NOVEMBER 2024

REPORT COMMISSIONED BY MITHERIDGE CAPITAL MANAGEMENT

London's Economic & Housing Prospects

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OXFORD ECONOMICS

MITHERIDGE

About Oxford Economics

Oxford Economics was founded in 1981 as a commercial venture with Oxford University's business college, to provide economic forecasting and modelling to UK companies and financial institutions expanding abroad. Since then, Oxford Economics has become one of the world's foremost independent global advisory firms, providing reports, forecasts and analytical tools on more than 200 countries, 250 industrial sectors and 8,000 cities and regions. Oxford Economics' best-in-class global economic and industry models and analytical tools give it an unparalleled ability to forecast external market trends and assess their economic, social and business impact.

The modelling and results presented here are based on information provided by third parties, upon which Oxford Economics has relied in producing its report and forecasts in good faith. Any subsequent revision or update of this data will affect the assessments and projections shown.

To discuss the report further, please contact:

Tim Lyne
tlyne@oxfordeconomics.com
www.oxfordeconomics.com

Oxford Economics
4 Millbank, London SW1P 3JA, UK
Tel: +44 (0)20 3910 8000

About Mitheridge Capital Management

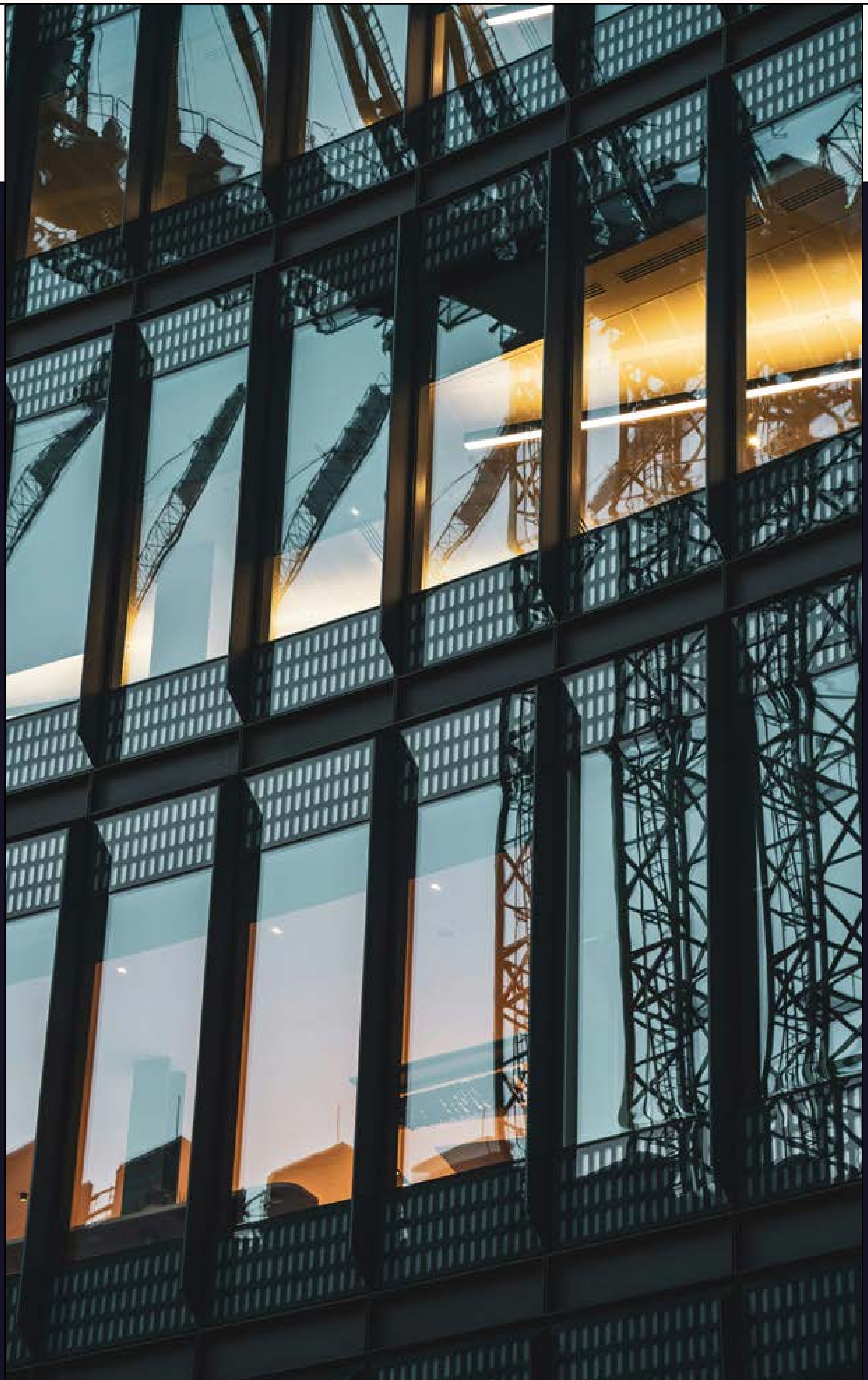
Mitheridge Capital Management is a London-based alternative investment firm, specialising in real estate. Founded in 2010, Mitheridge has an established track record of generating market-leading returns – delivering Living Sector solutions for a changing world. Through the collective experience of its team, Mitheridge combines institutional discipline with creativity and a problem-solving approach. The leadership team captures expertise and experience that extends from an asset's inception to its operation. The Mitheridge Group includes our charitable entity, the Mitheridge Foundation. Mitheridge is authorised and regulated by the Financial Conduct Authority.

Mitheridge has commissioned Oxford Economics to conduct independent research into the fundamental economic indicators for London and the impact on the housing market as a follow-up to reports published in February 2023 and November 2021. This third report in the series sets out Oxford Economics latest research, identifying and forecasting key drivers in relation to London's economy, current housing situation and future housing requirement.

Mitheridge maintains a high conviction in pursuing an investment strategy addressing the growing demand for homes in London and its surrounding areas. The analysis hereafter provides a range of statistical data and comparisons to other major cities across the UK, Europe and globally, outlining the opportunities for creating more homes in London, where there is already a chronic level of undersupply.

Mitheridge Capital Management
1 Chesterfield Street, London,
W1J 5JF, UK
Tel: +44 (0)20 3588 0500
ir@mitheridge.com www.mitheridge.com

