

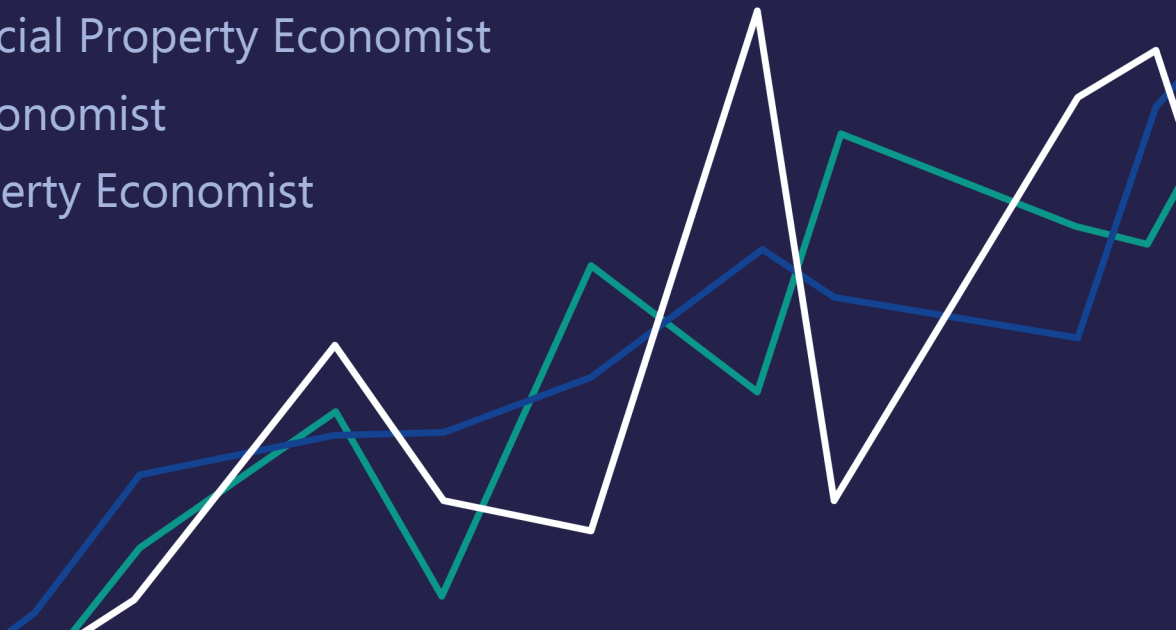
UK Residential Market – Too Good to be True?

Kiran Raichura, Chief Commercial Property Economist

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Matthew Pointon, Senior Property Economist

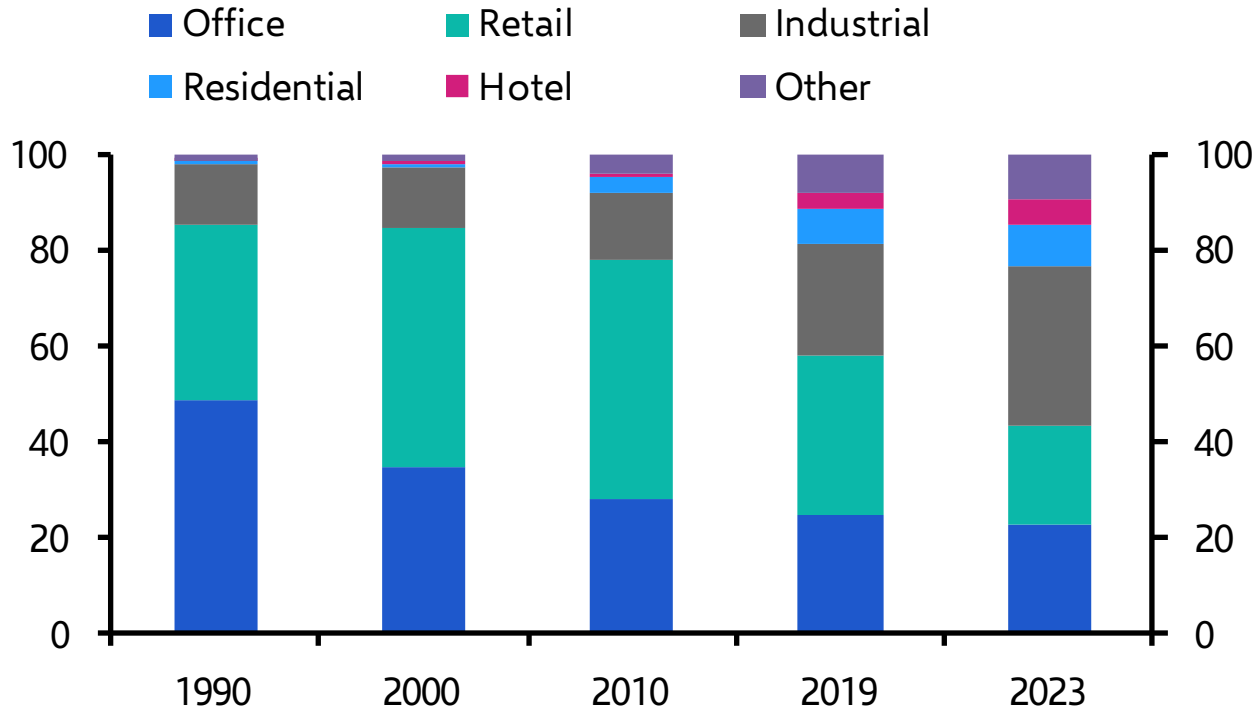
15th May 2024



1. Agenda

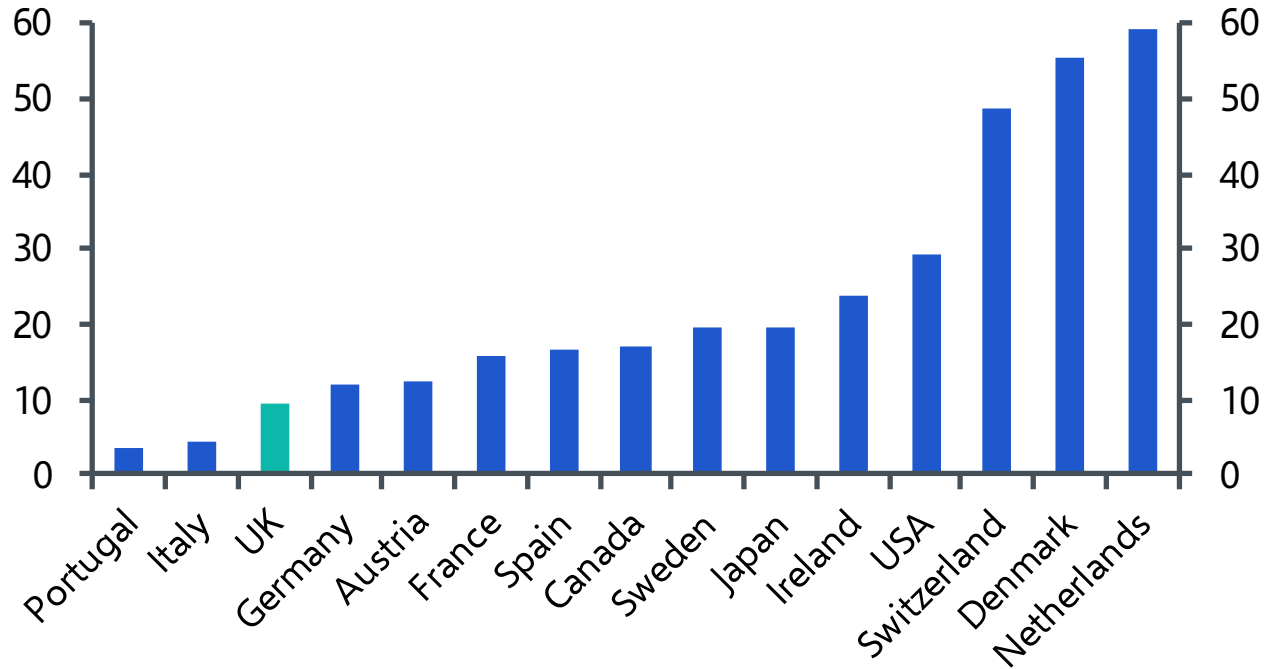
- How big could the residential investment sector get?
- What's the outlook for the rental market?
- How sustainable is pricing and what does that mean for returns?
- Conclusions.
- Questions and discussion.

