GLA Housing and Land

London Housing Market Report: May 2024

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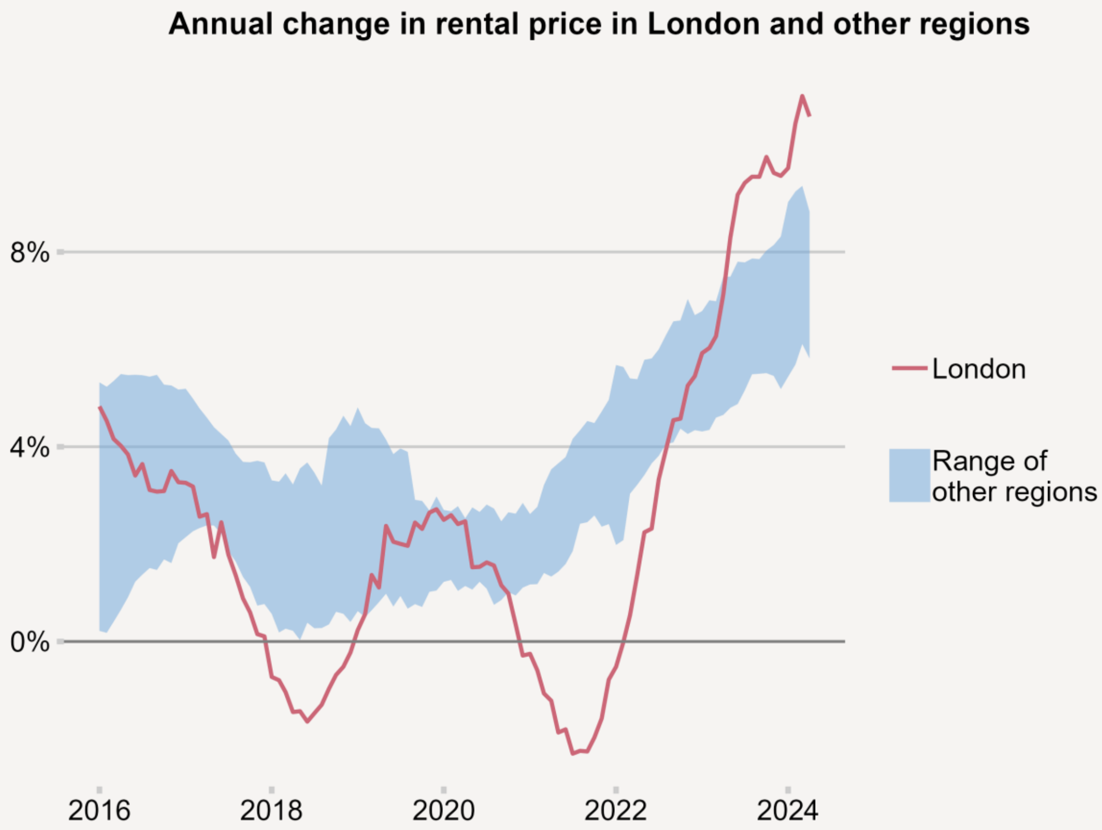
Summary

1. The rate of growth in average asking rents for new tenancies in London has stabilised over the two quarters, but unaffordability remains high.
2. The number of available rooms advertised continue to diverge from the demand for rented rooms.
3. The average price of homes sold in London fell to the lowest seen since 2021, but asking prices have seen a marginal increase in recent months.
4. A changing balance of new buyer enquiries compared to instructions to sell shows increased activity within the market.
5. Prices of construction materials in the UK have been falling gradually since its peak in mid 2022, but remain comparatively stable after very rapid growth in 2021 and 2022.
6. Housebuilding activity in London maintains steady decline since 2022.
7. Housing completions are running on par with 2023 figures, both slowest rates in 2020s.

1. The rate of growth in average asking rents for new tenancies in London has stabilised over the two quarters, but unaffordability remains high.