Key Takeaways

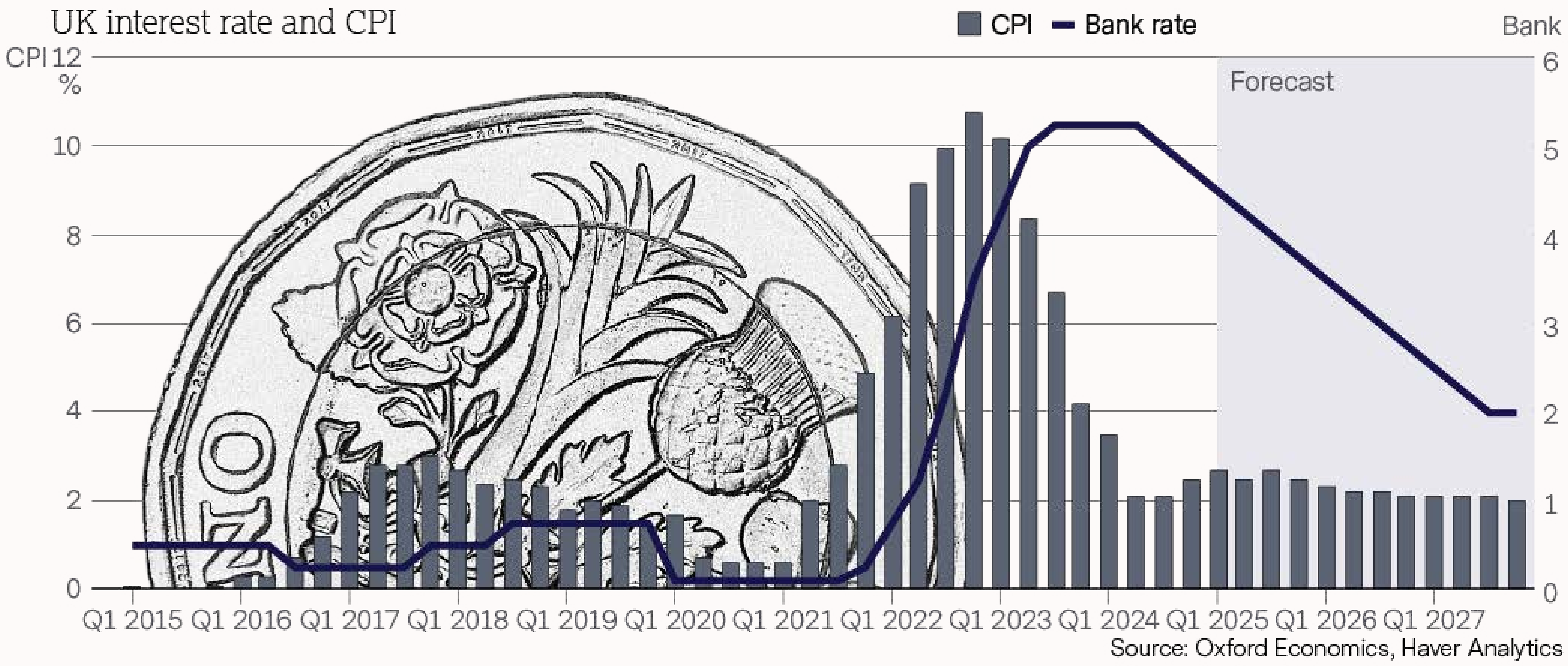


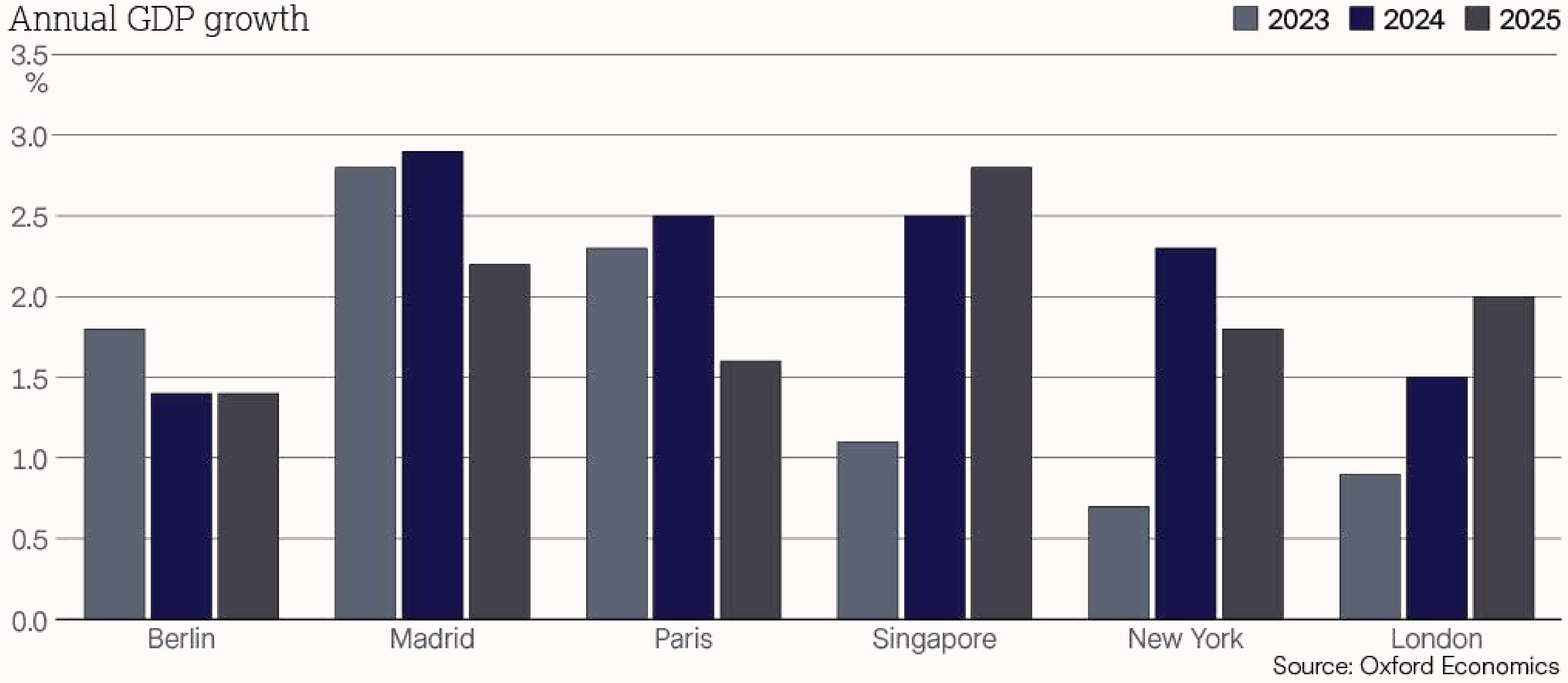
→ Inflation has fallen from its peak to levels close to the 2% target. As a result, the Bank of England is expected to cut interest rates over the next few years, reducing mortgage rates.
→ London's economic growth is expected to outpace New York and major European capitals over the next decade as GDP expands by an average of 2% per year.
→ The population impact of the pandemic was short-lived, and London's population will continue to grow strongly, hitting 10 million by 2034, supported by strong net migration in the short to medium term but natural change will be the major driver of growth as it has been in the past 20 years or so.
→ London house prices fell on average in 2023 but have begun to rise again this year. This increase is expected to persist as prices return to growth over the long-term. Affordability has improved slightly since 2015, as earnings have grown faster than house prices. However, this is set to moderate slightly as prices start to rise.
→ London rents continue to climb, hitting £2,100 per month this summer. London is the only part of the UK where median rents account for over 30% of median income.

Key Takeaways

→ The number of new homes fell in 2022 – the latest year for which official data is available – and average annual delivery from 2010-22 was just 35,000 homes. The supply of new homes falls well short of both the London Plan 2021 target or the assessed level of housing need.

→ Construction price inflation should ease this year and further in 2025, with lower rises in materials prices and earnings anticipated.





The Economic Context

UK growth picked up in 2023, following a sluggish 2022, and our forecast is for healthier growth over the medium-term.

Rapid inflation has characterised recent years but has now fallen. During that time, rising prices eroded household purchasing power and prompted a sharp increase in interest rates. This put a further squeeze on household budgets and higher mortgage rates cooled the growth in house prices.

However, inflation has now fallen from its peak of 11% down to around 2%, in line with the Bank of England's long-term target. We expect interest rates to continue to fall from Q3 2024 onwards, dropping to 2% by the end of 2027.

As the UK economy slowed in 2023, GDP growth in London fell to 0.9% in 2023, but this outpaced the UK average of just 0.1%. In 2024, GDP growth is set to increase to 1.5%, although this will lag other major international cities. And despite sluggish GDP growth in recent periods, London's labour market was remarkably resilient with high levels of employment and unemployment rates at near record lows.

From 2025 onwards London's economy is forecast to pick up pace, expanding at around 1.9% per year over the next decade.

Economic Forecasts

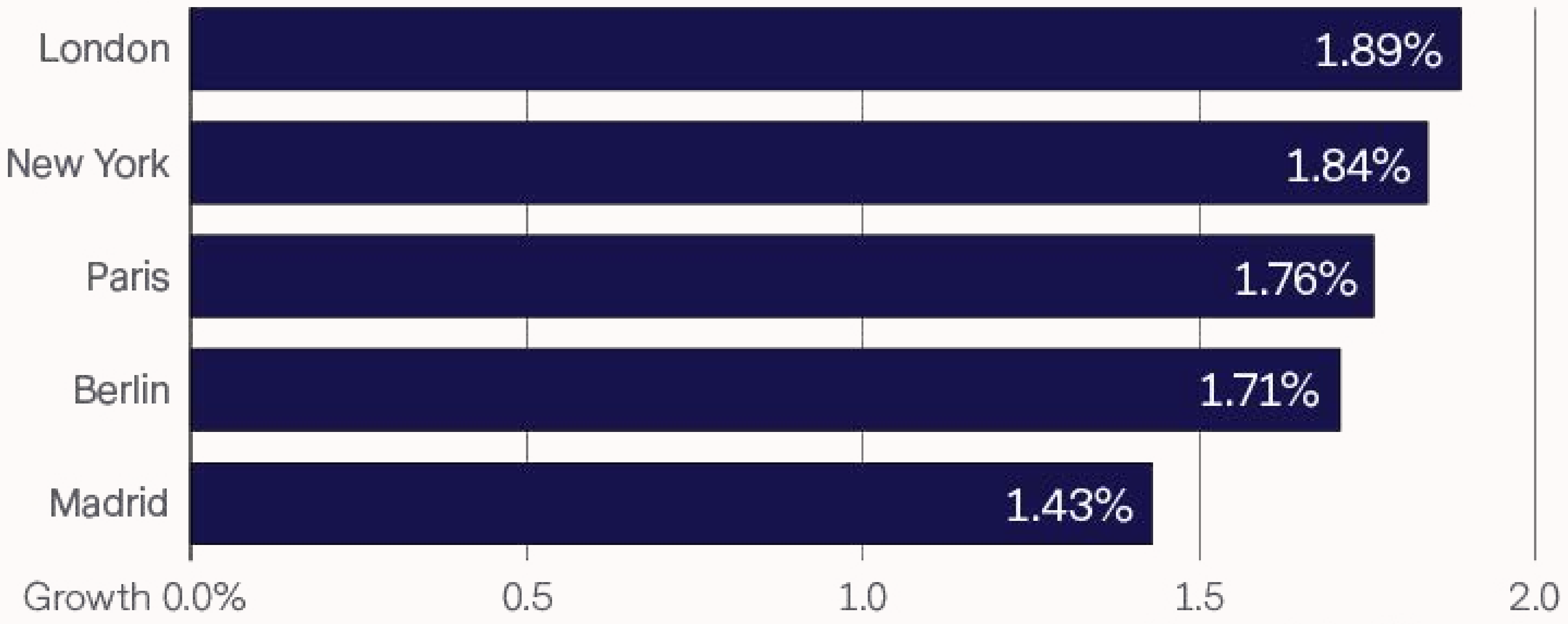
London will continue to lead the UK's growth over the medium-term, with a notable gap between growth in the capital and elsewhere. The city will also see higher growth than its major European peers over the period to 2035.

Between 2025 and 2035 GDP growth in London will average 1.9% per year, outpacing both New York and major European capitals. Employment growth will also be strong, averaging 1.1% per year through to 2035, compared to a 0.8% annual increase for the UK.

Economic growth will be led by expansion in high-value sectors including information, professional services, financial services, and real estate.