2. Commercial Property Sector Shares (% All-Property)



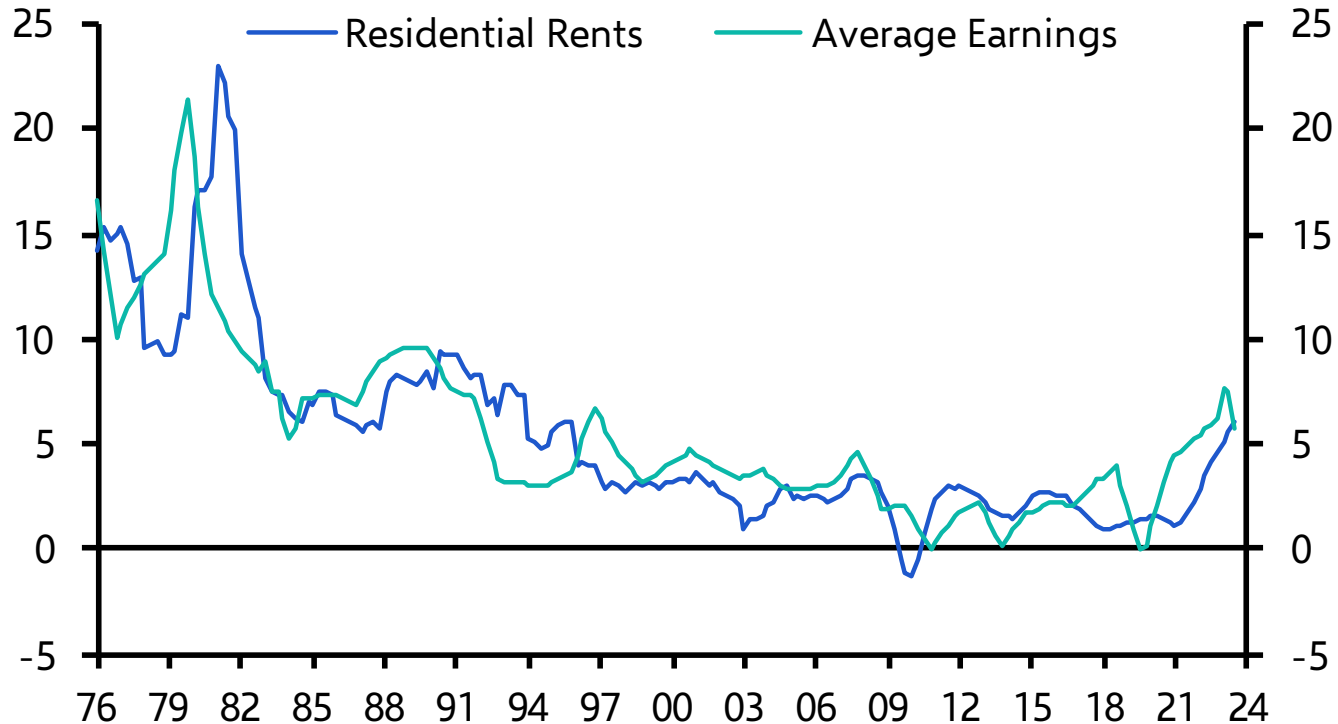
Source: MSCI

3. Residential Share of MSCI Index by Country (%)



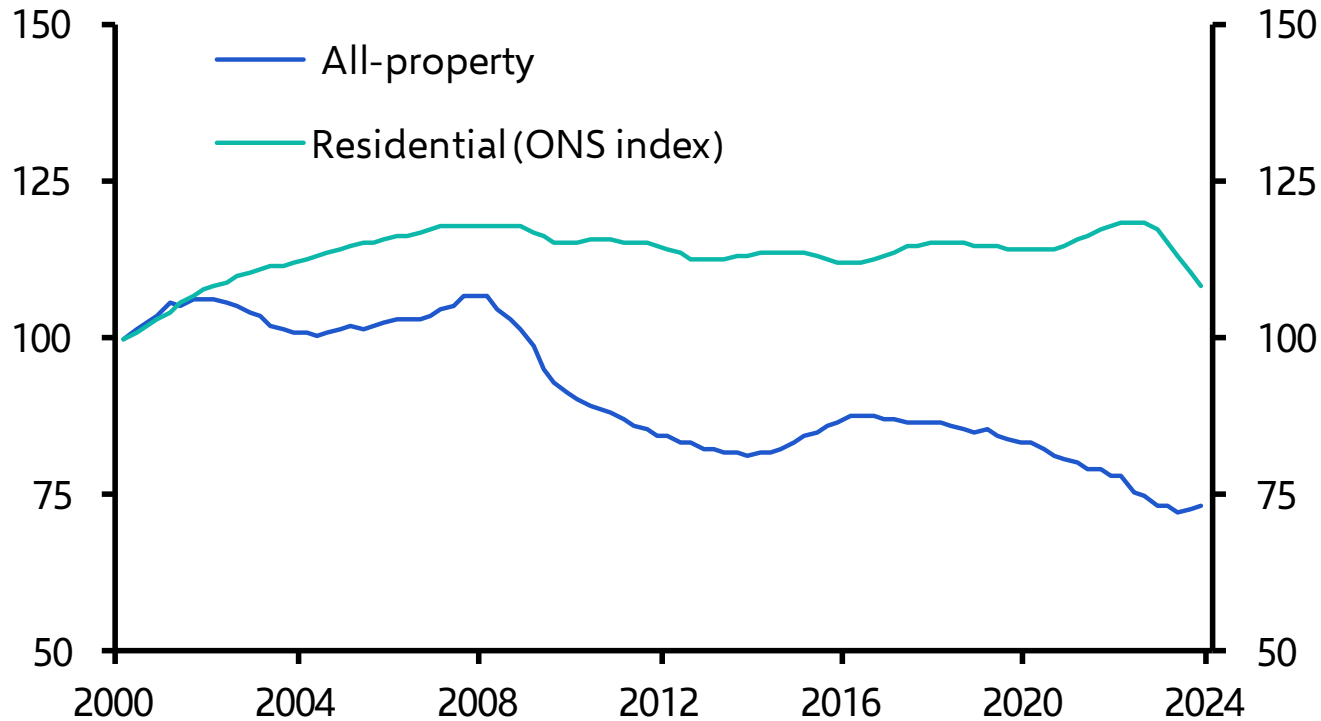
Source: MSCI

4. Pay & Rental Growth (% y/y)



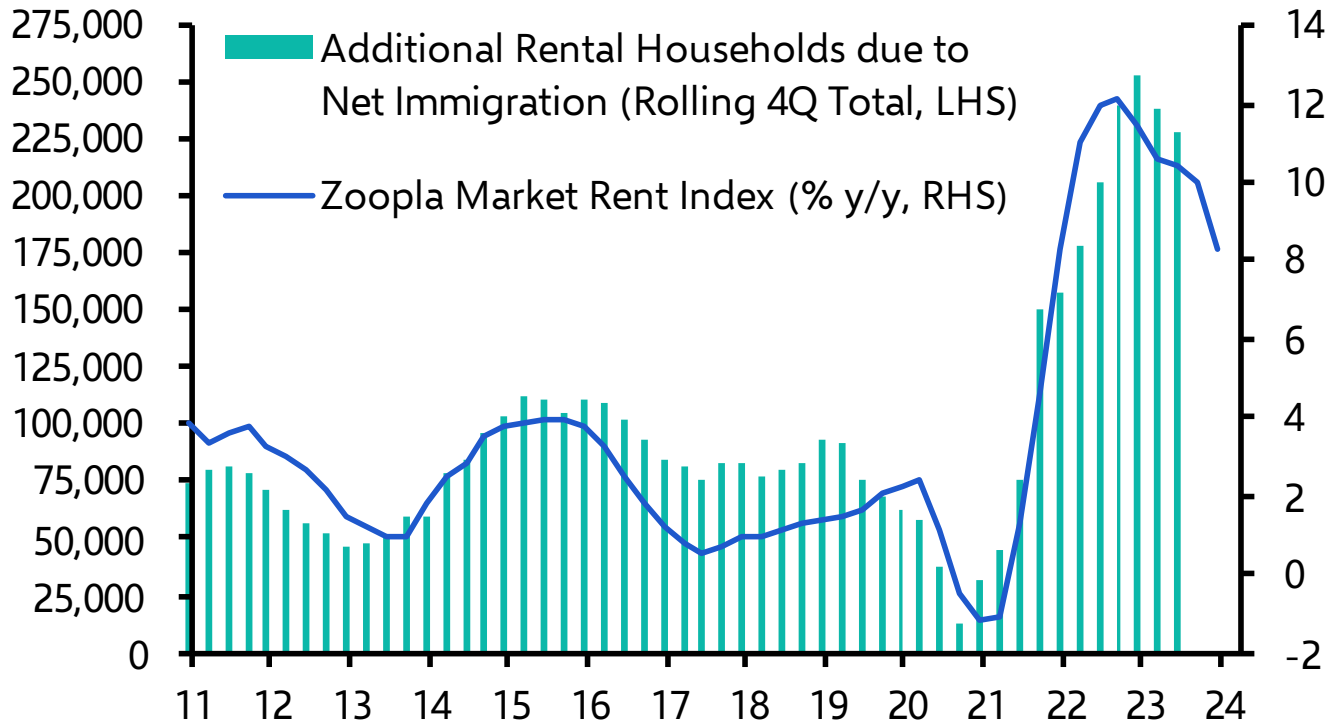
Sources: Refinitiv, ONS, Capital Economics

5. Real Rental Index (2000 Q1 = 100)



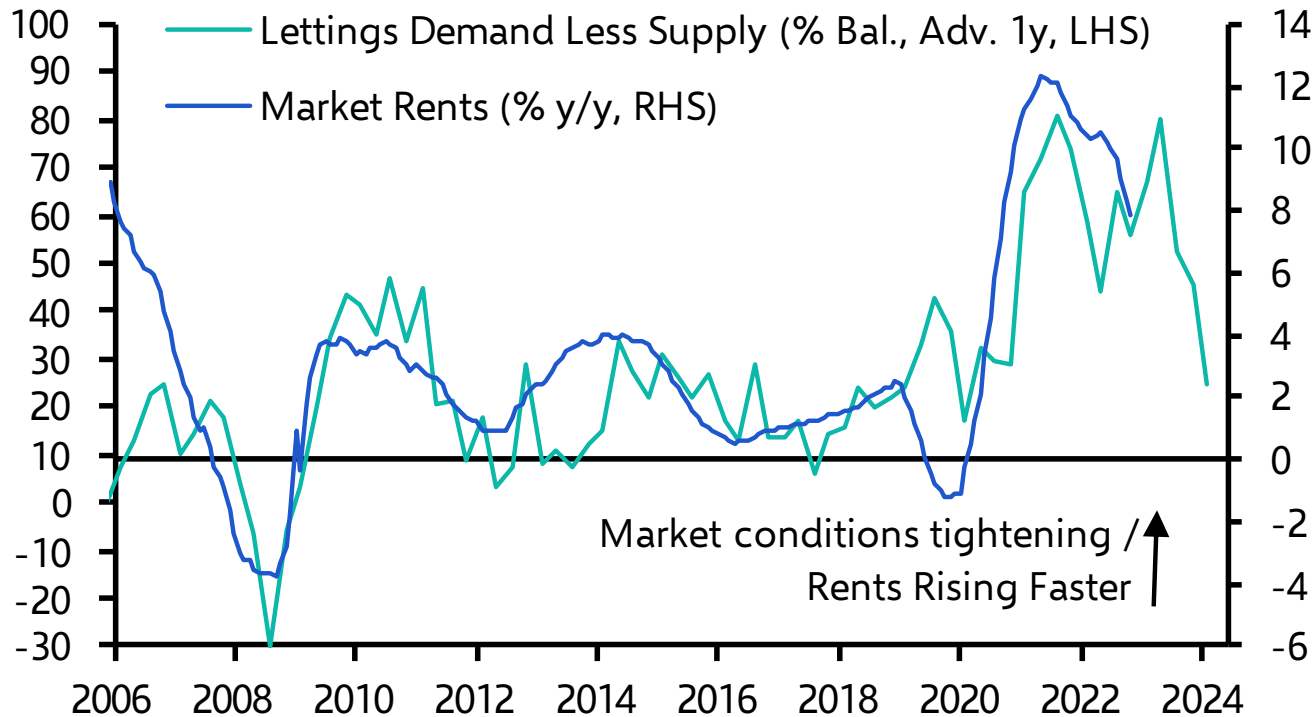
Sources: MSCI, Refinitiv, Capital Economics

