



United Kingdom

Residential Snapshot

May | 2024



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View on the ground



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“In Q1 2024, the UK residential market continued to improve, with increased sales rates across new homes sales outlets and the consumer market readjusting to higher mortgage rates.

With inflation headed in the right direction and the resultant lowering of mortgage rates expected in H2 this year, the market is adjusting to what could be a more positive horizon for the housing market. We have not seen the huge headline drops in house

prices reported by economists, and there have been confident and well-funded players in the land market who have seen an opportunity to buy good value sites.”



Sara Lindblom | Research Analyst
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“We are seeing many indicators of the UK residential real estate market continuing to improve this year. House prices have increased by +0.8% y/y in Q1, making it the largest quarterly increase since Q4 2022. This was coupled with a noticeable rise in mortgage approvals, as well as an uptick in both sales expectations and new instructions in the RICS Survey. To further support this, property transactions saw a modest increase from 246k in Q4 2023 to 249k in Q1 2024

Despite recent coverage of some banks reducing mortgage interest rates, overall rates have continued to ascend since the beginning of February. The average 85% loan-to-value rate is just under 5% on a five-year fix. Those looking to re-mortgage or buy a new home are pinning their hopes that the Bank of England’s Monetary Policy Committee (MPC) will decide to cut

rates at their June meeting. It is hoped, this will then be interpreted by forward-looking lenders as a strong sign of a future trend of cuts.

Rental growth accelerated further, standing at 6.8% y/y in Q1 2024. This highlights the urgent need to build more rental properties in the UK as unaffordability is an issue for many renters.”



The PMI's Residential Activity Index averaged

48

in Q1 2024 (the highest since Q4 2022)



Rental growth increased to

6.8%

y/y in Q1 2024 (up from 6.3% y/y to Q4 2023)



House prices increased by

0.8%

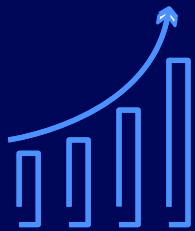
y/y in Q1 2024



Sales expectations have increased to

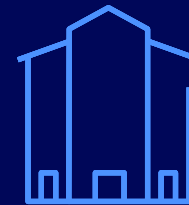
+10

in Q1 2024, compared to 0 in Q4 2023.



Number of property transactions slightly increased from

246k in Q4 2023 to
249k in Q1 2024



Average mortgage size was

£232k

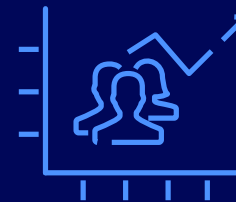
in Q1 (up from £223k in Q4 2023)



Total BTR pipeline was

164k

units in Q1 2024

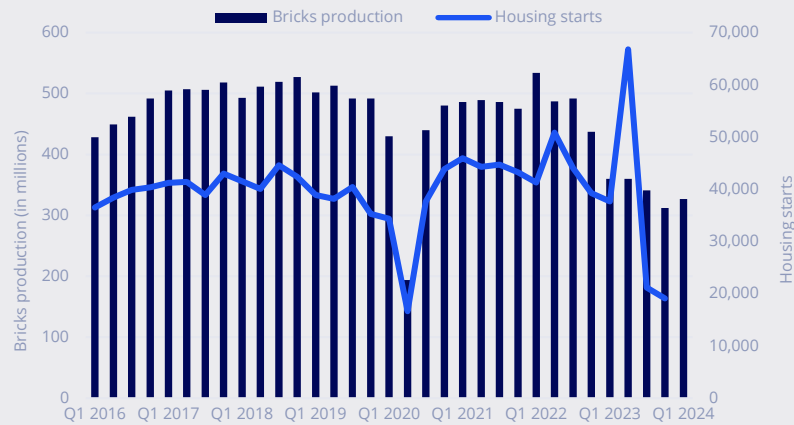


Number of mortgage approvals increased from

151k in Q4 2023 to
178k in Q1 2024

Supply Side Indicators

Brick production and housing starts



Source: ONS, UK Government



Bricks production increased slightly from 312 million in Q4 to 327 million in Q1 2024.