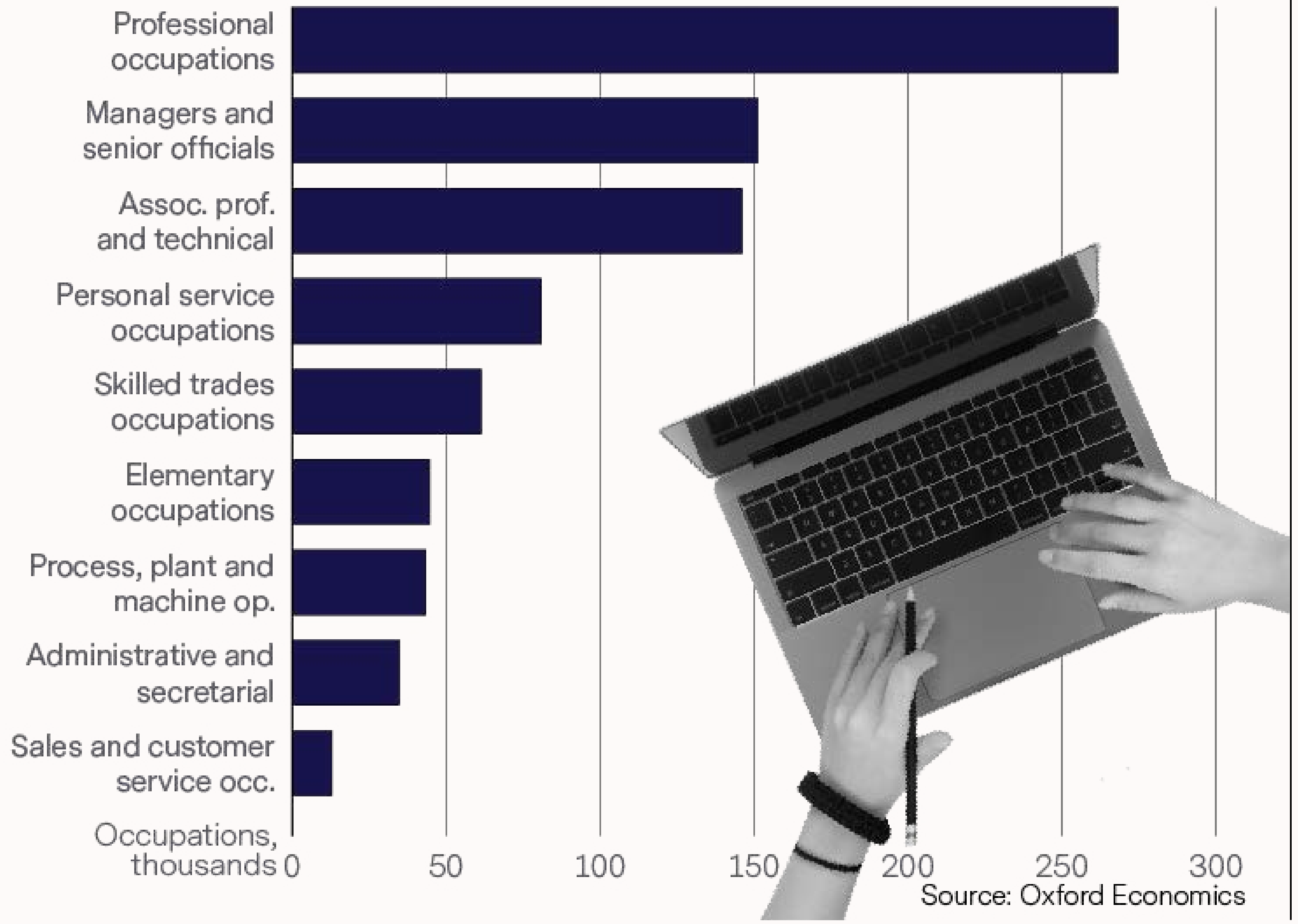
Over the period to 2035, 890,000 jobs will be created by London's growing economy. Much of the new employment will be concentrated within the service sector, in professional services, managerial, and technical roles.

Average annual GDP growth for major cities, 2025-35



Source: Oxford Economics

Net change in jobs by occupation 2024-35



Source: Oxford Economics

1.9%

Average growth in London per year between 2025 and 2035

890k

Jobs created in London by 2035

Population Forecasts

London's total population is forecast to hit 10 million in 2034

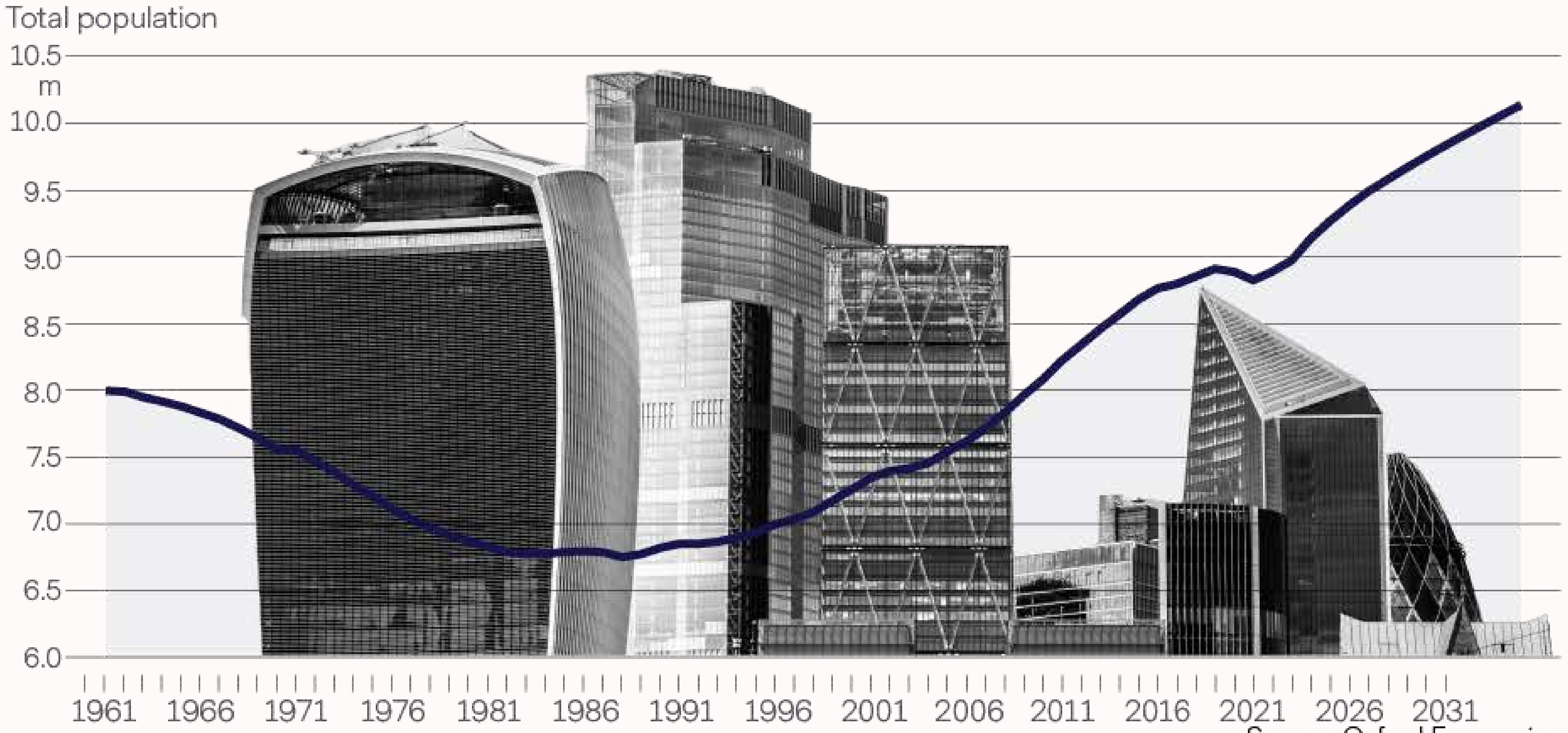
Short-term urban flight during the pandemic brought about a slight dip in London's populace during 2020-21 but the capital's population returned to growth in 2022. Our forecast is for robust population growth to continue, with net in-migration expected to remain strong over the long term.

Our view for long-term net migration has been revised upwards from previous projections, with an average increase of 31,000 people per year through to 2035.

However, the primary driver of population growth will continue to be natural change. Over the next decade, we expect natural increases to add around 60,000 people each year to London's population.

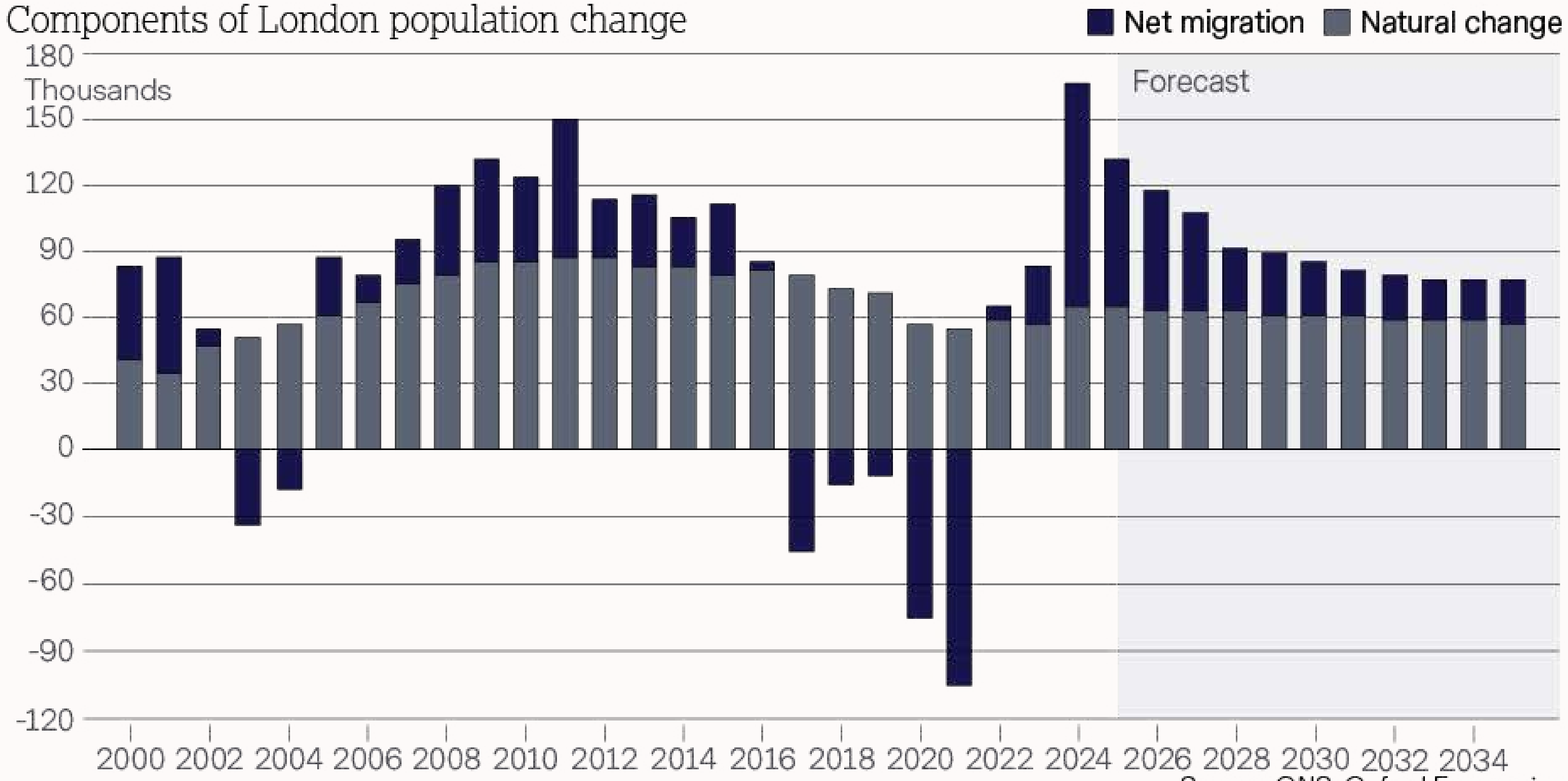
In contrast to many cities, we believe that London's working age (16-64) population will grow more quickly than total population. This will spare London some of the challenges of an aging population as the dependency ratio falls. An expanding working age population will support continued employment and economic growth.

