

# Residential Research Update

January

The Savills logo consists of the word "savills" in a lowercase, sans-serif font, colored in a dark red or maroon hue. It is positioned on a bright yellow rectangular background.

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While not dazzling, 2024 proved to be a slightly stronger year for the mainstream housing market than many of us expected, albeit the markets of the Midlands, the North and Scotland performed somewhat more strongly than those of London and the South.

The multidimensional nature of the housing market was also reflected in the difference between the performance of the prime market, which was more heavily affected by changes in the tax environment.

And, as we attempt to stick by our New Year's resolutions, the prospect of further cuts in Bank base rate and the delayed introduction of a number of the measures included in Rachel Reeves' first Budget suggest similar trends in 2025.

## Mixed fortunes at the end of 2024

The **Nationwide monthly house price index** recorded growth of 4.7% over 2024. Its quarterly index showed fairly significant regional variation with price growth of 2.0% in London and 2.2% across the South of England as a whole, comparing to 4.9% in the North of England and 4.4% in Scotland.

Meanwhile, at the top end of the market our own prime indices showed prices flatlining across London in the final quarter of the year, with falls of 0.8% in central London being offset by modest growth of 0.3% elsewhere across the capital. Outside of London, prices of prime homes eased back by a further 0.2% in the final three months of the year. You can read more on the whys and wherefores behind these numbers **here**.

## Is the rental boom over?



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In London's prime lettings market, rents showed little movement in the final quarter of last year, meaning that over the course of 2024 as a whole they rose by just 0.3% in central London and 1.9% elsewhere. In the prime regional lettings markets there was a 0.9% softening in rental values in the last three months of the year, meaning rental growth in 2024 was just 1.1% - its lowest level for over four and a half years.

## Looking forward to 2025

As we enter 2025, the ONS is reporting that **inflation stood at 2.6%** in the 12 months to the end of November, a little above the Bank of England's target rate. That sits against the context of fairly **insipid economic growth of just 0.1%** in the three months to October.

These statistics underpin expectations for further base rate cuts over the course of 2025, which are critical to both the pricing of fixed rate mortgages and the ability of borrowers to meet lenders' affordability stress tests. As such, they are key to the strength and depth of market demand over the next 12 months.

Last week The Times reported that the majority of the 51 economists they surveyed still expect four quarter point rate cuts over the course of the year, more than are currently being factored in by the financial markets.

## Dusting off the crystal ball

Our best estimate is that this will **support annual house price growth of 4.0% this year** across the housing market as a whole, with greater price sensitivity at the top end of the market where we expect prices to fall by 4.0% in central London, hold steady elsewhere in the capital, and rise by a modest 2.0% in the prime regional markets.

At the same time, we expect a shortage of rental stock, compounded by the recent stamp duty increase on the purchase of additional homes, to support average rental growth of 4.0% in 2025, albeit a little less in the prime markets which has a slightly more discretionary tenant base.

## Cross Sector Outlook

