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Assetz Capital Property Report.

Q3, 2024

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Report Introduction.

The UK property market continues to experience significant shifts as we move through 2024. The third quarter has seen a complex economic landscape, marked by inflation stabilisation, interest rate adjustments, and changes in house prices across regions. The rental market, planning approvals, and construction activities present both opportunities and challenges for developers, investors and homebuyers. This report provides a comprehensive overview of the current state of the property market, examining trends in house prices, rental dynamics, planning approvals, and legislative impacts, including the new Biodiversity Net Gain (BNG) requirements. Additionally, it outlines key barriers faced by SME developers and the Labour Party's strategies for the housing sector post-election. The insights provided are aimed at helping stakeholders navigate the evolving market conditions and make informed decisions.

About the author

Jonathan Witter MRICS

- Chartered Surveyor, 25 years experience.
- Previously worked at Savills (London), CTRL (Kings Cross, Stratford/Olympics), Commerzbank (Paris), Private Investment/Family office.
- Focused on valuation, development, planning, development finance, development monitoring.
- Hobbies include cricket, rugby, football, short triathlons and Shotokan karate.



Jonathan Witter
Development Monitoring
Director

Economic Overview – Q3 2024.

Summary

The UK economy saw a **positive GDP growth of 0.5% in the three months** leading to August 2024. While H1 showed a strong recovery, Q3 experienced uneven growth. Inflation remains steady and a slight reduction in interest rates hints at improving household finances.

GDP Growth

UK GDP rose by 0.5% in the three months to August 2024. H1 outperformed expectations, while Q3 saw an uneven recovery with strong performance in professional services, IT, and healthcare but muted growth in retail and manufacturing.

Inflation

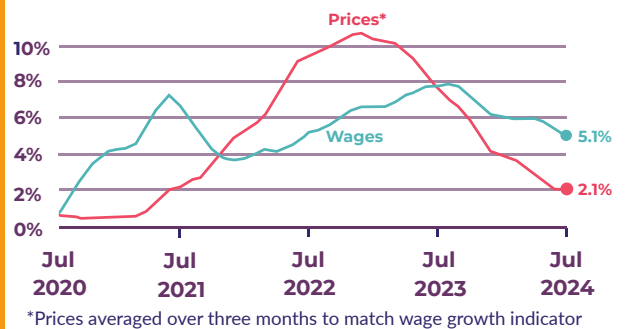
UK inflation (CPI) in August 2024 stabilized at around 2.2%.

Wage growth outstripped inflation, potentially improving household finances.

UK inflation at 2.2% in August 2024



Annual wage & price growth May-Jul 2020 to 2024



Interest Rates

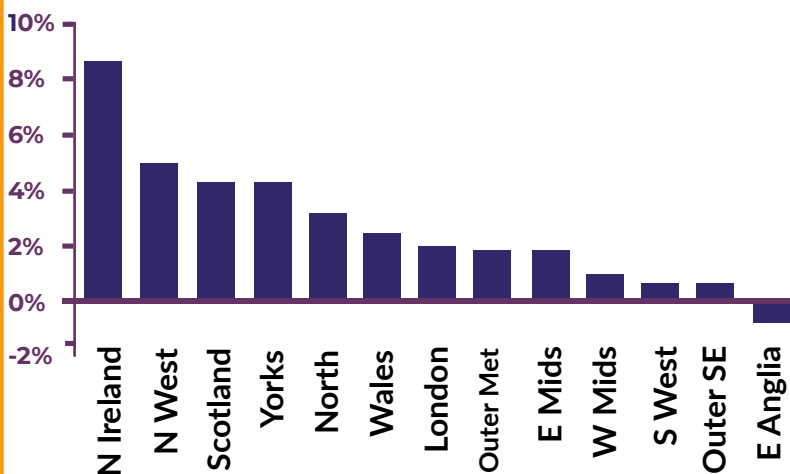
On August 16th, the Monetary Policy Committee (MPC) voted to reduce base rates slightly. By September 19th, the Bank of England held the base rate at 5.00%, though further reductions are expected in Q4.

Summary

House prices experienced positive annual growth, with regional variances. Northern Ireland and the North of England led the growth, while the South East and London saw modest improvements due to already high values. The market's early autumn surge was influenced by a decrease in the Bank of England Base Rate.

- Annual Growth: **Nationwide reported a 3.2% annualised house price growth in Q3 2024.**
- Market Dynamics: The historically busy autumn market saw an early start with stronger buyer demand due to the recent reduction in the Bank of England Base Rate and perceived increased certainty from a new government.
- Transaction Data: 90,600 transactions were completed in July 2024, a 7% increase from July 2023.
- Regional Variations: Northern Ireland led house price growth with an 8.6% annual increase. Northern England outperformed Southern England with prices up 3.1% year-on-year. The South East and London experienced modest growth due to already high property values.
- Affordability: Improved as wage growth outpaced inflation, with significant house price increases noted in Northern Ireland, Wales, Scotland, and the North West.

