



UK & London
Residential Forecasts

November 2019

Vision

Against the backdrop of political uncertainty, JLL has identified six fundamental certainties which will shape the UK housing market.

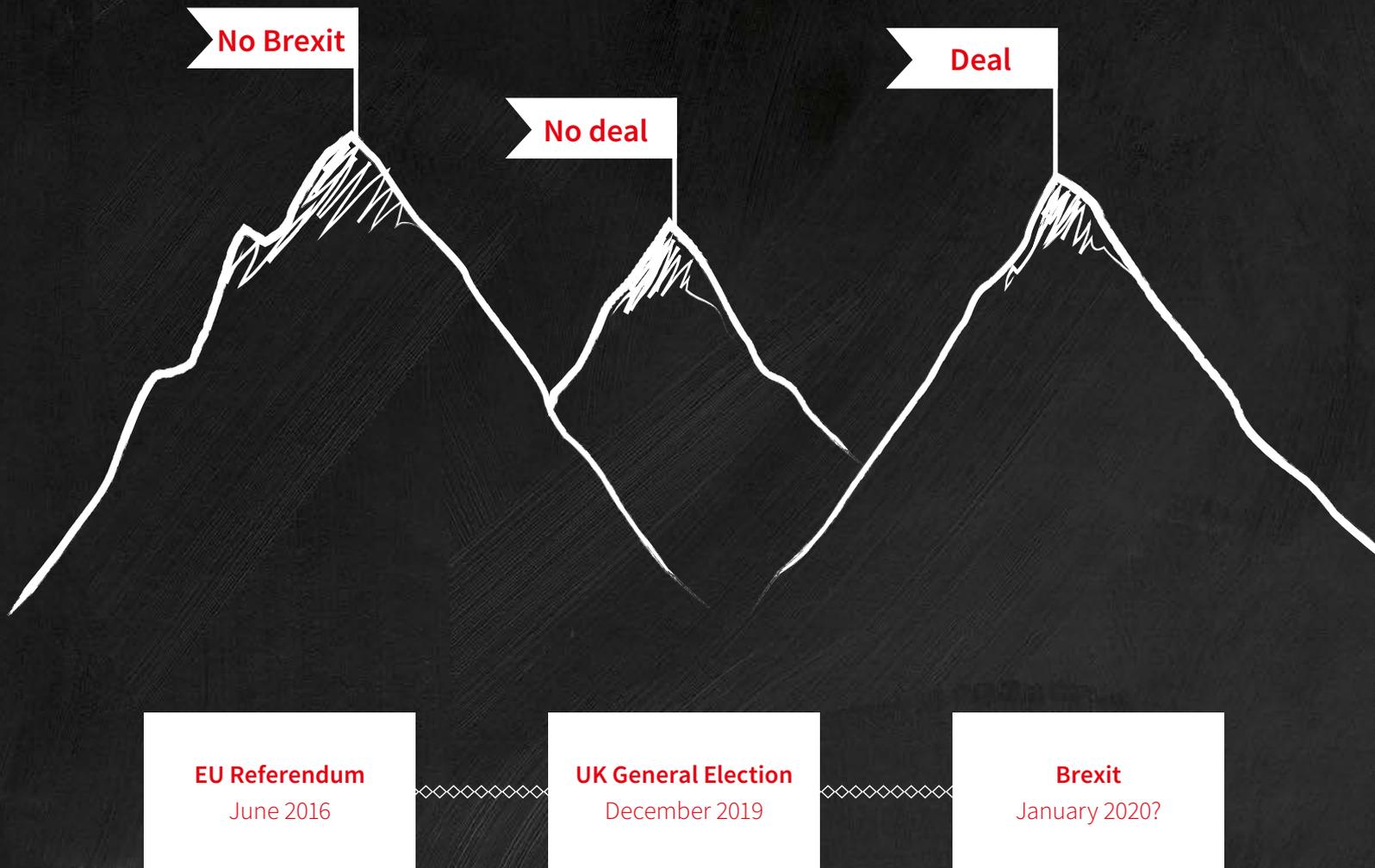
These certainties sit alongside our positive housing market forecasts for the next five years.

