

SOUTH WEST PROPERTY PULSE: Q2 2024 SALES AND LETTINGS REPORT

THE BANK OF ENGLAND FINALLY CUTS INTEREST RATES



ECONOMIC OVERVIEW

- The Bank of England finally dropped interest rates from 5.25% to 5% on 1st August, having held them unchanged for a year. Despite inflation hitting the Bank's 2% target in May, policymakers had been wary of price increases in the services sector and of the pace of wage growth, leading to concerns about a potential inflationary rebound if rates are cut too quickly as was recently the case in the Eurozone. However, with inflation on a more stable footing, this widely-expected drop has had a knock-on effect on mortgage rates, which had been increasing since earlier in the year and can now be found at under 4%.
- Labour won a landslide victory in July's General Election after winning more than 400 seats. The new government's manifesto offers a glimpse of a programme of initiatives which focus on a range of issues, from increasing housing supply, offering further help for first-time buyers, reforming tenancy laws to favour renters, and adjusting tax policies to address fairness and avoidance issues. In particular, we expect to see early movement on a Renters Rights Bill, which like the failed Renters Reform Bill of the previous government, will abolish Section 21 to remove the threat of 'no fault evictions' and strengthen renters rights and living standards.

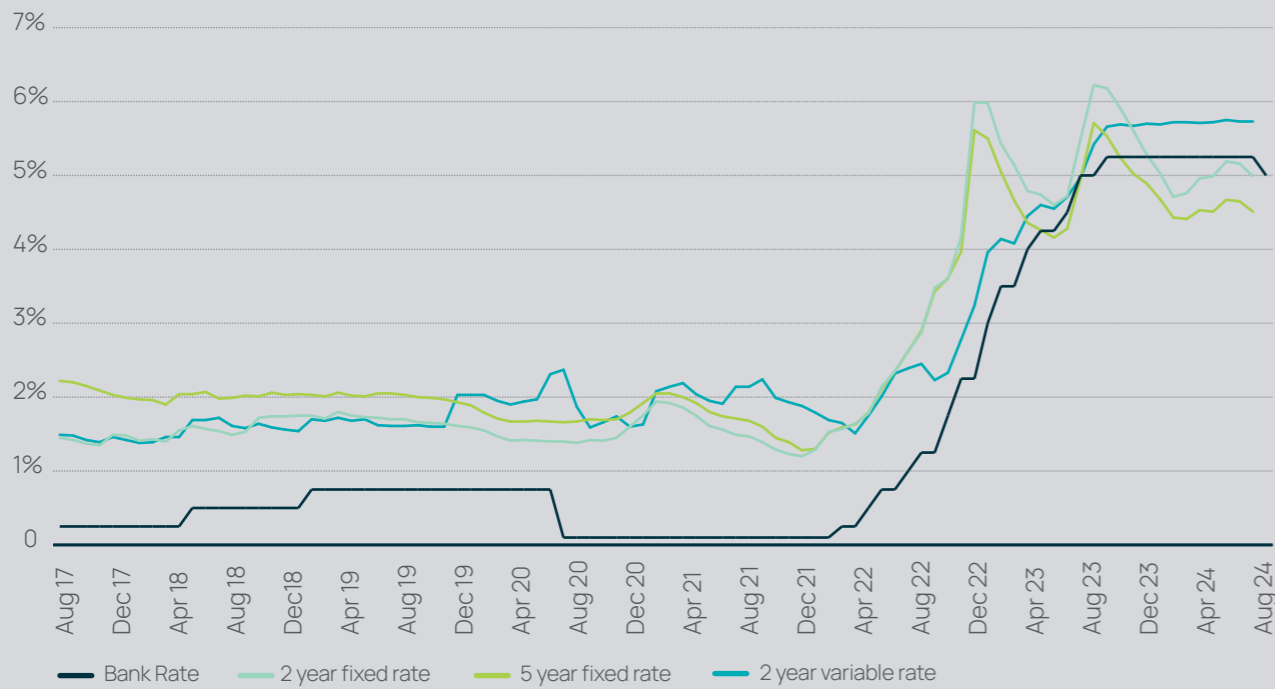
5%

INTEREST RATES
FROM 5.25% TO 5%
ON 1ST AUGUST

4%

MORTGAGE RATES
CAN NOW BE FOUND
AT UNDER 4%

UK BANK RATE AND MORTGAGE RATES



Source: Bank of England, Chase Buchanan.
Note: Mortgage rates based on 75% LTV.

