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ADVISORS

**TRENDS & INSIGHTS 2024**

Considerations for the future value  
of prime UK real estate

Market Insights

**2024 Vol. I**

# WELCOME

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Our Market Insights reports investigate key trends and structural changes in UK prime housing markets.

As part of our ongoing collaboration with real estate researcher, Yolande Barnes, our annual 'Trends & Insights' report takes an in-depth look at factors influencing the future value of the UK's prime real estate in both London and the country. How do prime property markets differ from mainstream markets and why? What will be useful in considering the years ahead for these markets?

This edition covers considerations ranging from inflation and interest rates to industry-specific trends and political factors.

I hope you find it an interesting read and valuable resource as we progress through 2024.



A handwritten signature in black ink, appearing to read 'Mark Parkinson', written in a cursive style.

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# EXECUTIVE SUMMARY

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■ **Prime markets.** Prime properties in London and the country behave differently than mainstream markets and are expected to outperform in the longer term due to scarcity of high-quality stock. Prime markets are influenced by wealthy buyers and are less reliant on mortgages (with around one-third being cash buyers); they see the first influx of fresh cash after slumps, often led by international buyers. London's relative position in the global market is still strong despite declines in financial activities post-Brexit.

■ **Inflation.** Inflation in the UK is higher than before the Russia-Ukraine conflict, but forecasts suggest it may fall back to target levels (average forecast for CPI in 2024 is 2.6%). But geopolitical issues, such as the Ukraine-

Russia war, Middle East tensions, and China's ambitions for Taiwan, could impact inflation through increased oil prices and disruptions to supply chains, derailing market expectations of lower interest rates.

■ **Interest rates.** Expectations of 'higher for longer' interest rates are receding in response to falling inflation; bond markets are already pricing in falling rates, affecting asset pricing, especially in real estate. But there may be profound changes to longer-term central bank policies: regular, very short-term demand-side shocks may require central banks to find a stable, long-term interest rate. Where this figure will settle is a major consideration for the value of all assets, including real estate.

■ **Economic growth.** The UK faces headwinds like war, geopolitical tensions, economic slowdown in China, and political uncertainty, affecting economic growth. GDP growth forecasts for 2024 range from -0.7% to 1.9%, with an average forecast of weak growth at 0.4%.

■ **Demand-side trends.** Rents have risen significantly (11.9% in 2022, 9.7% in 2023) due to an increasing demand for specific types of housing post-pandemic. The rise in Asian economies is contributing to demand for prime property in international markets. There is potential for Asian buyers to explore and invest in older, established districts of London as well as to venture into the countryside.

■ **Supply-side trends.** There's a difference between housing stock and actively marketed

supply, with most available stock being second-hand. Rates of turnover in different markets impact value, with unique and heritage properties appearing in the market less frequently. Sellers can constrain supply by withdrawing or holding out for specific conditions, contributing to 'phantom stock.'

■ **Political factors.** Leasehold reform has potential impacts on property values and market confidence. Non-domiciliary tax status changes may have an impact on demand, particularly in central London. Anecdotal evidence suggests that some will use the upcoming election as an excuse to adopt a 'wait and see' approach but that activity will resume as soon as the election is over.

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# TRENDS & INSIGHTS 2024

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For prime properties in London and the country, average, mainstream market prices are particularly meaningless because these markets can behave completely differently to mainstream markets.

Even for 'average' properties, there are geographical differences between regions and variations between different property types that tend to be played down in media reports of overall price movements. Prime central London prices fell between September 2014 and 2022 while mainstream reports were that house prices were rising.

The more granular information which property portals like Zoopla and Rightmove present through their automated valuation systems reveals

some wide disparities in price movements according to both location and property type. These seeming discrepancies offer us clues as to what actually drives house prices and how complex the labyrinth of sub-markets actually is. The chief characteristics of prime markets are differences in the type of buyer involved.

Not only is the supply of prime buildings different from supply in the mainstream market, the quality of demand is also very different. Prime buyers are

far less likely to be reliant on mortgage borrowing. Where mortgages are involved, they tend to be at lower LTVs (loan to value ratios) than the mainstream market.