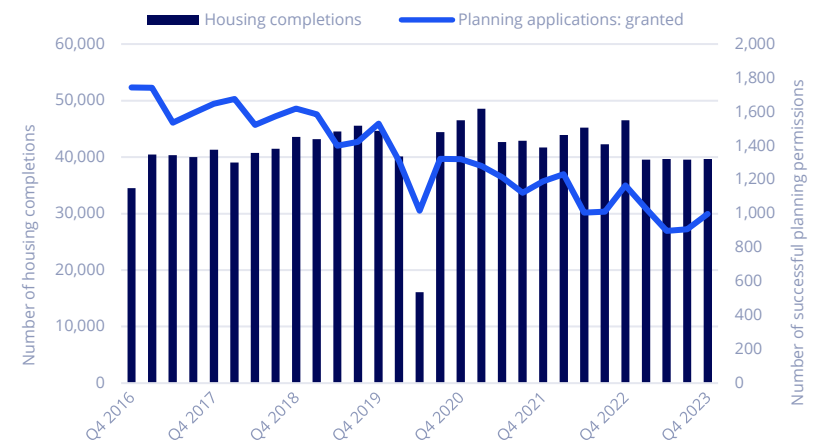


This is the **second weakest quarterly figure since Q2 2020**, the start of the pandemic, and below the five-year quarterly average of 440 million.



The number of housing starts decreased from 21,190 in Q3 to 19,080 in Q4 2023. 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.

Planning applications and completions



Source: UK Government



The number of housing completions marginally increased from 39,570 in Q3 to 39,650 in Q4 2023.



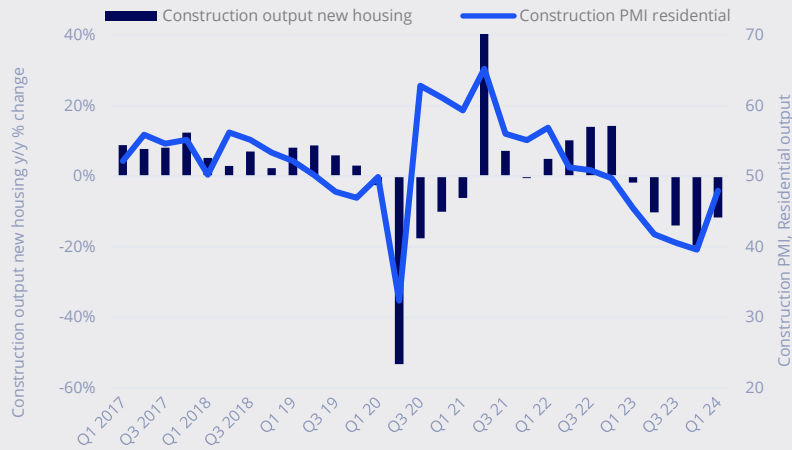
This is down from the strong levels recorded in Q4 2022 (46,540) and below the five-year quarterly average of 42,069.



The number of successful planning applications increased to 998 in Q4 2023 from 907 in Q3 2023.



Construction output for new housing and the PMI



Source: ONS, S&P Global



The PMI's **Residential Activity Index** averaged 48.0 in Q1 2024, the **highest figure since Q4 2022**.

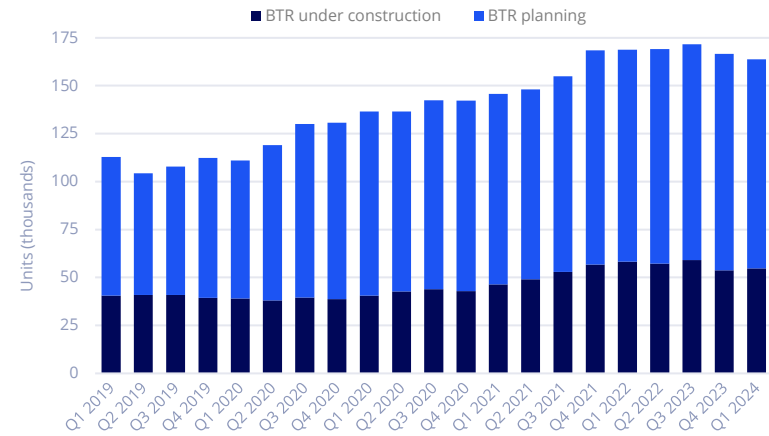


The index remained just below 50 as of Q4 2022, still signalling weakness. However, **the index increased significantly from the previous quarter of 39.6**.



In Q1 2024 **new housing construction output fell by -11.7% y/y**. This is an improvement of +1% from the previous quarter. This coupled with the increase in the PMI index shows that despite delivery of new housing stock being very slow, it is improving.