6. Net Migration & Market Rent Prices

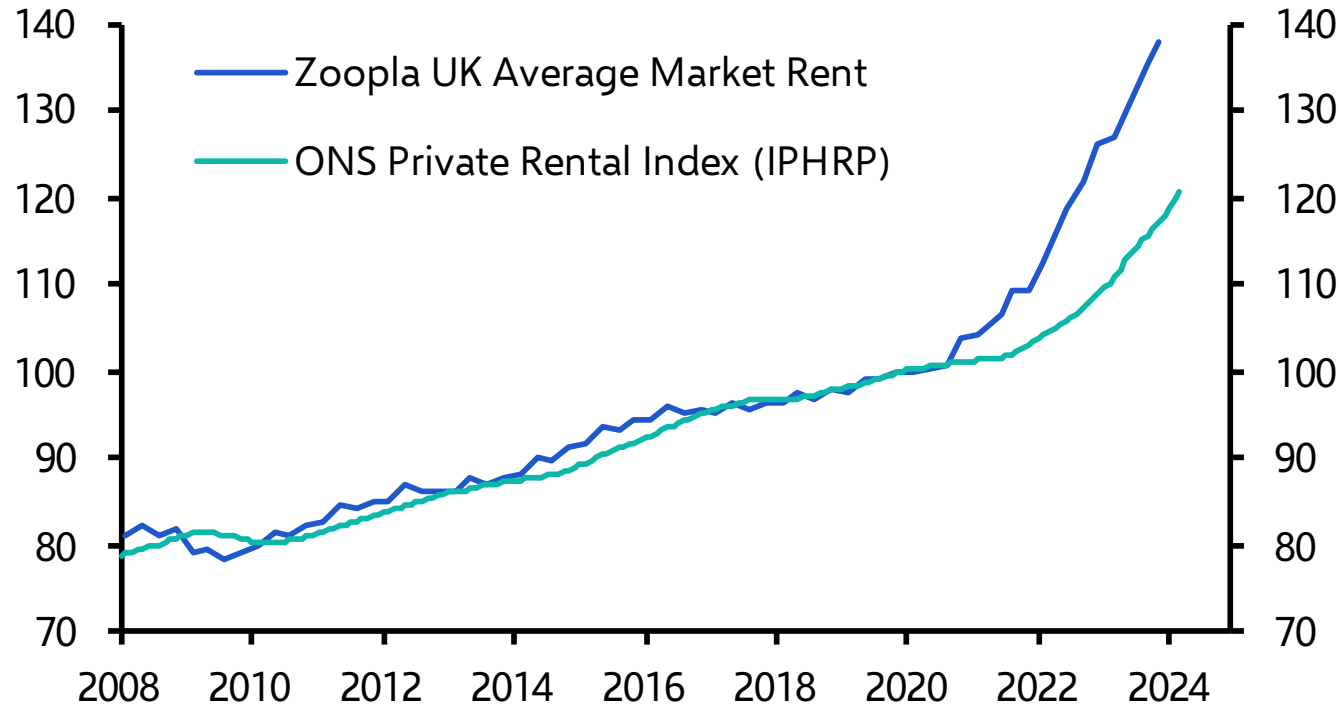


Sources: ONS, Zoopla, Capital Economics

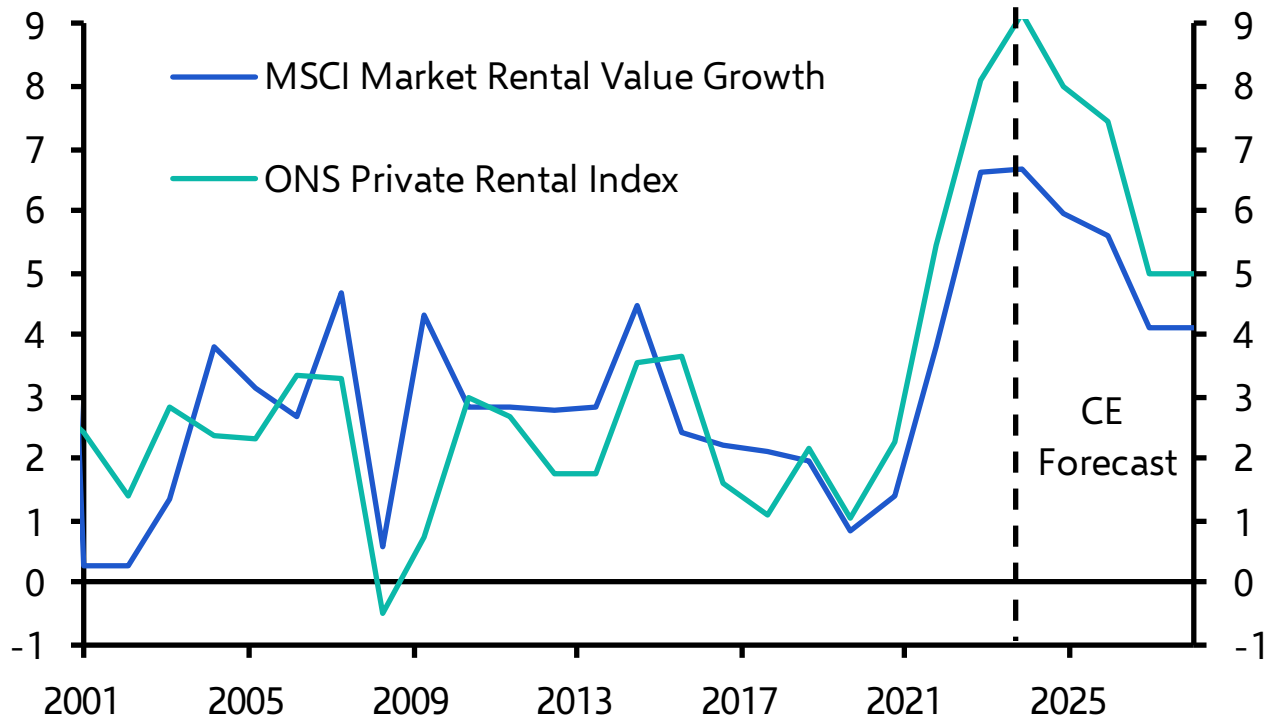
7. Excess Tenant Demand & Market Rents



8. Rent Levels (December 2019=100)

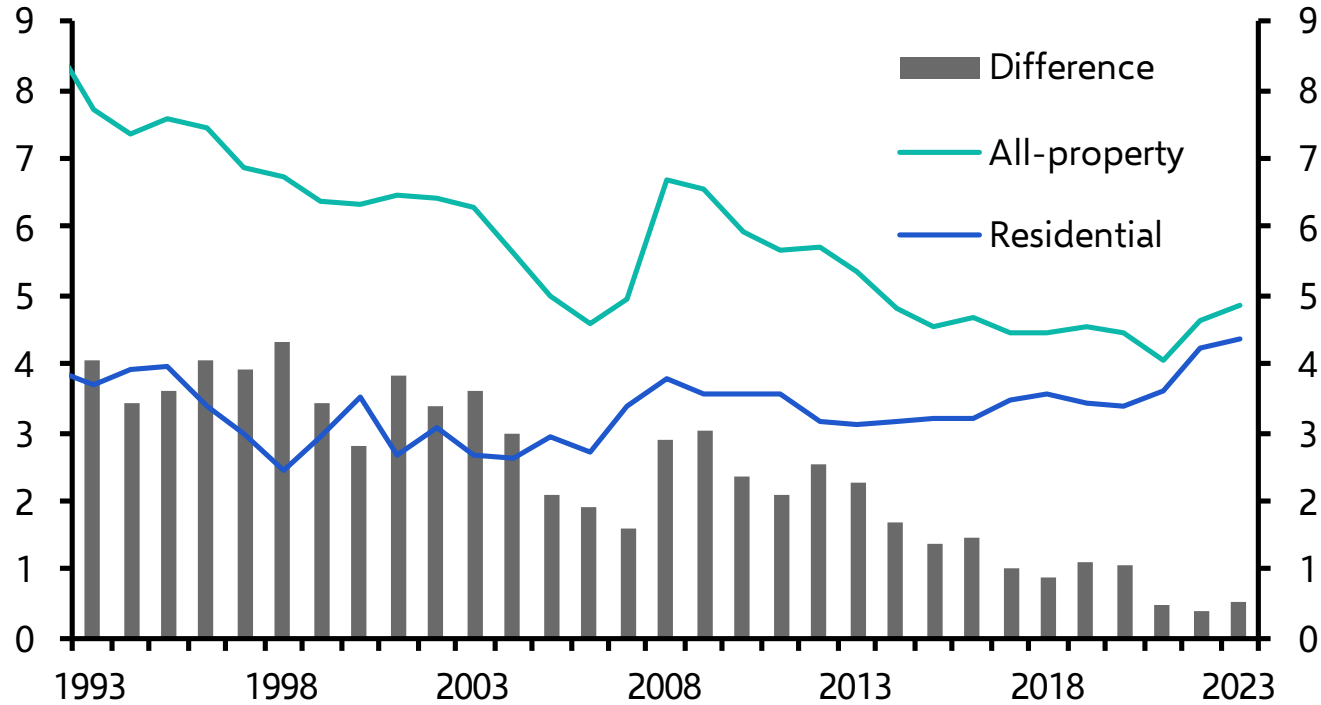


9. MSCI & ONS Rents (% y/y)



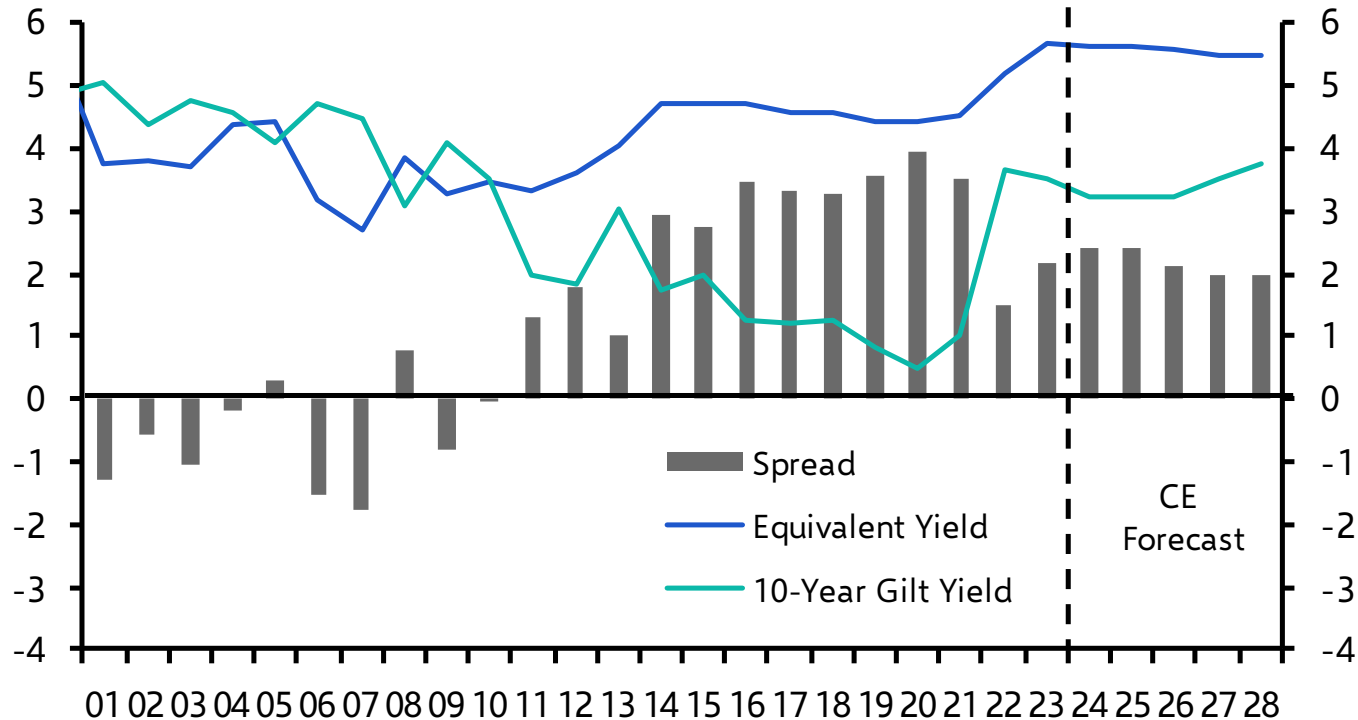
Sources: MSCI, Refinitiv, Capital Economics

10. Net Initial Yields (%)



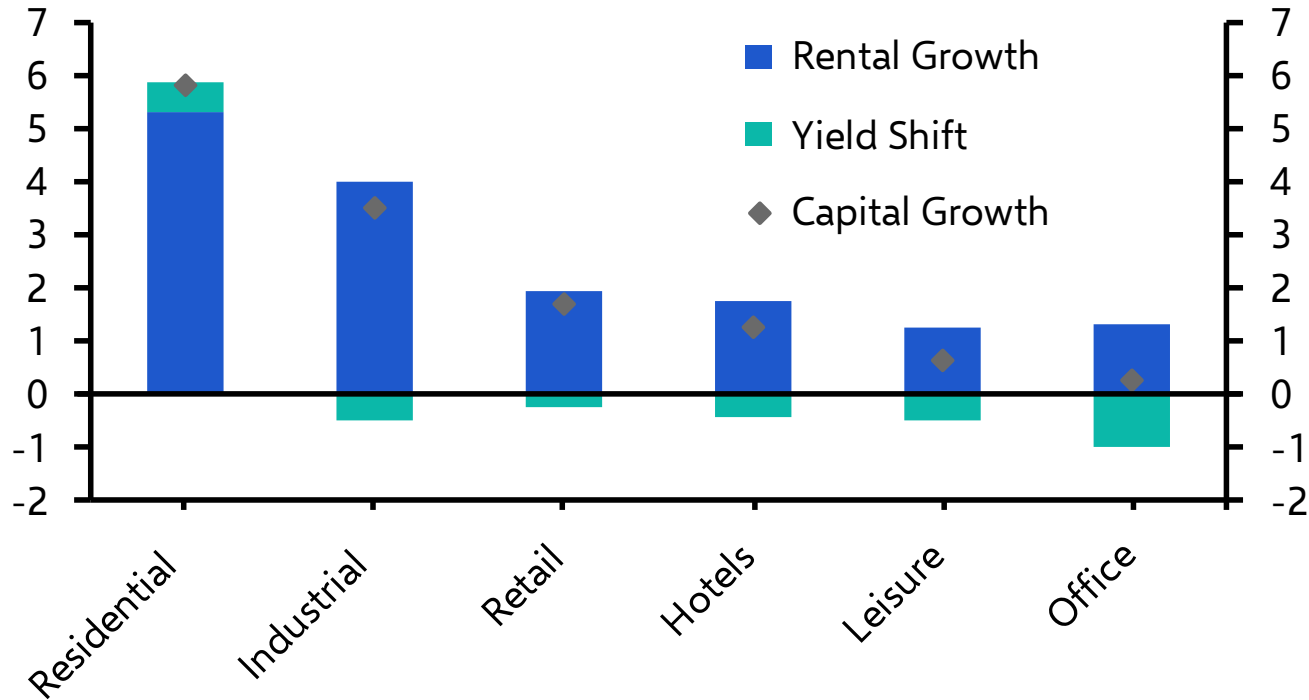
Source: MSCI

11. 10-Year Gilt Yield and Residential Equivalent Yield (%)