Added to the mix is the increasing likelihood of buyers being from further afield and bringing equity from other markets. These may include overseas jurisdictions as the incidence of international buyers increases further up the housing market chain of value. Prime markets tend to see the first influxes of fresh cash injected into the housing market after a slump. Overseas buyers in London were instrumental in re-starting housing markets in

the mid 1970s, early 80s, early 90s, and 2009, for example.

Prime markets are reliant on wealth: wealth creation, wealth deployment and wealth retention. Homes capable of attracting capital, providing a return or preserving capital are prime properties and will command a premium over and above what might be expected at the top end of local markets. The question for prime market forecasters then is "will UK property, either in London or the country, remain attractive to buyers with both wealth and discretion in 2024 and beyond?"

## FORECASTING 2024

Most economic forecasters have never even tried to predict prime prices, so they remain the domain of specialist property researchers, often working in companies embedded in these markets. This has the advantage that they can consider qualitative as well as quantitative data such as reports from the 'trading floor' on market sentiment, buyer activity and supply levels, for example. The combination of empirical and qualitative techniques can be helpful but still judgement needs to be exercised. Markets can be misread, particularly by estate agents who may feel particularly pessimistic when transactions numbers are falling. Falling turnover doesn't necessarily translate into falling prices and this seems to have been the case in 2023.

Does this make forecasting house prices a useless and futile task? Not necessarily. The discipline of forecasting causes a forecaster to consider the variables at play in the marketplace. Rather than making assumptions and creating dummy variables and other statistical wizardry, detailed consideration of how the market works and what is happening to supply, and demand in terms of both numbers and quality, can be both enlightening and useful – if undertaken alongside a modicum of humility.

So what will be useful to you in considering the years ahead for prime property markets? How do prime markets differ from mainstream markets and why? Suggested here are some themes for the future that might need to be considered. They range from the immediate to the long-term and the general to the specific. Hopefully, they will be helpful, but none provide a single, numerical answer...

## UK ECONOMY

### Prospects for inflation

Falls in the rate of inflation were always expected following the 2022 spikes in energy and other costs but the reduction in the rate of price rises has surprised most commentators, and central banks, in advanced economies. UK inflation is still much higher, at 4.0%, than it was before Russia invaded Ukraine but there is increasing expectation that it will fall back to target levels this year. The average of independent forecasts for CPI in 2024, as reported by

the Treasury, is 2.6%, ranging between 1.2% and 3.9%. This has profound implications for UK housing, largely because of the consequent expectations for interest rates and cap rates.

However, a word of caution should be noted. Markets, and even central banks, can be wrong. Neither are particularly good at factoring in supply-side shocks and there are headwinds that could yet inflate the sails of global inflation. Chief among these are geo-political issues, not only in the continuing Ukraine-Russia war but also in the Middle East. This is likely to inflate oil prices with knock-on effects on other goods and services. At the same time, disruption to supply chains caused by Iranian-backed piracy out of Yemen will increase the cost of shipping a variety of goods. If it lasts, these costs will pass to the consumer and could cause more resurgent inflation.

Another geo-political tension which could have a devastating economic effect is China's ambitions for Taiwan. Any conflict or dispute here could threaten the vital global supply

of computer chips which is currently monopolised by Taiwan. Supply disruption here would have significant supply-side effects in a very wide range of goods and services, posing both an inflationary and recessionary threat.

### Interest rates

In response to falling inflation, it is hardly surprising that expectations of 'higher for longer' interest rates are now receding. The average of independent forecasts in December 2023 was that Bank of England base rate would be 4.7% by the year end 2024, down from the current level of 5.25%. Predictions ranged between 3.8% and 5.3%.

Bond markets are already pricing in falling rates, anticipating that base rates will be just over 4% in 18 months' time. This has profound implications for asset pricing, particularly in real estate. The impact of high interest rates is not just felt in mortgage markets but affects the price of assets in prime markets too. High interest rates mean high opportunity

costs and higher capitalisation rates, both of which reduce asset prices. Falling rates should put a stop under any price falls and may prompt renewed growth in undersupplied markets (which most prime markets are).