London long-term population trend and outlook

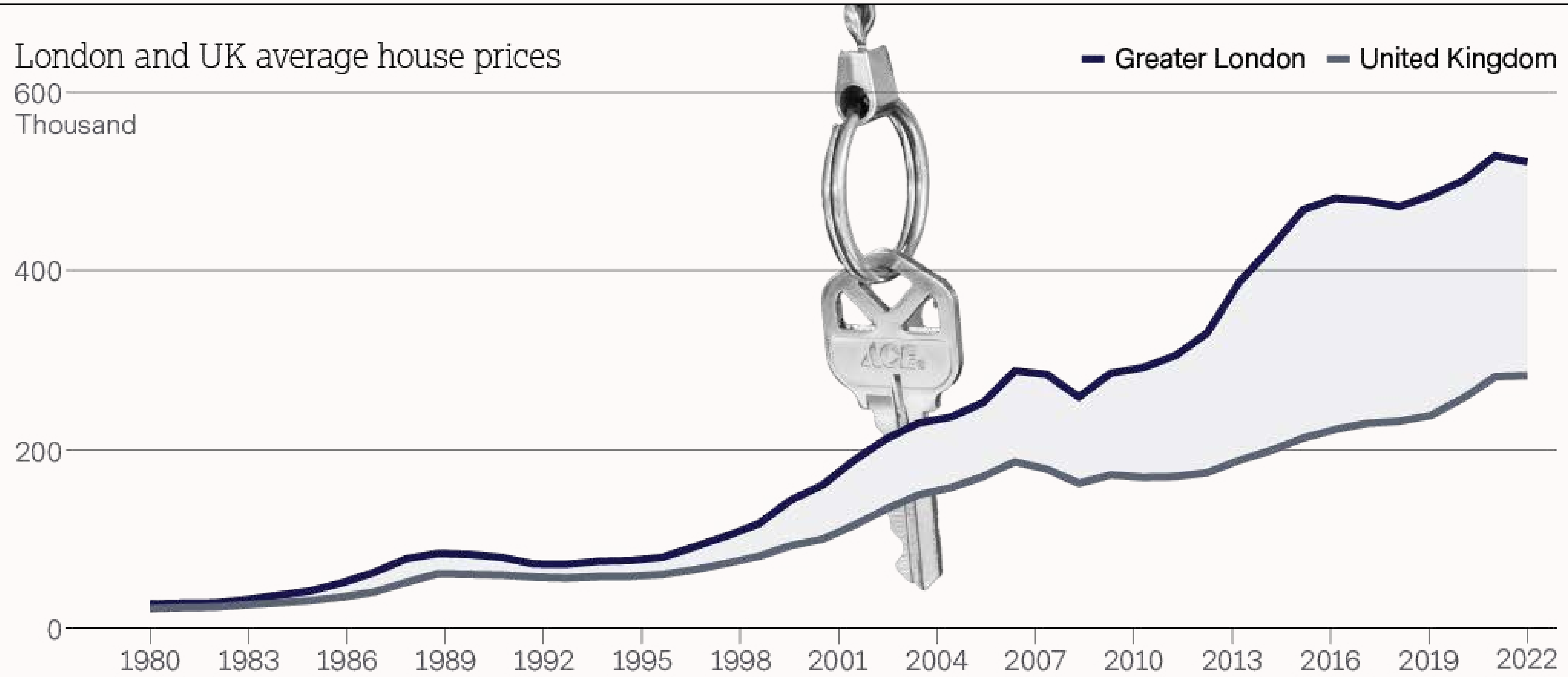


Source: Oxford Economics

Components of London population change



Source: ONS, Oxford Economics



Source: ONS, Oxford Economics

Source: Land Registry

House Prices

House prices in London fell by 1.3% on average in 2023, a sharp reversal from 5.6% annual growth in 2022. However, prices began rising again in Q2 2024, with the price of a London property averaging £515,000.

Land Registry figures indicate that house prices increased by 0.6% between December 2023 and June 2024 as the price declines at the start of the year were offset by stronger growth during the summer months. Despite the recent uptick in growth, London house prices remain down year-on-year.

However, following the recent turnaround, we forecast London's house prices to see modest growth this year. Between 2025 and 2026, we expect annual growth to average 2.8%, outpacing the UK average of 1.5% over the same period.

Over the longer-term house price growth is expected to return to its previous trend, with the London market growing faster than the UK between 2027 and 2035.