BTR pipeline (in thousands)



Source: BPF



As of Q1 2024, the **total BTR pipeline was over 163,700 units, a decrease of -3.0% compared to a year ago**. London has the largest BTR pipeline out of the core UK cities.



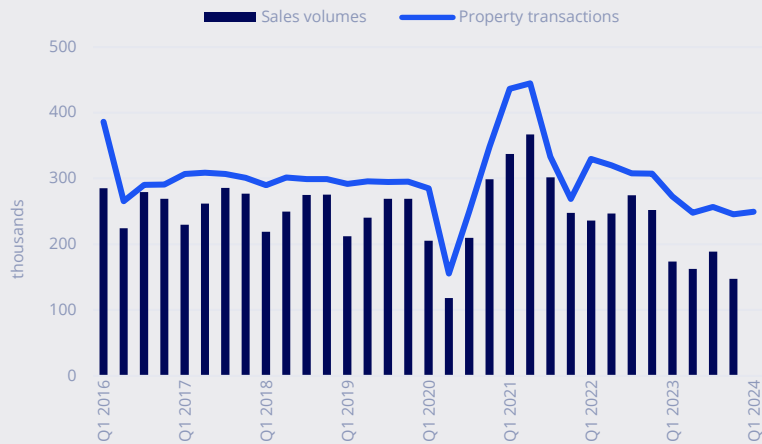
A total of **54,814 BTR units were under construction in Q1 2024, a decrease of -5.8% compared to Q1 2023**.



108,917 BTR units were in planning, a decrease of -1.5% compared to a year ago.

Demand Side Indicators

Sales volumes and transactions



Source: UK Government



Property transactions increased from 245,680 in Q4 2023 to **249,440 in Q1 2024**.



The figure is below the five-year quarterly average of 299,000.



Sales volumes saw a decrease to **147,596 in Q4 2023**, compared to 188,587 in Q3 2023. Sales volumes for Q1 2024 are not out as of the date of publishing.

New instructions and sales expectations



Source: RICS



Sales expectations have increased from 0 in Q4 to **+10 in Q1 2024**. This is notably above the five-year average of -8.



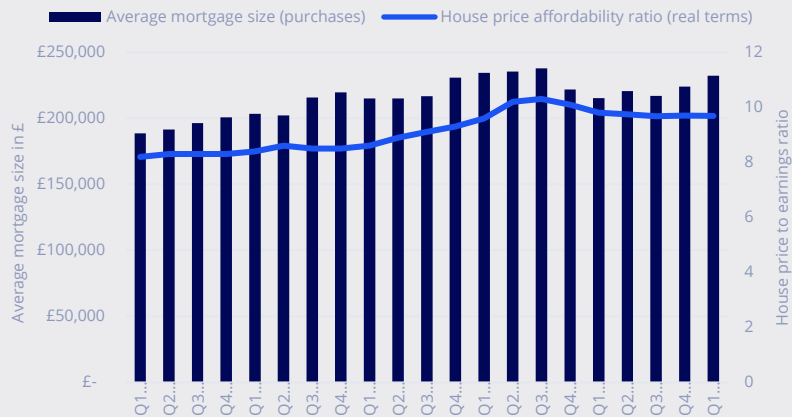
The **new instructions** index is in positive territory in Q1 2024 for the first time since Q1 2022.



The index **increased from -13 in Q4 to +6 in Q1**, which is noticeably above the five-year average of -7. These are some very positive indicators suggesting the residential property market in the UK is recovering.

Household Facing Indicators

Average mortgage size and affordability ratio



Source: Bank of England, Nationwide, ONS



The **average mortgage** taken out by buyers stands at **£232,349** in Q1, marginally up from £223,313 in Q4 2023.