Having said this, the markets will have found it difficult to either anticipate or price the risks of the geo-political shocks mentioned above. When considering the longer-term future of inflation and interest rates, we may have to anticipate that there will be much more fluctuation of inflation rates each year, due to supply-side shocks, than central banks have been used to in recent decades. This means that central banks will have to rely less on manipulating demand and instead find a stable, long-term rate which balances the economy over the longer term. 100 years ago, this rate was 4%, and had been for over two centuries.

Where this stable long-term interest rate will settle in future is a major consideration for the value of all assets, including real estate. There may be a

one-off upward or downward adjustment in values to this new rate.

If interest rates, bond returns and other investment returns are stable, it seems likely that house prices will also stabilise. Any growth (or fall) in value after that will result from rising (or falling) rental values, implied or actual. Rising value will therefore result from additional amenity or luxury created by physical improvements to a home, the social, environmental and/or economic regeneration or out-performance of a location or changes in the quality or quantity of demand for and/or supply of a particular property type. In other words, value will depend more on property and market fundamentals, particularly the behaviour of occupiers, rather than be dominated by financial conditions as has been the case for the last 70 years.

### **Economic growth**

In a world where there are so many headwinds (war in Ukraine & Middle East, tensions in the Red Sea, economic slowdown

in China, political uncertainty in the run-up to US elections) it may be easier to foresee asset price growth in safe havens than economic growth in the UK. Low productivity continues to haunt the economy and consumption looks set to remain weak as the household savings from the pandemic are spent on the cost-of-living crisis. GDP growth is expected to be low. The most optimistic independent forecasters anticipate 1.9% while some predict recession as low as -0.7%. The average forecast is for very weak GDP growth of 0.4% in 2024.

It is difficult to foresee mainstream house price growth in these circumstances as recessions or near-recessions rarely go hand in hand with a mainstream price boom. Sometimes, weak sterling will make prime property look cheaper to international buyers (with implications for prime property) but, equally many existing overseas owners may end up feeling poorer in their home currencies if they own UK property.

## **DEMAND-SIDE TRENDS**

### **Rents**

While it is difficult to establish a relationship between new housing supply and house prices except in exceptional circumstances, the relationship between rental supply and rents is much more transparent. At least it has been for the last 3 years. Rents have risen significantly according to Zoopla: by 11.9% in 2022 and 9.7% in 2023. This appears to be due to a classic supply-demand dynamic. People still need a roof over their head but the supply of private rented stock available to tenants has shrunk – for a variety of reasons. More specifically, tenants want a different type of roof over their head after the pandemic. There is more demand for single family homes with outside space or gardens which have not been traditionally supplied in the private rented sector.

Impervious to the cost-of-living crisis and considerable affordability constraints, market forces have driven rents upwards. The element of the housing market

which provides a service most like a consumer good, has seen consumer price inflation alongside everything else.

This is important because it illustrates the underlying amenity value of housing and the fact that the market for this will respond to the laws of demand and supply.

### **Post-pandemic demand**

Very often demand is thought of in numerical terms and related to the take-up of existing 'housing units', as if each unit were a single immutable and identical item. Much more important, particularly for prime markets, is the quality of demand and particularly 'latent' demand. That is, the homes people want – and would buy- if they existed.

Post pandemic demand for housing has been shaped in response to an enforced realisation of how important homes are to family life and human wellbeing and also how these homes need to be a bit different from some of those that have been built before. The internal configuration of open and private spaces is an example

as is the obvious increasing requirement for high quality outdoor spaces and gardens. Some neighbourhoods have emerged as more desirable than others and places that do not provide the required amenity and community will devalue relative to those which fulfil the newly awakened demands of buyers.