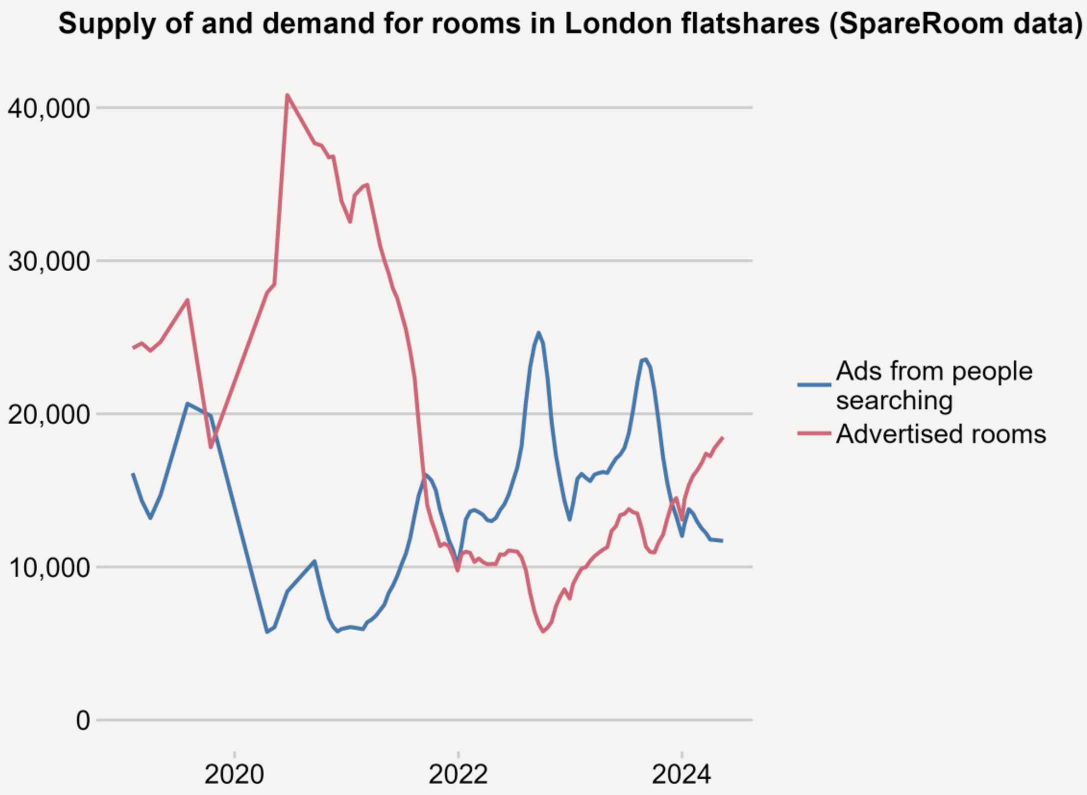
Source: This data is gathered from ONS's monthly Price Index of Private Rents reports.

- According to the new ONS Price Index of Private Rents, which covers both new and existing tenancies, the average monthly private rent in London reached a record high of £2,070 in April 2024, up 10.7% in the last year. This was the second highest rate of growth since the start of the data in 2015, after the peak of 11.2% in peak in March.

- Rightmove report that average asking rents for new tenancies in London reached £2,633 a month in Q1 2024, with the annual growth in rents prices slowing to 5.3%, the lowest rate since 2021. The rate of growth in asking rents for the rest of Britain surpassed London at 8.5% for the second quarter in a row.

- Monthly HomeLet figures on rents for new tenancies in London show an uptick in growth, to 8.2% in the year to April. Homelet data also shows a worsening in affordability in the last two years as rents have outpaced earnings growth. Londoners starting new tenancies in April were spending 39.1% of their income on rent, slightly down from the peak of 40% in February.