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Brexit

More than three years since the EU Referendum
Still 15 potential paths for Brexit
Polls suggest Conservative election win



Certainties

These six certainties will shape the UK housing market over the next five years and beyond.

1



Housing will be a top item on the political agenda

35 to 54

age group has the greatest housing concerns

25%

of new-build homes in the UK bought using Help to Buy (33% in London)

1.1m

people on the social housing waiting list is only part of the lack of affordable housing story

3



Towns and cities will see the highest housing demand

200,000

additional people living in the world's cities per day

2.5m

additional people living in the UK's urban areas by 2024, rising to 5m over the next 15 years

Coliving

the need to densify housing is fuelling the rise of flexible and shared living spaces

2



Fundamental population changes will occur

62%

of UK babies born to parents over 30, compared with 50% 20 years ago

Multifamily

having children later delays the need for family-sized private sale homes and supports the growth of renting

1m

more over-65s in the next five years, and 209,000 pa in the following 20 years

4



London will remain at the world's top table

100,000

rate of annual population growth in London

Talent

London ranks among the world's seven leading cities due to its strong universities and talent retention

Digital

21st Century industries such as RetailTech, FinTech and MedTech are all growing strongly in the Capital

Certainties

5



Ever more connection between living and technology

25%

of Britons now with multiple smart devices in their home

1.7MBs

of data generated per person per second, which will rise 65-fold over the next 15 years

Automation

housing industry will need to ensure homes can accommodate the thirst for smart connected technology

6



Climate and social awareness to accelerate

2030

is the date by which buildings must operate at Net Zero Carbon

3,200

hectares of London currently with a private car on it, equivalent to 23 Hyde Parks – these cars are used only 4% of their lifetime

Triple bottom line

new homes will need to meet growing consumer demands around economic, environmental and social impact



Economy

The economic outlook is more certain and positive than it has been for some time – although some political and politically-driven economic uncertainties remain. The UK economy should expand reasonably strongly despite the assumption that we leave the EU in 2020.



Economic rationale

- The General Election in December 2019 yields a Conservative majority.
- The UK leaves the EU in January 2020 with a deal.
- The first 6-9 months are used to establish the UK's EU and trade negotiating positions.
- Greater certainty, business and consumer confidence as well as government spending begin to drive a stronger economy later in 2020.
- The UK economy will be reasonably strong after the initial recovery despite leaving the EU.
- There are no fundamental weaknesses in the UK economy. The UK is well-placed in growth industries.
- The consumer sector has been robust in recent years and will continue to boost the economy.
- Real wage growth and a sound jobs market will underpin and bolster household confidence.
- Potential downside risks to our economic forecasts include further delays to Brexit, a no deal Brexit, a Labour government, a sharper global economic slowdown and a US recession.
- Potential upside risks to our forecasts include a quicker resolution to post-Brexit negotiations, more significant policy stimuli, a more positive business and consumer response to Brexit, stronger emerging market economies and an improved global economy.



GDP growth (% pa)

2020	2021	2022	2023	2024
1.6	2.0	1.7	1.8	1.7

Bank rate (%)

2020	2021	2022	2023	2024
1.00	1.25	1.50	1.75	2.00

Unemployment rate (%)

2020	2021	2022	2023	2024
3.5	3.4	3.4	3.4	3.5



UK economic growth

will be slow in early 2020 before improving. GDP growth of 1.7-2.0% pa post-Brexit will be quite strong but not up to the growth rates of a typical recovery phase.



Interest rates

and mortgage rates will remain low despite increasing, providing notable support for the housing market.



Unemployment

and employment levels will remain steady and robust post-Brexit.

CPI inflation (% pa)

2020	2021	2022	2023	2024
1.4	1.7	1.9	2.0	2.0

Earnings growth (% pa)

2020	2021	2022	2023	2024
3.0	3.3	3.3	3.3	3.3

Exchange rate (£/US\$)

2020	2021	2022	2023	2024
1.35	1.38	1.39	1.42	1.45



Inflation

will weaken in the immediate aftermath of Brexit before returning to around 2% pa.



Earnings

growth will exceed the CPI inflation rate, especially in the early years of our forecast, providing a boost to the housing market.



Sterling

is expected to strengthen as greater certainty and clarity returns following the UK exit from the EU.