### **SUPPLY-SIDE TRENDS**

#### **Are sellers really supplying the market?**

There is a difference between stock level and market supply. While it is overly simple to presume that all new house building adds to UK supply (it adds stock only in a limited range of types and values and in particular types of locations), it is also important to distinguish between housing stock that is in existence and supply that is being actively marketed. Not only is most available stock (about 90%) in the UK marketplace second-hand in any given year, but a large proportion does not have to be sold in that year, especially if a vendor does not achieve their target price. Some types of property are more likely

to have discretionary sellers than others. A road with homes that are only traded once in a generation will have a rarity value compared to a similar road with the same number of similar properties which are traded every ten years.

Rates of turnover in different markets are therefore an important factor in determining value and this has implications for prime markets. Flats and houses in the UK trade more frequently than detached properties. Unique and heritage properties will appear in the marketplace less frequently than standard property types.

Similarly, there are types of vendors who will also constrain supply by withdrawing their property or only holding out for a certain buyer or type of buyer or only selling at a certain (high) price. Such buyers are also acting as a unit of demand on their own property. They can make the market look fully stocked but it is only 'phantom stock' if it is not available at the market price. Beware when online portals report higher

stock levels (as they already are in 2024), if sellers aren't motivated, for example by death, divorce, debt or some other imperative it isn't stock, it's phantom stock. We can expect more of it in future years from often older, discretionary sellers with no debt who don't have to move right now but can wait for better conditions. If you want to buy, first find a motivated seller...

### **LONGER-TERM AND GLOBAL TRENDS**

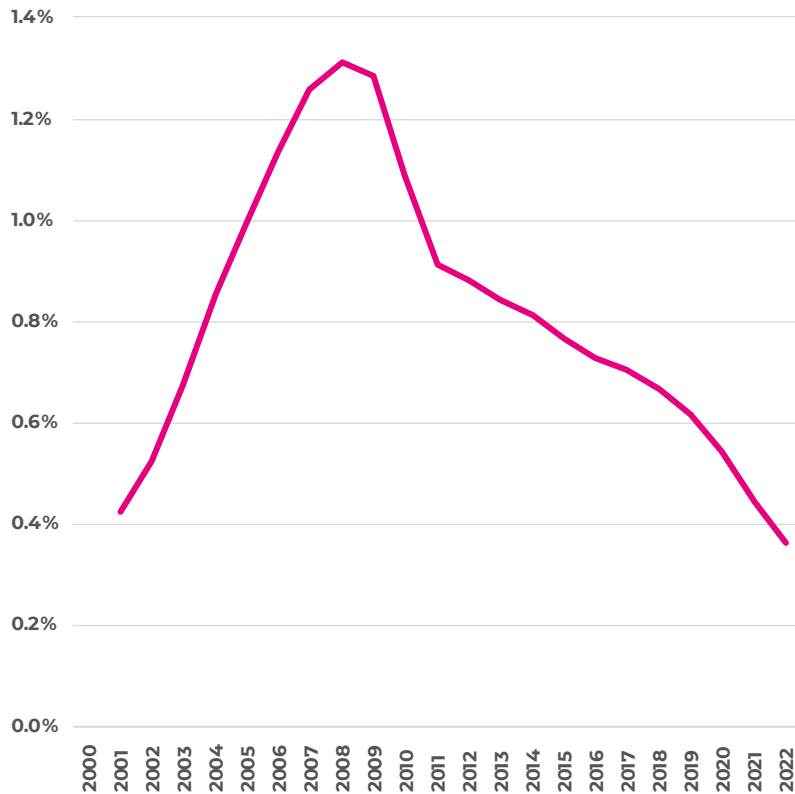
#### **Demographic shifts**

We hear a lot in the real estate world about aging populations and automatically assume that this means more demand for nursing homes. More important to real estate than this specialised, niche demand is the increase in equity-rich buyers and the decrease in growth of first-time buyers. This effectively creates more of a divide between prime markets and mainstream markets – although it also enlarges the prime, or equity-rich, markets.