2. The number of available rooms advertised for houseshares continues to diverge from the demand for rooms.



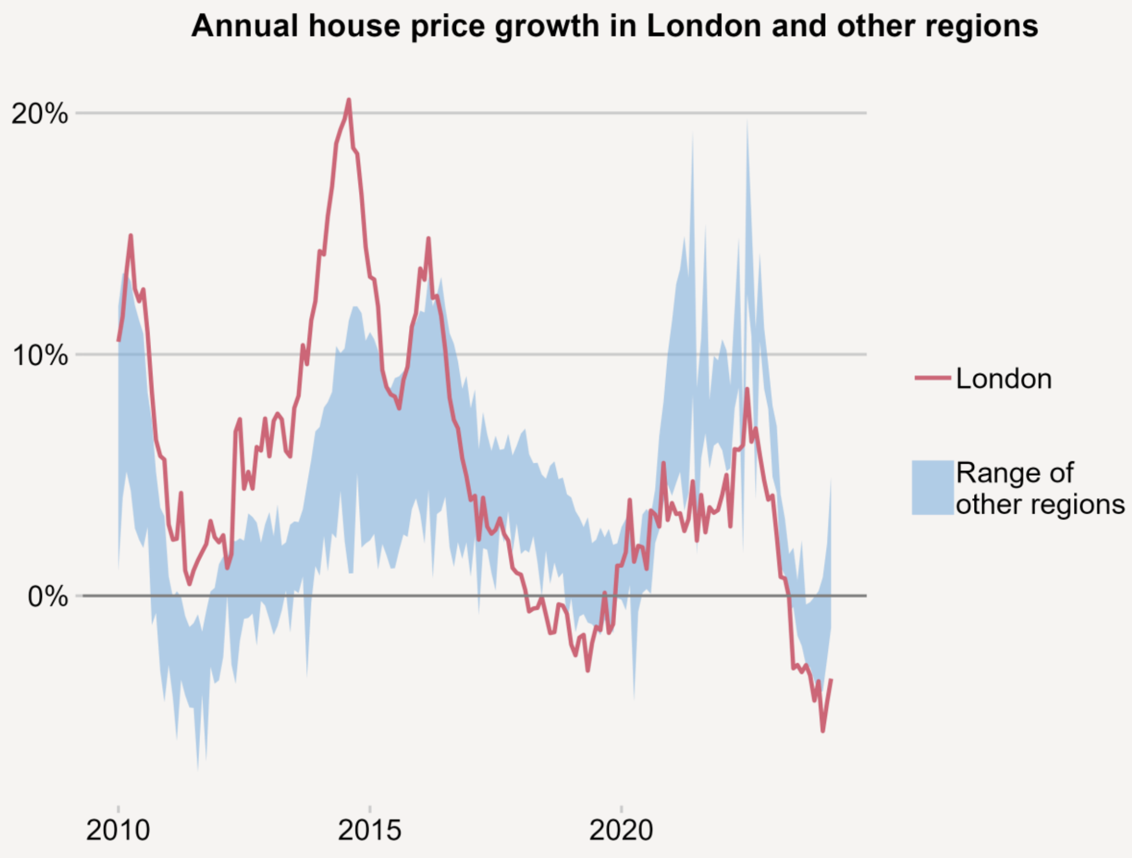
Source: Data gathered from [SpareRoom](). The number of people searching is measured as the number who have placed a 'room wanted' ad, which is lower than the number of people searching for rooms on the site.

- Figures gathered from SpareRoom.com show the number of advertised available rooms in London flatshares increased rapidly over the last quarter, reaching their highest level since August 2021, while the number of advertisements placed by people searching for rooms fell by 27% compared to last year. The number of rooms available per searcher has been above 1 since mid-December, with 1.58 rooms available per searcher in mid-May 2024.

- Data gathered from Zoopla showed that the number of one-bedroom homes available to rent in London below £1,500 per month rose by 22% year-on-year to 1,503 in mid-May. There were similar year-on-year increases in the number of 3-bedroom homes under £2,500 (19%), and a more subdued increase for the number of 2-bedrooms homes available under £1,750 (8%).

- The April RICS market survey saw the majority of respondents reporting a slight increase in tenant demand in London over the past quarter, while landlord instructions continue to fall this year.