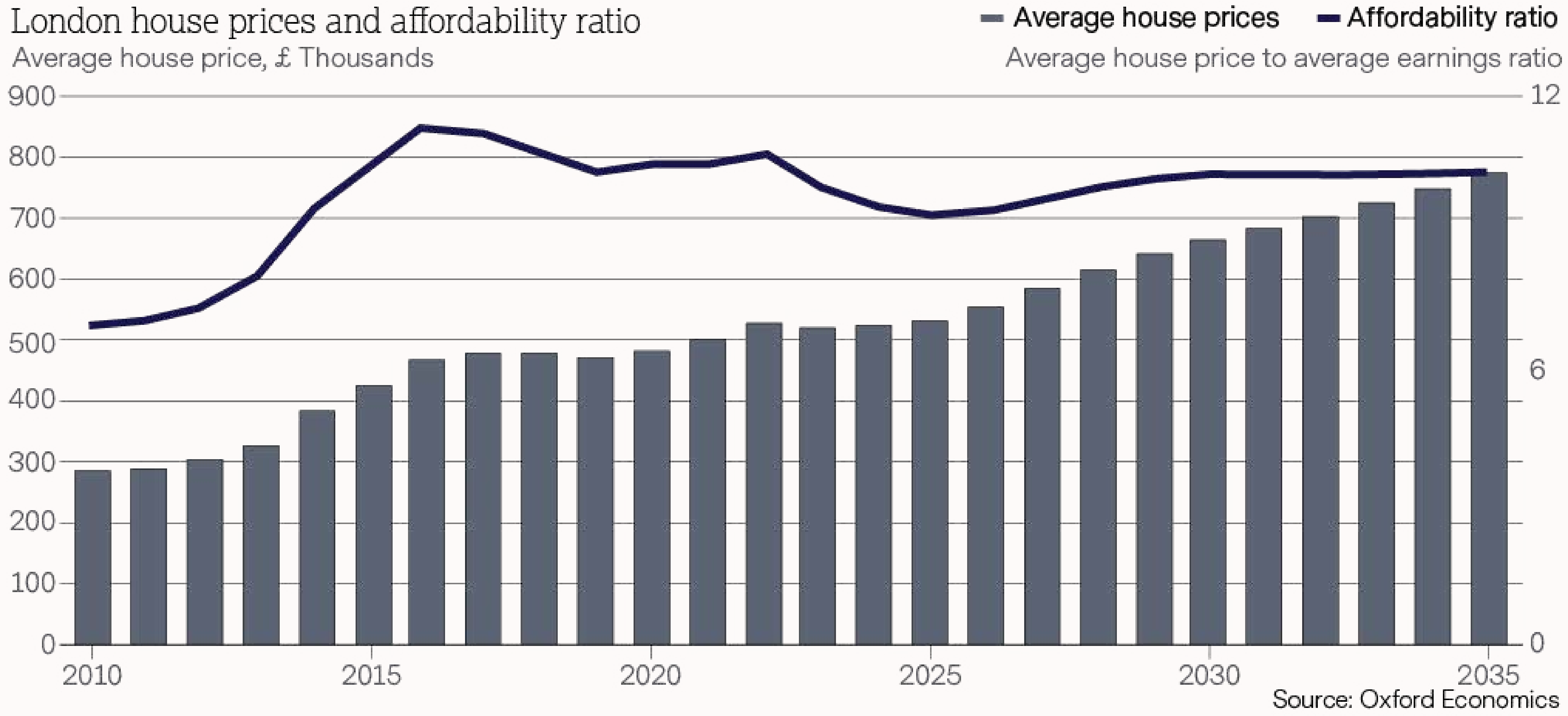
Housing Affordability

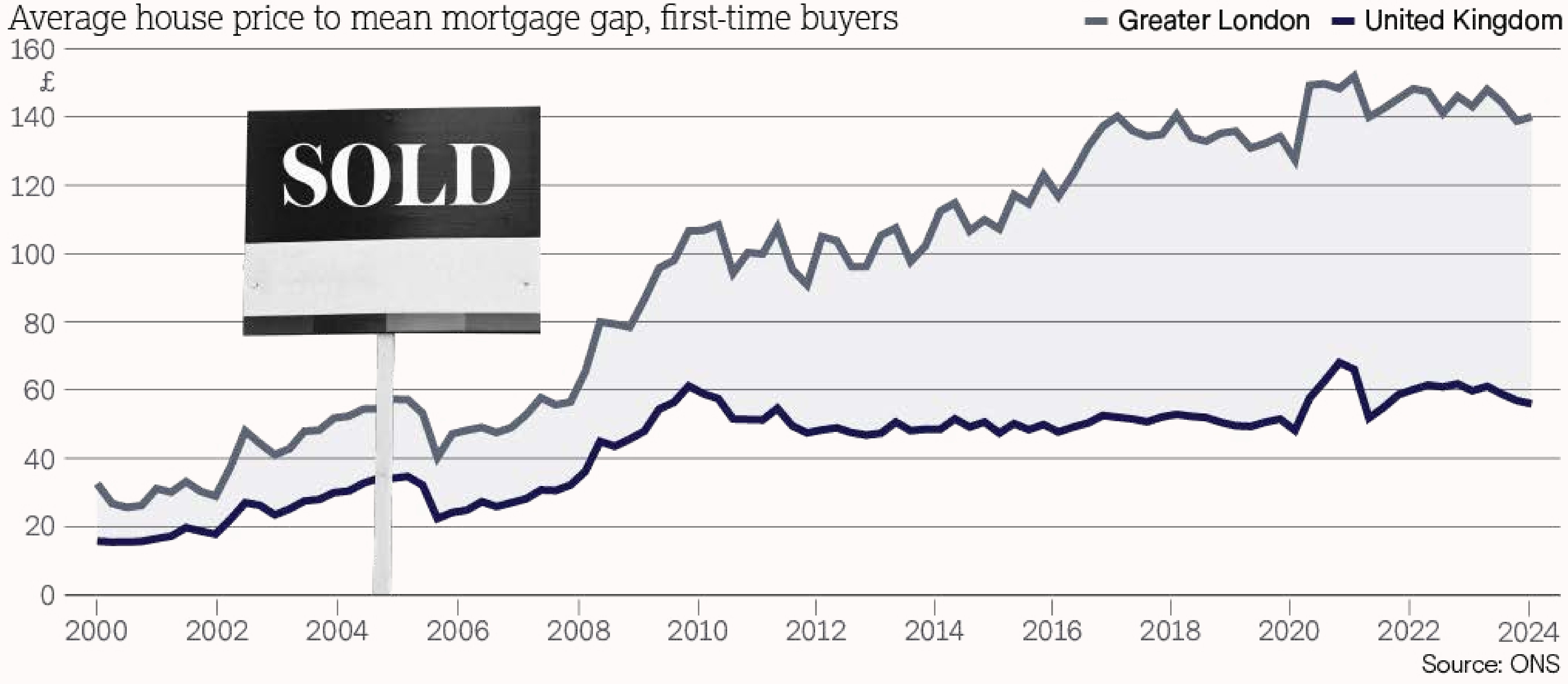
From a peak in 2015 London's house price affordability has improved over the past few years. While house prices have broadly risen on average across the capital, growth in average earnings has caught up such that the ratio of house prices to earnings is at its lowest in 10 years.

As prices rise, we expect the house price to earnings ratio to climb slightly – lower than the peak seen in the mid 2010s but considerably higher than the UK average. This ratio doesn't factor the impact of higher interest rates, however. Nationwide report recent mortgage rate increases have more than offset improvements in the price-to-earnings ratio. The mortgage payments for typical UK first-time buyers now averages 37% of net income, a rise from the long-run average of 30%.

Analysis by UBS shows that London continues to be ranked among the least affordable global cities. Alongside Paris, Tokyo, and Tel Aviv it is a city where the cost of a small city centre apartment is more than 10-years income for the average skilled worker.

Lower lending rates are now transferring to a larger number of UK mortgage approvals. But the size of the average deposit laid down for a London property is indicative of the high threshold for getting onto the capital's property ladder. The average deposit for first-time buyers is now around £140,000, close to double the UK average.



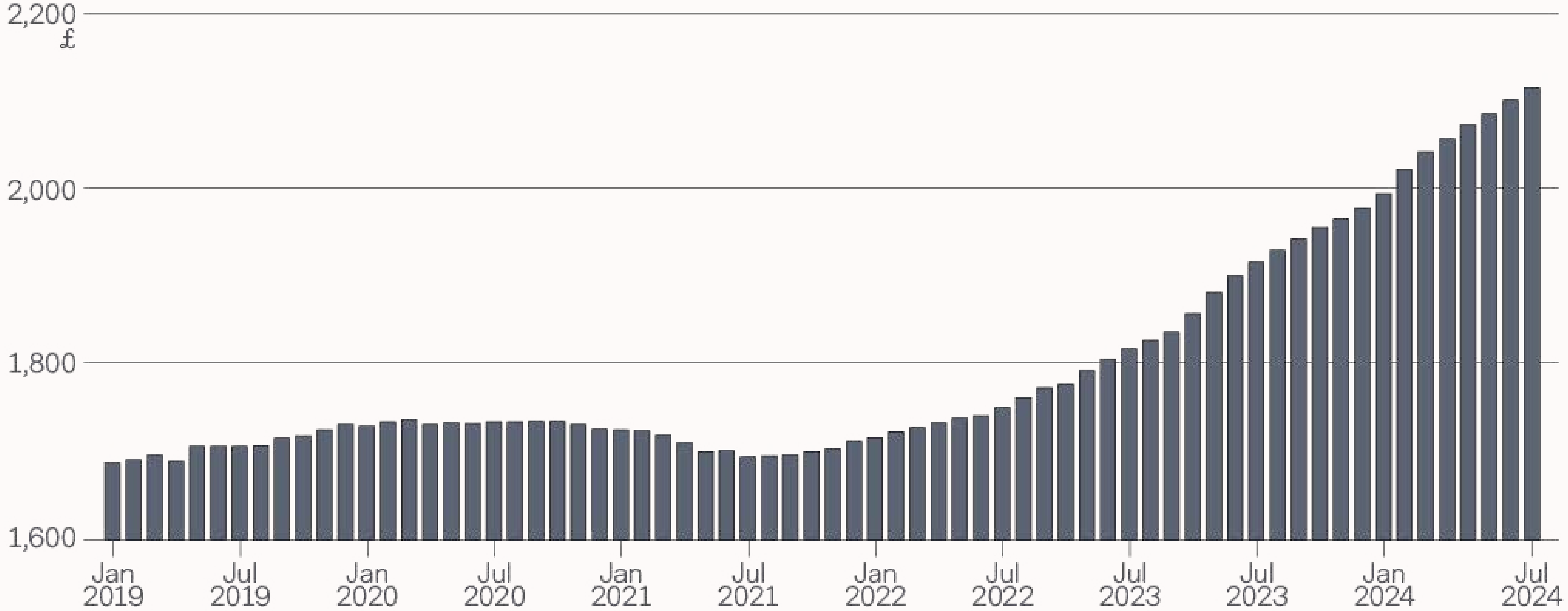


Rental Market

In contrast to the weak growth in house prices, London's rental costs have grown steadily, with the average private rent hitting £2,100 per month in August 2024, a year-on-year increase of 9.6%.

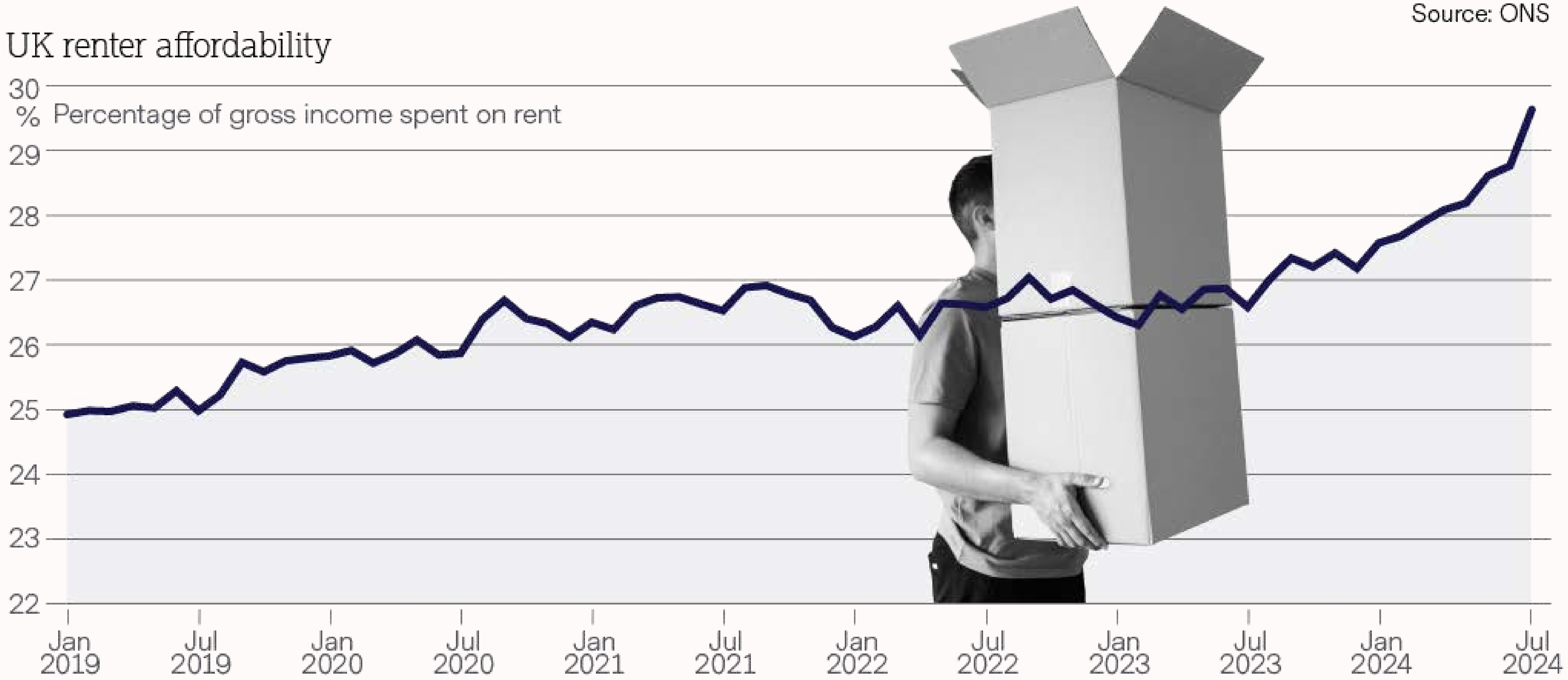
Rents in the capital posted the fastest annual growth of any region in the UK over the past year according to the ONS Price Index of Private Rents. However, rental growth is down from its peak earlier in the year. Analysis by Zoopla also suggests that rental growth is now slowing, with an easing in rents for new tenancies. JLL analysis also points to a slowdown in rental growth, with annual increases of 3.6% from 2025-28 expected in London.