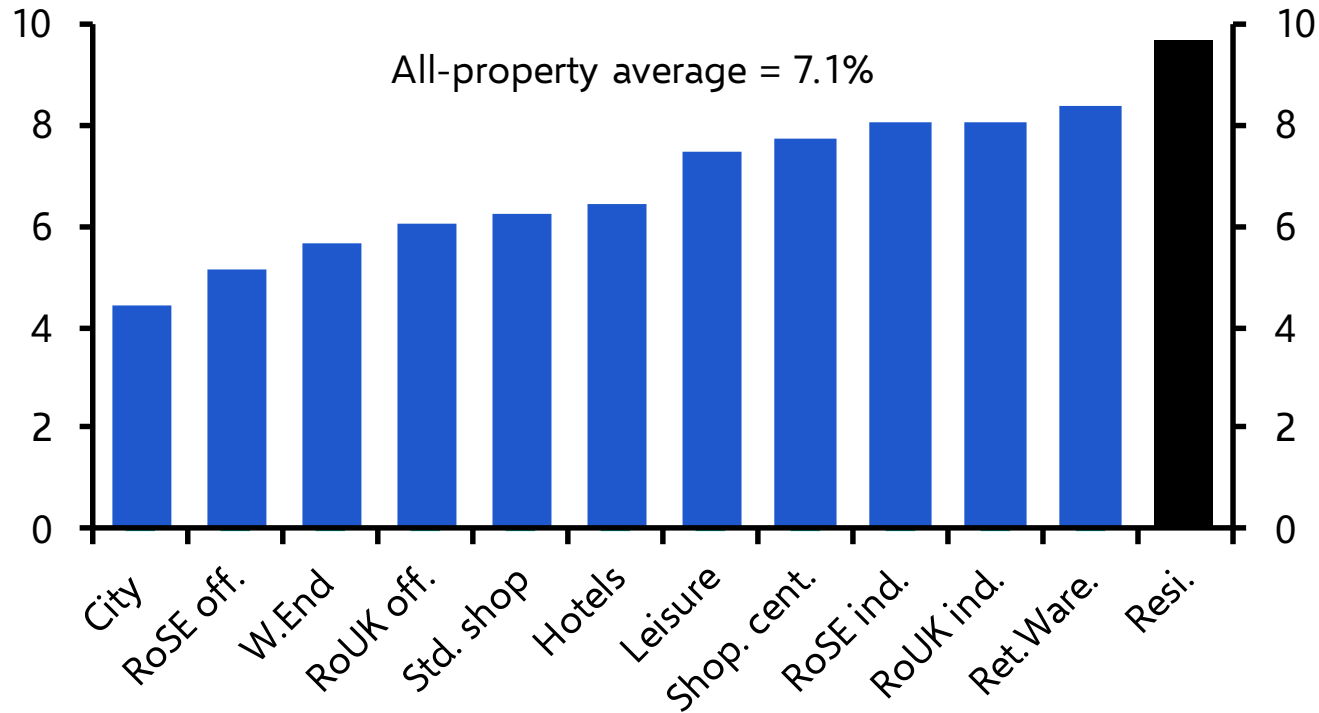
Sources: Refinitiv, MSCI, Capital Economics

12. Rental and Capital Growth by Sector (2024-28 % p.a.)

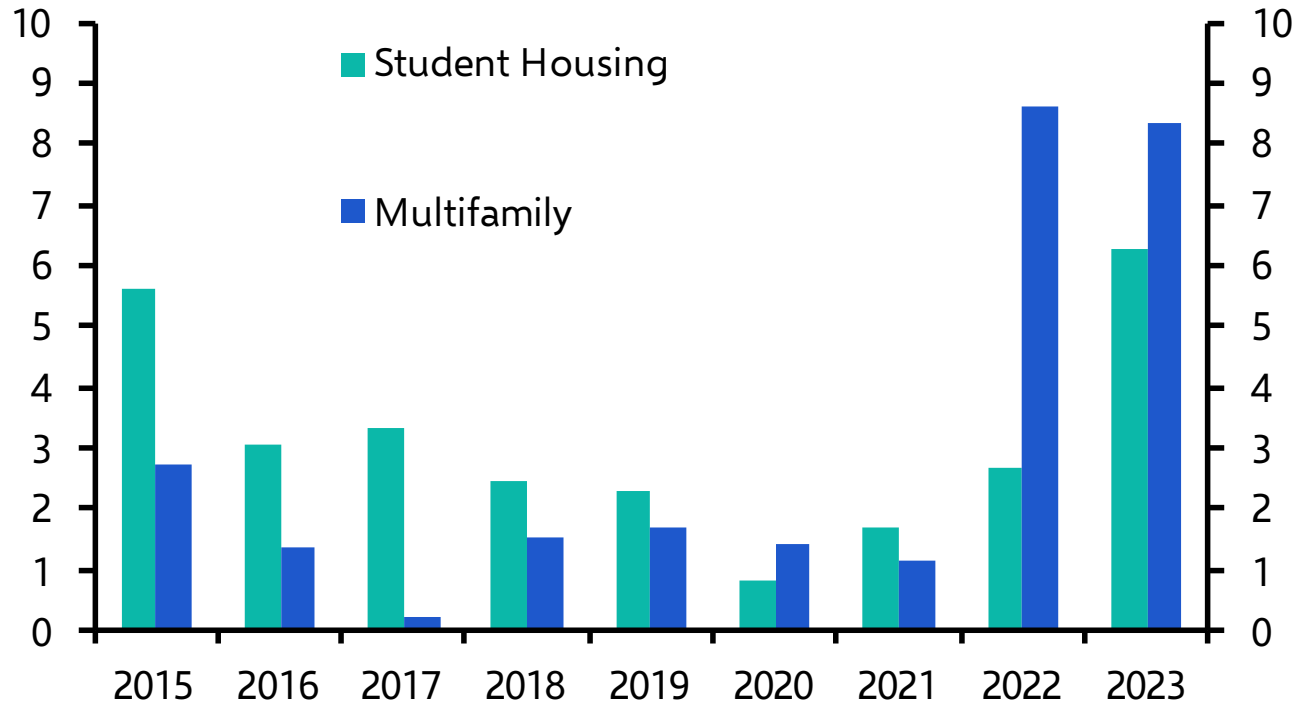


Source: Capital Economics

13. Total Returns by Sector (2024-28 % p.a.)



14. Residential Market Rental Growth (% y/y)



Source: MSCI

15. Conclusions

- Institutional residential remains a relatively small part of the market, but other countries' markets suggest plenty of scope for growth.
- While the near-term outlook is for rent growth to slow, we don't think recent uplifts in market rents are yet reflected in portfolios.
- The higher level of bond yields we expect means that, even though we expect a degree of compression, yields will not return to prior lows.
- Despite that backdrop, the strong rental growth will drive outperformance over the next five years, led by multifamily.

Additional Material

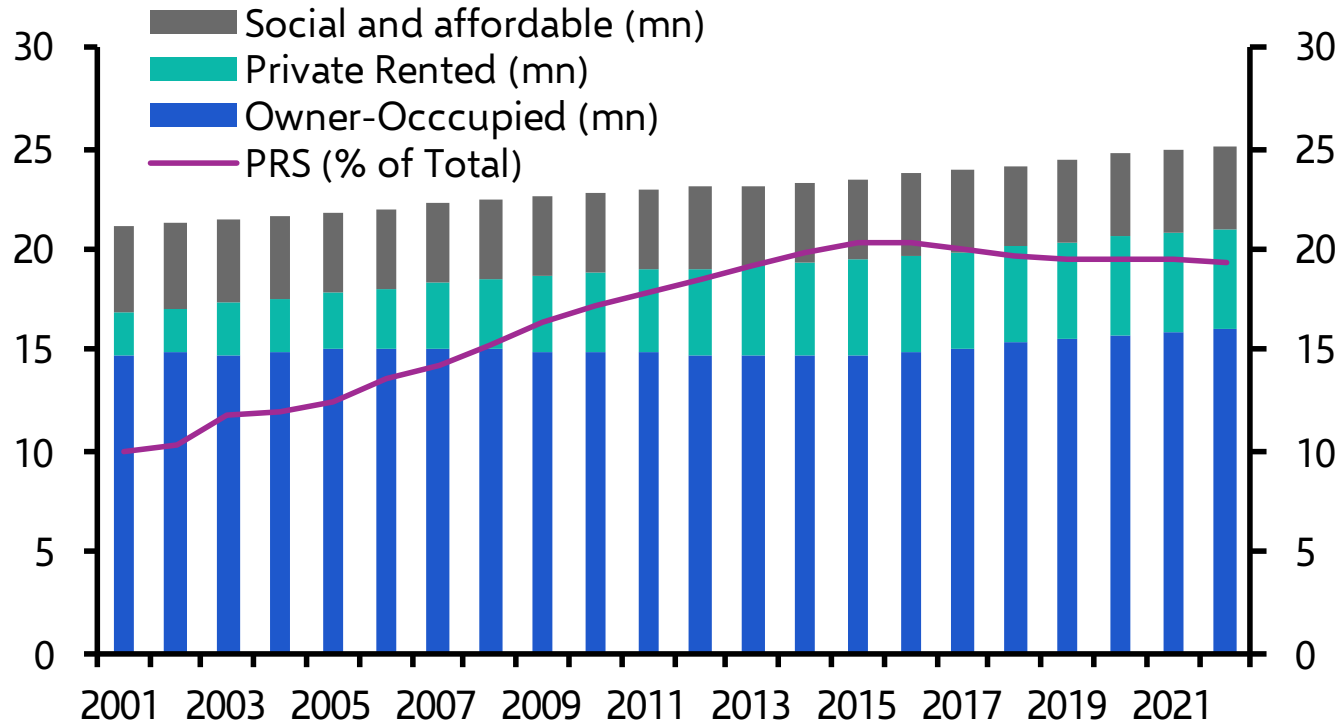


UK Property Forecasts

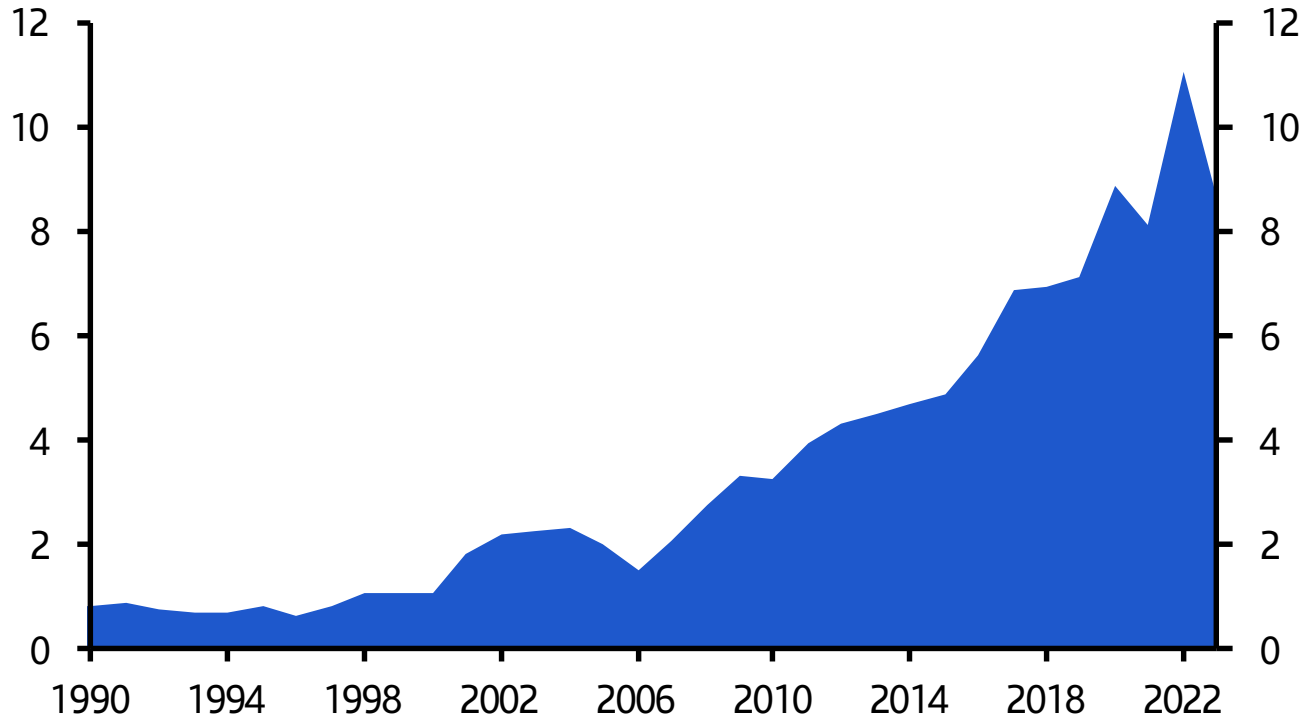
	2023	2024f	2025f	2026f	2027f	2028f	2024-28f
ALL PROPERTY							
Rental value growth, % y/y	3.7	3.0	2.3	2.2	2.4	2.6	2.5
End yr equiv. yield, %	6.6	6.7	6.7	6.7	6.8	6.9	6.8
Capital value growth, % y/y	-6.0	2.0	2.2	2.2	1.4	1.9	1.9
Income return, % y/y	4.9	5.0	5.2	5.2	5.3	5.3	5.2
Total return, % p.a	-1.3	7.0	7.4	7.4	6.7	7.2	7.1
ALL OFFICES							
Rental value growth, % y/y	2.4	1.8	1.1	1.1	1.3	1.3	1.3
End yr equiv. yield, %	7.5	7.8	7.8	7.8	7.9	8.0	7.9
Capital value growth, % y/y	-14.1	-1.1	1.0	1.1	-0.1	0.6	0.3
Income return, % y/y	4.5	4.8	5.2	5.3	5.4	5.4	5.2
Total return, % p.a	-10.2	3.7	6.2	6.3	5.3	6.0	5.5
ALL RETAIL							
Rental value growth, % y/y	1.1	1.6	1.8	1.9	2.1	2.3	1.9
End yr equiv. yield, %	6.8	6.8	6.8	6.8	6.9	6.9	6.8
Capital value growth, % y/y	-5.7	2.0	1.8	1.6	1.4	1.6	1.7
Income return, % y/y	6.0	5.9	5.9	6.0	6.0	6.1	6.0
Total return, % p.a	-0.1	7.9	7.7	7.6	7.4	7.7	7.7
ALL INDUSTRIAL							
Rental value growth, % y/y	7.1	5.5	3.6	3.5	3.5	4.0	4.0
End yr equiv. yield, %	6.0	6.0	6.0	6.0	6.1	6.1	6.1
Capital value growth, % y/y	-0.3	4.6	3.6	3.5	2.6	3.1	3.5
Income return, % y/y	4.4	4.4	4.5	4.5	4.6	4.6	4.5
Total return, % p.a	4.1	9.1	8.2	8.0	7.2	7.8	8.0
ALL RESIDENTIAL							
Rental value growth, % y/y	6.6	6.4	5.9	5.6	4.1	4.1	5.2
End yr equiv. yield, %	5.7	5.7	5.7	5.6	5.5	5.5	5.6
Capital value growth, % y/y	-2.4	6.5	5.9	6.5	5.9	4.1	5.8
Income return	3.8	3.9	4.0	3.9	3.8	3.7	3.8
Total return, % p.a	1.4	10.3	9.8	10.5	9.8	7.9	9.7