The overall decline in the adult population growth rate means growth is back to year 2000

levels and this will have profound implications for the size of the workforce. The record numbers of the workforce suffering long-term sickness and disability exacerbates the disparity in different parts of the population but will also likely keep the labour market tight, boosting wage growth and labour market participation. Wage growth in 2024 is therefore likely to be higher than at times of similar, sluggish GDP growth in previous decades. This further erodes the old, tighter relationship between central bank interest rates and consumption and savings.

**GRAPH 1: ANNUAL GROWTH IN UK ADULT POPULATION**

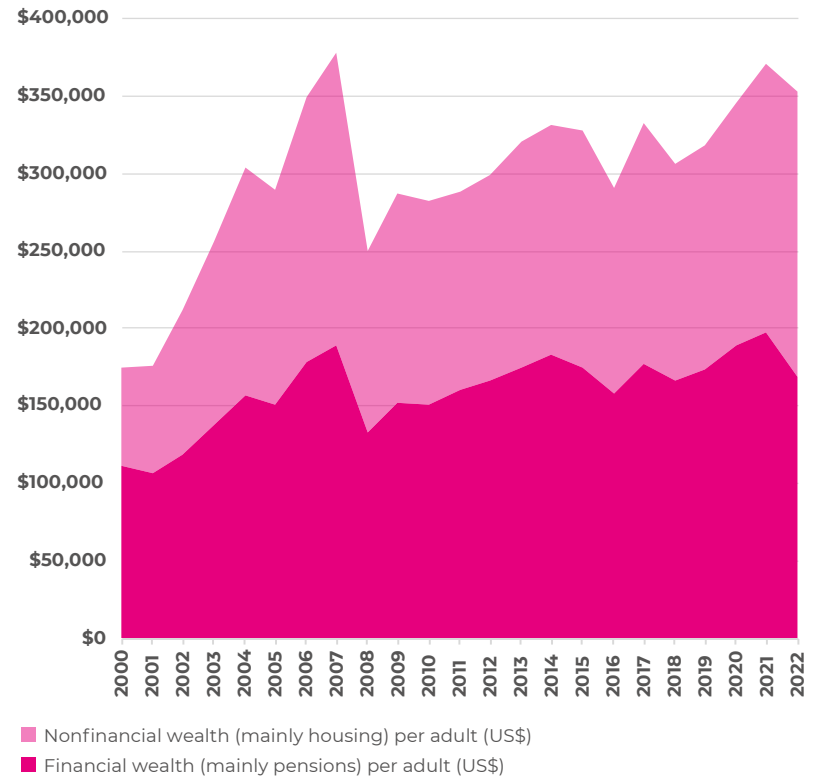


Source: ONS

**Wealth distribution**

Graph 2 below shows how average personal wealth has grown after the significant setbacks of the 2008 financial crisis. Both financial wealth (mainly pension funds) and nonfinancial wealth (mainly real estate) contribute to a very significant wealth accrual among the population. Much of this has to do with an aging (though not yet aged) population who have accrued housing wealth and saved for a pension over their lifetime. Median wealth in the UK is now US\$151,825 per adult. Nearly 32m people are worth US\$100,000 or more, 2.5m of them are worth more than US\$1m.

**GRAPH 2: AVERAGE WEALTH PER UK ADULT (USD)**



Source: ONS



This accumulation of equity is being used in housing markets as around one-third of all buyers are now cash buyers, without a mortgage. This equity is also important in the mortgaged market when used for increasing intergenerational deposits, courtesy of the 'bank of Mum and Dad'.

This means that the cost of capital is now as important, if not more important, than borrowing capability and costs. In a cash-rich housing market, buyers will either actively or subconsciously compare the returns available in housing with those from other assets. This may be rates of return on a bank account or from a government bond or from other assets like stocks or gold.