UK

We expect the economic and political backdrop to the housing market will be more robust over the next five years compared to the last five. Some economic and political uncertainty will remain, especially initially.

Despite this, we forecast notable increases in house prices, transactions and housing starts across all regions of the UK over the next five years. Indeed, the medium-term outlook for the UK housing market is remarkably positive.

Greater certainty in the outlook – for households, businesses and housebuilders – will be instrumental.



UK forecasts

Regional house price growth outperformers

London, East of England, Yorkshire & The Humber, North West

Regional house price growth underperformers

North East, West Midlands, Wales

- A slowdown in UK house price growth and transactions during 2019 implies a weak starting point moving into 2020.
- The UK housing market is likely to remain quite subdued for much of 2020. Coming to terms with Brexit and the further political and economic uncertainty that is likely to linger for the first few quarters of the year.
- Housing market sentiment will brighten during the year, but this will not be reflected in housing market performance measures until the end of 2020 and into 2021.
- Greater economic and political certainty will fuel higher price growth and transactions, which will gather momentum in 2021 and 2022.
- A pick-up in housing starts will take longer to embed as housebuilders wait for greater certainty in housing market prospects to be established before embarking on new building.
- A positive consumer sector, strong real wage growth and a largely robust jobs market will all help drive an improving and more active UK housing market.



UK house price growth (% pa)

2020	2021	2022	2023	2024
1	2½	4	3½	3

UK housing transactions (m)

2020	2021	2022	2023	2024
1.22	1.26	1.30	1.33	1.36

UK housing starts (000s)*

2020	2021	2022	2023	2024
192	196	200	205	210



UK house price growth

will accelerate into 2021 and beyond as greater economic and political certainty instal. This outlook is strong and positive for the UK housing market.



Transaction levels

will remain subdued in 2020 before steadily increasing over the next five years. More than 1.3m transactions a year is a vibrant and active marketplace.



Housing starts

will recover slowly as it will take some time for housebuilders to become confident enough in the medium-term outlook to significantly step up new housebuilding.

Source: JLL

* forecasts are new housing starts not net additional starts

London

It will take some time before every part of the London housing market is firing on all cylinders again. Market confidence should be lifted immediately after the General Election and the leaving of the EU, but it will take time for households and housebuilders to return to the market with vigour. The removal or deferring of the prospect of a Labour government will be a big fillip, especially for many homeowners and investors, particularly those in higher value locations.

London forecasts

- London will remain one of the fastest growing, dynamic and innovative cities in the world.
- The London economy will be very strong over the next five years, despite the UK leaving the EU.
- Annual GDP growth of 2.3-2.5% pa during 2021-2024 will far outstrip other regions.
- Renewed business investment will be a key factor.

Greater London price growth (% pa)

2020	2021	2022	2023	2024
1	2½	4½	4½	3½

Greater London housing starts (000s)*

2020	2021	2022	2023	2024
13	16	19	21	22

Central London Development price growth (% pa)

2020	2021	2022	2023	2024
2	3½	4	4	3½

Prime Central London price growth (% pa)

2020	2021	2022	2023	2024
2	4	3	3	2½

Source: JLL

* forecasts are new housing starts not net additional starts

Greater London price growth

- It may take some time for the weakness in the Greater London housing market to reverse.
- 2020 and 2021 will see relatively slow price growth but stronger uplifts will follow as confidence grows.
- London house price growth will eventually be the highest of all regions.
- Increasing demand will outstrip new housing supply, which will be slower to recover.

Greater London housing starts

- Housing starts in London will take a little while to rebound from the recent sharp slowdown.
- Housebuilder confidence will improve but it will take time to up-tools and feel assured by the market recovery.
- The slow supply recovery will fuel higher house price growth during our forecast period.

Central London Development

- Confidence in the new-build market will bounce back quickly in 2020.
- Key drivers will be renewed owner-occupier demand, some return of investors and an escalation of the preference for new over old.
- A big slice of the unsold stock will need to be shifted before a significant rise in price growth, new launches and starts.
- Future stamp duty changes, affecting domestic and overseas buyers would marginally impact our forecasts.