Source: Capital Economics

Housing Stock (Dwellings, England)

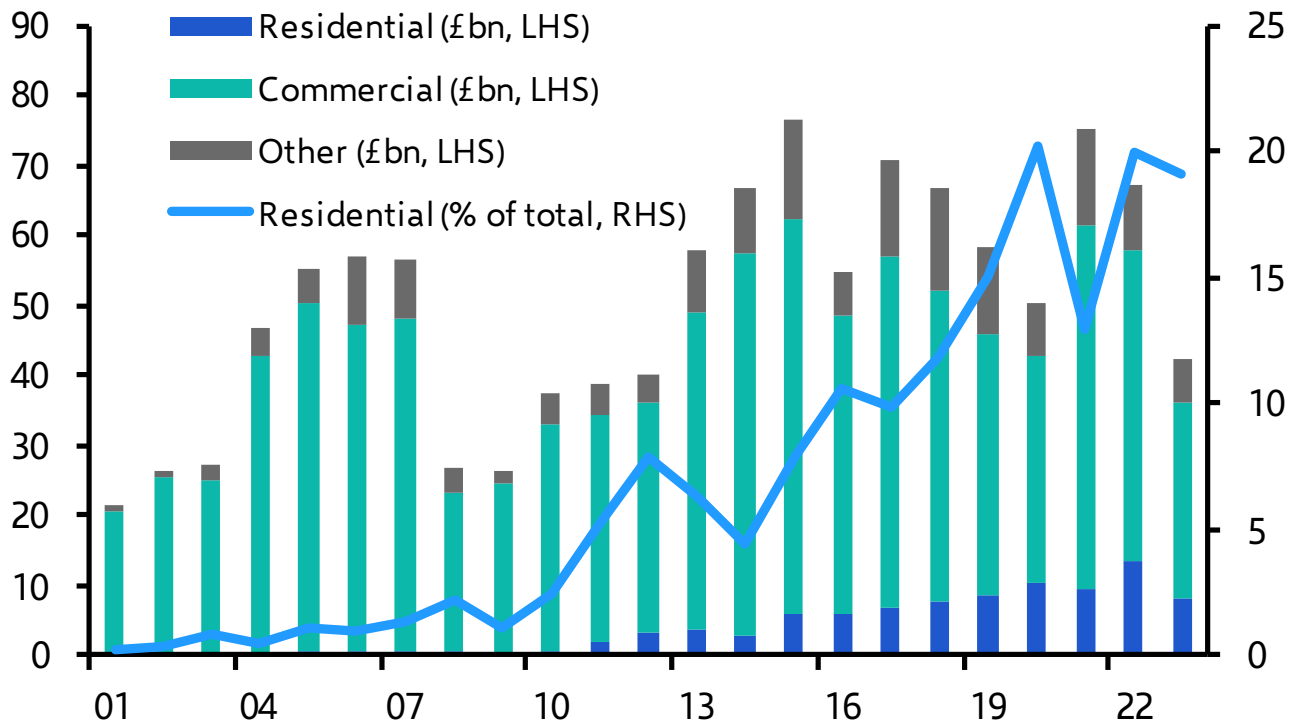


Residential Capital Values (% of All-Property)



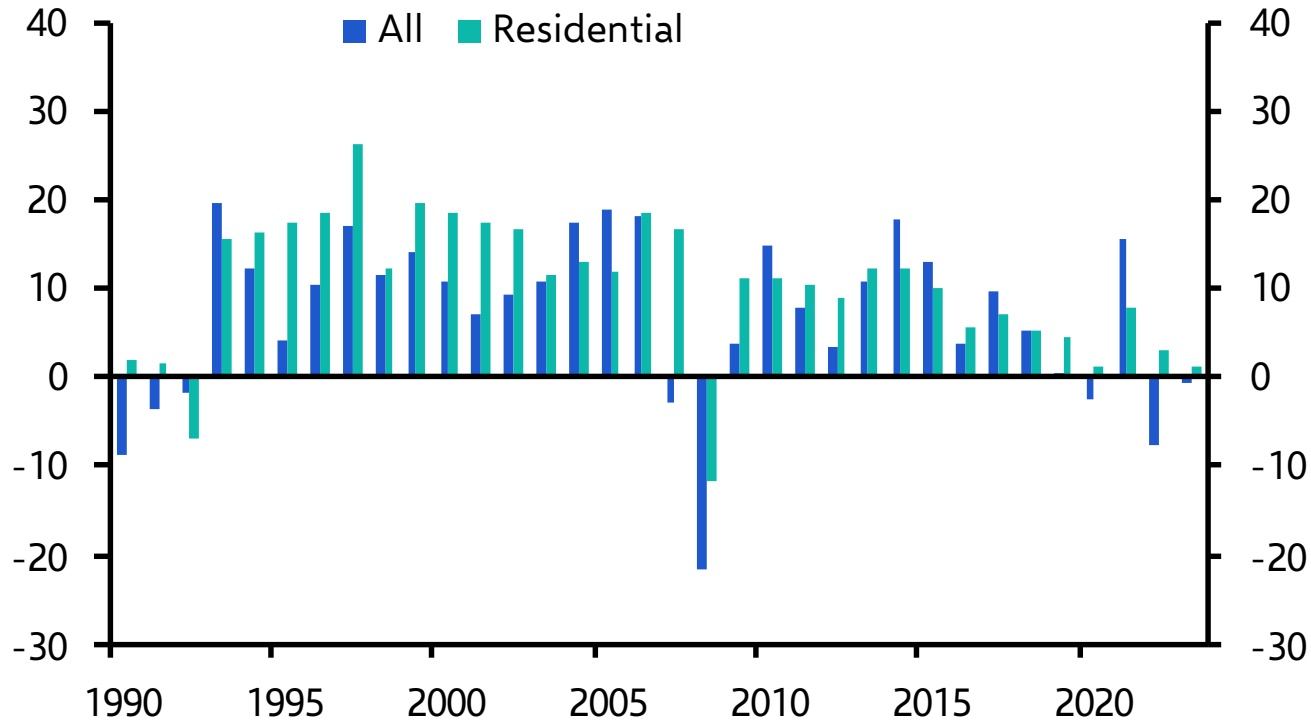
Source: MSCI

UK Property Investment



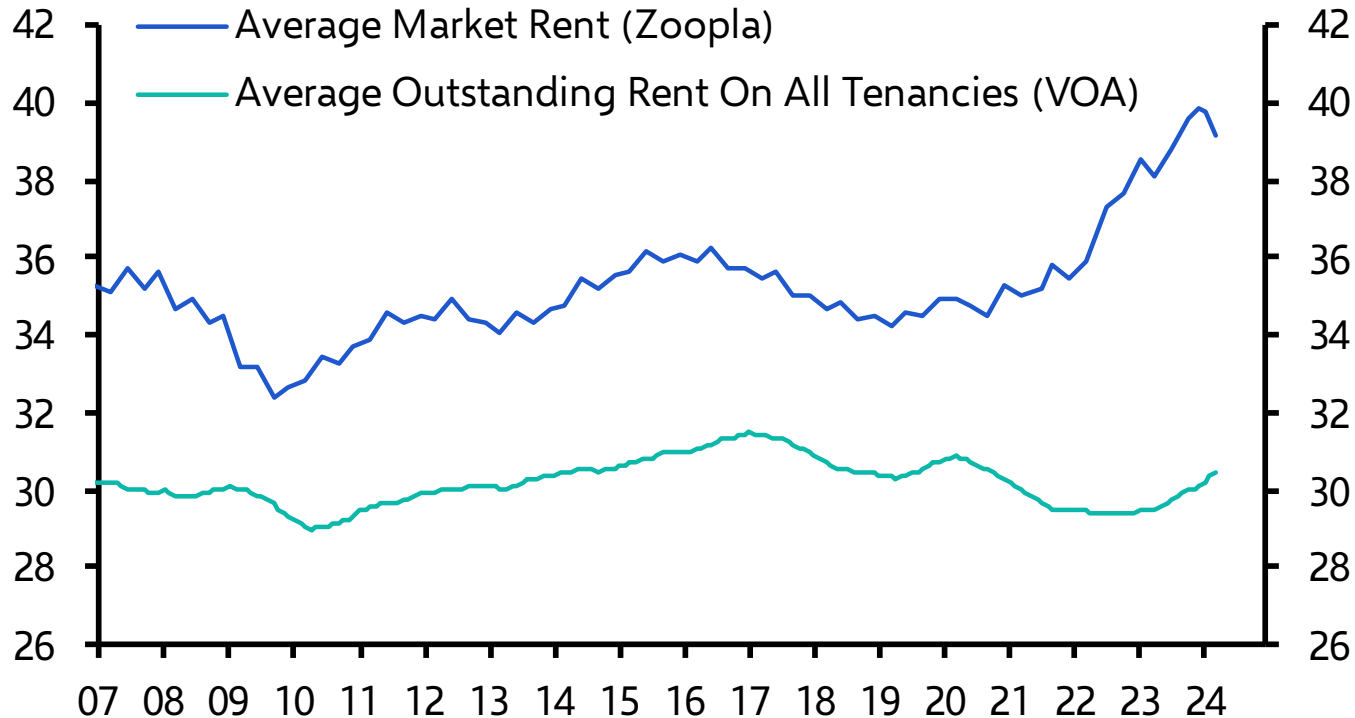
Source: MSCI

Total Returns (%)



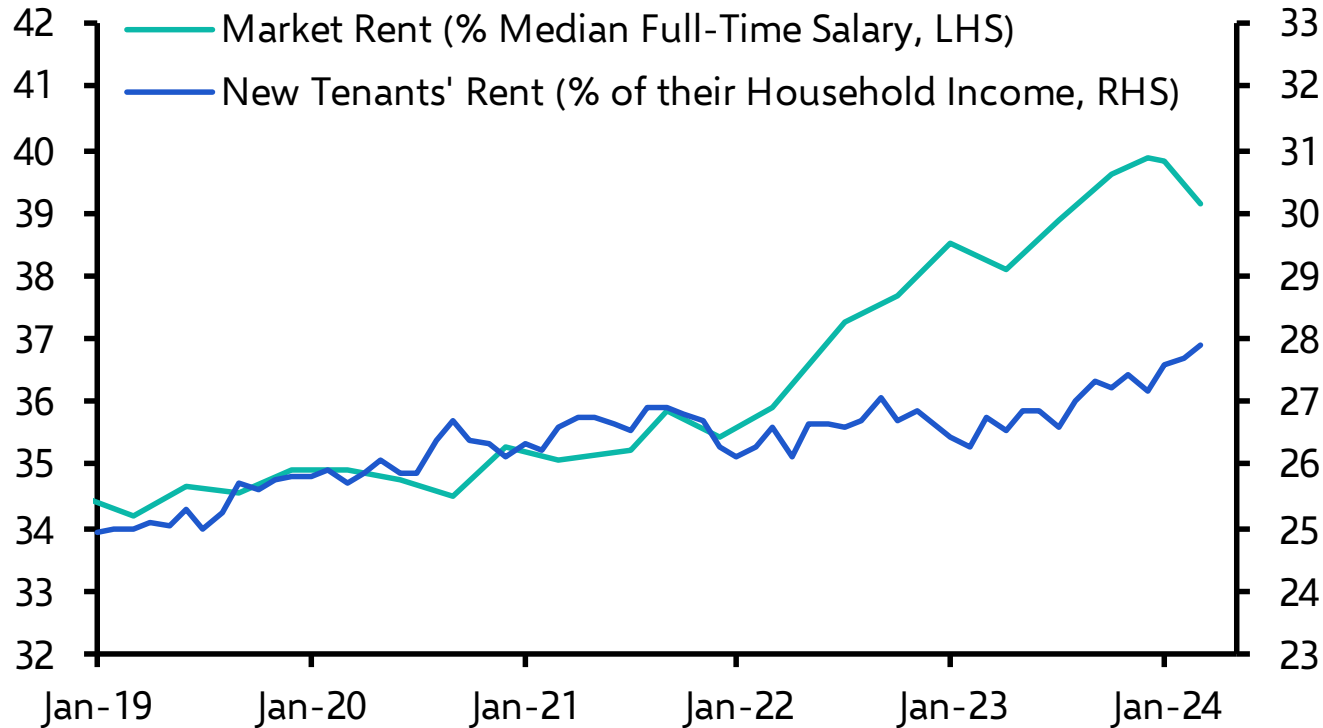
Source: MSCI

Rental Affordability (% Median Full-Time Salary)