3. The average price of homes sold in London fell to the lowest level seen since 2021, but asking prices have seen a marginal increase in recent months.



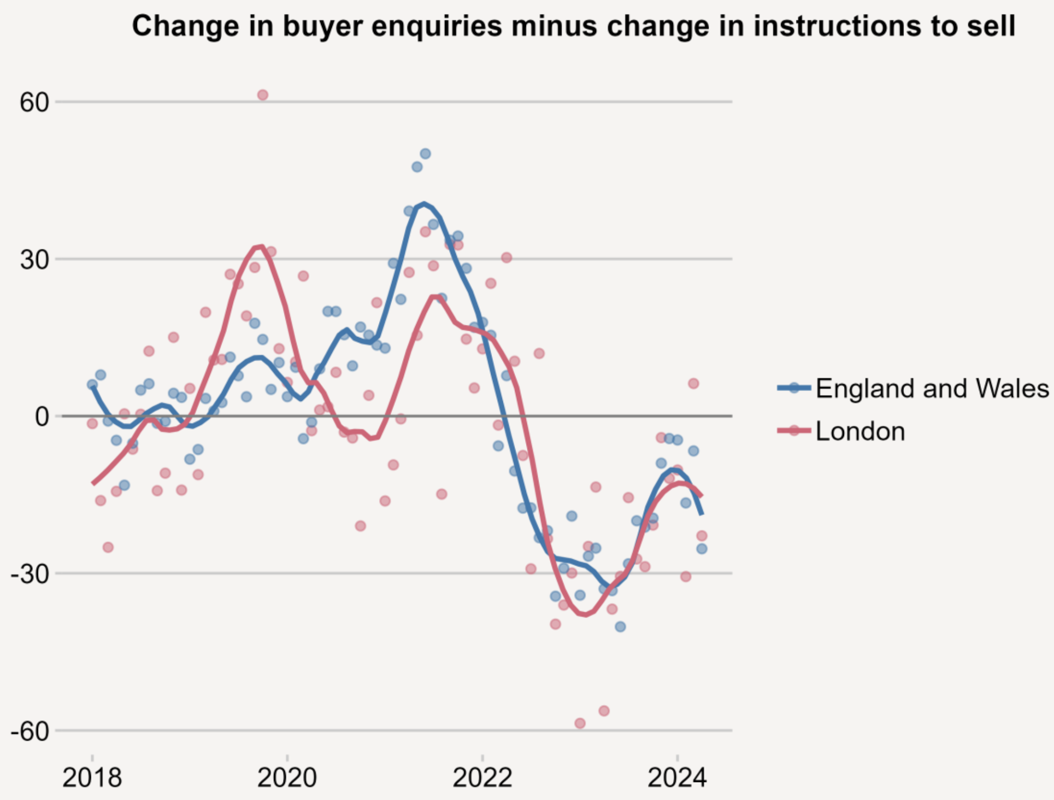
Source: ONS, UK House Price Index

- According to the ONS House Price Index, the average house price from completed sales in London fell by 0.9% in March 2024 (to £499,000), the third consecutive month of decline. The March average house price was also the lowest house price seen since mid-2021, although the year on year rate of decline slowed from its recent peak of 4.7% in January to a 3.4% fall in the year to March 2024.

- More recent data from Rightmove shows that the average price of London homes coming to market increased by 0.1% in the year to May. The average asking price in London (not adjusted to account for the mix of homes sold as per ONS figures) in May was £697,000, slightly higher than the previous peak of £696,500 in May 2023.

- At borough level, Rightmove reported the annual growth in asking prices was highest in a mix of inner and outer London boroughs, led by Hammersmith and Fulham and Camden at 6.5%, followed by Merton (6.3%). The biggest drops were in Hackney (3.3%), Wandsworth (1.6%) and Barking and Dagenham (1.1%).