Annual % change in house prices (Q3 2024)



Region	Average price (Q3 2024)	Annual % chg this quarter	Annual % chg last quarter
N Ireland	£196,197	8.6%	4.1%
North West	£215,807	5.0%	4.1%
Scotland	£184,471	4.3%	1.4%
Yorks & The H	£206,493	4.3%	3.8%
North	£161,066	3.2%	2.9%
Wales	£207,113	2.5%	1.4%
London	€524,685	2.0%	1.6%
Outer Met	£424,345	1.9%	-0.5%
East Midlands	£232,390	1.8%	-0.2%
West Midlands	£243,599	1.0%	1.4%
South West	£303,522	0.6%	-1.5%
Outer S East	£336,253	0.6%	-1.1%
East Anglia	£270,906	-0.8%	-1.8%
UK	£266,640	2.5%	1.2%

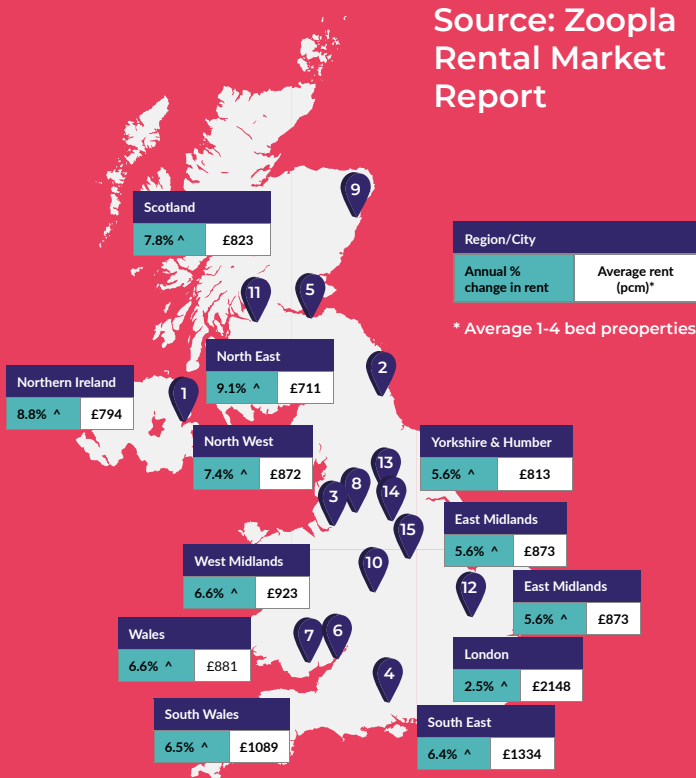
Summary

The rental market continues to see rising rents, particularly in the northern regions, Scotland, and Northern Ireland. Supply shortages persist due to landlord exits and legislative changes, which may sustain rental growth despite affordability constraints.

- **Rent Increases:** The average UK private rent increased by 5.4% in the 12 months to July 2024.
- **Regional Performance:** Northern regions, Scotland, Wales, and Northern Ireland outperformed the South East and London. London rental growth remains low at 2.5%, constrained by affordability issues.
- **Supply Shortages:** An estimated 48,000 Buy-to-Let homes were sold in H1 2024, leading to a continued supply shortage and upward pressure on rents.
- **Legislation Impact:** The Renters Reform Bill, with changes including a ban on 'no-fault' evictions and stricter landlord requirements, is expected to erode supply and sustain rental growth.

The average UK private rent increased by 5.4% in the 12 months to July 2024.

Source: Zoopla Rental Market Report



City	Annual % change in rents	Average rent (pcm)*
1 Belfast	10.1%	£813
2 Newcastle	8.8%	£844
3 Liverpool	8.0%	£820
4 Southampton	7.5%	£1135
5 Edinburgh	7.3%	£1323
6 Bristol	6.8%	£1418
7 Cardiff	6.5%	£1096
8 Manchester	6.3%	£1088
9 Aberdeen	6.1%	£707
10 Birmingham	5.7%	£958
11 Glasgow	5.3%	£965
12 Cambridge	4.6%	£1551
13 Leeds	4.3%	£961
14 Sheffield	4.3%	£818
15 Nottingham	3.4%	£941
UK (ex. London)	6.7%	£1213
UK	5.4%	£1245

Planning and Housing Completions.