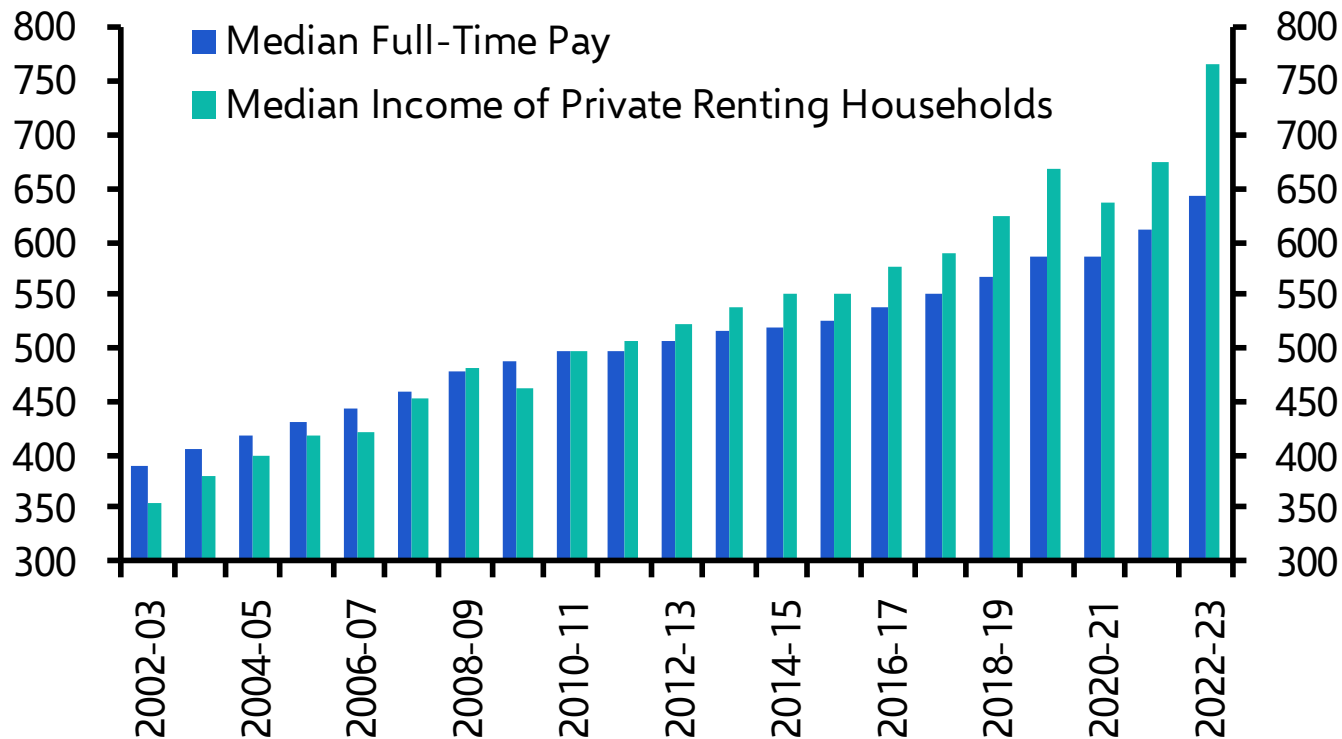


Sources: Refinitiv, Zoopla, VOA, ONS, Capital Economics

Measures of Rental Affordability

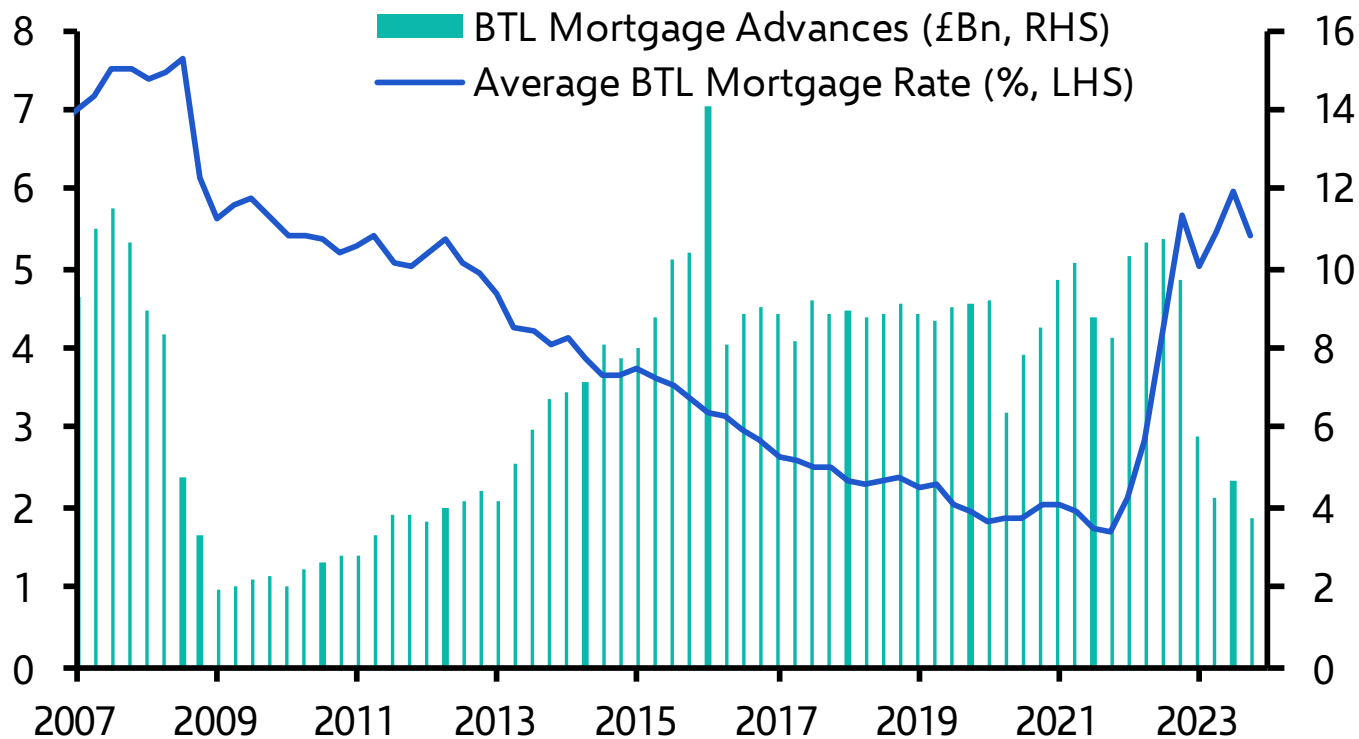


Average Pay & Income of PRS Tenants (£ Per Week)