London average private rent



Source: ONS

UK renter affordability



Source: ONS

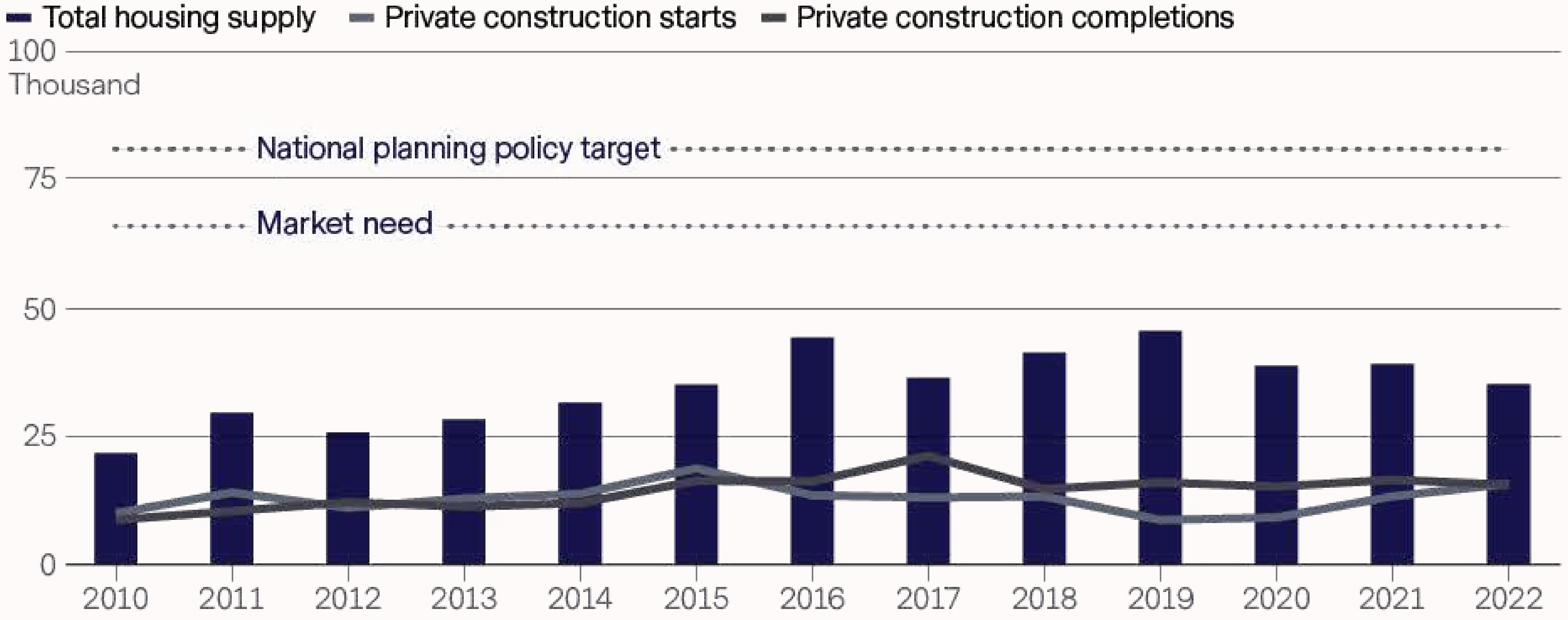
ONS data show London as the least affordable region in the UK, with median private rents accounting for 35% of median income, the only part of the UK above the 30% affordability threshold. Meanwhile, recent figures from HomeLet indicate that rent for new tenancies in London accounted for c.40% of income in 2024.

While rental demand remains strong, RICS reports falls in instructions from new landlords. Financial pressures, mortgage costs, and tax changes, are likely pushing some landlords to exit the rental market with a rising number of buy-to-let properties being sold. Research by Savills shows an annual average of 190,000 rental or second homes sold in the UK over the three years to April 2024, with London particularly affected. This accounts for c.17% of all home sales, compared to just 7% 10 years ago.

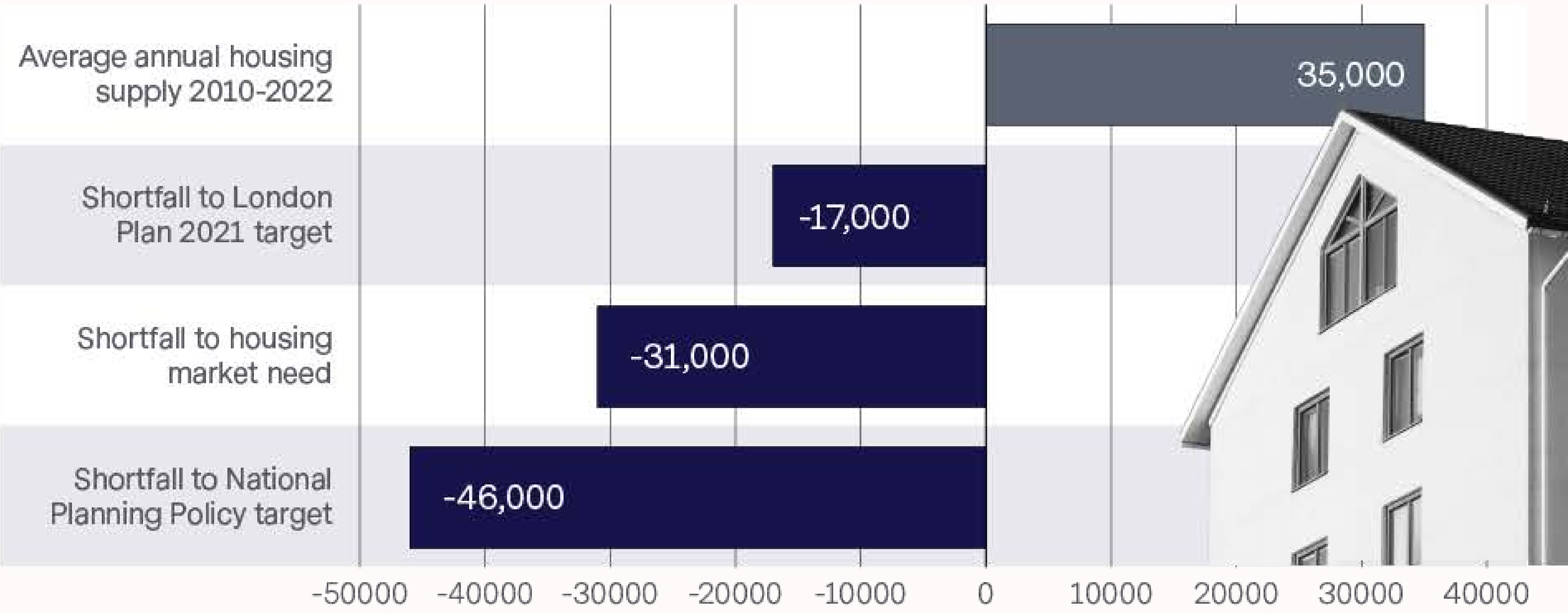
Housing Supply

New housing supply in London has risen over recent years but the number of new dwellings added to the capital's housing stock remains well below target, averaging 35,000 homes per year over the period from 2010 to 2022 according to government figures.

Annual net change in London's housing supply 2010-22



Shortfall in London annual housing supply



Source: DLUHC, GLA

Official statistics show annual housing supply in London increased steadily from 2012, hitting 44,000 new homes in 2016 before annual delivery fell in 2017. The recent peak for annual delivery was in 2019 with 46,000 new homes delivered, after which housing supply has fallen.

Even at peak, the delivery of new homes to Londoners has fallen far short of target. Compared to the annual delivery target of 51,000 homes per year, specified in the London Plan, the current supply shortfall averages 17,000 homes per year.

The new Labour government has recently announced their own housing targets, more ambitious than the London Plan. These set a goal of 81,000 new homes in London each year, the equivalent of 2% of existing housing stock added annually. The plans also include targets becoming mandatory. Current provision leaves an annual shortfall of c. 46,000 homes per year.

Housing Types

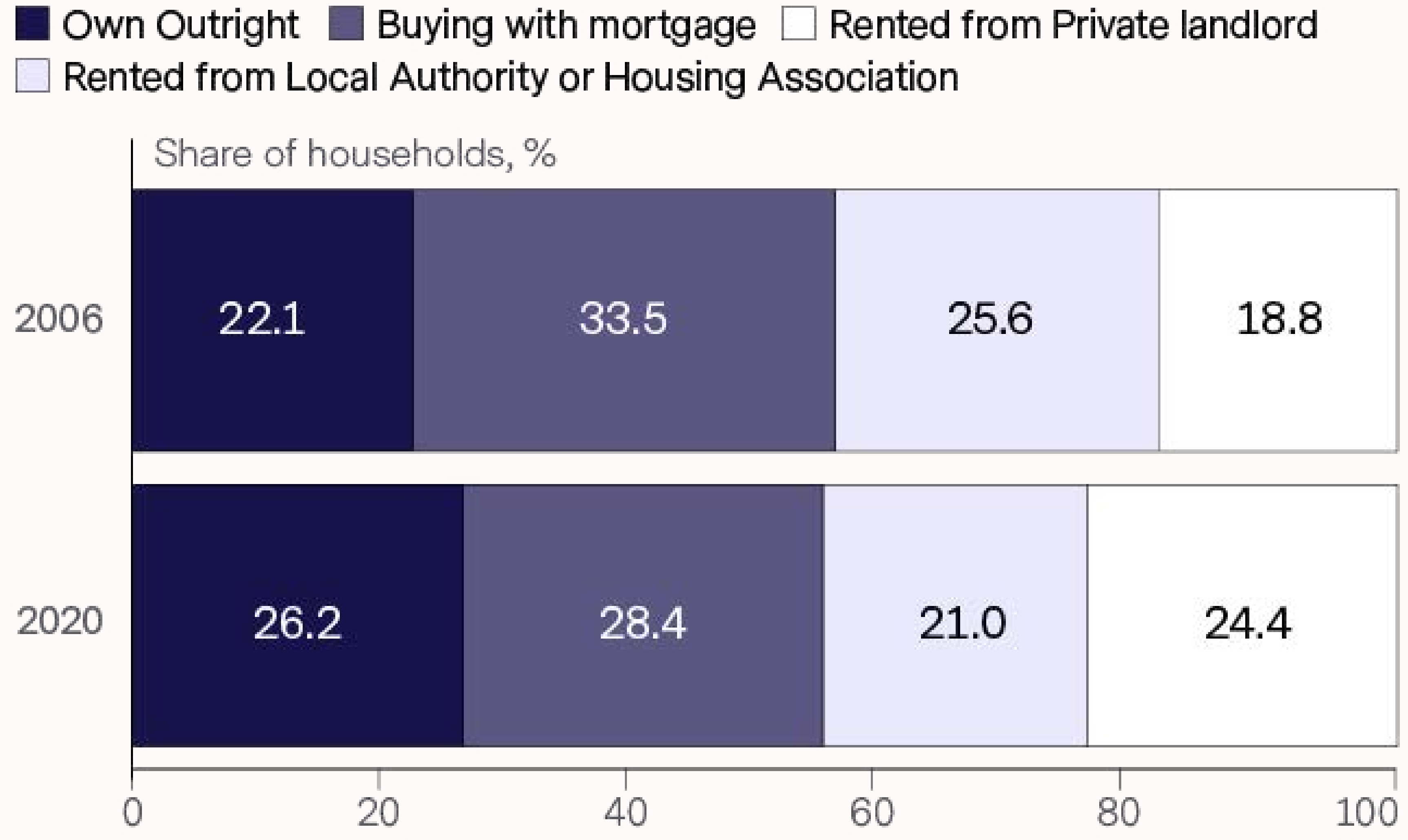
The composition of London's housing stock has shifted over the past 20 years. Between 2006 and 2020 the share of households that are owner occupied with a mortgage fell 5ppts, while private rentals increased. Most new homes in London are flats, with the majority of new households between 2011 and 2021 living in purpose-built flats.

