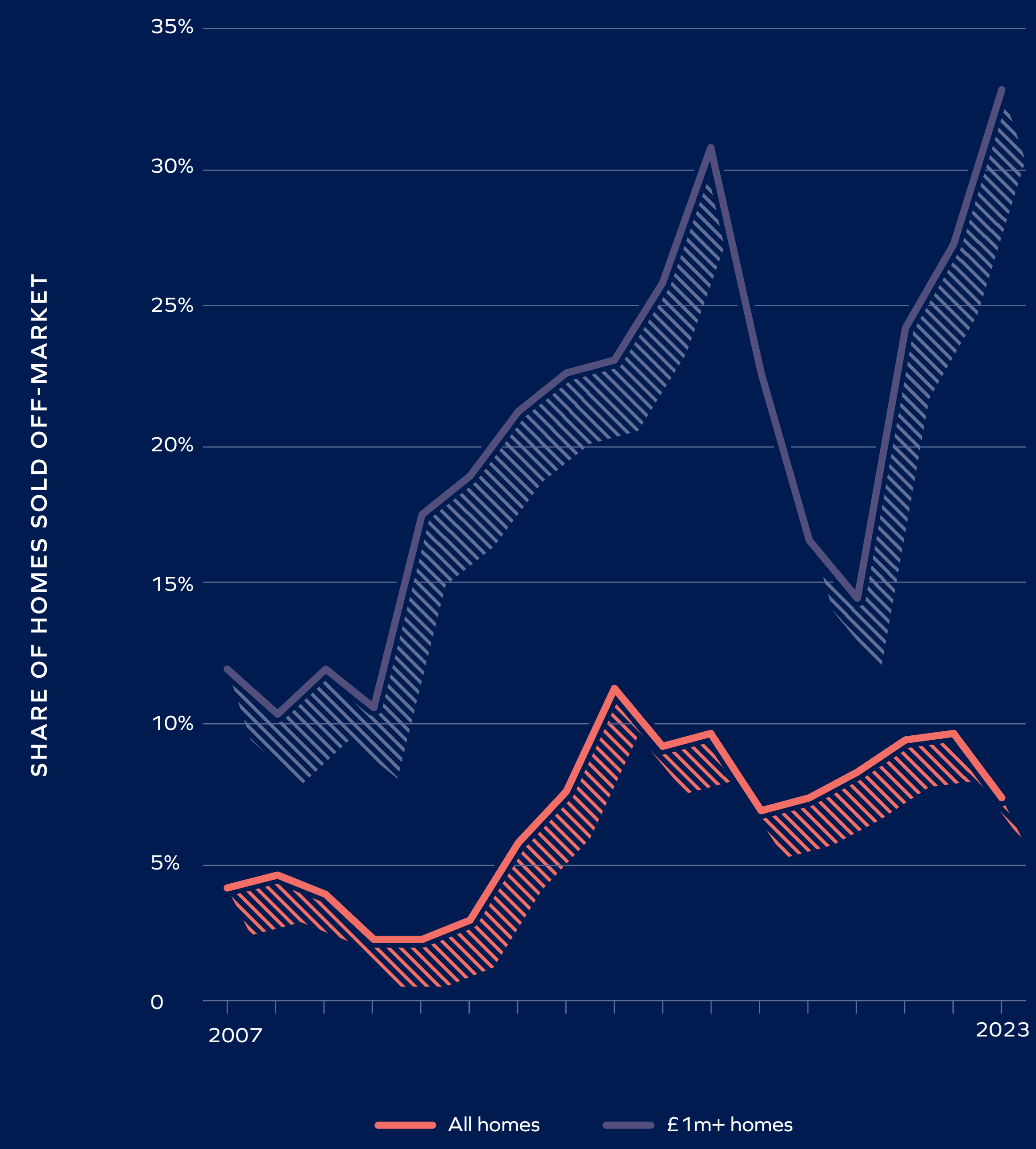
Off-market is all about discretion and exclusivity, rather than visibility, which is why it holds such appeal in the prime sector. For some sellers, it's also a security requirement, limiting the availability of floorplans and internal photography publicly.

But it does not work in every type of transaction; only 7.4% of all homes were sold off-market in 2023. In the sub-£1m market, just 6% of homes found a buyer this way. Higher interest rates and cost of living increases meant

"With the market picking up pace in 2024, the share of homes sold off-market might fall."

SHARE OF HOMES SOLD OFF-MARKET

Source: Hamptons



that sellers had to rely on the publicity that the portals can provide, with their millions of regular browsers.

The off-market method is not guaranteed to clinch a deal even for a more expensive property. For example, 19% of £5m-plus homes that were first available off-market, were later advertised. Some 30% of the owners of £1m-plus homes who started out off-market switched to more public advertising - after an average of 62 days. They had been unable to agree a sale and so needed to widen the pool of potential buyers.

Our research highlights a new off-market trend that emerged amid the challenging conditions of 2023. If a deal to buy a home advertised on a portal falls through, it is becoming more popular for the seller to subsequently switch to the off-market approach. Often, the aim is to find a committed buyer who can secure finance without that home lingering on a portal. As many as one-in-five sellers of £1m-plus properties took this route in 2023.

However, with the market picking up pace in 2024, the share of homes sold off-market could fall. Indeed, while a less public route to advertising a home will remain a popular choice for many prime sellers, a more stable economic backdrop should lessen the need for vendors to test pricing discreetly.

LIFE AFTER OFF-MARKET (2023)

Source: Hamptons

ESTABLISHED 1869

THE HOME EXPERTS