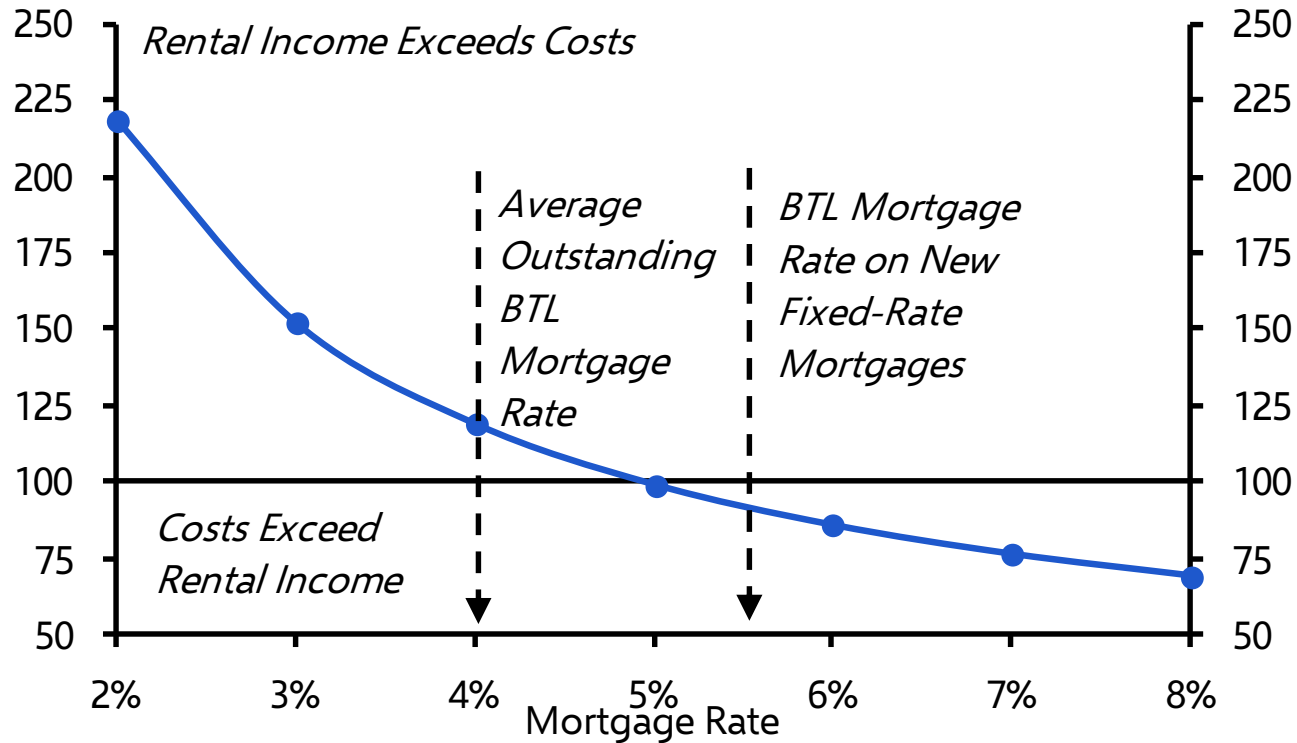


Sources: Refinitiv, DWP, Capital Economics

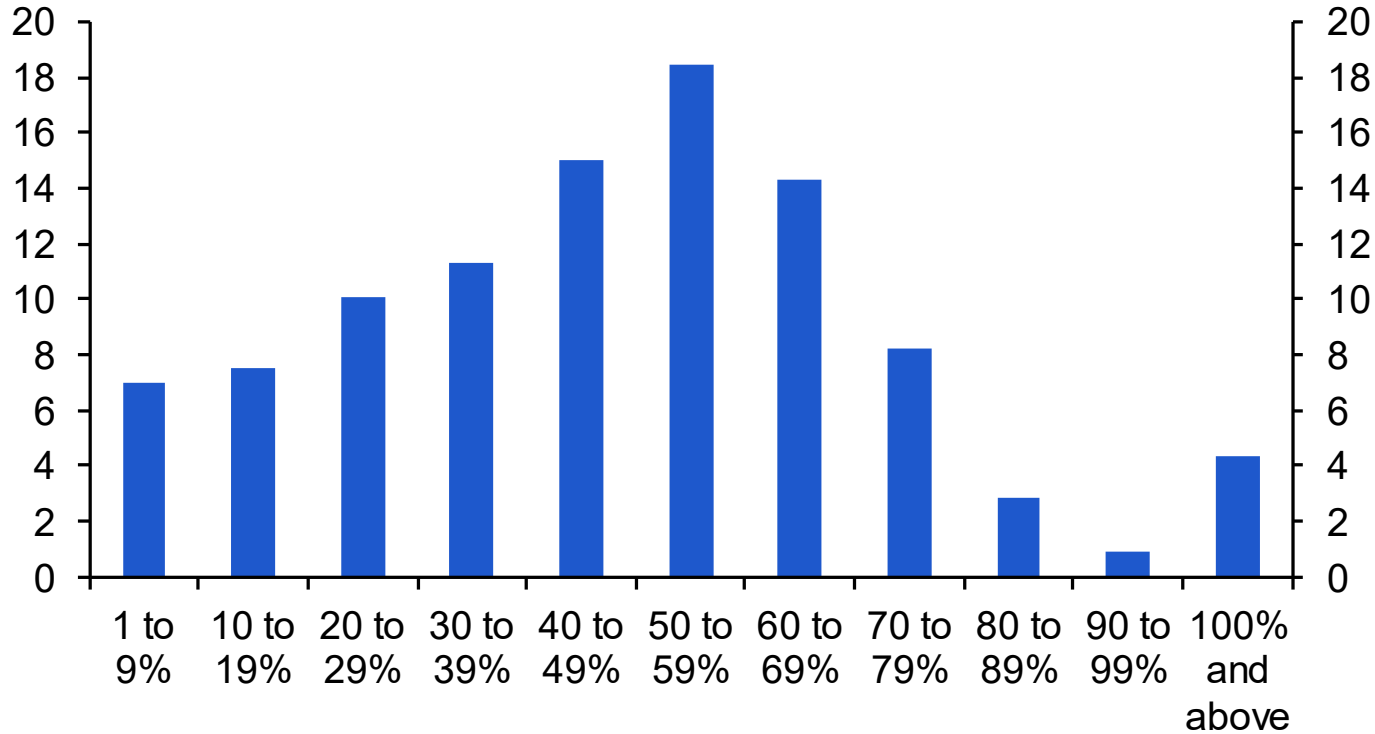
BTL Mortgage Rate & Mortgage Advances



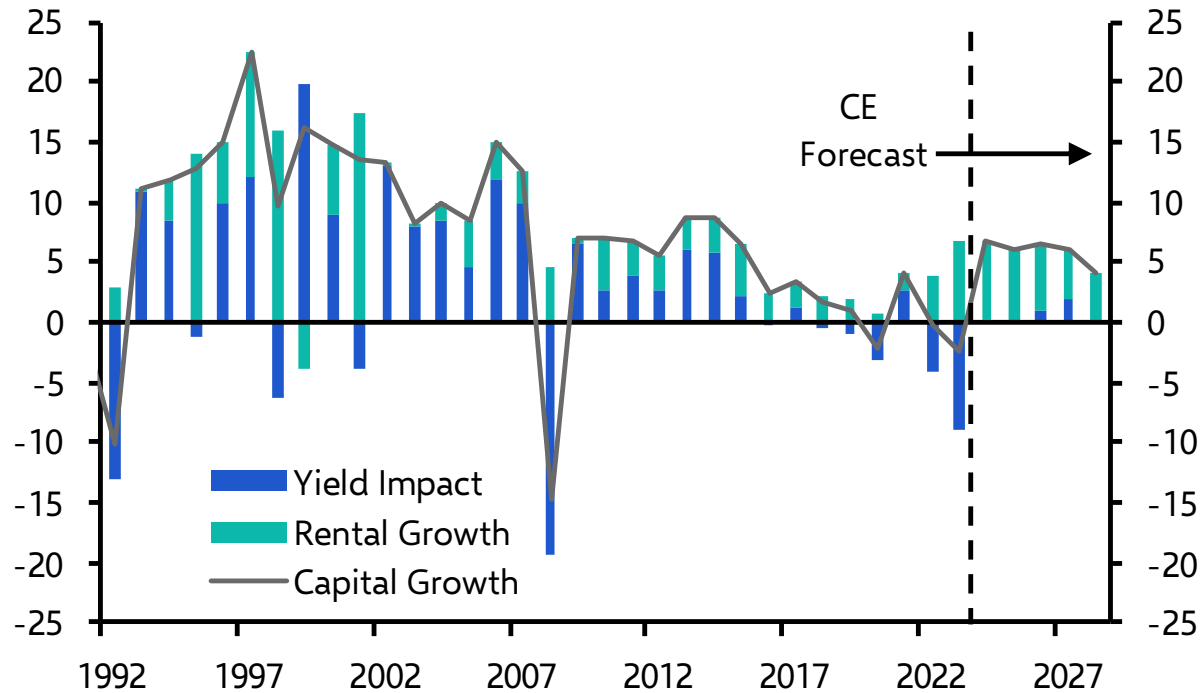
BTL Landlord Interest Cover Ratios Assuming 70% LTV



Portfolio LTV Ratios for Landlords with Debt

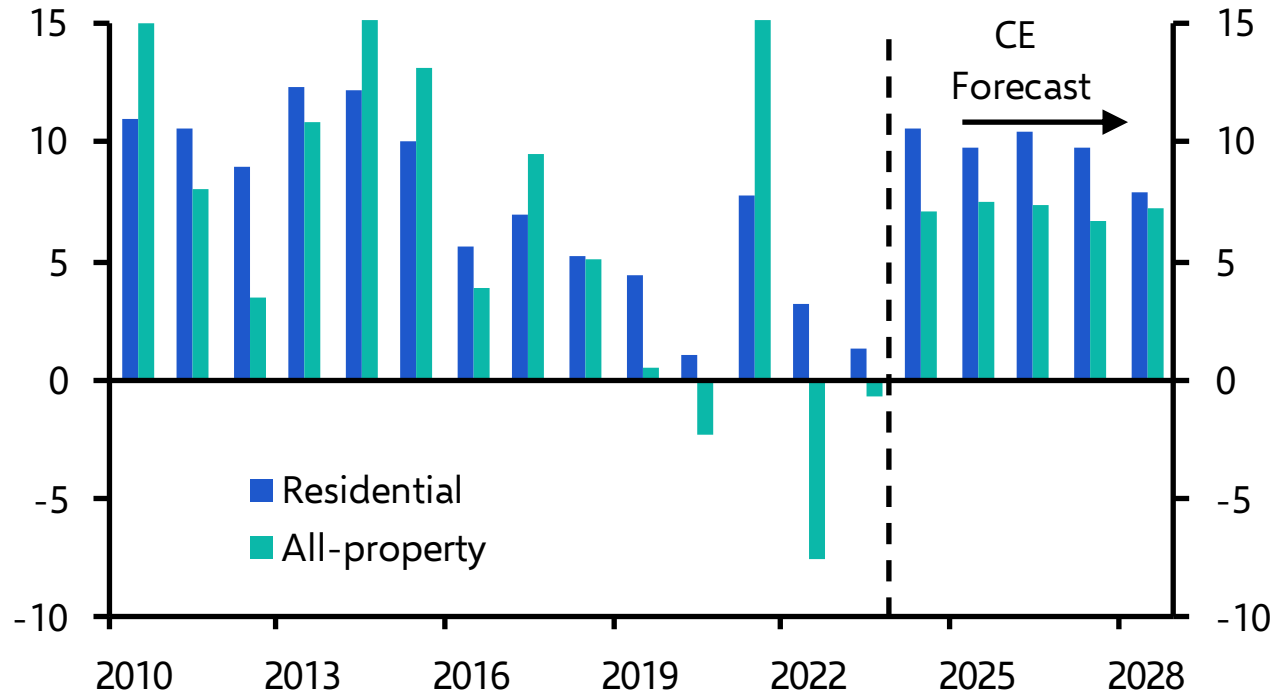


Contributions to Residential Capital Value Growth (%-pts)



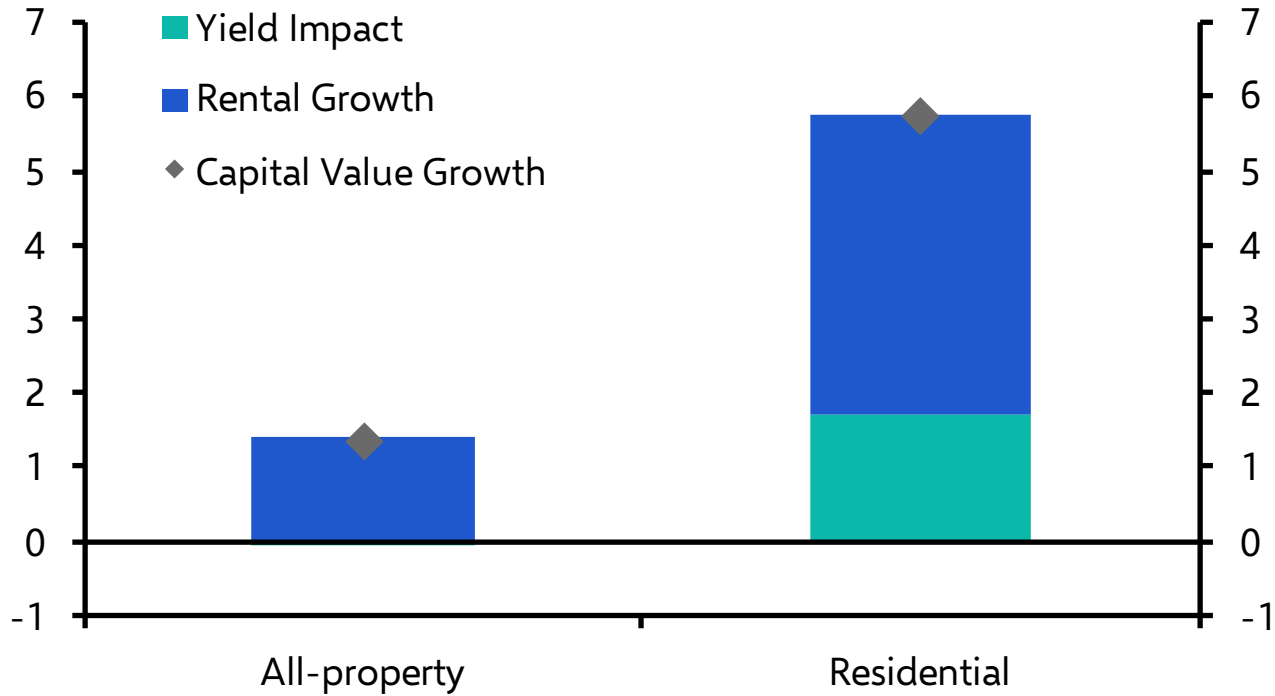
Source: Capital Economics

Total Returns Forecast (%)

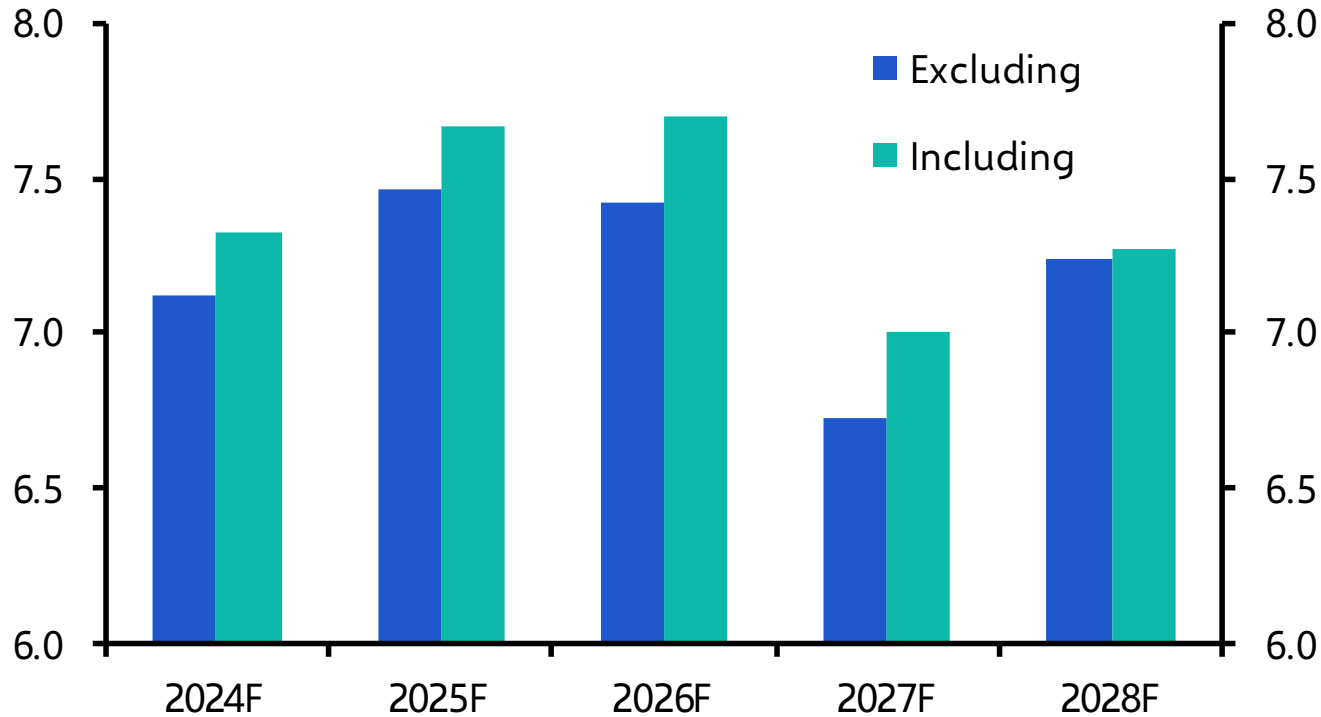


Source: MSCI, Capital Economics

Contributions to Capital Values (2000-23, % p.a.)