SALES

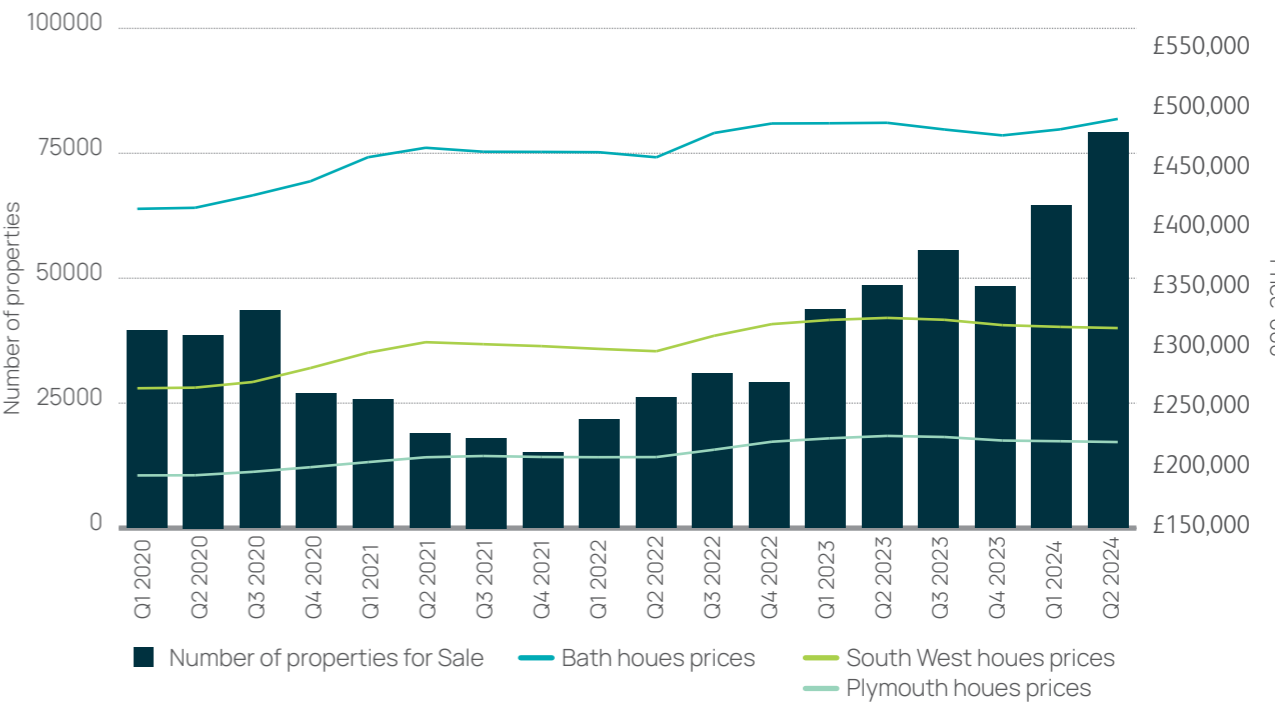
- Unlike the UK, which saw a small increase in house prices in the first half of the year, house prices in the South West have been steadily declining since September 2023. In the most recent quarter, the average house price fell by -0.3% between April and June, to £306,800.
- At a city-level, the picture was more mixed. Bath and Bristol saw house prices increase by 1.8% and 0.2% respectively in Q2, whilst Trowbridge (-0.1%), Melksham (-1.5%), Exeter (-1.8%) and Plymouth (-0.3%) all witnessed quarterly declines.
- When viewed on an annualised basis, it is apparent that some South West markets are witnessing a sharper contraction in prices than others, with Trowbridge (-5.5%), Melksham (-9.4%) and Exeter (-7.4%) the hardest hit. Both Bristol and Plymouth saw shallower declines of -1.4% and -2.4% over the past 12 months respectively, which is broadly in line with the South West average of -2.7%. Bath saw prices increase by 0.7% over the same period.
- Chase Buchanan attributes this decline to the deflationary impact of rising interest rates over the past two years, making the cost of debt more expensive to finance. This has coincided with the rising cost of living, making it more challenging for buyers to save for a deposit.
- Higher interest rates have increased the cost of refinancing mortgages for existing home owners, meaning some owners have had to bring their properties to the market as they cannot afford to pay the higher rates of interest. Consequently, the number of properties listed for sale on the South West market increased significantly. Between April and June, the number of available properties in the South West increased by 23% to 79,200, the highest level in five years and 63% higher than in June 2023.

UK INFLATION



Source: ONS, Chase Buchanan.