Summary

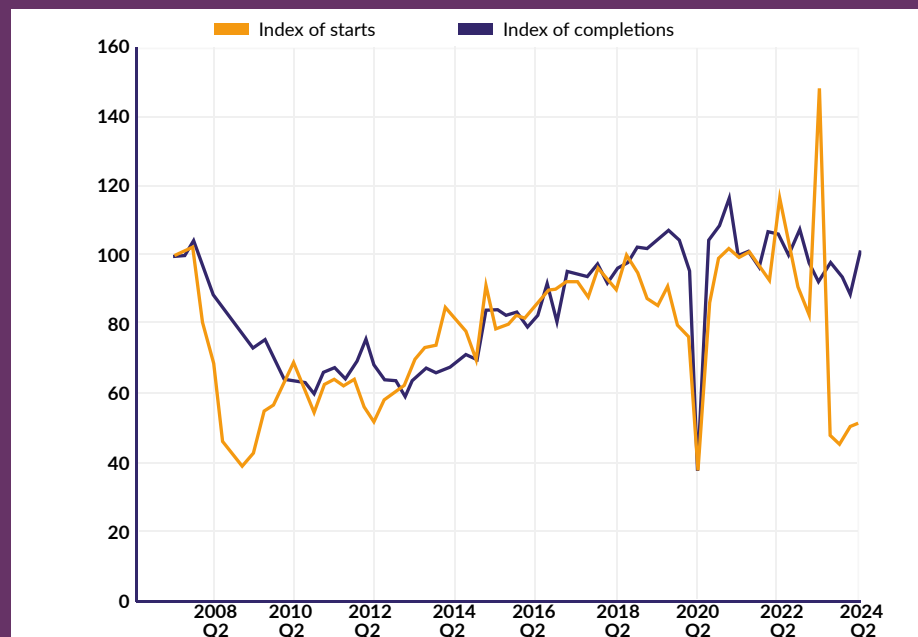
Planning approvals have been declining since the start of the year, affecting housing completions. The UK is set to deliver around 200,000 homes in 2023/24, falling short of the government's target.

- **Planning Approvals:** Q2 2024 saw a decline in planning approvals, continuing a downward trend. The total number of units approved was 11% lower than the previous year.
- **Regional Approvals:** North West, Yorkshire & Humber, West Midlands, East of England, and Scotland saw rises in unit approvals.
- **Housing Delivery:** Approximately 200,000 homes are expected to be completed in 2023/24, significantly below the government target of 300,000 annually.

The UK is set to deliver around 200,000 homes in 2023/24, falling short of the government's target.

Index of building control reported new build dwelling starts & completions, quarterly (Seasonally Adjusted), England, 2007 Q2 to 2024 Q2

This chart includes data from independent approved inspectors from 2007 Q2



Key Barriers for SME Developers.

Summary

Small and medium-sized developers face challenges from planning delays, rising costs, labour shortages, weather conditions and utility connection issues, all of which affect project timelines and viability.

- **Planning Delays:** Limited resources in local planning authorities (LPAs) are causing slow decision-making and coordination issues.
- **Cost Increases:** Rising costs for planning applications and supplier payment terms affect cash flow.
- **Weather and Labour:** Unusually inclement weather and skilled labour shortages are disrupting construction schedules.
- **Utility Delays:** Slow connections to utilities impact construction schedules.

Construction Costs and Outlook.

Summary

Despite stable supply chains, construction costs are expected to rise over the next five years due to skilled labour shortages. Cost management remains crucial for successful project delivery.

- **Stabilisation:** Supply chains remain resilient despite skilled labour shortages. BCIS forecasts a 2.0% increase in construction costs for 2024 and a 15% increase over the next five years.

Government Housing Strategies.

Summary

The Labour Party's proposed strategies include building 1.5 million new homes, focusing on brownfield development, and enhancing social and affordable housing. These strategies may reshape the housing landscape if implemented.

- **Housing Development:** Plans to build 1.5 million new homes, prioritise brownfield development and fast-track urban site approvals.
- **Affordable Housing:** Emphasis on increasing social and affordable housing and preventing the loss of existing affordable stock.
- **Greenbelt Preservation:** A more strategic approach to greenbelt land designation, with priority given to lower-quality 'grey belt' land.

Biodiversity Net Gain (BNG).

Summary

The new BNG legislation, effective from February 2024, requires developers to achieve a 10% net gain in biodiversity. This adds complexity and cost for SMEs and may impact the affordability of developments.

- Legislation: Mandatory from February 12, 2024, requiring developers to achieve a 10% net gain in biodiversity.
- Impact on SMEs: BNG introduces additional costs and complexity to obtaining planning permission. Local Authorities may set targets higher than 10%, and the lack of fixed pricing for BNG credits adds financial uncertainty.

Assetz Capital's Role in Supporting Development.

Summary

Assetz Capital offers development financing, advisory services, and monitoring support, helping SMEs navigate the complexities of property development. Their funding has contributed to over 7,000 new homes.

- Services Offered: Advisory on scheme appraisals, due diligence, monitoring of development progress, and assistance in addressing development risks.
- Impact: Assetz Capital has funded the construction of over 7,000 new homes, lending over £1.7 billion to UK businesses.

**Higher
Day 1
advances**

Giving developers greater flexibility to manage their cash flow at the time they need it most.

**Expert
Support**

You will be supported throughout your project by your local, Relationship Director. They understand both your local market and the challenges you face.

**Multiple
projects**

You can run more than one scheme – allowing you to scale at pace.

**Up to
£10m**

We fund larger scale projects and are flexible to meet your needs.

Meet Your Relationship Directors.

Assetz Capital are one of the UKs leading SME property finance lenders. Our national team of Relationship Directors are on hand to support you throughout your development. If you have a project you'd like to discuss, simply get in touch with your local Director.

Leadership Team



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