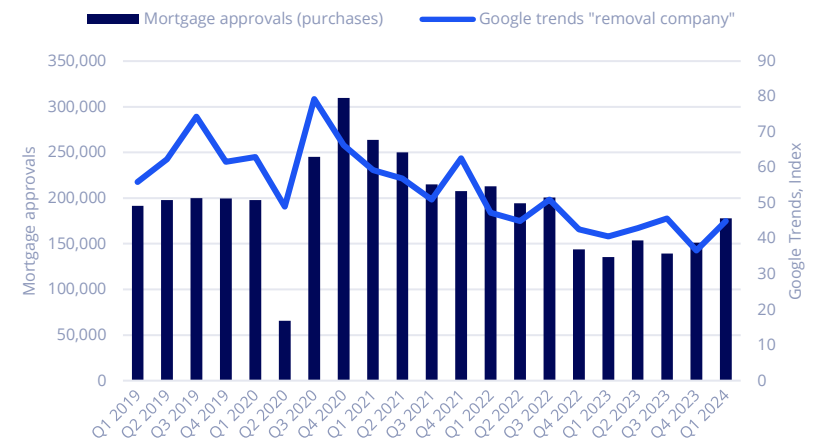


The **earnings to house price ratio** stands at an estimated 9.7 in Q1, compared to 9.8 a year ago.



The house price-to-earnings ratio (affordability ratio) has been stable for the past year around 9.7x yearly wages.

Mortgage approvals and Google Trends data



Source: Bank of England, Google



The number of **mortgage approvals** increased from £151,402 in Q4 to **£177,836** in Q1 2024.



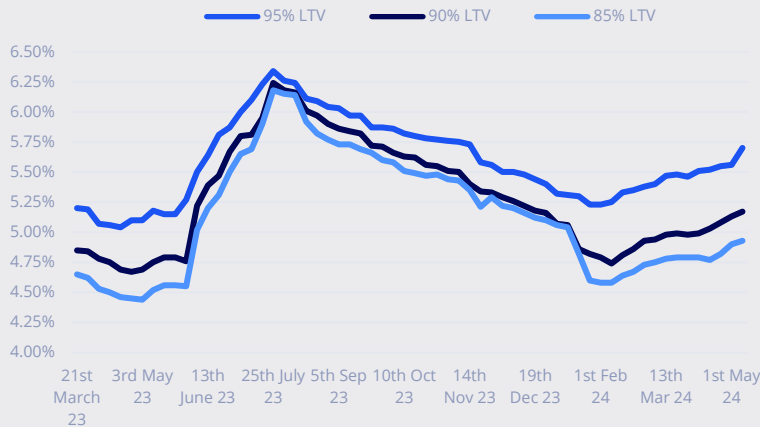
This is the **highest quarterly total since Q3 2022**, but it remains below the five-year quarterly average of 193,851.



Google Trends data suggests that the number of people searching for the term "removal company" has increased from Q4 to Q4 2023, suggesting that **more people want to or have to move in the coming months**.



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 rate started to decrease.**

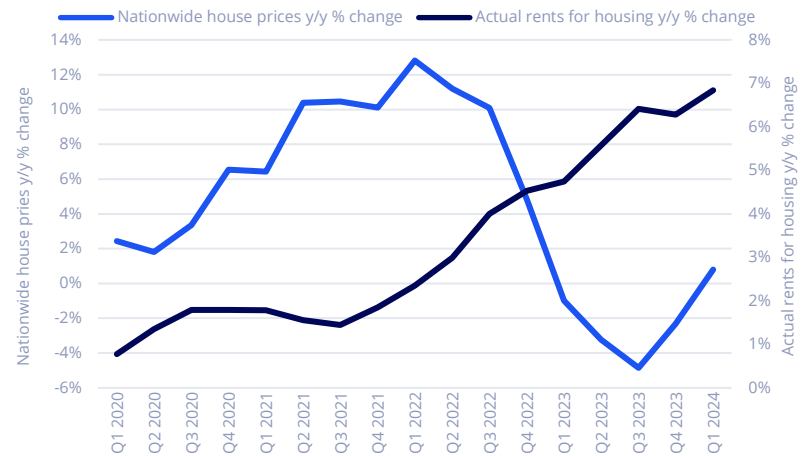


Overall rates have started to ascend since the beginning of February. **The average 85% loan-to-value rate is just under 5% on a five-year fix, as of 1st May 2024.**



This can indicate that residential property transactions in the UK are likely to decrease in the coming months. **However, as we forecast a BoE rate cut on the horizon, we see that being less likely.**

House price versus rental growth



Source: ONS, Nationwide



House prices surged in H2 2021 and throughout 2022 but **decreased in 2023.**



A +0.8% y/y increase in house prices in Q1 was reported in Q1, which is **the largest increase since Q4 2022.**



Rental growth accelerated further, standing at **6.8% y/y** in Q1 2024. This is an increase from 6.3% y/y in Q4 2023. This highlights the urgent need to build more rental properties in the UK as unaffordability is an issue for many renters.

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