Residential Research Update

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With the Bank of England making the first cut to interest rates and the new Labour government setting out its stall around housing policy, there is plenty to discuss in this month's housing market round-up. So, what are the figures you need to know?

The sales market

Data out last week showed **very little change** in mortgage approvals in June, which remained slightly below the pre-pandemic "norm", given prevailing costs of mortgage debt and the resulting affordability hurdle.

Meanwhile, Nationwide showed that house prices continued to gently nudge upwards, with annual growth reaching 2.1% **in the year to July**. Though modest, it's still likely to be the first time house price growth has outpaced the underlying rate of inflation since September 2022.

At the same time, data from TwentyCI shows that agreed sales returned to 6% above their normal pre-pandemic level in July, having dipped 8% below the monthly norm in June, due to short-lived pre-election inertia.

Changing sentiment

Importantly, the early general election provides more opportunity for the mainstream market to gain traction in the autumn, especially given the decision of the Bank of England's MPC to cut Bank base rate last week. Although this first cut isn't likely to shift the dial on headline costs of mortgage debt, it will have an important impact on sentiment.

Further rate cuts will start to make it easier for a wider range of buyers to meet lenders' affordability stress tests, both adding to the depth of buyer demand and borrowers' buying power. But, with last week's vote to cut – rather than hold – still relatively finely balanced at 5 to 4, the pace at which that occurs still heavily depends on what happens to underlying inflationary risks. Notably, **wage growth** remained as high as 5.7% in May.

In normal circumstances, we would expect the prime housing markets to set the pace and be the first to respond to an uptick in sentiment. Yet the need to raise taxes appears to have moved closer to the front of the pack of political priorities; for example, with confirmation that VAT will be added to school fees with effect from **1 January 2025**.

The nature of other revenue-raising measures are only likely to become clear when Rachel Reeves delivers her first budget on 30 October. From a central London perspective, all eyes will be on what is included in relation to non-doms, something we will be looking at in our prime central London report that will be published next month. Overall, these measures suggest the top end of the market is less likely to be the front runner this time around.

The lettings market

While the tax policy of the Labour government remains the subject of some speculation, the King's Speech gave us far more clarity regarding the direction of wider housing policy. As expected, that included proposals for a Renters' Rights Bill: you can read more detail about that in our recent **Prime Rental Spotlight**. The report also looks at how rental growth at the top end of the market has moderated substantially, while in the mainstream markets it appears to be easing back more gradually. The **latest Homelet index** puts annual rental growth across the country at 5.2%.

As I sign off for a couple of weeks to enjoy time with the family, I hope you enjoy the summer and I'll be back with an update in September, along with our prime central London report.