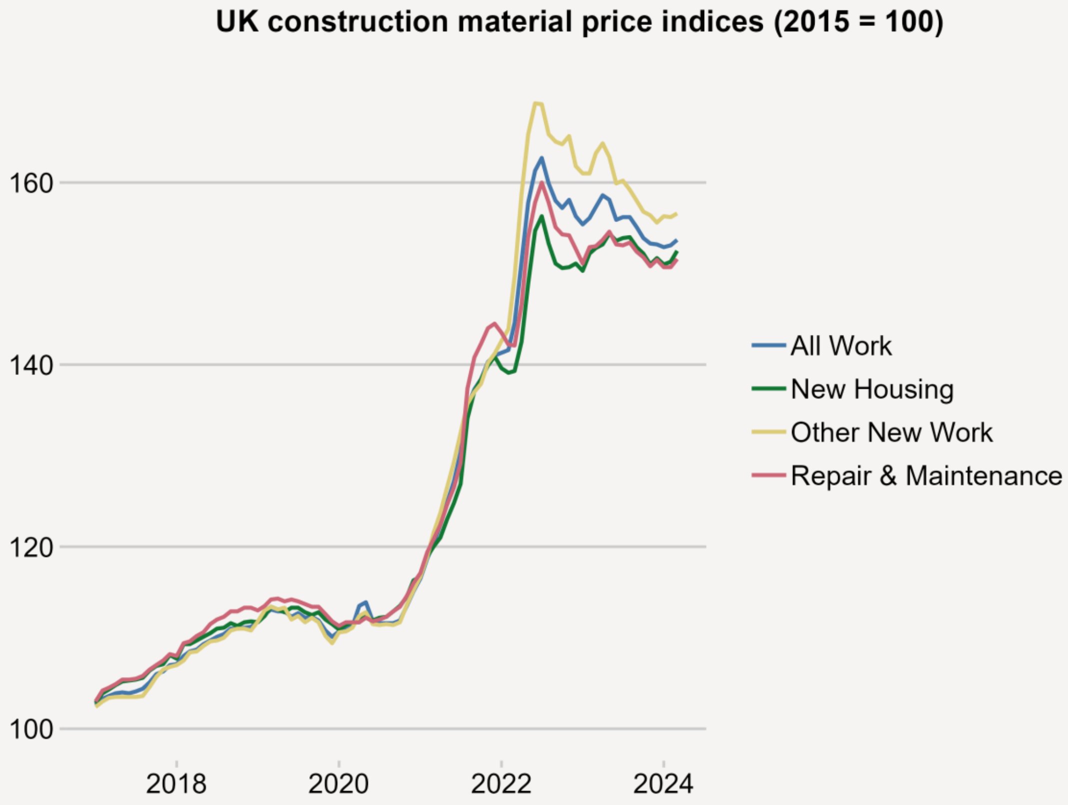
4. A changing balance of new buyer enquiries compared to instructions to sell shows increased activity within the market.



Source: *[RICS monthly housing market survey]*

- This chart combines the monthly change in buyer enquiries and the change in the number of new homes listed for sale in London, as reported by RICS survey respondents.
- Between mid-2022 and late 2023, a majority of respondents reported falling demand as measured by new enquiries, but since the start of 2024 demand has stabilised. At the same time, a growing majority of respondents have reported an increase in the supply of homes for sale, so that supply continues to outpace demand. A similar pattern can be seen across the country as a whole.
- According to the Bank of England, the average quoted interest rate for a 2 year fixed-rate mortgage at a 75% loan to value ratio was 5% in April, but still the highest seen in 2024 but still far above typical levels in recent years.

5. Prices of construction materials in the UK have been falling gradually since its peak in mid 2022, but remain comparatively stable after very rapid growth in 2021 and 2022.