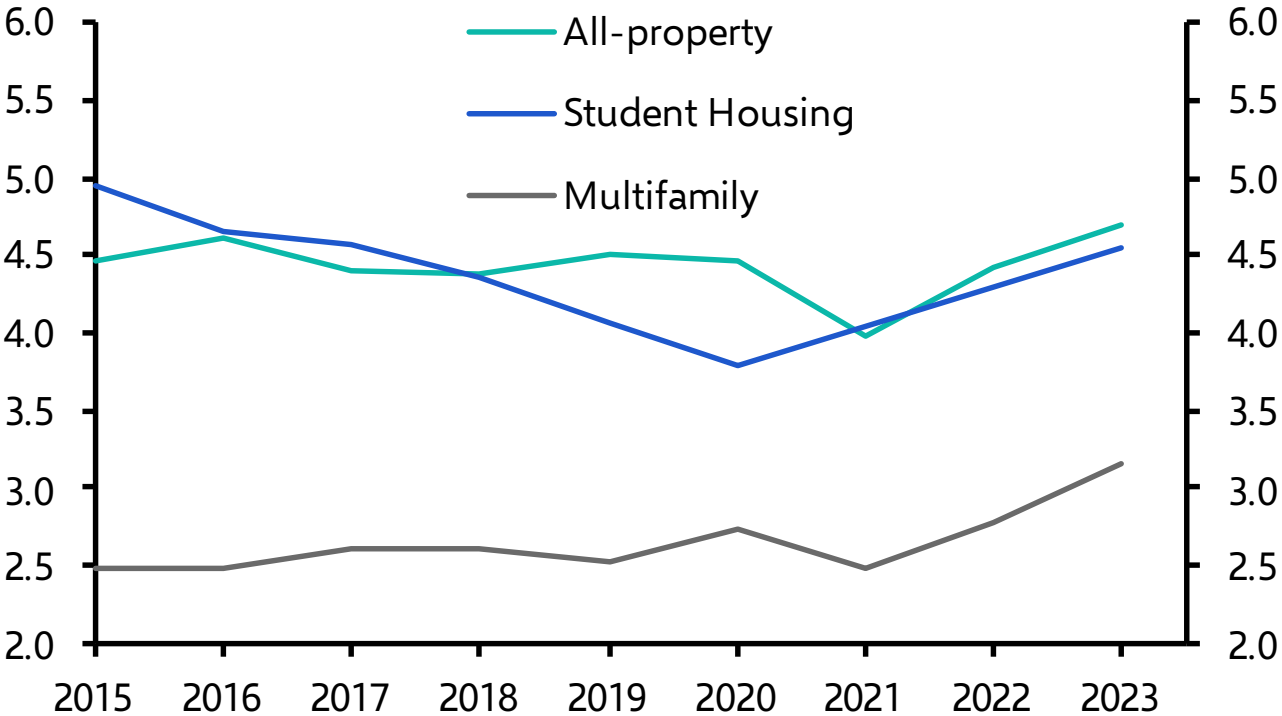


All-Property Total Returns Including & Excluding Residential (%)



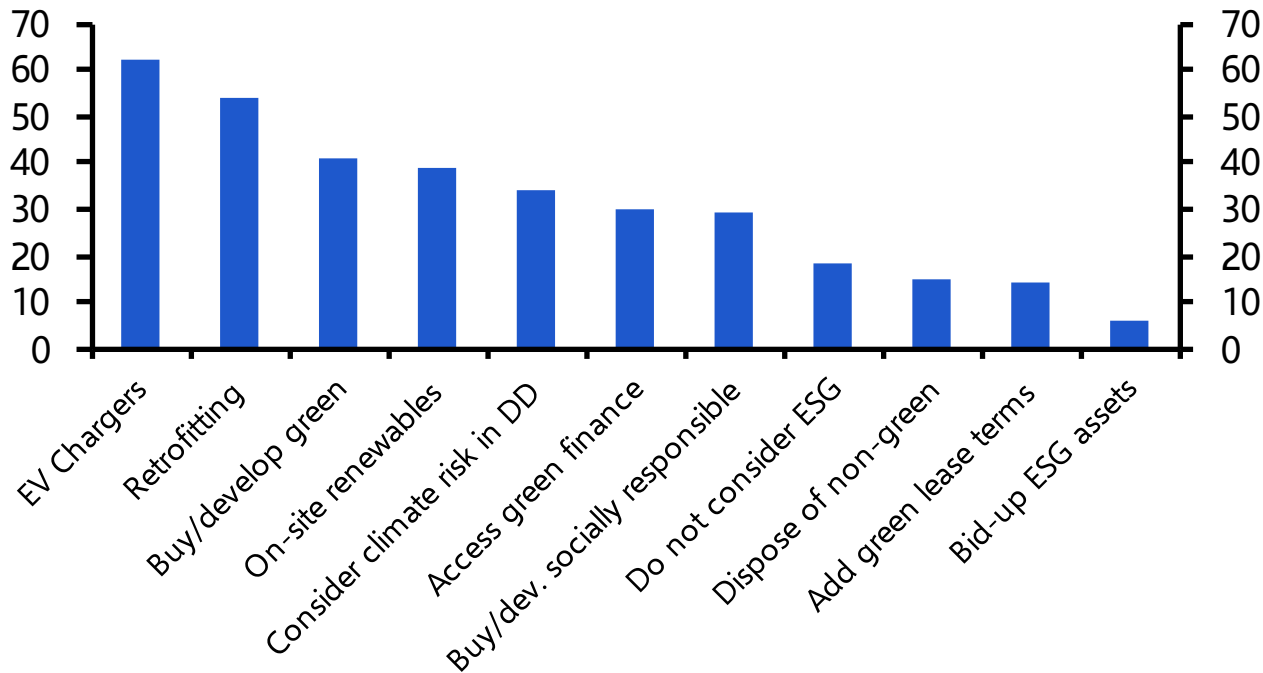
Source: Capital Economics

NOI Yields (%)

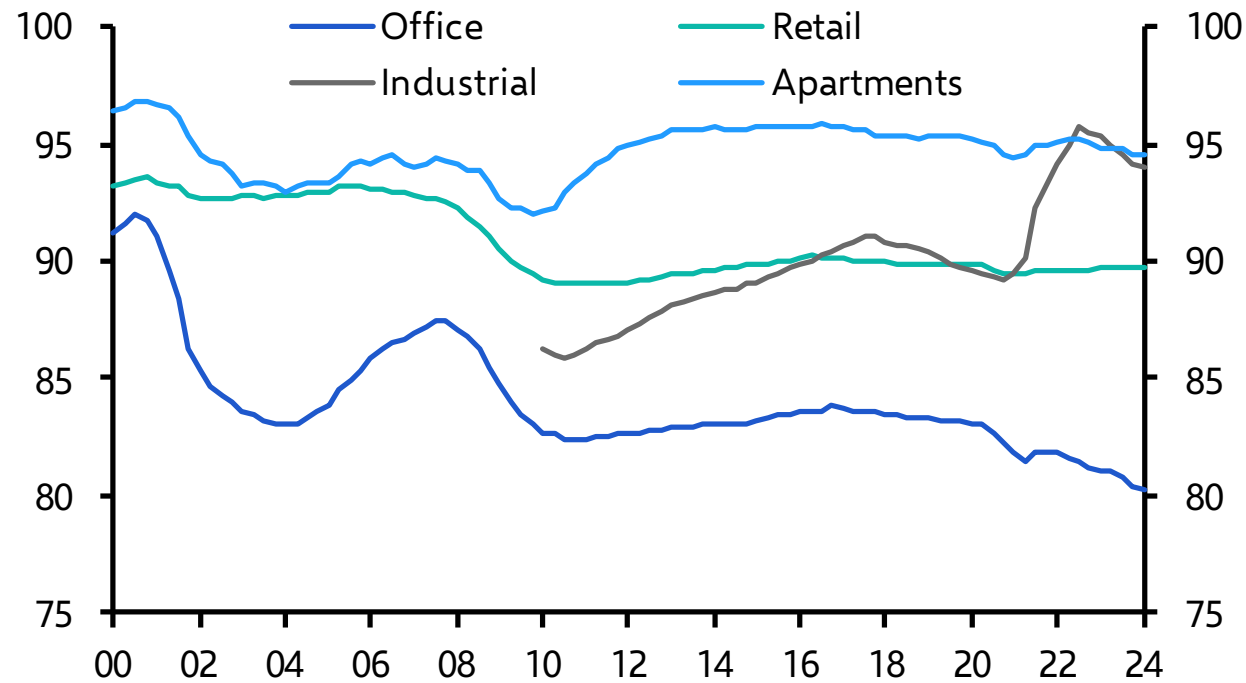


Source: MSCI

ESG initiatives investors will consider for their investments (%)

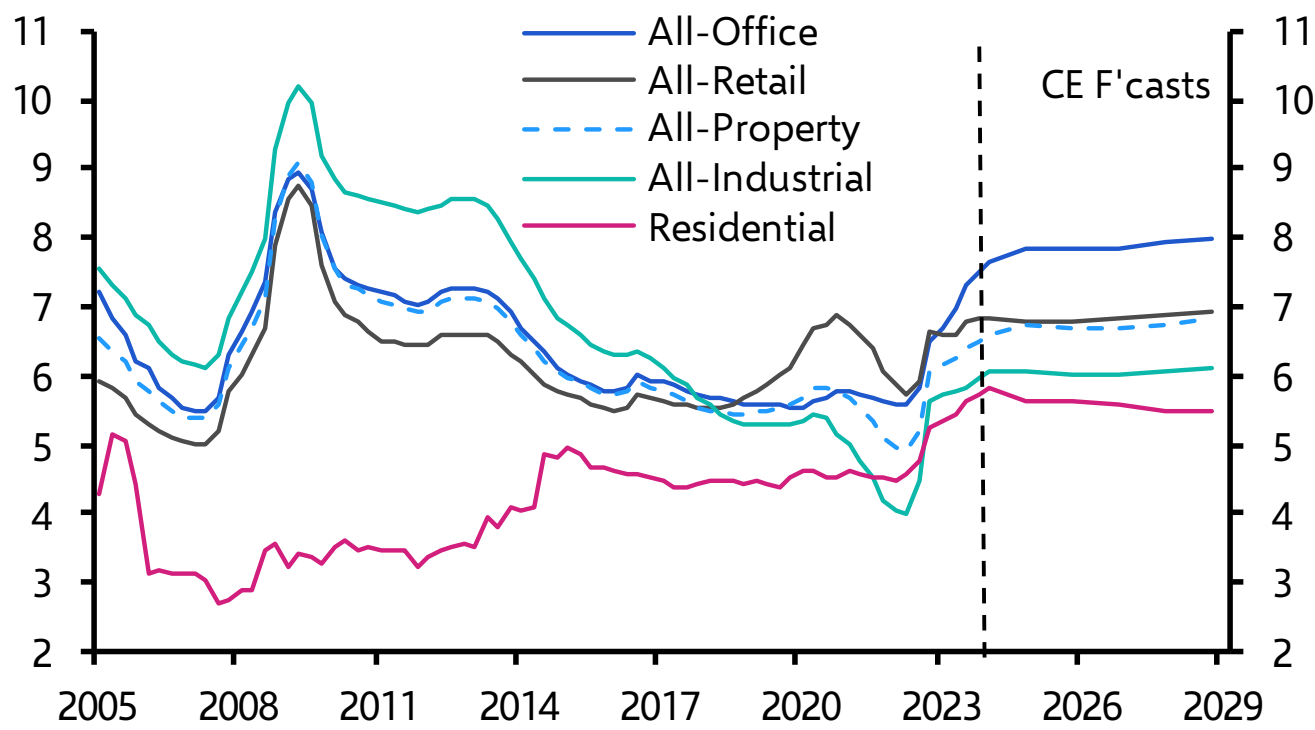


US Occupancy Rates by Sector (%)



Source: REIS

Equivalent Yield Forecasts (%)



Sources: MSCI, Capital Economics

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