Prime Central London

- Price growth will rebound after 5 years of falling prices.
- Buyers and vendors who have been sitting on their hands in recent years will gradually return to the market.
- Positives for overseas buyers will be greater certainty, stronger prospects for London and a currency gain. Stamp duty changes would also impact the market.
- The penchant for new rather than traditional homes will drag on price growth and transactions.

The Prime Central London market is primarily second-hand rather than new-build properties.

Lettings

The number of privately rented households has increased by 1.7m in the last 10 years. The expansion and importance of the UK's rental sector will grow further in the medium-term and will be supported by an increasingly significant purpose-built multifamily market.

Rental growth will be steady over the next five years driven by an improving economy, real wage growth and both the need and preference to rent. Affordability and the desire for tenants to restrict rental outgoings will constrain growth.

UK rental growth (% pa)

2020	2021	2022	2023	2024
2	2½	2½	2½	2

Greater London rental growth (% pa)

2020	2021	2022	2023	2024
2½	3	4	3½	3

Central London Development rental growth (% pa)

2020	2021	2022	2023	2024
2	3	3½	3	3

Prime Central London rental growth (% pa)

2020	2021	2022	2023	2024
1½	2	2½	2½	2

UK

- UK rental growth is expected to be robust throughout the next five years.
- Annual growth will be slightly stronger in 2021-2023. Positive real wage growth, a robust jobs market and restricted new housing supply will create pressure.
- Current personal Buy to Let (BTL) taxation rules will also constrain growth of lettings supply.

Greater London

- The strength of London’s economy and employment market will underpin the lettings market.
- Lack of affordability in the sales market coupled with a growing preference to rent will add to lettings demand.
- Positive real wage growth will increase the potential for higher rents.
- The increasing demand and supply of professionally-operated multifamily developments will gradually lead to increased average rents across London.

Central London Development

- The growing preference for new-build rentals will be the key driver behind an outperformance of new-build rental growth over the next five years.
- This change is reflected in higher rental growth as the right differential between old and new is established.
- Higher stamp duty costs in the sales market could increase lettings demand, especially at the upper-end of the market.

Prime Central London

- Rental growth in the Prime Central London lettings market will be quite muted over the next five years.
- The preference for new over traditional homes is gaining momentum, driving many tenants to look outside of the established Prime Central London postcodes.
- The improving and reasonably strong London economy will provide a sound base for some uplifts in rental levels, which could be boosted, especially at higher price points, if higher overseas stamp duty changes are introduced.

Implications

As well as prospering in a stronger market, housing industry participants should **embrace**:

1



Modern methods
of construction

2



Technology
and innovation

3



Climate reduction
commitments

4



A senior living
focus

5



Coliving
opportunities

6



A demand-led
approach

Forecasts

House price growth (% pa)	2020	2021	2022	2023	2024	2020-2024**
Prime Central London*	2	4	3	3	2½	15.4
Central London Development	2	3½	4	4	3½	18.2
Greater London	1	2½	4½	4½	3½	17.0
South East	½	2½	4	4	3	14.8
East of England	½	3	4½	4	3½	16.4
South West	1	2½	4	3½	3½	15.3
East Midlands	½	2½	3½	3½	3½	14.2
West Midlands	½	2	3	3	3	12.0
Yorkshire & The Humber	1½	3	3½	3½	3	15.4
North West	1½	3	4	3½	3½	16.5
North East	0	3	2½	2	2	9.8
Wales	½	2	3	3	2½	11.5
Scotland	2	2	3½	3	3	14.2
UK	1	2½	4	3½	3	14.8

Rental growth (% pa)	2020	2021	2022	2023	2024	2020-2024**
Prime Central London	1½	2	2½	2½	2	10.9
Central London Development	2	3	3½	3	3	15.4
Greater London	2½	3	4	3½	3	17.1
South East	2	2½	2½	2	2	11.5
UK	2	2½	2½	2½	2	12.0

Activity & development	2020	2021	2022	2023	2024
UK transactions (m)	1.22	1.26	1.30	1.33	1.36
UK housing starts (000s)***	192	196	200	205	210
London housing starts (000s)***	13	16	19	21	22

Source: JLL

* The Prime Central London market is primarily second-hand rather than new-build properties.

** Cumulative growth 2020-2024

*** forecasts are new housing starts not net additional starts



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