SOUTH WEST TOTAL PROPERTIES FOR SALE AND AVERAGE HOUSE PRICES

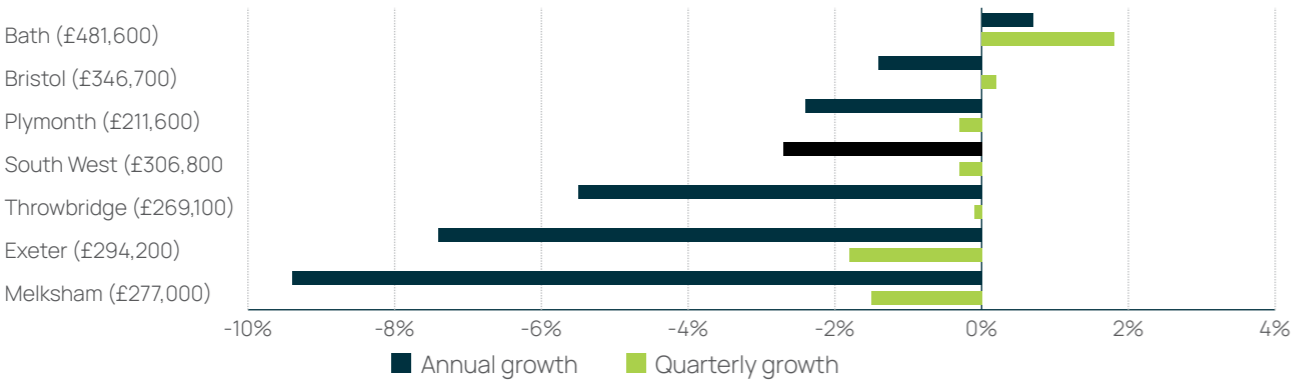


Source: Dataloft by PriceHubble, using Information Works, Chase Buchanan.



“When broken down by type of rental, it is clear that flats are enjoying the highest rental growth in the South West, increasing by 7.1% in the past 12 months”

AVERAGE HOUSE PRICE GROWTH TO JUNE 2024



Source: Dataloft by PriceHubble, Land Registry, MHCLG, Chase Buchanan.

LOOKING AHEAD

- Looking to the second half of the year, Labour's victory in the General Election should provide a boost for first time buyers, who Labour have promised to support. We will wait and see how Labour's victory will influence the higher end of the market, given the new chancellor's recent comments regarding potential changes to capital gains and inheritance tax in Labour's first Autumn budget in October.
- Having made the first rate cut in August, the Bank of England may cut rates again before the end of the year, which would cause mortgage rates to fall further.
- In addition, mortgage approvals have picked up in recent months, which should translate to higher sales volumes in the coming months. This, combined with falling inflation and rising wages, should support house price growth over the course of the next three years.
- That said, prices are not expected to increase rapidly as the general economic outlook remains muted. Projections for house prices over the next three years are similarly subdued, although deeper interest rate cuts or tax incentives could quickly change this.
- Chase Buchanan forecasts that 2024 will see a small recovery in house prices across the South West and the UK. The prospect of an improving economic outlook from 2025 feeds through to a slightly stronger uplift in house prices in 2025 and 2026. However, we caution that any house price growth is likely to be slow and steady rather than spectacular.

“Mortgage approvals have picked up in recent months, which should translate to higher sales volumes in the coming months”

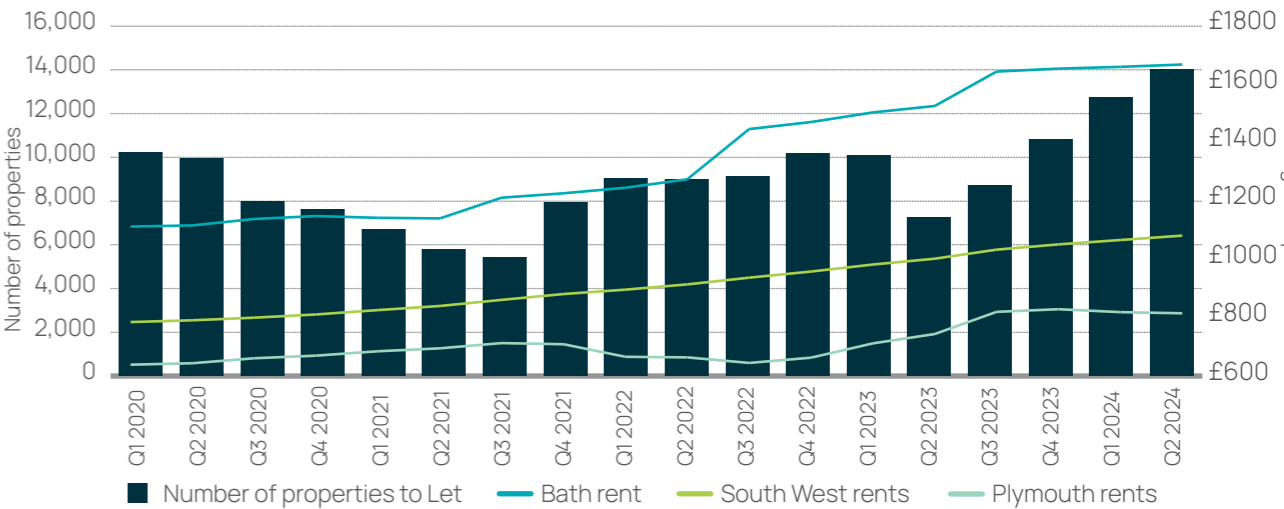
	South West	UK	Bank Rate
2023	-2.7%	-2.8%	5.25%
2024	1.1%	2.0%	5.00%
2025	1.5%	2.6%	3.90%
2026	2.2%	4.2%	3.30%