### **Prime demand**

At a global level, according to Savills World Research, prime residential property values in global cities grew even during the pandemic, reaching +6.1% in 2021 and +3.2% in 2022. This was while the value of all global residential property fell in value by and estimated -1.6% in 2022

but this paled against the -20.3% fall in the value of global equities. Only gold outperformed global real estate in this year (at +2.2%). Some cities performed better than others and Savills put London prime residential at +1.9% in that year, while prime Dubai, Singapore and New York saw growth over 5%. So prime real estate occupies a position in the spectrum of global investment returns and secure assets which diversifies away from other stores of wealth and makes it an asset of choice for international buyers. Add to this the non-investment aesthetic, amenity, luxury and utilitarian values of owning a home as well as the advantages of a location, town or country and it seems likely that high and ultra-high net worth buyers will continue to buy the best properties in the best places.

### **London's relative position**

Will London continue to be one of those global best places with the best properties? It is tempting to see the decline of stock exchange and other financial activity in post-Brexit London as a sign that global

demand for London real estate will wane. But London is still a formidable world city in fields like culture, arts, theatre, music, creative industry, tech, law, education, research, government, food, entertainment and heritage, and remains an hospitable and safe place for the world to acquire a stake. Future activity may be lower than in the frenzy days of 'Cool Britannia' and Olympic London but this should mean slower growth rather than relative decline.

### **The rise of the country house**

Over the last two decades or so, London has dominated the prime residential markets and until recently, country houses and estates were less popular than town houses in the capital. Post-pandemic demand has changed this and the relative value of town and country is evening out more as erstwhile Londoners are attracted to regional cities or country life. In addition, the demands and needs of overseas buyers are also changing. Country properties throughout the UK offer the same safety and security, legal title and freedom of use of

London properties and so could become an equally attractive safe haven store of wealth, particularly as Chinese and Asian buyers become more familiar with the UK outside of London.

Climate change issues could also make rural properties and estates increasingly attractive, particularly to younger buyers who may also be interested in regenerative agriculture and more environmentally friendly ways of living in nature.

### **Climate change**

Climate change and all its implications is too big an area to cover, so flagged here are a couple of issues likely to start coming to the fore in 2024 and beyond.

First, a negative. With the growing number of storms being experienced and the dawning realisation that rising sea levels are an inevitability, we will start to see rising discrepancies between flood-proof and flood prone locations and buildings. Some valley and coastal locations will suffer but demand should also increase for those resilient and anti-fragile

high-ground locations and sites on which our ancestors were so good at finding and building country houses and estates.

More positively, demand for homes where energy can be generated, and sustainability or even self-sufficiency achieved will likely increase in demand. Country homes capable of housing multiple generations, accommodating rural businesses, hosting social gatherings and even extracting water and growing food will be seen to offer a value over and above city dwellings in an environmentally challenged world. For some, the security provided by the freehold ownership of land will be a major attraction.

### The rise of Asia

Notwithstanding the current economic slowdown in China, the rise of Asian economies is a major global factor which can have a profound impact on demand for prime properties. The generation of global wealth is felt in international markets and the appetite for London houses or country estates

will have a major impact on values. Waves of demand have washed on the shores of prime London in successive eras. Oil money fed demand for Mayfair and Bayswater in the 1970s, American bankers expanded prime London in the 80s, Singaporean and Hong Kong investors led the rebound of the early 90s, Tech entrepreneurs on the city fringe from the noughties, new wealth from resource-rich nations in the 2010s.

In the 2020s it will likely be Asia-Pacific and Chinese buyers leading the way. China has seen the fastest growth in high-net-worth individuals and multi-millionaires in recent years. There are now 2,600 people in mainland China and Asia Pac worth US\$500m or more and over 20,000 worth between US\$100m and \$500m. High net worth individuals (HNWIs) and ultra-high net worth individuals (UHNWIs) in these regions considerably outnumber Europeans in the same category who have traditionally been significant real estate buyers, particularly in London.

The house-purchasing patterns of these UHNWIs to date have concentrated on new build properties similar to those in their homeland. But second-generation buyers tend to 'go native' and buy more of what the locals are buying. The 2020s may yet see the discovery of country house living by Asian city dwellers and a possible move to older, more established districts of London and other cities.