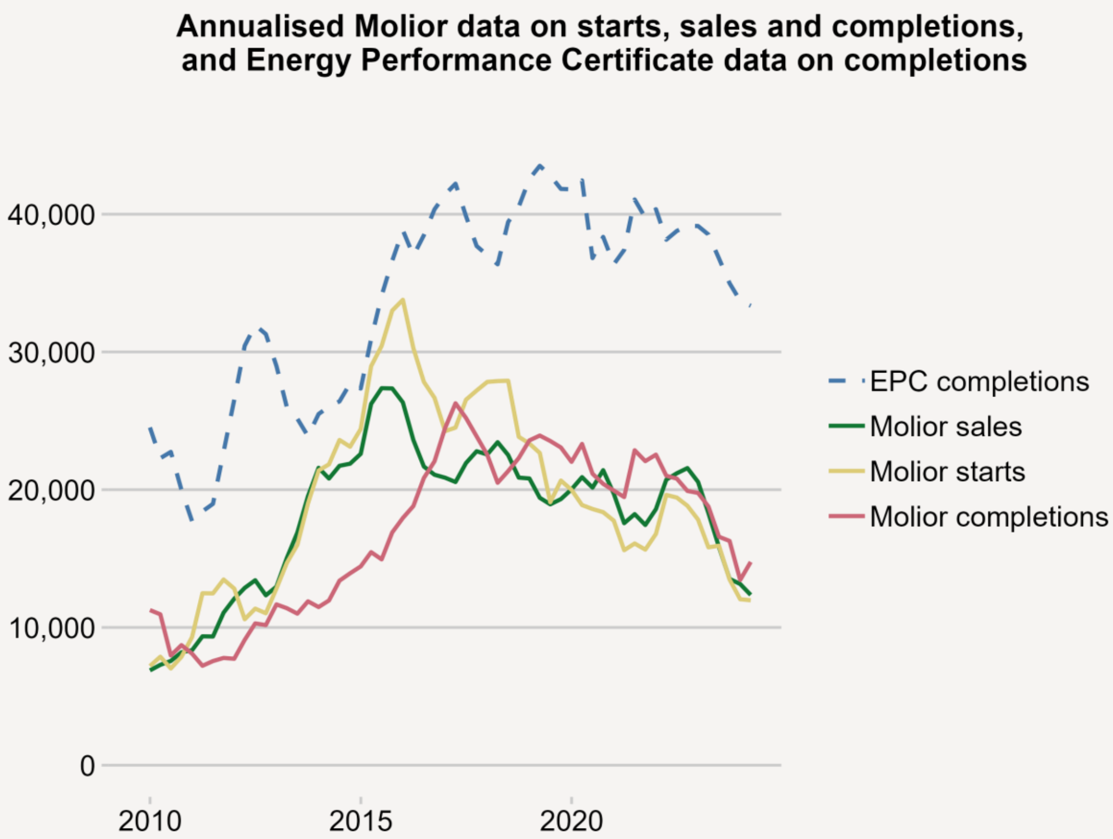
Source: BEIS Monthly Statistics of Building Materials and Components

- The latest BEIS data shows a 0.7% increase in the price index of materials used in new housing between February and March 2024, but no significant change over the last year. In general, while the very rapid cost increases seen in 2021 and 2022 have come to an end, the costs of housebuilding materials have not fallen far from their peak (and have fallen less than materials for non-housing construction, albeit after peaking at a lower level).

- In the May ONS Business Insights and Conditions Survey, the percentage of construction firms expecting turnover to increase in May reached its highest since data began in 2022 at 19.3%, compared to the recent trough at 7.8% at the start of the year. However, the proportion of construction firms reported at risk of moderate to severe risk of insolvency rose to 11%, the highest percentage recorded this year.

- The biggest challenge impacting construction businesses' turnover in April continued to be the cost of materials (cited by 30% of firms reporting), although this figure has fallen by 13.7 percentage points since April 2022. The proportion of respondents who cited economic uncertainty and financial costs as challenges also reached their lowest levels yet, at 15.1% and 6.4% respectively.