Source: Chase Buchanan, Dataloft by PriceHubble, Land Registry, MHCLG, Bank of England, HM Treasury

LETTINGS

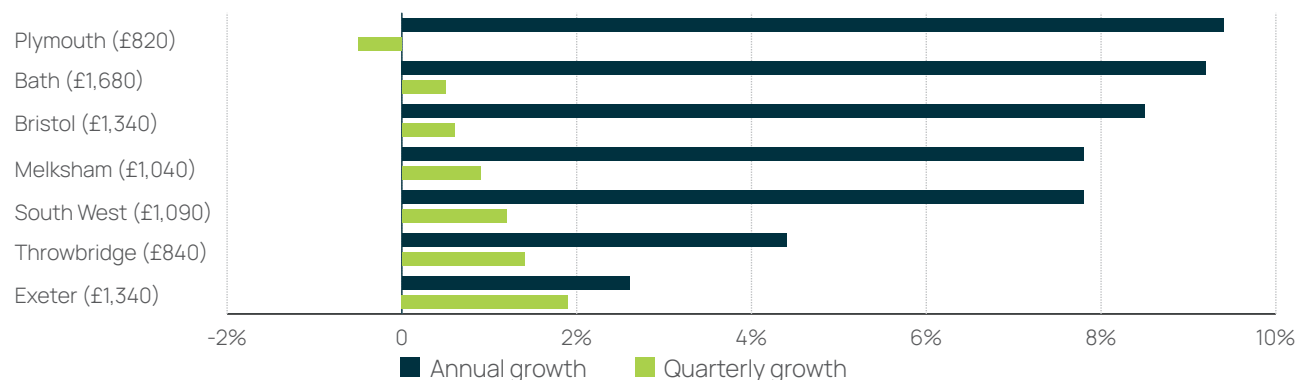
- The number of available rental properties on the South West market rose by 10% between April and June to 14,000, 93% above the corresponding period a year ago.
- Despite there being more properties on the market, average South West rents continued to rise, increasing by 1.4% between April and June. This was only slightly below the 2.4% quarterly increase observed during the corresponding period a year ago, but indicates that the rate of growth is decelerating.
- Rental growth in Q2 was observed across most locations, with Plymouth, which fell by -0.5%, the notable exception. The strongest quarterly uplift was in Melksham where rents increased by 1.9% over the quarter.
- On an annual basis, average rents in the South West increased by 7.8% to June. In comparison, the strongest growth rates were to be found in Plymouth (9.4%), Bath (9.2%), Bristol (8.5%) and Melksham (7.8%). Annual rental growth in Exeter and, to a lesser extent, Trowbridge, was slightly more subdued at 2.6% and 4.4% respectively.
- When broken down by type of rental, it is clear that flats are enjoying the highest rental growth in the South West, increasing by 7.1% in the past 12 months, whereas rents for semi-detached, detached and terraced houses increased by an average of 3.7%, 2.3% and 1.4% respectively over the same period.
- For investors, the highest rental yields in June were to be found in studio (7.2%), one (6.9%) and two (6.7%) bedroom flats.

SOUTH WEST PROPERTIES TO LET AND AVERAGE RENTS



Source: Dataloft by PriceHubble, using Information Works, Chase Buchanan.
Note: all rents are for new leases.

AVERAGE RENTAL GROWTH TO JUNE 2024



Source: Dataloft Rental Market Analytics by PriceHubble, Chase Buchanan.
Note: all rents are for new leases. Average monthly rents quoted as of June 2024.

LOOKING AHEAD

- To date, South West rents have proven to be relatively resilient to rising availability. However, as more properties are made available for rent, this will increase competition between landlords for the best tenants who, in turn, will have more choice.
- With average rents already at the highest level in almost a decade, and with living costs also rising, tenants will be less inclined to pay higher rents.

This means that whilst rents have continued to grow strongly in the first half of 2024, they are nearing a ceiling. Chase Buchanan therefore forecasts a moderation in rental growth from this year onwards.

	South West	UK
2023	9.5%	7.0%
2024	6.8%	6.0%
2025	4.3%	3.5%
2026	3.8%	3.0%

Source: Dataloft by PriceHubble, using Information Works, Chase Buchanan.
Note: Rental growth forecast is for new leases.

“Rents have continued to grow strongly in the first half of 2024”

CONTACT

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