**TABLE 1: HIGH NET WORTH INDIVIDUALS BY MARKET AND REGION**

	Wealth range (USD)					
	\$1-5m	\$5-10m	\$10-50m	\$50-100m	\$100-500m	\$500+m
	Number of adults					
<b>North America</b>	19,998,158	3,087,606	1,533,298	93,563	33,207	1,700
<b>Europe</b>	14,948,079	874,606	400,226	25,086	13,461	1,543
<b>Asia-Pacific</b>	8,947,576	540,853	253,897	17,013	9,344	1,347
<b>China</b>	5,547,086	424,000	226,883	20,257	11,384	1,268
<b>Latin America</b>	1,044,621	73,533	45,005	3,489	2,427	588
<b>India</b>	739,957	63,157	40,359	3,322	1,931	229
<b>Africa</b>	324,287	24,169	10,649	843	720	340
<b>World</b>	<b>51,549,760</b>	<b>5,087,934</b>	<b>2,510,318</b>	<b>163,572</b>	<b>72,474</b>	<b>7,016</b>

Source: Credit Suisse/UBS

## POLITICAL FACTORS

### Leasehold reform

Despite some hype around the initial consultation on the government bill to reform leasehold tenure, it now appears that the aim is not to do away with the leasehold system but deal with some of the abuses and excesses which have been associated with certain estate managers, developers and freeholders in recent years.

The main threat of reform would be to change, alter or confiscate land rights established in previous contracts, especially if compensation were inadequate. If this is avoided, property owners will continue to have confidence in their legal rights and responsibilities which underline real estate value.

### Next election timing

Rishi Sunak in a recent announcement confirmed our former prognosis that an Autumn election was most likely by saying that his 'working assumption' (a strange turn of phrase given that it is his decision to make) was that the election would occur

in the second half of 2024. If economic conditions and polling sentiment remain unfavourable to the Conservatives, it might be expected that he will postpone the election date for as long as possible. The most likely time for the election is therefore in the Autumn of 2024 and probably no later than early November.

The timescale of elections and the frequency of housing market data makes transaction and pricing effects of the election period almost impossible to determine. Anecdotal evidence and reports from agents suggest that some vendors and some buyers will use an upcoming election as an excuse to postpone activity in a 'wait and see' approach but that this activity resumes as soon as the election is over. In view of the fact that this election has been long expected and anticipated, there is little reason to expect that it will significantly change the trajectory of house prices in 2024. Having said this, and particularly if the election is near the year end, it may be that turnover is suppressed. This may make any prediction of 1 million transactions in the year look a little high.