Build to Rent (BTR) sector has been a large part of recent housing delivery. These are homes purpose-built for the rental market, or new properties sold directly to large landlords.

Analysis for the British Property Federation shows the total stock of BTR completions in London hit 50,000 in Q2 2024, with a 15% year-on-year increase in total supply.

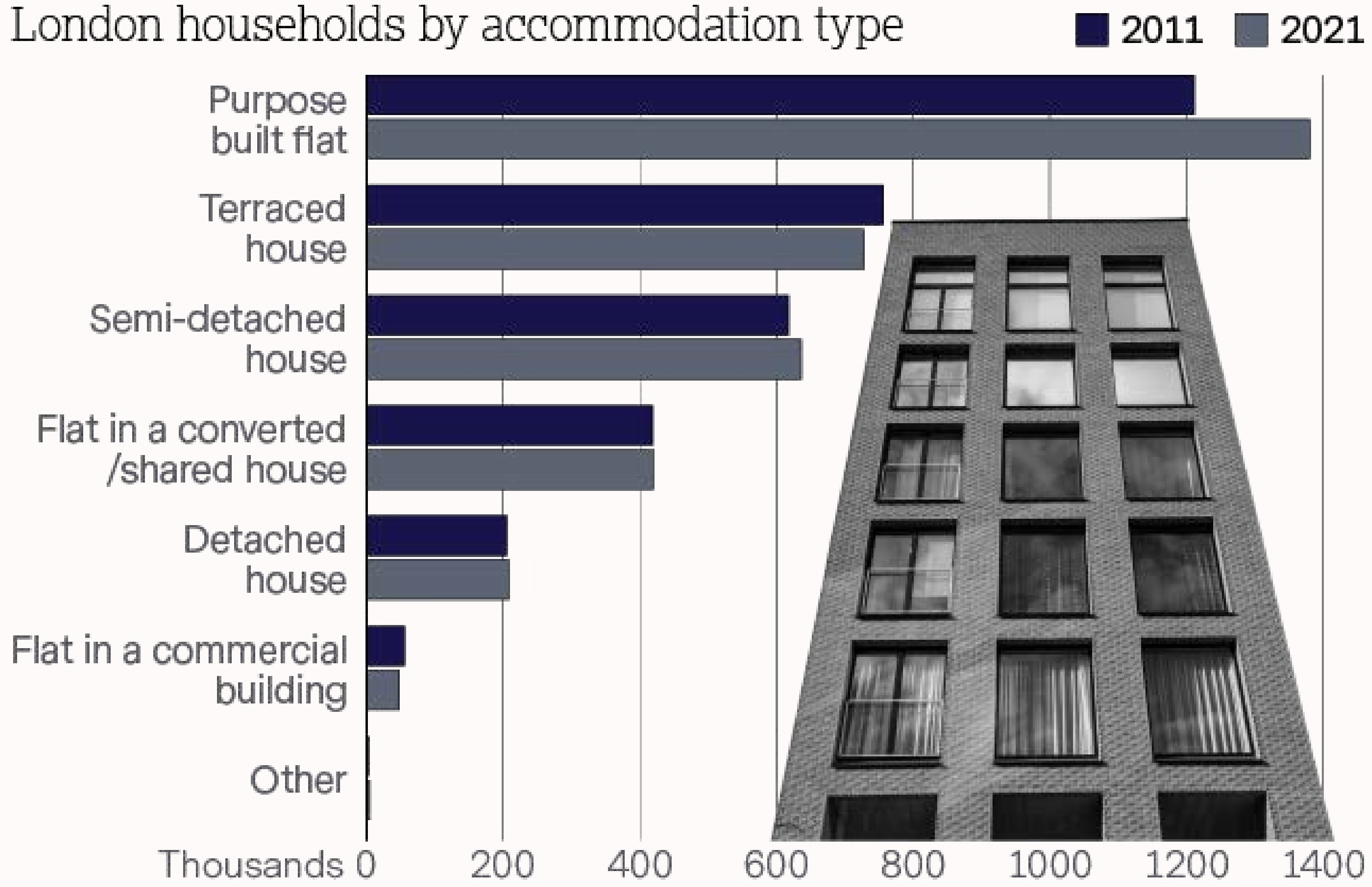
Co-living for younger residents is also growing in popularity. The BPF note that in H2 2023 there were 31,000 beds in co-living in operation and development across the UK, almost half of which were in London. The sector is still in its infancy, with a minority of that number currently operational. However, rising demand is likely to see the sector's rapid growth continue over the next few years.

London housing stock by tenure



Source: Oxford economics

London households by accommodation type



Source: ONS

15%

year on year increase in supply of Build to Rent Properties

24.4%

of housing stock rented from private landlords, up from 18.8%

While London is a relatively young city there are 1.1 million residents aged over 65. The London Plan sets out an annual benchmark of 4,100 specialist older persons housing units to be built, the equivalent of 8% of the total homes target. However, JLL notes that delivery of senior living has fallen from its peak in the late 1980s, and current delivery is insufficient to meet rising demand.

Construction Costs

Following the high rates of inflation over the past few years we expect more moderate changes in construction costs over the years to 2028. Our forecast is for slight falls in the cost of construction materials in 2025, while the forecasts from other providers, such as MACE, BCIS, and T&T, point to moderate rises in overall construction costs.

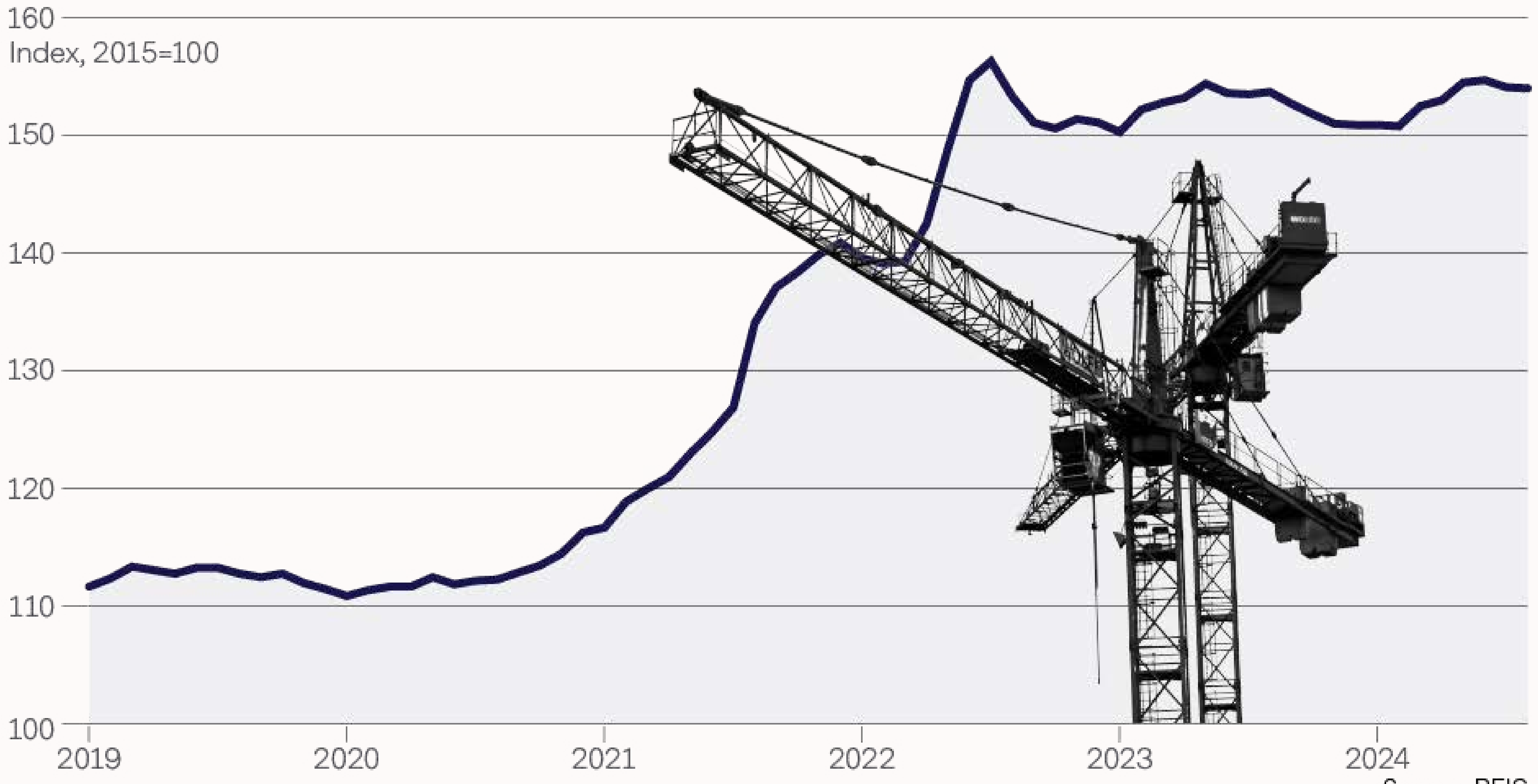
Recent ONS materials price data shows growth in construction prices for new housing has eased from mid-2022, following a period of rapid growth. Latest monthly figures show a slight increase through 2024, but a fall compared to the peak of July 2022. Materials price forecasts show a large correction in steel prices this year and next, while glass prices are also falling this year. The composite index show material prices falling 0.7% in 2024, and 1.6% in 2025. It is worth noting, however, that the cost of input materials can be highly sensitive to changes in global commodity prices.