6. Measures of housebuilding activity in London have declined since 2022.



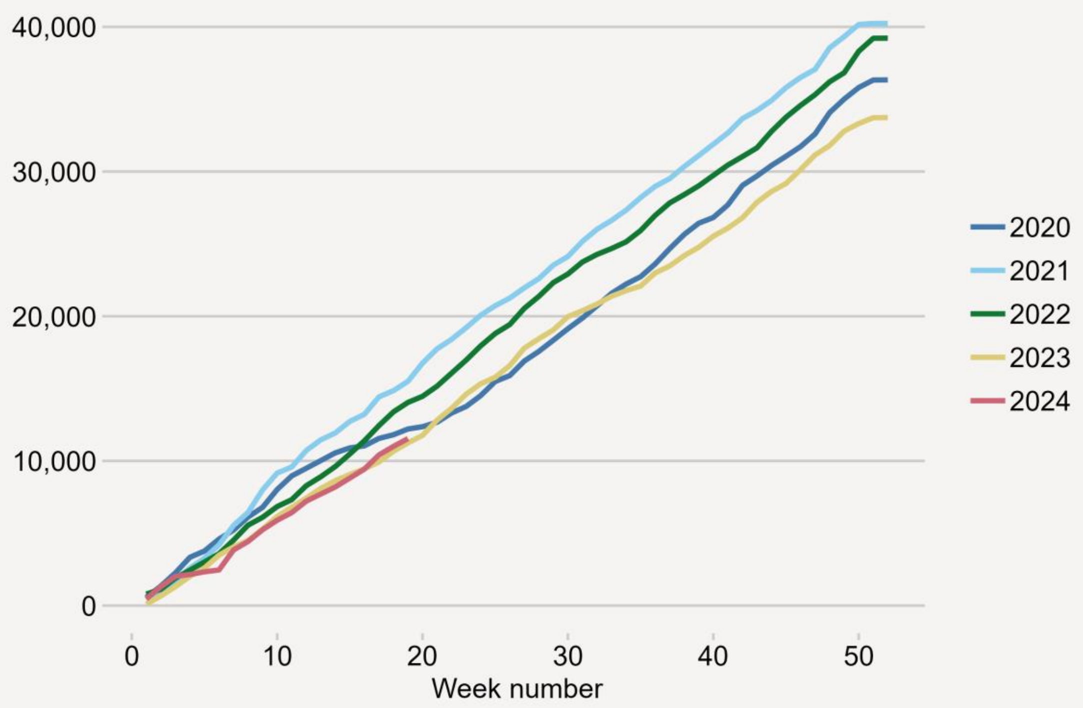
Source: Molior. The data only covers schemes in London with at least 20 private homes.

- Molior monitors data on the construction of homes in London, on schemes with at least 20 private units. This data therefore covers only a part of the housebuilding activity across London, while Energy Performance Certificates (EPCs) for new homes provide a more comprehensive picture.

- Molior figures for the first quarter of 2024 continue to show sharp falls in the annualised numbers of starts, completions and sales since 2022. Compared to the year to March 2023, starts in the last year fell by 32%, completions by 24% and sales by 32%. Molior also reported that 67 schemes across London, accounting for around 6,500 homes, were previously under construction but are currently stalled, due to factors including poor sales and contractors going into administration.

7. Housing completions in 2024 are on par with 2023 figures, at the slowest rates in the 2020s so far.

Cumulative number of EPCs for new completions in London by year, 2020 to 2024



Source: DLUHC Energy Performance Certificate data

- DLUHC data showing the number of EPCs recorded weekly in London gives a more comprehensive picture of completions than the Molior data, and recent figures point to a 2% increase in number of completions in 2024 compared to same point in 2023, but a 17% decrease compared to 2022.

- May CIPS UK construction PMI reported that housebuilding activity saw a period of expansion in output earlier in the quarter, but experienced a moderate fall in April. Hiring trends are subdued despite an overall expansion in the market, with respondents citing sluggish market conditions and a lack of work to replace completed projects as key constraints.

- In its latest Monetary Policy Report, the Bank of England reported housing investment has been limited by the effects of tighter monetary policy, and continuing weakness in construction indicators suggest that investment will remain subdued. However, the more recent pickup in mortgage approvals should translate to higher housing transactions in coming months.