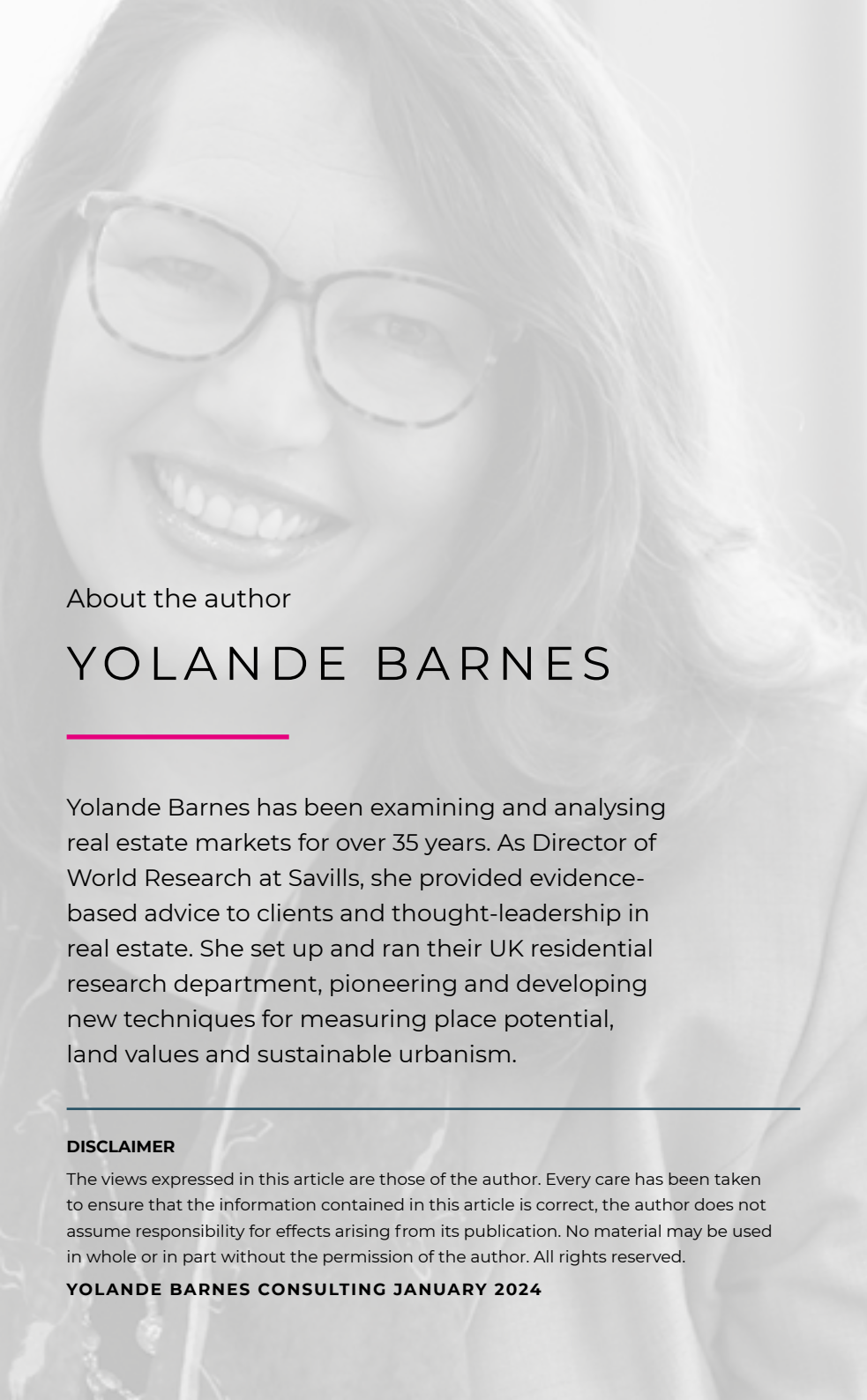
## Non-domiciliary tax status changes

The possible removal of what Labour call 'the non-domiciled tax loophole' could have a major impact on demand in some markets, particularly in central London where a higher proportion of prime property owners fall into this category. Without knowing what system will be put in place for 'genuinely temporary' residents it is difficult to say how many might be tempted to go elsewhere but its effect on demand will need to be considered in some markets.

## WHAT OF THE FORECASTERS IN 2024?

The range of December 2023 independent forecasts for UK house prices in 2024 varies even more than it did last year. There are considerable differences in opinion, with some economists clearly expecting forced sales and thinking that more price adjustment is in order as mortgage borrowers come off low fixed rates and on to higher variable ones. Meanwhile others see recovery in the offing with higher than expected wage growth fuelling purchasing power. There is an incredible 17.6 percentage point variation between -12.1% and +5.5% forecasts. The average prediction is -2.3% which, although a tad on the pessimistic side, some might say is close enough to 2023's mediocre performance as to cause relatively little concern.

In the longer term, prime markets seem certain to out-perform if only because of a scarcity of high-quality stock and the automatic implication that prime properties will be those in highest demand. What we will be calling prime in 5 years' time though may be different to what we considered most prime 5 years ago. A different set of attributes for mid 21st century homes are becoming desirable among the global wealthy – demand won't be the same as it was for the last generation.



About the author

## YOLANDE BARNES

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Yolande Barnes has been examining and analysing real estate markets for over 35 years. As Director of World Research at Savills, she provided evidence-based advice to clients and thought-leadership in real estate. She set up and ran their UK residential research department, pioneering and developing new techniques for measuring place potential, land values and sustainable urbanism.

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