Average weekly earnings are expected to rise by 5.2% this year before more moderate growth from 2025 onwards. Some specific occupations and sectors with more acute shortages of labour are likely to see higher rates of earnings growth. Construction activity in London is forecast to grow by 1.8% next year following a small contraction in 2024.

	2024	2025	2026	2027	2028
Construction Prices					
MACE (London data)	2.0	2.5	3.0	3.5	4.0
Gardiner-Theobald Market Intelligence (London data)	2.3	2.8	2.8	2.5	-
BCIS All in Tender Prices (UK data)	2.1	3.8	3.4	3.8	3.2
Turner & Townsend (UK data)	3.0	3.0	3.5	3.5	3.6
Construction materials prices (Oxford Economics)					
Composite index*	-0.7	-1.6	-0.1	0.9	1.3
Earnings (Oxford Economics)					
Average weekly earnings (London)	5.2	3.6	2.7	2.6	2.7
Consumer prices (Oxford Economics)					
CPI (London)	2.6	2.6	2.2	2.1	2.1
Consumer output (Oxford Economics)					
GVA (London)	-0.7	1.8	2.4	1.6	1.3

Sources as indicated above
*Equal weighting for the following components: wood & wood products; cement; plaster & masony; ceramic; clay & refractory products; glass; iron & steel; non-ferrous metals; structural metal.

Monthly construction material price index - all new housing



Source: BEIS

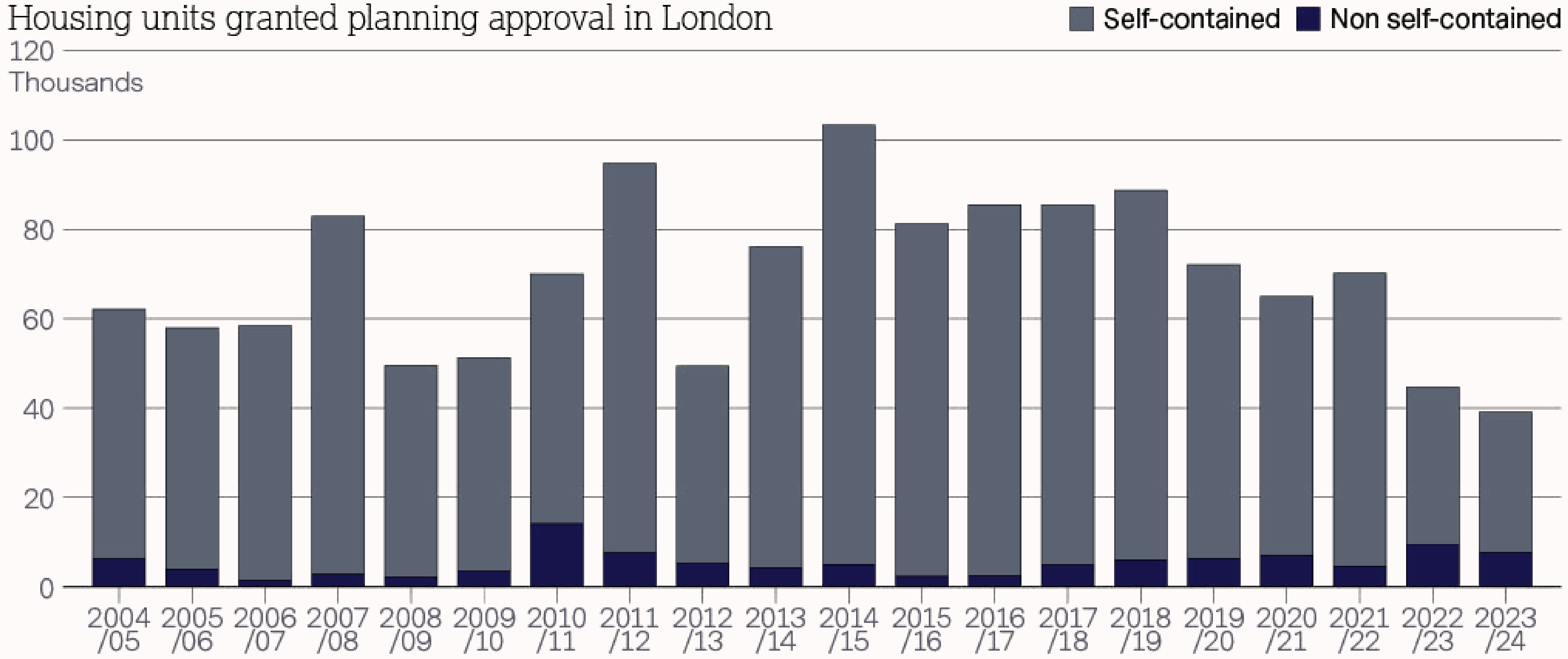
Planning System

A recent report from the HBF and Glenigan highlighted a significant decline in housing approvals across the UK, while GLA data shows the number of units granted approval in London fell to 39,000 in FY 2023/24, lower than any year in the past two decades. This falls well short of the number required to hit annual construction targets.

However, even once approved, projects take time to complete. GLA analysis of the planning figures in London identified 276,000 homes in the planning pipeline – homes that have been approved but not yet completed or permission has lapsed. Although many projects in the pipeline may represent replacement of existing homes, rather than construction of additional housing stock, this is the equivalent of over 4 years of supply, as per the London Plan, and c.3 years of supply against the more ambitious National Planning Policy Framework (NPPF) target.

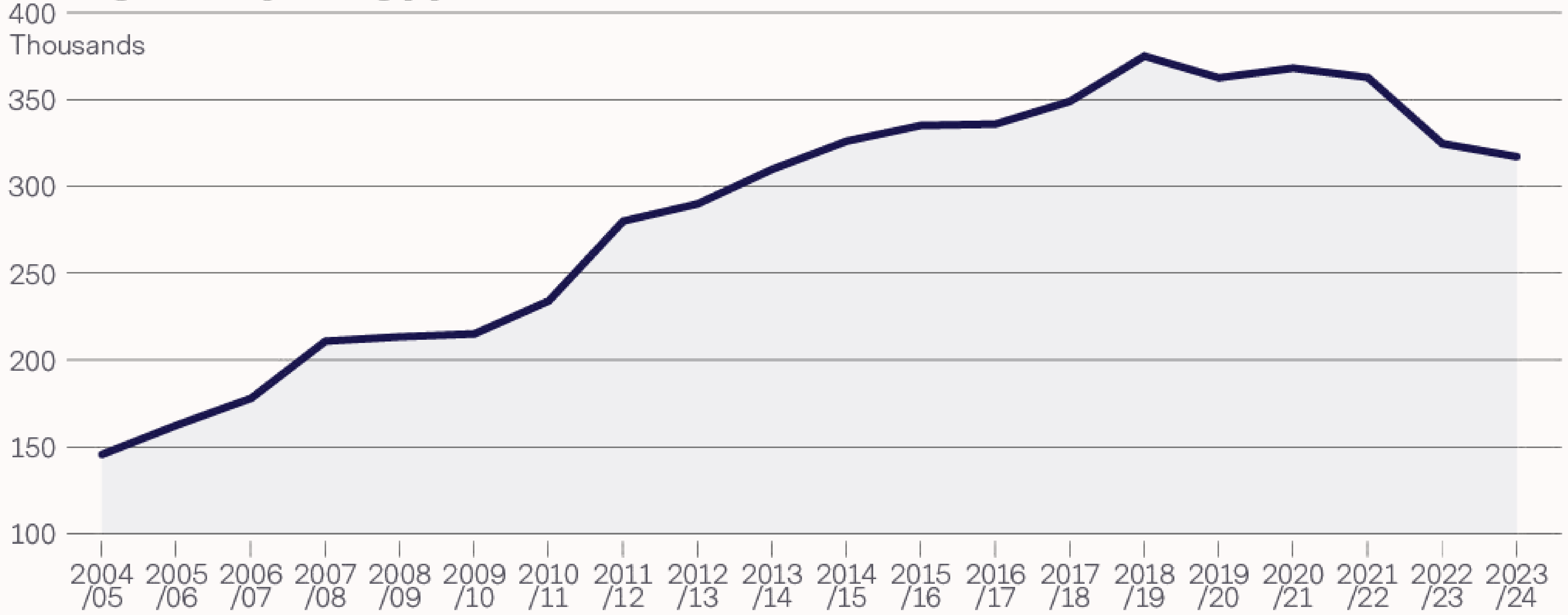
The need for planning reform has been addressed by the new Labour government's consultation on its NPPF. Proposals include increasing building density in urban areas, requiring local authorities to identify land capable of delivering 5-years of additional housing, the release of grey belt land, and in some areas, reviews of the green belt.

Housing units granted planning approval in London



Source: GLA

Housing units in planning pipeline in London



Source: GLA

Our Location

Mitheridge Capital Management LLP
1 Chesterfield Street,
London W1J 5JF
+44 (0)20 3588 0500
InvestorRelations@Mitheridge.com
www.mitheridge.com

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B
Corporation

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